



Ho Chi Minh City, 08 June 2020

REPORT OF THE SUPERVISORY BOARD

AT THE FY2019 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 2019, the 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 BoS is comprised of three members, two of which are independent, representing shareholders to carry out regular assurance and supervision, make recommendations on risk management and enhance corporate governance at HSC. In 2019, the BoS carried out the following activities:

- Supervised activities of the Board of Directors (“BoD”) and the implementation of resolutions passed at the FY2018 Annual General Meeting;
- Supervised HSC’s business activities and financial performances in 2019; and
- Supervised the activities of the internal audit department in 2019.

1. Supervision of the BoD’s activities and the implementation of resolutions passed at the FY2018 AGM

In 2019, the BoD held twenty-nine (29) meetings, of which thirteen (13) meetings were face-to-face meetings, with three meetings in the forms of written opinions. Participating in these meetings, the BoS reviewed the Company’s performance and, along with the BoD and BoM, contributed strategically to the pursuit of business plan as approved by the 2018 AGM.

Key issues discussed in the BoD’s meetings included the followings.

- 2018 full-year business performance and 2019 quarterly business performances.
- Use-of-capital plans and estimates of capital needs in next years of each business segment, and bank loan proposals.
- Approvals of the renovation of 5th and 6th floors at the headquarter at AB Tower, the relocation and change in name of Thai Van Lung branch, and the closure and relocation of transaction offices.

- Resolution on unsubscribed rights issue.
- Approval of corporate bond retail transaction platform development
- Approval of investment in new stock trading platform
- Approval of 2019 cash dividend advancement – first tranche

All contributions and recommendations of the BoS members, in their roles as supervisors and representatives of shareholders, were respected and taken into consideration by the BoD.

2. Supervision of 2019 business activities and financial performances

In 2019, together with other members of Board Audit Committee, the BoS participated in the interim and year-end meetings with HSC's external auditor, PricewaterhouseCoopers Vietnam Limited, to discuss audit scope, audit findings, and other relevant matters detailed 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 relation to the Company's accounting, finance and operational processes. In 2019, PricewaterhouseCoopers Vietnam Limited only provided statutory audit service to HSC, and did not provide any other advisory services for a total fee of VND 957,000,000 (nine hundred and fifty seven million dong) (VAT included).

In addition, the BoS carefully reviewed and analyzed HSC's quarterly financial statements and capital adequacy ratio review reports. Regarding capital adequacy and financial safety, HSC maintained high liquidity and capital-related ratios. HSC's capital adequacy ratio, which was reported following the Ministry of Finance's guidances, as of the end of 2019 was 556% (2018: 502%), 3.1 times higher than the 180% requirement of the State Securities Commission of Vietnam.

In term of financial performance targets, per the BoS's evaluation, the number of big initial public offerings in 2019 was fewer than in 2018, at the same time, the average trading turnover of the stock market averaged VND4,650 billion per day, sharply declining 28% y-o-y and was only 72% of HSC's expectation for its 2019 business plan. As the result, HSC's revenue and net profit in 2019 were VND1,262 billion and VND432 billion, reduced by 26% and 36% y-o-y respectively, and fulfilled 76% and 64% respectively of the Company's target.

- Revenue from securities brokerage fees was VND478 billion, a VND280 billion or 37% decrease y-o-y. The decrease of revenue was mainly attributed to the 28% y-o-y reduction in average daily trading value of the Vietnam stock market in 2019.
 - In which, revenue from brokerage fees on stock market was VND452 billion, 40% y-o-y reduction and from the derivatives market was VND26 billion, a fall of 66% y-o-y .
 - The performance was encouraging amid the above-mentioned market conditions and the unsustainable fee competition initiated by many other securities companies from February 2019 after the Ministry of Finance lifted the floor brokerage fee (0.15%).

- Revenue from margin lending and interest income was VND495 billion, a VND28 billion or 5% y-o-y decrease due to 2 following factors.
 - The average margin lending rate was lowered to 11.6% from 13.3% in 2018, or a 12.8% y-o-y decrease, amid the competitive market condition.
 - The average margin lending balance was VND4,227 billion, a 294 billion or 7% y-o-y growth in comparison with VND3,933 billion in 2018.
- Revenue of the proprietary trading business was VND233 billion. The business generated a profit margin of 12%, outperforming the 7.6% growth of the VNIndex in 2019.
- Revenue of the corporate finance business was VND53 billion, a VND66 billion or 55% y-o-y decrease as in 2019 fewer transactions were successfully closed.
 - In 2019, the segment's revenue was mainly contributed from advisory services of the successful deals in the consumer goods, aviation, banking, and real estate industries.
 - There was no brokerage income associated with successful transactions in 2019 as in 2018.
- Recognizing that the 2019 performance did not meet the business plan approved by AGM, in which the main assumption was average market turnover of VND6,500 billion, the Board of Management pursued several cost initiatives to optimize operating expenses. Accordingly, the total operating expenses in 2019 was only 90% of the approved budget.
 - HSC re-arranged office spaces at several transaction offices, closed Thai Van Lung and Nguyen Van Troi transaction offices in Ho Chi Minh City, scaled down office spaces at Hoan Kiem and Kim Lien transaction offices in Hanoi in the fourth quarter of 2019 to maximise the spaces of existing transaction offices, resulting in a saving of rental expenses in the following years.
 - In 2019, HSC focused on developing trading platform of corporate bond for retail, developing new securities trading platform, and renovating 5th and 6th floors of the headquarter. These expenditures were necessary and highly important to the sustainable development plan of HSC in the long run.

The BoS acknowledges the strong commitment and great efforts of the BoM in delivering the encouraging business performance, despite the steep competition amongst securities companies, the drop in trading value, and the volatility of the stock market in 2019. In such a challenging market condition, the performance was not easy to accomplish. Notably was the outstanding performance of the margin lending business, at the time when the liquidity in the stock market decreased sharply, HSC's margin lending balance decreased by a smaller magnitude compared to that in 2018. The BoS also acknowledges the appropriate strategy of the BoM in maintaining HSC's prudent and rigorous risk management approach to margin lending: by not opening broadly the position of margin lending but focusing on a basket of securities with robust financial capability, large market capitalization, and high trading liquidity. With this strategy, HSC would be able to prevent the risk of unrecovered margin lending when the stock market experienced high volatility. Also, in the securities brokerage business, HSC's total brokerage market share was 10.8%,

maintaining its second largest position in the Ho Chi Minh City Stock Exchange (HSX) for many years (2014-2019) in a row despite increased competition.

Key financial indicators

| No. | Indicators | FY2019 | FY2018 |
|-----|---|--------|--------|
| 1 | Capital safety ratio | 556% | 502% |
| 2 | Liquidity ratios | | |
| a | <i>Current ratio (times)</i> | 2.3 | 2.3 |
| b | <i>Total debt to Total assets ratio (times)</i> | 0.4 | 0.4 |
| 3 | Capital structure ratios | | |
| a | <i>Shareholders' capital to Total resources (times)</i> | 0.6 | 0.6 |
| 4 | Profitability ratios | | |
| a | <i>ROAE (Net profit after tax/ Owners' equity)</i> | 11.7% | 23.1% |
| b | <i>ROAA (Net profit after tax / Total assets)</i> | 6.8% | 11.3% |

3. Supervision of internal audit activities in 2019

In 2019, HSC's Internal Audit Department completed and issued the following audit reports.

| No. | Internal Audit Review |
|-----|---|
| 1 | Anti-Money Laundering Activities (annual audit) |
| 2 | IT and Cybersecurity (2nd review) |
| 3 | IT and Cybersecurity audit follow-up result |

The Internal Audit department carried out the Security Review (Security assessment and Penetration testing) against 10 Internet-facing applications and their related infrastructure to identify security weaknesses and come up with the remediation actions. The final internal audit reports were issued to the BoM and Head of IT department, and reported to the BoS and Board Audit Committee in regular meetings.

The BoS identified no significant findings from the audit of HSC's IT and Cybersecurity processes. The findings and technical vulnerabilities identified in this review do not cause operational disruptions and were immediately fixed as recommended by the Internal Audit.

The BoS recommended that HSC should continue assessing all critical IT components (systems, applications, and servers) completely and comprehensively to prevent potential IT disruption risks that might lead to financial and reputational damages to HSC. The BoS highly appreciated HSC's efforts in setting up the Information Security Team since February 2019 who will be responsible for information security governance, information security architecture and information security operation.

The BoS expects the BoM should continue develop and strengthen the risk monitoring and mitigating system for the IT and Cybersecurity. The BoS recommended that the security assessment should be performed sufficiently and comprehensively. Accordingly, HSC will be able to prevent business risks associated with IT and Cybersecurity.

4. BoS Remuneration in 2019

Total remuneration for the BoS in 2019 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 2020

In 2020, the BoS will continue to accompany and supervise the Internal Audit department in completing the audit project that has been started in 2019 and carrying out the new audit projects as 2020 approved audit plan.

| No. | Internal Audit Review |
|------|--|
| 2019 | |
| 1 | Human Resource Management Process for Private Client Department (2 nd review) |
| 2020 | |
| 2 | Anti-Money Laundering Activities (annual audit) |
| 3 | Procurement to Pay (1 st review) |
| 4 | Company's Cash Receipt and Payment 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 and seal)

To:

- As mentioned above;
- BoD Office for recor

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