

## **COMPREHENSIVE RESTRUCTURING FOR INTEGRATION AND DEVELOPMENT**

In 2006, with efforts of the whole system, Incombank continued to achieve encouraging results: completing fundamentally the Restructuring Plan, working out NPLs to reduce NPL ratio to 1.4% (< 2%); restructuring assets-liabilities to secure the safety and sustainability; all the targets of scale, growth rate, quality and effectiveness of the bank were higher than those of previous year; the financial status has been improved; professional activities and services have been renovated and progresses and achievements were achieved in technology improvement and banking modernization.

### **FINANCIAL RESTRUCTURING**

#### ***NPL Disposal***

Used to be a bank with highest level of NPL ratio in 2002, Incombank now becomes a bank with a healthy credit quality and the lowest NPL ratio in the Vietnamese commercial banking system (the NPL ratio after risk disposal is 1.38%, loans under group 2 accounting for below 5%). By various directive measures, active debt collection, collateral liquidation, recovery from provisions allocated from its own business results and Government's supports, Incombank completed key contents of the Banking Restructuring Plan approved by the Government, disposed completely the total NPLs amounting to over VND10,000 billion, ended its difficult long period, reduced the NPL ratio from 28% in 2000 to 1.38% at the end of 2006. Incombank became a sound bank in the commercial bank system in Vietnam. Its average annual asset growth rate is 17-20% with improved asset quality year after year. At the moment, Incombank can completely control in its financial status.

In 2006, the NPL disposal was paid special attentions. Incombank assigned targets for collecting debts in group 2, bad debts, off-balance sheet debts to each branch. The head office also sent delegations to branches to analyze and evaluate actual credit quality, possibility of collecting bad debt and has been cooperating closely with branches to map out measures for effective collateral disposal and bad debt collection.

Incombank actively liquidate collaterals of Minh Phung company in Ba Ria – Vung Tau to People's Committee of Ba Ria – Vung Tau province and received VND469 billion compared to the price of VND341 billion estimated by the court. It also sold 05 debts to Debt and Assets Trading Company of the Ministry of Finance and received nearly VND100 billion. The disposal of loans under group 3 under the Circular No. 74 was

funded by the Ministry of Finance with VND61 billion Incombank submitted proposals to the Government and Inter-ministry for approval to funding VND83 billion to dispose debts for overcoming the Storm No. 5's consequences (in 1997) and VND91 billion to overwrite debts of the Garment industry.

Different effective measures applied in NPL disposal, especially for prolonged existed NPLs, financial status of Incombank's branches and its balance sheet have been clean. The Bank has escaped from NPL burden and moved to a proactive and effective business period, laying a healthy financial foundation for its own development and integration.

### ***Charter capital increase***

Before the implementation of the financial restructuring plan (31 December 2000), Incombank's charter capital was only VND1,100 billion. After 6 years, Incombank has achieved encouraging results. In 2002, 2003 and 2004, the bank was granted VND 1,000 billion, VND800 billion and VND400 billion respectively in the form of special bonds by the Government as an addition to the charter capital which reached VND 3,300 billion. As of 31 December 2006, Incombank's charter capital was VND3,616 billion, increasing by VND110.5 billion compared to 2005 thanks to interests from the special bonds, loan recovery and self annual capital addition. Accordingly, its capital adequacy ratio (CAR) was improved remarkably, which stayed at 5.18% as of 31 December 2006 indicating that business risks were still high. Despite being higher than the one of 2000 (2.45%), this ratio was too low compared to the required minimum of 8%.

One solution for improving the financial capacity and speeding up the reform of state-owned commercial banks mentioned in the banking development strategy approved by the Government is equitization under which Incombank will be scheduled for equitization before 2008. For successful equitization, at the time of valuation Incombank shall at least come up to standards of a healthy commercial bank issued by the State Bank of Vietnam which require positive position of equity after risk provision allocation, minimum CAR of 8%. To attain this target at the end of 2006 and implement the equitization in 2007, it is necessary for Incombank to increase its charter capital. The bank has submitted to the State Bank of Vietnam the plan for increasing charter capital by which Incombank will reach the minimum CAR under international standards of over 8%.

### ***Banking technology renovation***

From November 2003 to 05 June 2006, Incombank successfully deployed the first stage of the Banking Modernization and Payment System Project or the so called INCAS (Incombank Advanced System), set up and completed the Core Banking system, online connected among the Head Office and 137 branches, 150 transaction offices, 500

transaction points and saving offices nationwide. All business activities have been managed, accounted and data has been processed on a centralization basis instead of the previous decentralized and manual management system. INCAS allows the Head Office to supervise closely activities at each branch.

The technology renovation not only generated many new banking products, various utilities in one product but also facilitated the management and operation under a modern method with diversified business activities but centralized management. Incombank has signed contracts with Siverlake System Sdn Bhd (Malaysia) to continue the research process to amend and supplement 162 items at request of 10/12 existing modules of INCAS. Up to now, Incombank has been continuing to deploy the second stage, develop some new modules, upgrade existing modules, look for and invest more in risk management programs, including focusing on improving the capacity of management, supervision, risk management, data confidentiality and security. The bank also actively sought for advanced solutions in credit risk, operational risk and market risk management.

### ***Organizational restructuring and network expansion***

In 2006, the organizational structure was reformed and enhanced. Separation of departments on the basis of type of clients, products and services combination were made, management was decentralized to improve management effectiveness and strengthen risk management skills, improve business quality and effectiveness, expand the network and develop new products on the technological basis. Departments at Head Office as well as branches were reinforced and aimed at products and customer groups. Specialized functions for direct and indirect business duties, support and management, risk management improvement in the model of a modern bank initially have proved efficiency.

Incombank has established fairly domestic network nationwide, especially in cities, industrial zones, commercial and economic zones, densely populated areas. In 2006, by implementing the Decision No. 888/NHNN on transferring branches of level 2 to ones of level 1, Incombank upgraded 49 branches of level 2 to the ones of level 1, newly established branches in Quang Binh, Quang Tri, Lao Cai, Cu Chi, Lang – Hoa Lac, Hoang Mai, Que Vo..., opened 12 new transaction offices, 96 transaction points and 23 saving offices more. Incombank's network continued to expand to speed up the provision of retail banking services to all kinds of customers including enterprises and individuals.

### ***Human resource restructuring***

Incombank always consider human resource development as an important factor which determine the sustainable development of the whole bank. In compliance with the policy, Incombank has implemented training and retraining programs for its staffs, provided with specialized training courses, supplemented functions and duties to allow branches to maintain autonomy in business, marketing and serving customers, develop products and services.

Incombank Training Centre has cooperated with departments to organize 88 courses of the Banking Modernization Project, including 8 courses for branch managers , directors and deputy directors of Head Office's departments, 327 courses with more than 8,000 staff for professional improvement; 98 delegations with 448 staff were sent for overseas training on various topics such as risk management, banking technology, trade finance, credit appraisal, credit scoring and rating, retail and wholesale banking services, investment banking etc. Incombank encourages young staff with good command of foreign language to attend international master programs. Especially, Incombank focuses on improving employees' qualification and capacity , paying attention to the policy of supporting training expenses, compensation, attracting and recruiting expertise, evaluating and employ appropriate staff for suitable positions. Incombank's staff increase both in quantity and quality. Management capacity has significantly improved.

Incombank has been preparing for constructing Human Development Training Schools in Ha Tay, Thua Thien Hue and Bien Hoa (Dong Nai), expanding technical facilities for training staffs in the whole system. The plan of constructing new training schools indicates Incombank's expectation in the improvement of its human resource quality by various training methods to improve the level and capacity of management staff, equip staff with professional skilfulness as well as fluency at foreign languages, capacity of advanced technology management, professional morals to serve customers better and to obtain competitiveness in the market so as to be able to integrate into the regional and international financial systems.

### ***Business restructuring***

#### *Improving risk management and assets – liabilities management capacity*

Since 2001, Incombank has continuously applied measures for improving risk management capacity, especially in credit and investment activities. Targets have been frequently reviewed evaluated and revised to secure sustainable development objectives. Since March 2006, the organizational structure at Head Office has been reformed under recommendations of international consultants (Restructuring Project). Accordingly, credit and investment risk, market and operational risk management departments were

established. The organizational structure at branches has been also reformed with units specialized in risk analysis and alerting. Incombank has been working with foreign partners to look for and purchase market and operational risk analysis and management softwares for implementation in the coming time.

The assets-liabilities management model under recommendations of international consultants has been being deployed. Accordingly, the bank's assets have been managed on a centralized basis, adjusted by management instruments such as internal fund transfer pricing policy, limits set for each unit, profit targets for each product and sale channel. Interest and liquidity risks are centralized and adjusted by Head Office.

#### *Issuing and deploying Credit Manual*

Incombank's Credit Manual was issued in September 2004. Its contents were approved and appreciated by the State Bank of Vietnam as well as were trained and applied since year end 2004 throughout the Bank. Major contents which have been deployed in-depth which include customer credit appraisal, scoring and rating (since the 1st quarter of 2005). Credit policies have been implemented on the commercial and market mechanism; credit is granted on the basis of credit rating without economic sector distinction. In April, 2004, Incombank issued a set of documents on credit mechanism including detailed clarification on customer selection conditions, guarantee and loan granting procedures, loan pricing procedures... Procedures of loan and guarantee granting have been implemented under ISO standards.

After two years of implementation of the Credit Manual, Incombank established a committee to collect feedbacks from relating departments and units, review various parts in the Credit Manual which are inappropriate to actual market conditions to be revised and submitted to the Board of Directors in conformity with the laws and new economic policies of Vietnam.

#### *Organization and operation of the Board of internal controllers*

Incombank is the first state owned commercial bank changing the organizational structure of the Board of internal controllers, managing internal controllers in the whole system under the General Director's direct instructions. Activities of the Board have been put in order and discipline with inspection delegations to scrutinize most of business activities in the whole system. Incombank continued to reinforce and modernize to improve its quality and internal control effectiveness in the system.

#### *Developing new products, issuing operational procedures under ISO standards*

In 2001, Incombank was one of the first banks introducing ATM cards to the market. With the strategy of diversification of card services and products, flexible strategy of

technology and marketing, Incombank has deployed three types of cards: international credit cards, debit cards and cashcards with plenty of brands.

Incombank connected its ATM system with VISA and Master international card organizations, deployed successfully the payment service for buying phone cards and invoices, goods and services through EDC equipment, checking balance information by sending SMS, paying overseas remittance through ATM accounts.

The number of ATMs has increased from 22 in 2002 to 400 which operate 24/24 hours. With more than 130 branches doing card business, Incombank has become the second biggest bank having the widest cards system in Vietnam. The number of customers using Incombank's cards has steadily from several thousand cardholders in 2002 and 2003 to 500,000 card holders with the operative rate of 95% - a very high rate compared in the whole banking system.

Incombank continues to centralize its resources to improve and upgrade the money transfer system, deploy new products such as telephone banking, internet banking for creating value added and more utilities to customers. In particular, the money transfer system of Incombank was awarded the "Golden Cup for Prestigious and High quality product" and "Top Ten Vietnam Excellent Brands" by Vietnam Industrial Patent Association subject to customers selection and Vietnam Intellectual Patent Department. Incombank revised and issued operational procedures related to the deployment of the quality management system under ISO 9001:2000.

After years of the implementation of Incombank Restructuring Plan, most of contents in the plan have been realized. However, achievements mark the starting step only. There are things which have to be done: procedures and mechanism have to be perfected in conformity with international practices, financial status has to be restructured, new products and services have to be developed, organization structure has to be reinforced with the target of equitization.