



High Level Operating Model

Version 3.5

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High Level Operating Model

1. Operating Model Concept
 - Purpose of the Operating Model
 - Becoming Customer Centric
2. Guiding Principles and Key Enablers
3. High Level Operating Model
 - Organization and Governance
 - Performance Measures
 - Process Model
 - Technology
4. Transition Considerations
5. Appendix

PURPOSE OF THE OPERATING MODEL

Key questions to answer

What is an Operating Model ?

How does an Operating Model link to the business strategy ?

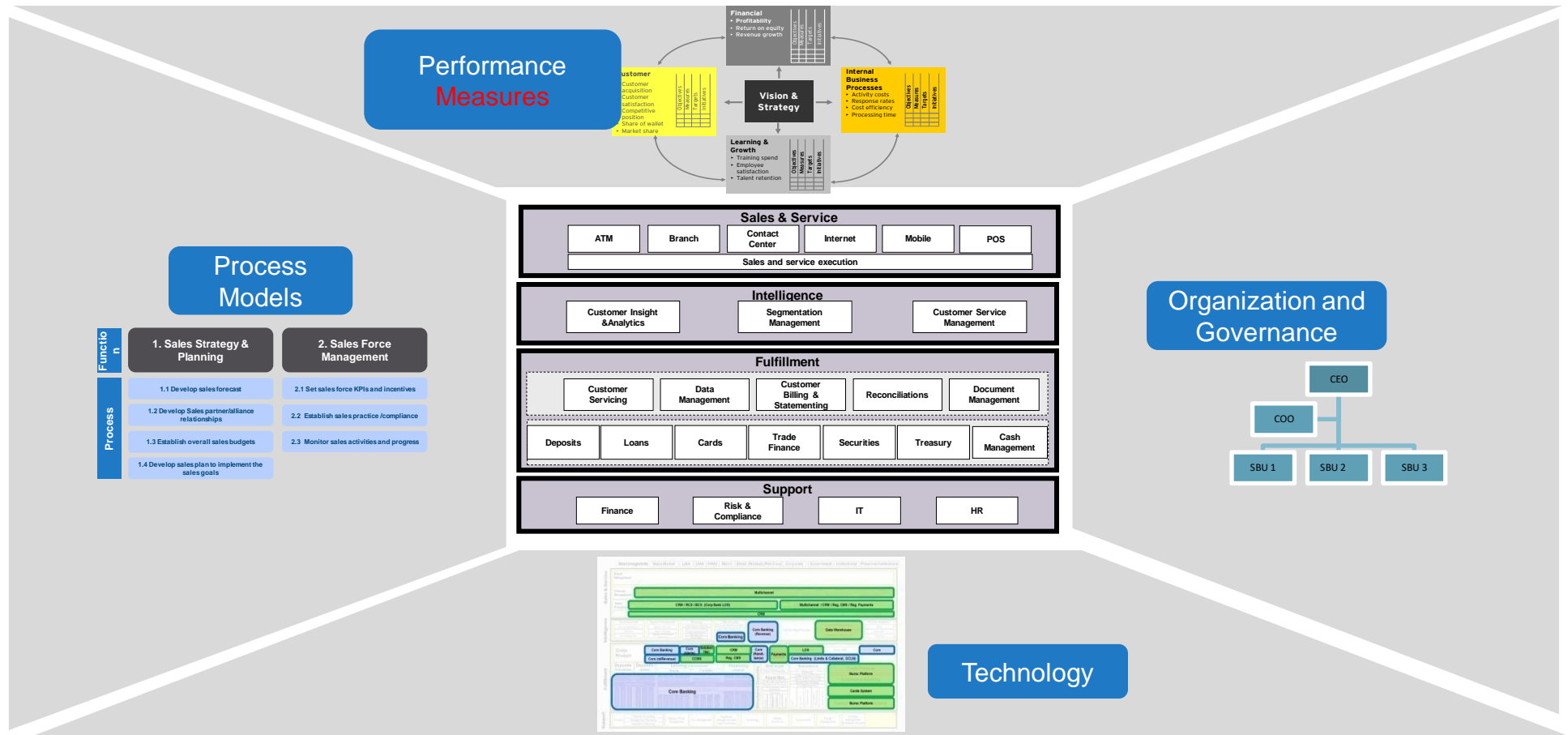
How will ABC implement the new Operating Model ?



PURPOSE OF THE OPERATING MODEL

What is an Operating Model ?

An Operating Model is the term used to describe a number of highly interconnected components



The Operating Model will be highly influenced by ABCBank's new business strategy

PURPOSE OF THE OPERATING MODEL

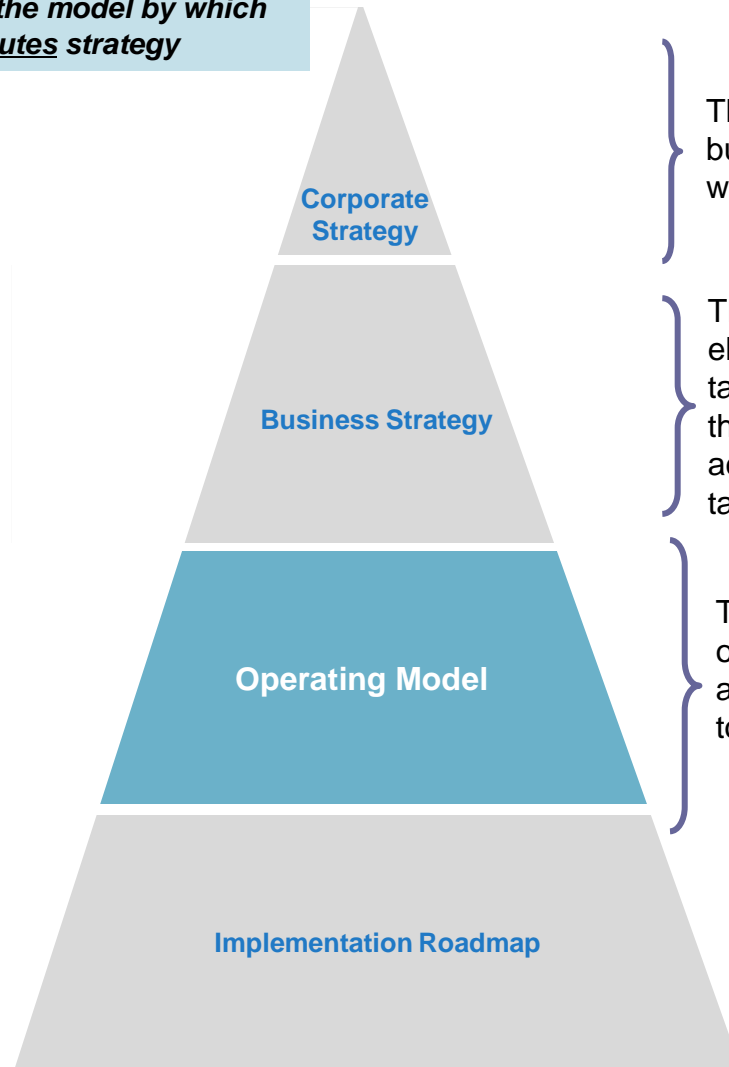
How does an Operating Model link to business strategy?

The Operating Model (through its constituent parts) is the model by which an organization executes strategy

- Aspirational
- Strategic



- Benefits-oriented
- Transformational
- Practical



The **corporate strategy** for the business articulates business positioning, including guiding principles about where Client wants to be in 3-5 years.

The **business strategy** defines and describes the elements of the business, including customers to be targeted and products and channels to be offered. It is the organization's essential logic for consistently achieving its strategic intent, and includes performance targets.

The **operating model** defines and describes each operating component in terms of process, technology and human performance characteristics that are required to deliver the business strategy.

PURPOSE OF THE OPERATING MODEL

How will ABC implement the new Operating Model ?

The overall plan for implementing the Operating Model is set out in the Transformation Roadmap deliverable.

The transformation is planned to be managed under a Transformation Management Office

Why Does ABC Need To Change?

- 1 **Sub-Optimal Current Operating Model**
 - Bank-wide segmentation – no differentiation in the sales model to individual local market segment
 - Customer servicing and support is primarily product focused
 - There are a number of opportunities for operational improvement e.g. centralization
 - There are a number of overlapping and duplicated roles and responsibilities
- 2 **Enablement of New Business Strategy**
 - Six large shifts are needed to solidify ABCBank's leading position in Vietnam

- 1 **Take Corporate Banking to the next level**
Become preeminent bank for top SOEs, Corporations and FDI's
- 2 **Become a leader in the profitable SME (Small & Medium Enterprises) segment**
- 3 **Become a leader in the affluent and mass-affluent segments**
Provide the best in-class service for all customers
- 4 **Establish a „Payment Bank“ in Vietnam**
across corporations, SMEs and retail businesses
- 5 **Leap forward towards regional play via AEC**
Become a gateway to and from Vietnam, capturing CRC remittance and capital flow.
- 6 **Create a „Right Risk Architecture“ to support growth**
Provide the best asset portfolio in Vietnam

Transformation

The Operating Model will not be achievable overnight. It is typically achieved over a 3-5 year timeframe.

A number of projects will be managed concurrently to migrate the bank along its journey, governed under the Transformation Management Office. A number of interim states will be implemented

Desired Outcomes

Through the Operating Model, ABC aims to:

- Further strengthen and extend its lead position in corporate banking within Vietnam
- Become the best-in-class retail and SME bank in Vietnam
- Have leading payment and transaction banking solutions, coupled with high deposit share
- Leverage its strong position in Vietnam to further expand organically in markets around the region
- Become an established banking brand with innovative products and services backed by industrialized operations

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BECOMING CUSTOMER CENTRIC

Key questions to answer

What does Customer Centricity mean and what are the benefits ?

How does being “Customer Centric” link to the proposed business strategy ?

How will ABCBank operationalize the vision and mission of becoming Customer Centric?

How does it compare to the current state – “Product Centric”?

What are the key changes required to move to a “Customer Centric” model?

What are the best practice examples from other banks in the region and worldwide?



BECOMING CUSTOMER CENTRIC

What does Customer Centricity mean and what are the benefits ?

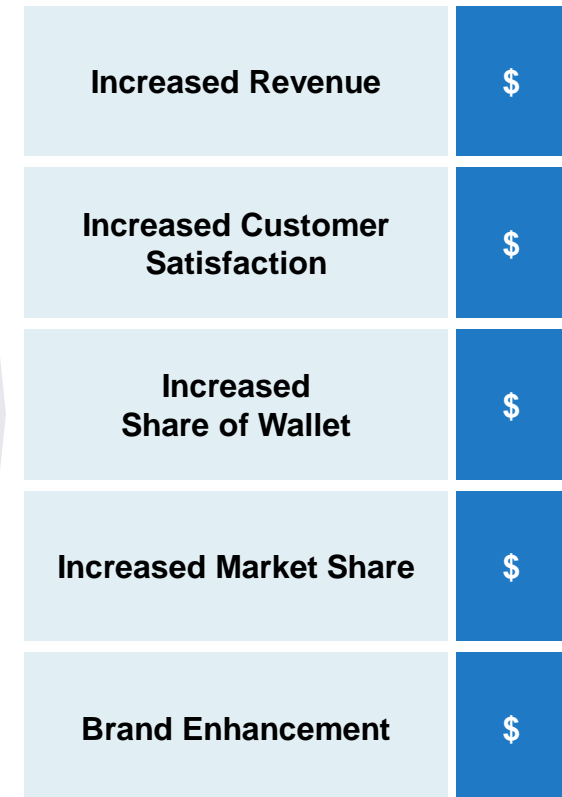
What does Customer Centricity actually mean?



What are the benefits of being Customer Centric?



What do these translate too?



BECOMING CUSTOMER CENTRIC

How does being “Customer Centric” link to the proposed business strategy ?

Business Strategy

- 1 Take Corporate Banking to the next level
- 2 Lead most profitable SME (Small & Medium Enterprise) segment
- 3 Become a leader in the affluent and mass-affluent segments
- 4 Build a Payment Bank“ in Vietnam
- 5 Leap forward towards regional play via AEC
- 6 Create the right „Right Risk Architecture“ to support growth

Business Strategy Enablers

- 1** Take corporate banking to the next level
Vietin can take corporate banking to the next level by...
 - 1 Segment corporate customers by needs and level of sophistication
 - 2 Design right coverage models to penetrate the private corporate and gain larger wallet share in SMEs
 - 3 Work with B2B4 partnership to gain access to SMEs
 - 4 Integrate coverage with corporate banking for top 100 corporations – 10 FIB works with corporate FIB
 - 5 Build “branch-less” cash management, trade finance and treasury products
 - 6 Design KPIs with corporate FIBs and product specialists
- 2** profitably grow SME banking
Vietin can aggressively and profitably grow SME by...
 - 1 Segment SMEs by profile and needs
 - 2 Develop segment based product offerings and services, including innovative, SME specific channels (SME corner, call center, Vietin Club SME training program, Vietin Connect (on-line SME world), Vietin One (account aggregation)
 - 3 Design economically viable coverage model for acquisition and services
 - 4 Enhance risk assessment capabilities and offer best in class TAT on credit origination from loan factories
- 3** Build the best customer-centric retail bank in Vietnam
Building best in class retail banking requires...
 - 1 Distinct customer segmentation by wealth level
 - 2 Differentiated value proposition for each segment across products, sales relationship and branch/channel experience
 - 3 Effective sales force (in branch and outside branch) with bank-to-market productivity
 - 4 Multi-format branches focused on sales and services to provide best-in-market branch experience
 - 5 Lean, efficient retail credit factory and strong retail collection capabilities
- 4** Build payment bank
Building Payment Bank requires...
 - 1 Build payment bank to serve SMEs, corporates and retail customers
 - 2 Build a robust business model to ensure sustainable growth
 - 3 Build a strong brand and reputation
 - 4 Build a strong sales and service network
 - 5 Build a strong risk management framework
 - 6 Build a strong regulatory and compliance framework
- 5** Vietin must prepare for AEC integration
Vietin must prepare for AEC integration by...
 - 1 Develop a clear vision and strategy for AEC integration
 - 2 Build a strong risk management framework
 - 3 Build a strong regulatory and compliance framework
 - 4 Build a strong sales and service network
 - 5 Build a strong brand and reputation
 - 6 Build a strong financial and operational performance
- 6** Going forward 3 key priorities for risk management emerge
Going forward 3 key priorities for risk management emerge...
 - 1 Strengthen the Risk Management Framework
 - 2 Enhance the Risk Management Framework
 - 3 Build a strong risk management framework

Customer Centricity Enablers

Creation of bankwide Customer Segmentation

Creation of Customer Segmentation organization

Segment customers by needs

Product offerings and services by Segment

Coverage models by Segment

Differentiated Customer Experience by Segment

Customer aligned organizational Restructure

Cultural Change

Mindset Change

BECOMING CUSTOMER CENTRIC

How will ABCBank operationalize the vision and mission of becoming Customer Centric?

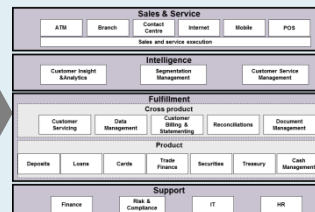
Core Values



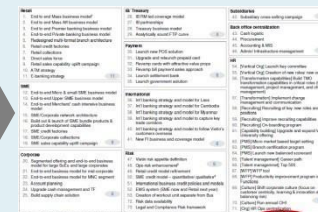
Business Strategy

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Operating Model



Transformation Execution



Business as Usual



What / Why / Who?

The desire to be closer to your customer has been set by the Chairman and Board of Directors within the Core Values of the Corporate Mission Statement / Vision Statement. One **core value** of the organization is to **Customer-orientated (Customer Centric)**.

This desire has then been incorporated into the Business Strategy. The strategy includes the evidence as to why and who the bank should target (**Segmentation**), offerings that link to customer requirements (**Value Propositions**) and how they should be served (**Coverage**).

How?

The Operating Model then operationalizes the desire and the strategy of **how to become Customer Centric**.

A Customer Centric Operating Model requires bankwide change across People / Process / Technology

When?

The Transformation Execution encompasses both the Roadmap and the Transformation Management Office.

These elements both plan and **execute the required changes to drive customer centricity as part of overall changes**.

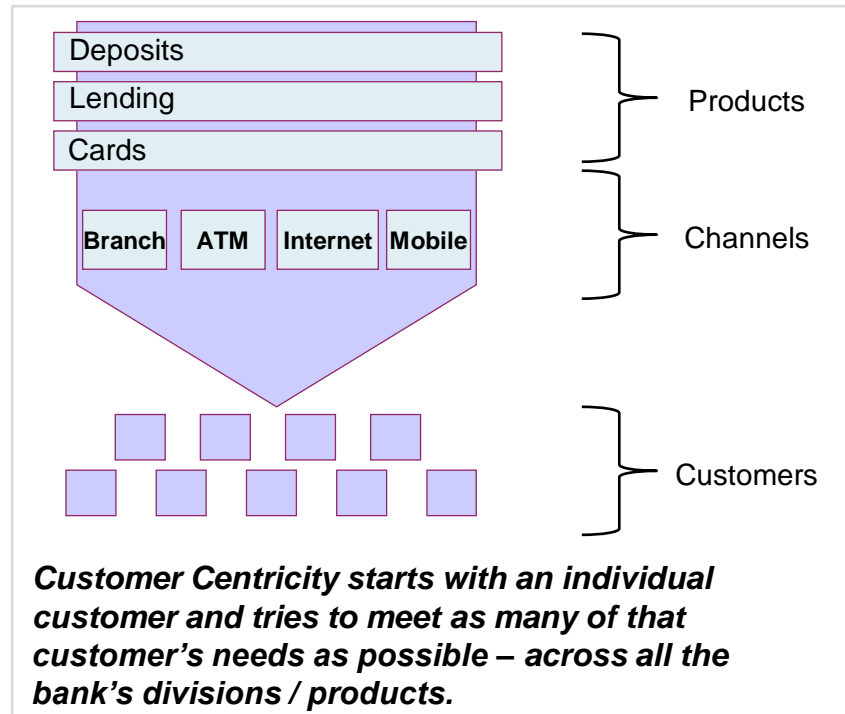
Continuous Improvement

Implementing a **Customer Centric Operating Model** does not end at Transformation end date. **Customer needs, behaviors and requirements are continually changing**. Continuous improvement is required to differentiate.

BECOMING CUSTOMER CENTRIC

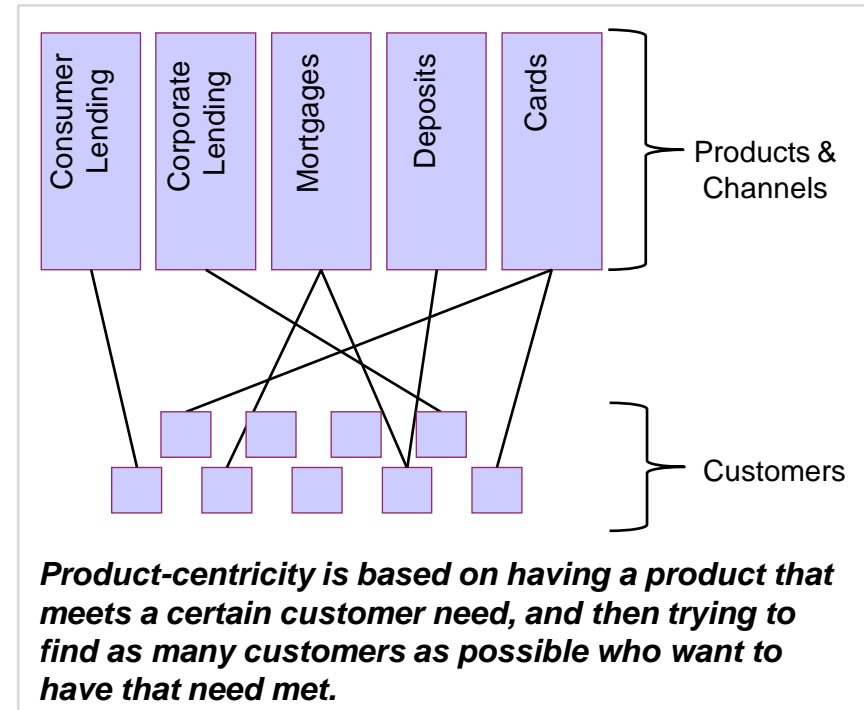
Why is Customer Centricity better than Product Centricity?

Customer Centric



Customer gets what they want and need

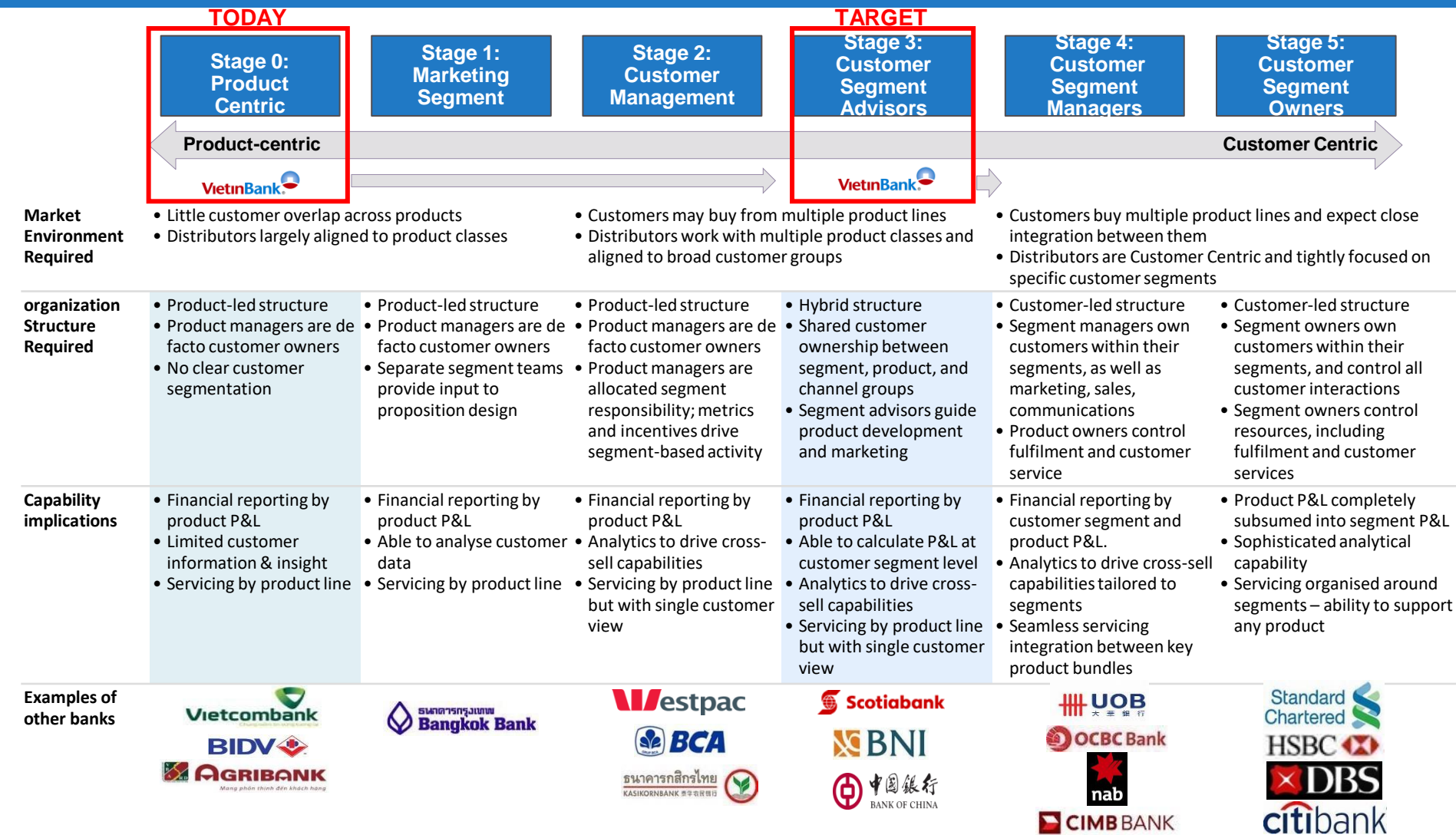
Product Centric



Customer gets what you manage to sell them

BECOMING CUSTOMER CENTRIC

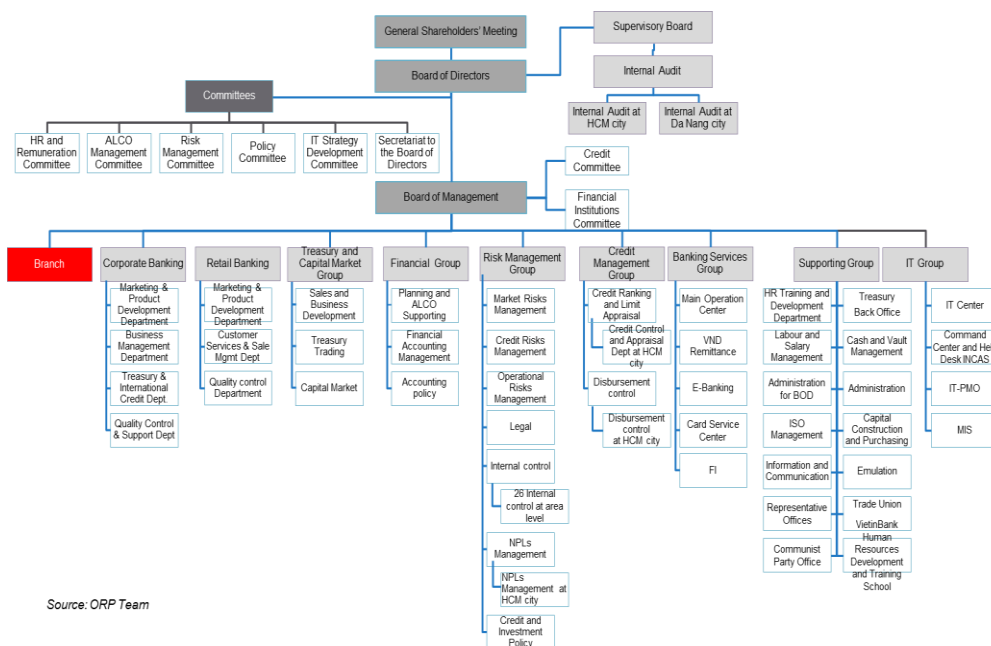
How does it compare to the current state – “Product Centric” - Introduction to Customer Centricity Stages



BECOMING CUSTOMER CENTRIC

How does it compare to the current state – “Product Centric”?

Existing organizational Structure



ABCBank have taken the first step in aligning its organization (especially at branch level) with business units, the Bank has not changed the customer policies, business process and reporting line accordingly. As such, most of the challenges to becoming customer centric still remain.

Challenges to becoming Customer Centric

- Multiple parties across the organization responsible for a single customer with no clear person accountable for holistic customer proposition and
- Lack of customer segmentation and customer metrics within each business unit (e.g. no customer segmentation within retail banking) to better understand customer needs and service them.
- Silo customer segmentation by products without alignment to business units (e.g. Cards Business has its own customer segmentations across business units)
- Mono line product areas (eg. Cards, Trade Finance, E-banking) looking after its own product development and marketing activities without co-ordination across customer segments
- Limited co-ordination across business groups and channels resulting in sub-optimal customer experience

BECOMING CUSTOMER CENTRIC

What are the key changes required across the organization to move to a “Customer Centric” model

Customer Centricity

Enterprise wide Change

People Change

- Changes to organization view & structure
- Changes to customer, P&L ownership and accountability
- Changes to reporting line
- Changes to roles and responsibilities
- Changes to KPIs

Product Change

- Changes to how we align our value propositions to segments
- Changes to how we bundle products
- Changes to how we price

Process Change

- Changes to how we sell to each customer segment
- Changes to sales target setting
- Changes to decision making process on customer needs
- Changes to sales management tracking and reporting needs – cater by segments

Technology Change

- Customer Tagging to reflect segmentation
- P&L Reporting for customer segmentation
- KPI & Incentives computation and reporting

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GUIDING PRINCIPLES AND KEY ENABLERS

Key questions to answer

What are the overarching principles to guide decision making in the Operating Model design ?

What key enablers are required in the Operating Model design to meet the requirements of the new business strategy ?



GUIDING PRINCIPLES

What are the overarching design principles for ABC Operating Model design?

The guiding principles for the Operating Model design need to be articulated at the highest level to provide an agreed foundation layer for subsequent detailed design

A “Customer Centric” design philosophy

- Establish strategic business units around customer types
- Empower distribution channels to focus on sales and service
- KPIs to be aligned to the new business strategy

Clear governance, organizational alignment and accountability

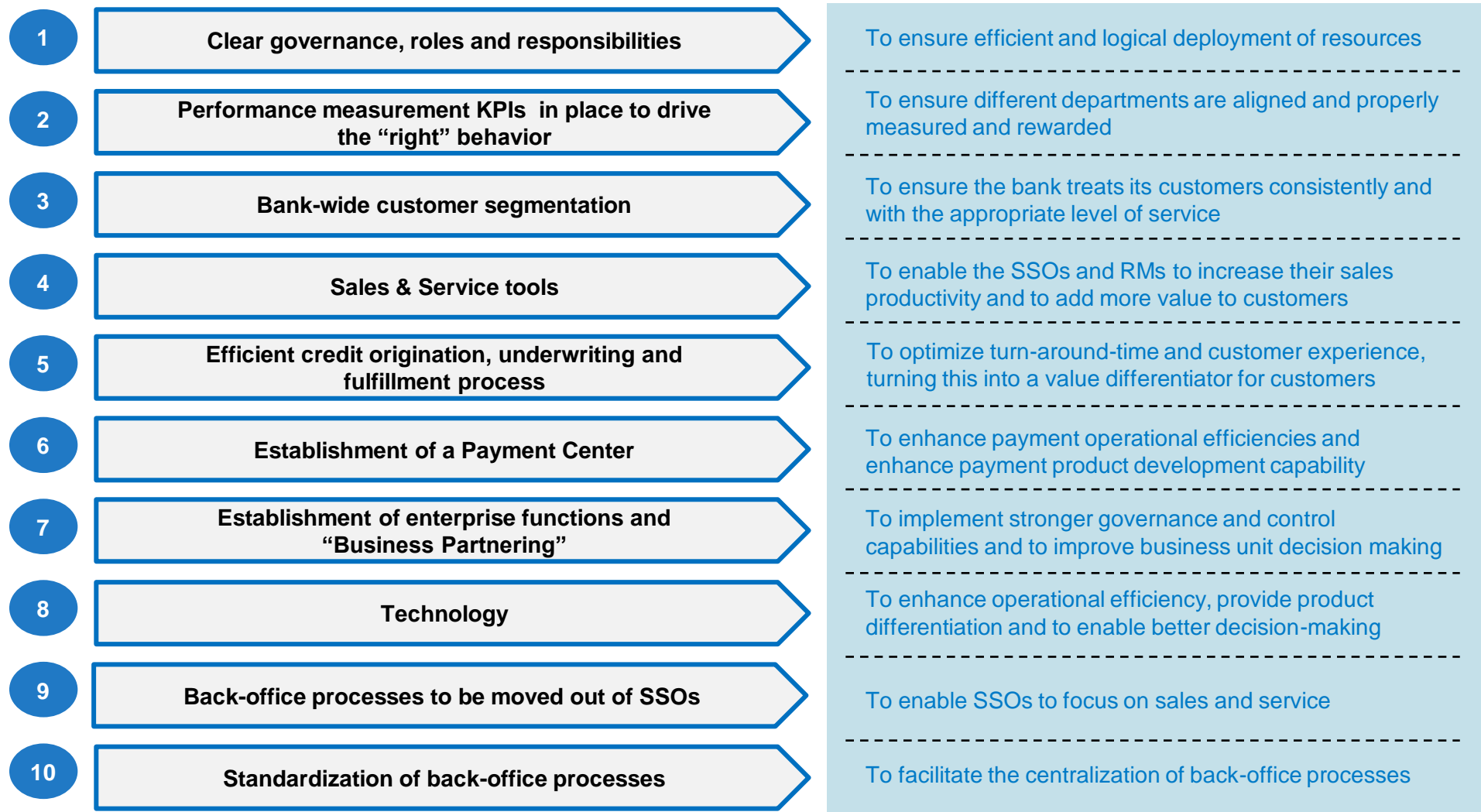
- A “vertical” organization structure built around business units and enterprise functions
- Clear, logical demarcation of roles and responsibilities – clear interaction between the Network and Head Office
- Metrics to be aligned with roles and accountabilities

Simplification and standardization of the back-office

- Standardize processes and automate, build in controls
- Significantly reduce the risk profile of bank operations
- Centralize/regionalize processes from SSO's as much as possible

GUIDING PRINCIPLES AND KEY ENABLERS

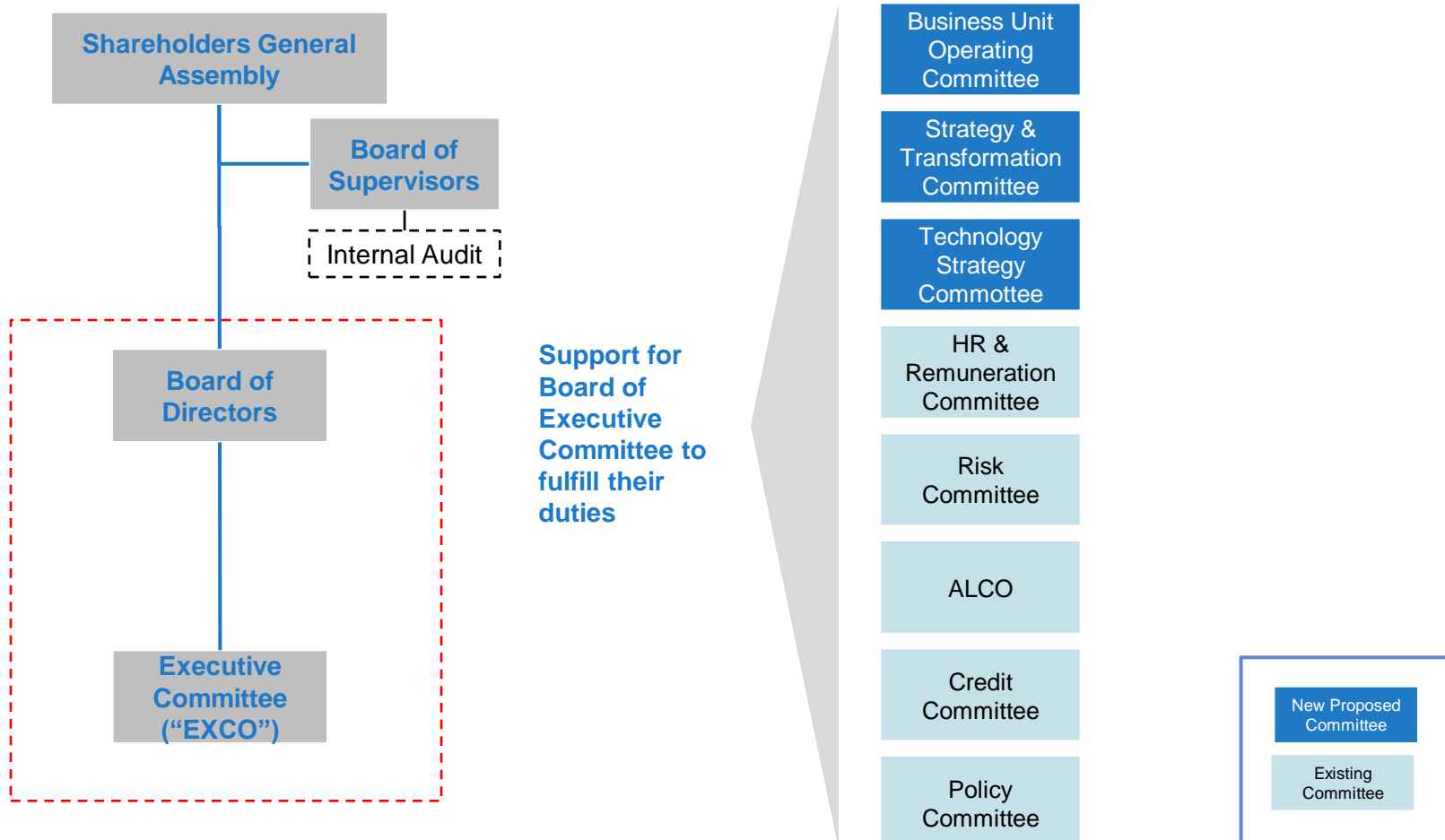
What key enablers are required in the Operating Model design to meet the requirements of the new business strategy?



GUIDING PRINCIPLES AND KEY ENABLERS

1 Clear governance, roles and responsibilities

Committees form an important part of the governance framework in ABC



GUIDING PRINCIPLES AND KEY ENABLERS

1 Clear governance, roles and responsibilities

The Operating Model includes an organization structure which provides clarity of roles and responsibilities – hand offs between National, Regional and Area layers need to be understood and reinforced by KPIs

Example Function	National	Regional	Area	SSO
Credit Underwriting	<ul style="list-style-type: none"> XXXXX XXXXX XXXXX 	<ul style="list-style-type: none"> XXXXX XXXXX XXXXX 	<ul style="list-style-type: none"> XXXXX XXXXX XXXXX 	
Debt Management	<ul style="list-style-type: none"> XXXXX XXXXX XXXXX 	<ul style="list-style-type: none"> XXXXX XXXXX XXXXX 	<ul style="list-style-type: none"> XXXXX XXXXX XXXXX 	<ul style="list-style-type: none"> XXXXX XXXXX XXXXX
Procurement	<ul style="list-style-type: none"> XXXXX XXXXX XXXXX 			
Admin	<ul style="list-style-type: none"> XXXXX XXXXX XXXXX 			<ul style="list-style-type: none"> XXXXX XXXXX XXXXX
HR Ops	<ul style="list-style-type: none"> XXXXX XXXXX XXXXX 		<ul style="list-style-type: none"> XXXXX XXXXX XXXXX 	<ul style="list-style-type: none"> XXXXX XXXXX XXXXX
Cash Logistics	<ul style="list-style-type: none"> XXXXX XXXXX XXXXX 		<ul style="list-style-type: none"> XXXXX XXXXX XXXXX 	<ul style="list-style-type: none"> XXXXX XXXXX XXXXX
Accounting & MIS	<ul style="list-style-type: none"> XXXXX XXXXX XXXXX 			

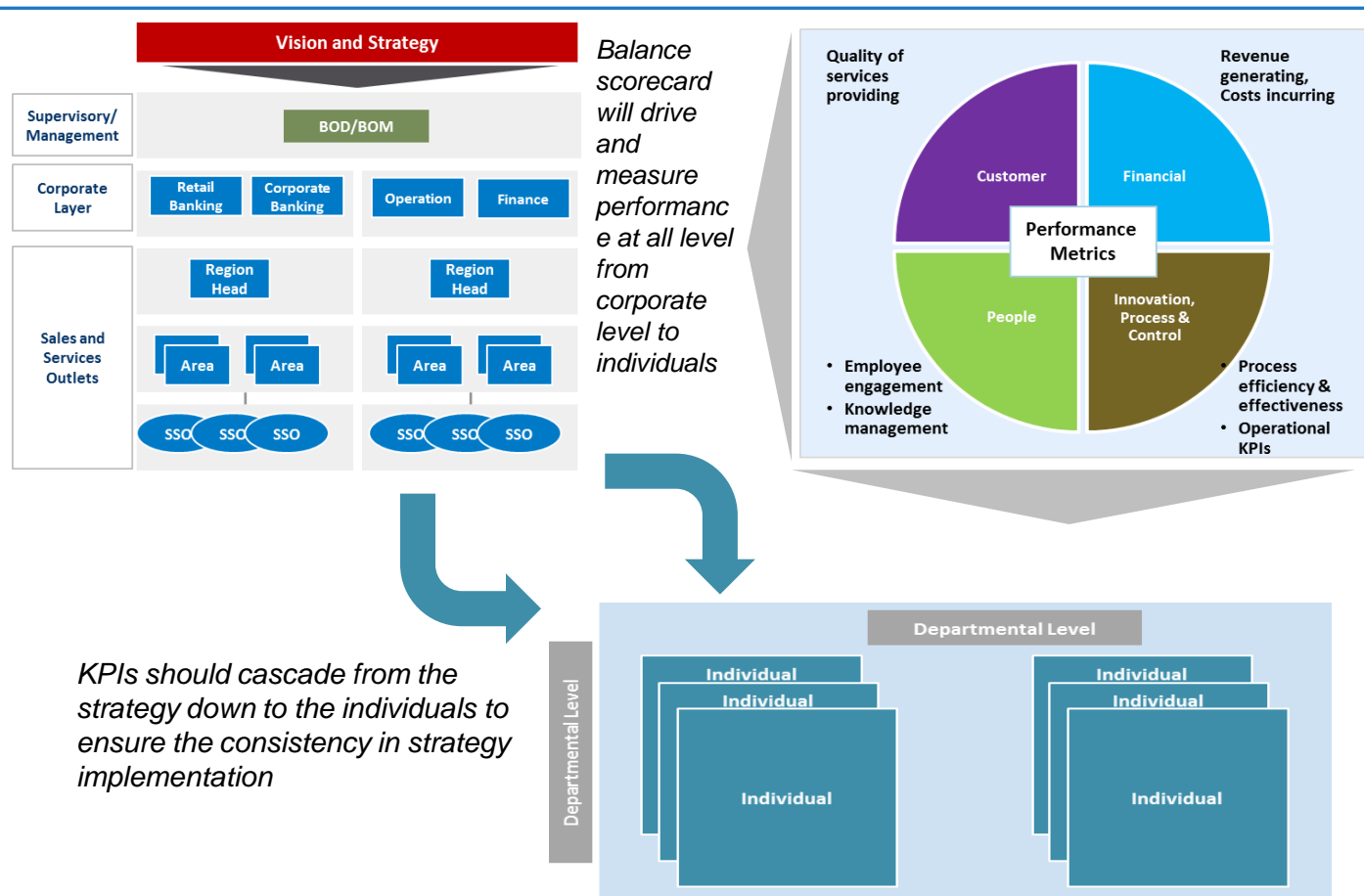
Clarity required on:

- Roles and responsibilities
- Limits of authority
- Management routines
- Reporting lines
- Key performance metrics

KPIs need to be developed for all layers to reinforce the right behaviour and activities. Avoid duplicates of responsibility.

GUIDING PRINCIPLES AND KEY ENABLERS

2 Performance measurement KPIs in place to drive the “right” behavior



One of the most powerful keys to strategy enablement is through targeted performance measures

- What gets measured “gets done”
- Sales and volume measures required to measure performance of the new SSO’s
- PnL measurement capability required
- Setting and measuring the right measures at Area/ Region level including shared KPIs with the Business Unit is critical
- Critical to execution on the business strategy will be the ability to measure performance at a more granular level
- Performance measures should not just be financial performance measures

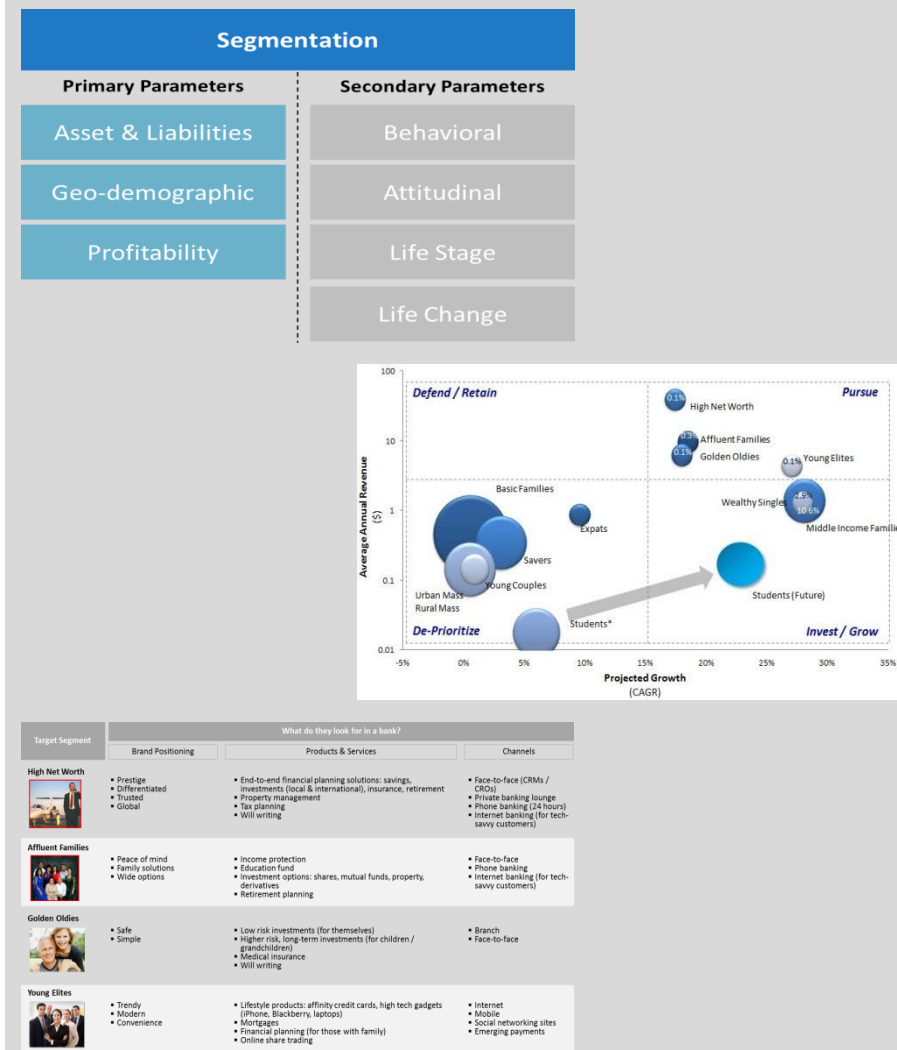
GUIDING PRINCIPLES AND KEY ENABLERS

3 Bank-wide customer segmentation

Central to VTB becoming Customer Centric is the need to establish bank wide customer segmentation

Bankwide segmentation allows you to:

- Develop and maintain long-term, trusting and profitable relationships with your customers
- Places the customer at the heart of your business which is fully reflected in the metrics used to drive operational performance
- Relate to customers at every customer touch point, decision point and influencing point as well as aligning all aspects of the business to effectively reach, serve and retain those customers
- Aligns the organization closer to their customers by evidencing a true understanding of their needs.
- By understanding your customer needs correctly and tailoring products and services to those needs – you increase



GUIDING PRINCIPLES AND KEY ENABLERS

3 Bank-wide customer segmentation

Proposed Segmentation

Retail Banking Business Unit

Retail Segmentation

HNW

Affluent

Mass Affluent

Mass

Corporate and SME Banking Business Unit

SME Segmentation

Upper

Small

Micro

Cash Intensive

Corporate Segmentation

Large
Private

SOEs

MNCs

Mid Size Private

To ensure that both Corporate and SME receive the required focus to deliver required growth, we are proposing to separate the departments under the Corporate and SME Banking SBU.

By doing this, we will create separate Customer Management, Customer Insights, Product Management etc. to cater to the specific client needs which will result in more tailored / targeted offerings that will differentiate ABCBank in the local market.

This will be reflected in the Organisation section of this document.

GUIDING PRINCIPLES AND KEY ENABLERS

3 Bank-wide customer segmentation

Purpose of Segmentation

"Treat all customers the same"

- Same values/needs
- Same services/products

"Treat all customers individually (Segment of One)"

- Different values/needs
- Customized services/products

Segmentation Objectives

Assist companies in prioritizing their marketing efforts by **developing marketing campaigns** and **pricing strategies** which can present distinct **competitive advantages** to the customer, and are aimed to **extract maximum value from both high- and low profit customers**

Value propositions that meet customer needs

Key questions to be answered:

- How do we attract & retain this customer?
- What products does this customer require?
- What is the best way to interact with him/her?
- What are this customer's preferences?

Value propositions that maximise lifetime value of customers to the bank

Key questions to be answered:

- Do we invest in retaining this customer, if so how?
- Do we invest in servicing this customer, if so how?
- Do we invest in acquiring new business from this customer, if so how?

"Treat all customers in a cluster or segment similarly"

- Homogeneous groups with similar values/needs
- Targeted product/service offerings

GUIDING PRINCIPLES AND KEY ENABLERS

4 Sales & Service tools

Sales & Service tools are an effective way to enable the front office staff to increase effectiveness.

- Enables a more focused and effective sales force to identify sales opportunities by segment
- Makes acquiring and servicing your customers 'easier'
- Standardises the sales process and offer recommendation
- Enables customer needs based selling
- Ability to monitor front end sales performance



Task #	Customer Name	Type	Action	Start Date / Time	Due Date / Time	Status
		Account	Account Review	06/10/08 11:00AM	06/10/08 11:00AM	Open
		Account	Account Review	06/10/08 11:00AM	06/10/08 11:00AM	Open
		Task	Follow up	06/10/08 11:00AM	06/10/08 11:00AM	Open

RM Dashboard



Customer Name	Customer Address	Customer Phone	Customer Email	Customer Status
Customer Name	Customer Address	Customer Phone	Customer Email	Customer Status

Need Based Analysis



Trade Placement	Trade Placement	Trade Placement	Trade Placement
Trade Placement	Trade Placement	Trade Placement	Trade Placement

Trade Placement



Sales Management Dashboard

GUIDING PRINCIPLES AND KEY ENABLERS

4 Sales & Service tools

RM's Work Station and Sales Tools

RM's Homepage - Dashboard

The dashboard displays a summary of sales activities and customer data. It includes a table for 'Campaigns' with columns for Campaign ID, Name, Start Date, and End Date. Below this, there are sections for 'Customer Alerts' and 'Leads & Opportunities', each with a table listing relevant details.

360 Customer View

This view provides a holistic look at a customer's profile. It includes sections for 'Basic Customer Data' (Name, Address, Contact), 'Account & Relationship' (Account Type, Balance, Credit Limit), and 'Product & Service' (Product Name, Credit Limit, Expiry). It also shows a 'Relationships' table with columns for Agent, Product, Balance, and Status.

Customer Needs Analysis

The analysis tool uses a decision tree to recommend products based on customer needs. It includes a 'Needs Analysis' section with a tree diagram and a 'Product Recommendation' section with a table of suggested products.

Trade Placement

This tool is used for capturing and validating trade information. It includes a 'Trade Placement' form with fields for Trade ID, Trade Name, Trade Type, and Trade Status. It also features a 'Trade Details' section with a table of trade information.

Process

- Sales**
- Manage Sales Activities
 - Follow up and action leads

CRM Features

- Customer search
- Calendar
- Sales to do lists
- Summary of sales activities
- Customer alerts
- List of leads & opportunities
- List of in progress applications
- List of current campaigns
- List of current service requests
- Incentive and performance KPIs

CRM Functional Architecture

- Leads management
- Opportunity and pipeline management
- Task management
- Service management
- Performance dashboard

Process

- Sales**
- Review customer portfolio

CRM Features

- Customer demographics
- Customer accounts & holdings
- Product recommendations
- Cross sell opportunities
- Customer opportunities
- Customer applications
- Customer complaints/service requests
- Customer alerts

CRM Functional Architecture

- Customer Information management
- Opportunity and pipeline management

Process

- Sales**
- Analyse customers need
 - Recommend product/bundles

CRM Features

- Needs based decision trees
- Risk appetite assessment
- Products/feature comparisons
- Bank product comparisons
- Product selection

CRM Functional Architecture

- Needs analysis
- Product comparator
- Risk analysis
- Product catalogue
- Offer recommendation

Process

- Origination**
- Capture trade information
 - Pre-populate and validate data
 - Auto credit decisioning

CRM Features

- Guided process flow
- Sales scripts and support
- Data pre-population
- Price and fee modifications
- Credit scoring
- Bureau credit search

CRM Functional Architecture

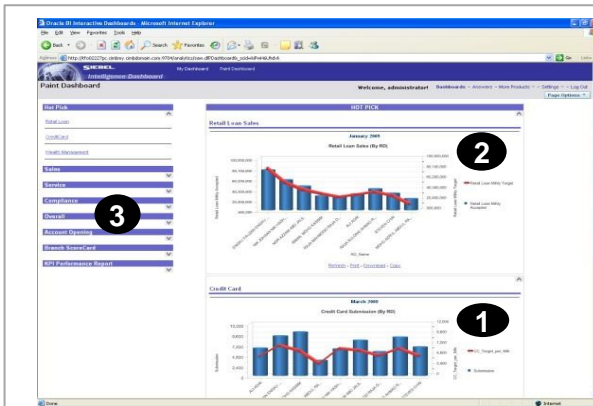
- eForms
- Product catalogue
- Knowledge management
- Credit decisioning logic

GUIDING PRINCIPLES AND KEY ENABLERS

4 Sales & Service tools

Sales Management Tools

Sales Management Dashboard



1 Management Dashboard covering:

- Prospecting Activity
- Lead Conversion
- Sales Pipeline
- Sales Outcomes
- Service Metrics
- Compliance

2 Pick list will allow you to view by :

- Month & YTD
- Period (Month – Year)

3 Drill down will allow you to view by

- Regional Head
- Segment Leads
- Branch Manager
- Staff

Incentive Calculator



- Interactive modeller which allows sales staff to track their progress against the targets
- Allows sales staff to understand how the measurement of performance against a set of criteria influence performance-related incentives
- Available real time to all sales staff

Revenue Report

Revenue Activity Report									
Sales ID: 12345678		Sales Person: John Citizen		Report Date: Jan-08					
Account #	Account Name	Open Date	SAB Open	Active for 3 months	Full 12 Months Notional Revenue	3 Months Notional Revenue	3 Months Actual Revenue	% Diff	12 Months Revenue Credit
12345678	J. Smith	13/09/2007	Y	Y				-25%	
86764512	P. Citizen	3/11/2007	Y	Y				0%	
23456789	L. Smith	23/10/2007	N	N					
Total									

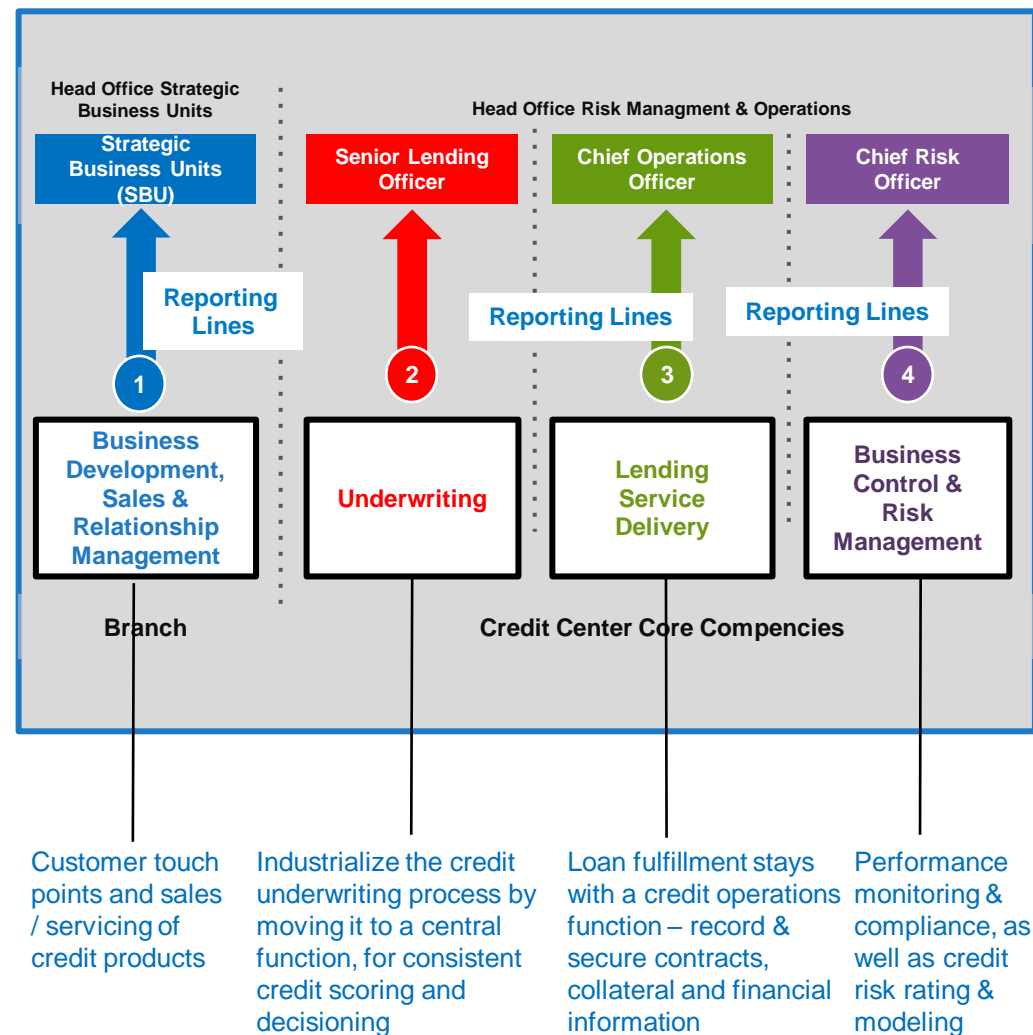
- Monthly report to all sales staff showing the revenue performance of their individual transactions
- Indicates notional revenue versus actual revenue performance for the quarter
- Additionally, report can identify reward accumulation based on current performance

GUIDING PRINCIPLES AND KEY ENABLERS

5 Efficient credit origination, underwriting and fulfillment process

The origination, underwriting and fulfillment processes are key foundation processes to get right in a commercial bank

- An efficient set of credit processes is a critical service differentiator for banks and governs all loan related products and services
- Industrialization of credit processing will help:
 - Consistent credit scoring and decisioning is achieved across all target segments e.g. retail, corporate.
 - Improve turnaround times for customers who are of lower risk and need to be awarded loan disbursements quickly
- The ability of credit ops to support the documentation and disbursement processes is often key in credit management – a workflow driven loan origination system will help to ensure collaboration on loan cases are efficiently handled between front and back-office



GUIDING PRINCIPLES AND KEY ENABLERS

5 Efficient credit origination, underwriting and fulfillment process

A number of key principles govern an efficient credit management process

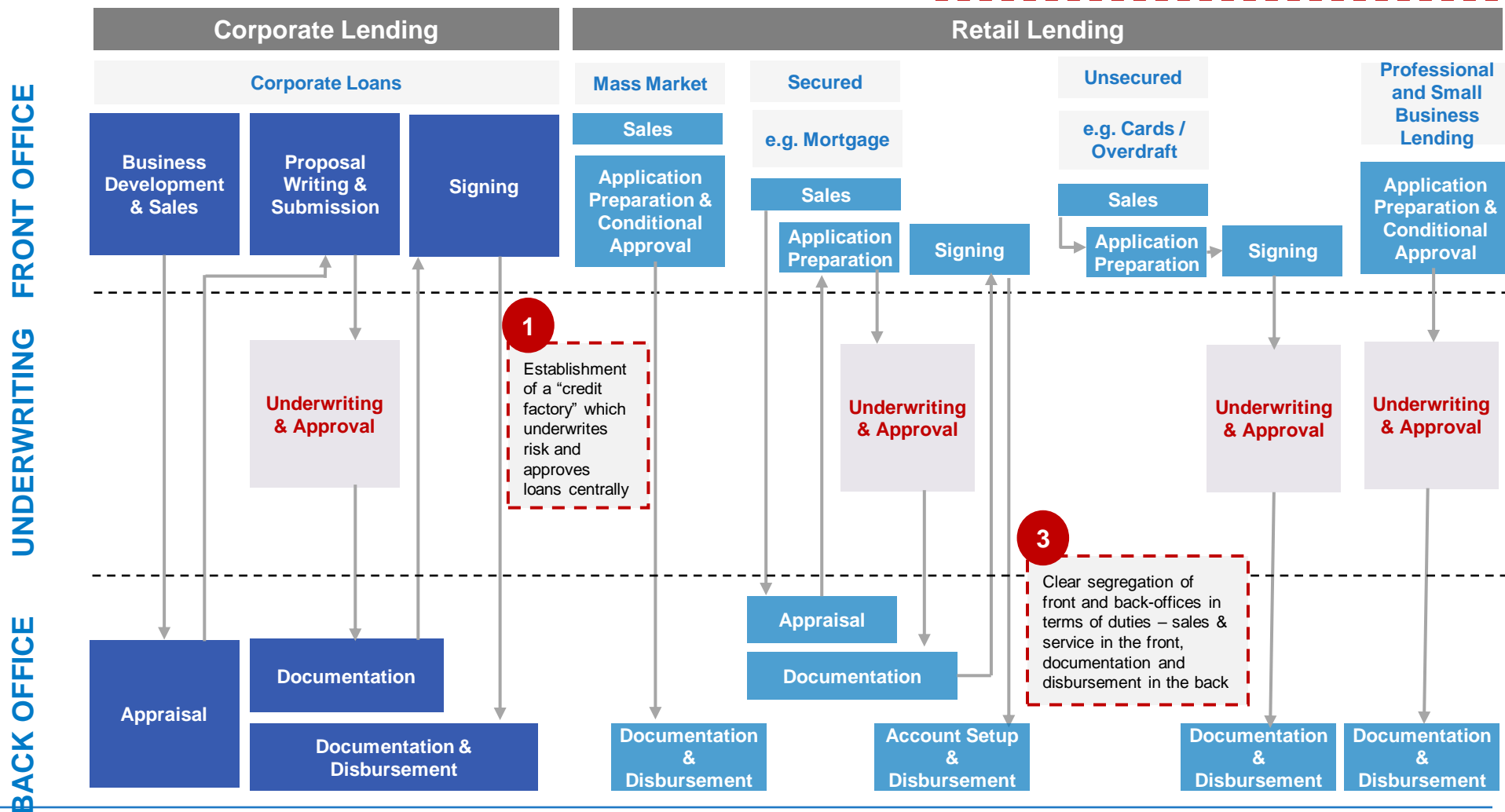
<u>Key Principle</u>	<u>Description</u>	<u>Implication</u>
1 Delegated Authority Levels	<ul style="list-style-type: none">Standardized, low risk loans (e.g. those geared towards mass market) are prepared, scored and signed at SSO for speedComplex, big ticket cases go to a central underwriting team at a “credit factory”	<ul style="list-style-type: none">Delegated authority levels between SSO and credit factory
2 Credit Underwriting Standardization	<ul style="list-style-type: none">Underwriting processes within credit factory should be largely industrialized, with some differentiated processing by product (e.g. some different treatment for corporate lending, versus retail secured / unsecured lending)	<ul style="list-style-type: none">Standardize workflow and procedures for credit underwriting as far as possible for processing efficiency
3 Pre-Delinquency Monitoring	<ul style="list-style-type: none">Establish monitoring system to identify pre-delinquency customersDefine different collection approach and specific actions for each segment	<ul style="list-style-type: none">Establish statuses for pre-delinquent customers with appropriate actions tied to each status
4 Credit Processing Automation	<ul style="list-style-type: none">Adoption of system tools to automate credit processing (e.g. loan origination software and workflow / documentation)	<ul style="list-style-type: none">Adoption of loan origination and workflow / document management systems, with in-built rules to aid loan processing

GUIDING PRINCIPLES AND KEY ENABLERS

5 Efficient credit origination, underwriting and fulfillment process

Certain critical parts of the credit processing flow are typically candidates for process improvement

2 Automation for certain loan types, e.g. mass market lending to rely highly standardized credit scoring for quick disbursement



6 Establishment of a Payment Center

What Is A “Payment Center”?

- In recent years, the “Payment Center” concept promoted by analysts as the leading approach to modernising banks’ payment infrastructure
- Key definitions and terms vary, e.g. “Payment services hubs”, “payment engines,” “payment factories” – leading to confusion*
- **A “Payment Center” can be defined as the heart of all payment processing activities in a bank.** It is built on an enterprise IT payment architecture - which allows banks to build their version of a “best-in-class” payments infrastructure.

Key Characteristics

- 1 Not a “product”**
 - A “Payment Center” is not a “banking product” in the same sense as a deposit, loan, FX, securities. It is more of a service to support payment execution.
- 2 Provides a variety of services**
 - May be initially set up as part of operations and IT in bank to support payment execution in domestic and international payment networks
 - As it matures it may provide cash management / payment services to a bank’s clients’ (e.g. from simple, online inquiry portals through to full client system integration)
- 3 Highly automated**
 - When fully implemented, a “Payment Center” should be highly automated through technology and require very little exception processing or overrides.

** Banks like Deutsche Bank, JP Morgan, Bank of America, BNP Paribas tend to use the term “Payment Services Hub”*

Source: EY Analysis

GUIDING PRINCIPLES AND KEY ENABLERS

6 Establishment of a Payment Center

Banks are under pressure to change their existing payments landscape – which is often complex and rife with aging legacy payment solutions, fragmented by payment type, currency, clearing mechanism, etc.

1

Efficiency and cost reduction

- For the bank, achieve efficiency and cost reduction by reducing point-to-point connections or decommissioning legacy systems
- For the client, the ability to use the lowest cost payment methods, e.g. transaction aggregation for batch settlement, batch & real time transaction support

2

Improved payments visibility

- Improved payments visibility (i.e. how much cash a corporate holds and where), both for liquidity management and for broader risk

3

Regulatory requirements

- The need to deal with new payment standards and regulatory requirements which banks are forced to comply with

4

Faster time to market

- Implementing faster time to market and fostering easier adoption of new technologies, such as contactless or mobile.

5

Growing payment volumes

- Handling the ever-growing volumes of payments with an increasing share of near-real time transactions.

What Have Banks Done?

Banks are under intense pressure from these drivers to build “best in class” payment centers. Some sample payment initiatives:

- “Hub” payments in to a “payment center”
- Set up centralized payments operations and IT to run the center, usually split by geography
- Set up shared services platforms as a way to gain further efficiencies in payment operations

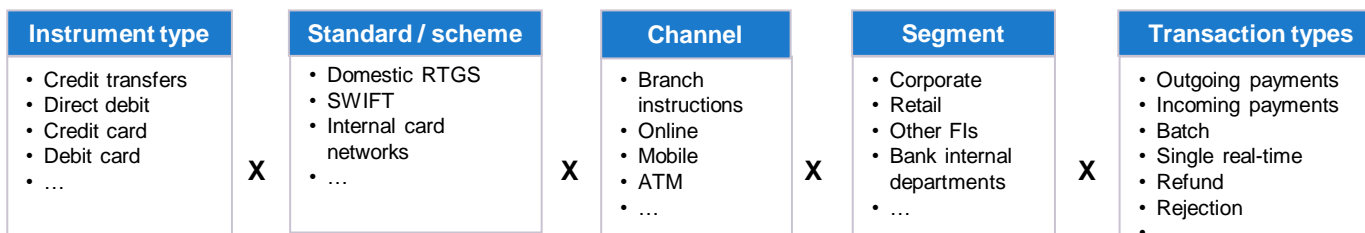
Source: EY Analysis

GUIDING PRINCIPLES AND KEY ENABLERS

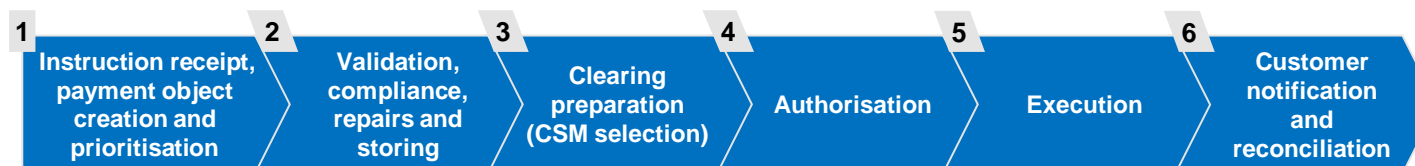
6 Establishment of a Payment Center

When fully implemented, a payment center has a number of key characteristics

Ability to manage, on a single platform, any...



... and process payment flows



... under key conditions

- 1 Delivered as services, drawn from and available to either within the payment center or other areas in the bank (SOA)...
- 2 ... with ability to customise workflow by any dimension or payment characteristics (BPM)
- 3 ... and with sophisticated monitoring and alerting capabilities (BAM)
- 4 ... reliably at large volumes and throughput
- 5 ... with appropriate security, access control and audit trails

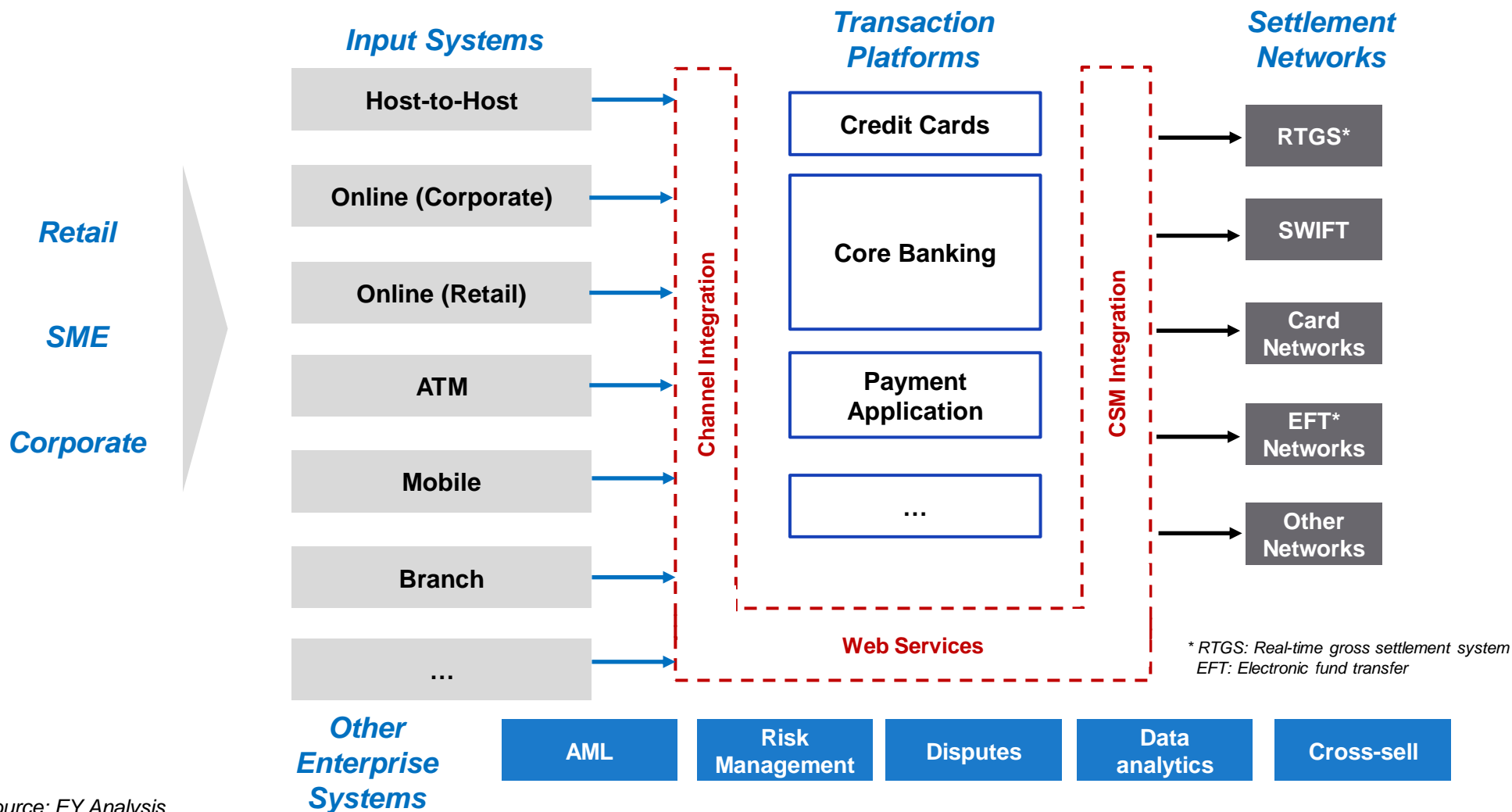
Definitions
 SOA – Service Oriented Architecture
 BPM – Business Process Management
 BAM – Business Activity Monitoring

Source: Defining a Payment Services Hub, Journal of Internet Banking and Commerce, April 2011

GUIDING PRINCIPLES AND KEY ENABLERS

6 Establishment of a Payment Center

A “best-in-class” payment center is built on a strong technology architecture

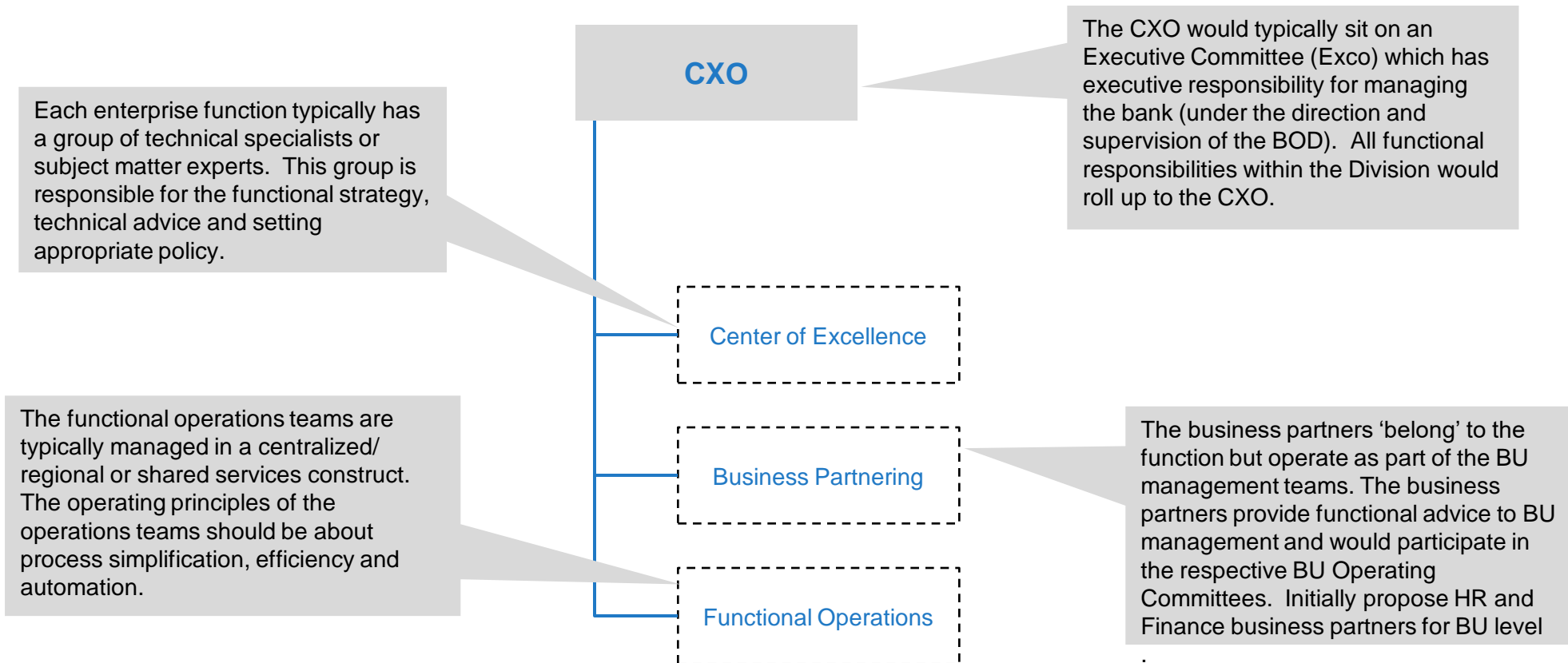


Source: EY Analysis

GUIDING PRINCIPLES AND KEY ENABLERS

7 Establishment of enterprise functions and “Business Partnering”

Strengthening the enterprise functions is one of the key enablers. The enterprise functions consist of Finance, HR, Operations, Technology and Risk and Compliance.



GUIDING PRINCIPLES AND KEY ENABLERS

7 Establishment of enterprise functions and “Business Partnering”

The Business Unit Operating Committee is a key part of the proposed governance framework and a key enabler of “business partnering”

Proposed Composition	Sample Agenda	Examples
<ul style="list-style-type: none">• BOD member• Head of BU e.g. Retail Head• Network Head• CFO/ CFO Business Partner• Head of Operations• CHRO/ HR Business Partner• CRO• CIO	<ul style="list-style-type: none">• Business Results• Competition update• Review BU scorecard• Progress on major initiatives• Regulatory impacts• HR update• Key dates and milestones	<ol style="list-style-type: none">1) Retail business wants to launch a new payment card. The concept is raised at the BU Operations Committee:<ul style="list-style-type: none">▪ Discuss and agree rationale for investment▪ Assign 1-2 members (e.g. Product Development and IT) to sponsor a task force to prepare a business plan▪ Agree a review date2) Corporate & SME. The implementation of Basel II standards is discussed. A key issue is that front line corporate bankers need to understand the capital implications and RWA of credit under Basel II. The requirement for training is identified and:<ul style="list-style-type: none">▪ HR is tasked to prepare an impact assessment together with the project team▪ Deadline established for review3) The HR staff survey has been completed:<ul style="list-style-type: none">▪ The HR business partner presents the results of the staff survey▪ The group discuss the findings▪ The group discuss and agree specific actions

GUIDING PRINCIPLES AND KEY ENABLERS

8 Technology

Typical Pain Points

Technology Enabler

Sales and Service

- Lack of tools to pro-actively track and increase sales
- Lack of mobile, product illustration tools
- Lack of cross-channel integration and single customer view – limiting opportunities to cross-sell and provide holistic customer experience
- Lack of quick access to back-end information

- **CRM system** handling prospect and customer data management (link to a single customer data store)
- **Multi-channel integration** to enable seamless service at all touch-points

Intelligence

- Lack of data mining to extract customer insights
- Lack of product recommendation, illustration and cataloging tools
- Lack of analytical data tools to perform predictive modeling and analyze customer's future propensity to buy

- **Product recommendation tools** to assist selling appropriate products to customers
- **Data mining and analytical data tools** to drill / build models using customer data

Fulfillment

- Lack of integration between different product processing systems (e.g. separate trade finance, cards, treasury systems)
- Duplicate data entry and CIF in product systems, resulting in massive reconciliation effort
- Batch-based transactions, impact to cash accounts only posted at the end-of-day

- **Core banking** system to improve operational efficiency across back-end
- **Product processing systems** automated to achieve high levels of STP
- **Enterprise integration** of product processing systems to core banking system through a service-oriented architecture
- **Payment system** supporting multiple channels, payment network and products

Support

- Lack of consistent enterprise workflow system to route tasks between departments
- Lack of analytics to extract risk and financial data insights
- Paper-based processing hampering turnaround times
- Lack of event-based triggers to notify users of tasks
- Lack of single integration point to external systems (e.g. multiple payment gateways)

- **Corporate intranet** built on an enterprise workflow system for routing tasks and triggering events
- **Document management systems** to scan / index and develop common document templates
- **Core HR platform**, for resource management, HR knowledge bases
- **Risk and financial data warehouse** to support analysis

GUIDING PRINCIPLES AND KEY ENABLERS

9 Back-office processes to be moved out of SSOs

A key question to ask when optimizing branch operations ... “What do our key customers want from the branch?”

Key customer drivers for optimizing branch operations

Convenience

- Convenience for the customer and ease of access to branch network

Value

- Provide value and quality to the customer in product and service offerings

Service

- Achieve deep understanding of customer needs, provide tailored particularly for high value transactions

“Winning on the outside”

Focus

“External differentiation”

- Maintain focus on sales and customer facing processes
- Improve customer satisfaction
- Reduce customer churn

Enablers

- Empowerment in front-lines to perform transactions and resolve issues for customer with fast turnaround times
- Front line staff trained to provide quality advice and product recommendations
- Automation in branch systems to ensure straight-through processing for simple transactions

“Streamlining on the inside”

“Internal Streamlining”

- Introduce branch process optimization
- Retain branch core competencies, move non-core activities out of the branch
- Clarity on constraints which require certain activities to stay at the branch level
- Tight coordination between front and back-offices to maintain service levels to the customer
- Exposure of back-office customer / transaction information to the front office to support sales and services

Key Takeaway

It is therefore imperative that banks re-align their branch activities to focus on delivering superior customer experience ...

... while moving non-core processes to the back-office

GUIDING PRINCIPLES AND KEY ENABLERS

9 Back-office processes to be moved out of SSOs

A number of key questions need to be answered in moving back-office processes out of SSOs

What activities should be taken out of SSOs?

Identify which activities are not sales-related and non-customer facing – these should be taken out of Sales & Service Outlets (SSOs)

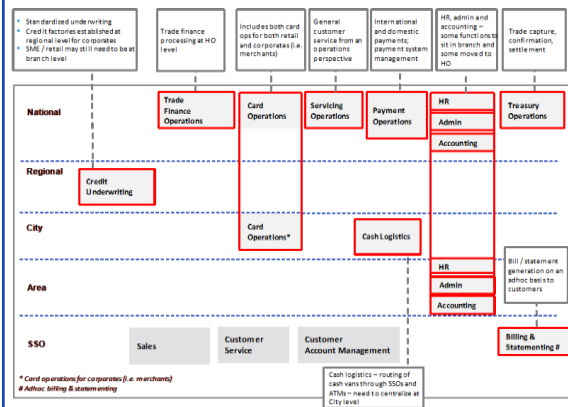
Typical Vain branch activities

Retail department (Phòng KH CN)	Corporate (SME and LCI) department (Phòng KH DN)	Accounting department (Phòng KT toán)	HR department*
<ul style="list-style-type: none"> Sales of retail liabilities and loan (including credit card) products Customer training for ongoing requests Application fill-up and customer appraisal Loan underwriting Collateral valuation Post approval processing and documentation Account opening and disbursement Monitoring and soft collection (before 90dpd) Closure of accounts 	<ul style="list-style-type: none"> Sales of Corporate liabilities, loan and Trade Finance products Customer training for ongoing requests Credit TF application fill-up and customer appraisal Loan underwriting Collateral valuation Post approval processing and documentation Account opening and disbursement Monitoring and turnaround (before 90dpd) Closure of accounts 	<ul style="list-style-type: none"> Transaction accounting team <ul style="list-style-type: none"> Teller customer facing activities (deposit withdrawal transactions, opening/closing of accounts, TS, etc.) Internal accounting team <ul style="list-style-type: none"> Post checking (hàng ngày) Internal expenses accounting (chi like H&M, etc.) Tax and financial reports System reconciliation IT team <ul style="list-style-type: none"> Branch IT system, user control, etc. 	<ul style="list-style-type: none"> Propose recruitment target to HR at Head Office Facility recruitment process with local candidates Performance management (scoring of KPI and assessment) Internal promotion and appointment (Branch Manager can appoint all roles except for Department head roles) Workforce planning
Admin department	General Affairs department (Phòng Tổng hợp vụ)	Debt management	Vault department (Phòng Kho quỹ)
<ul style="list-style-type: none"> Secretariat function Asset management (all branch equipments, cars, physical assets, rental contract, etc.) Overall management of physical location (branch security, cleaning...) Summaries of procurement requests from departments and send for approval (Branch Manager can approve up to 1bn, above go to HQ) 	<ul style="list-style-type: none"> Card and POS team <ul style="list-style-type: none"> Sales of debit card and payroll products POS management E bank team – base with HQ E banking and waive E bank initiative MIS team – MIS and reporting for overall branch Business planning team <ul style="list-style-type: none"> Devise and give target to relevant departments within branch Track performance against target and report 	<ul style="list-style-type: none"> Cash management <ul style="list-style-type: none"> Support RM (find appropriate mitigating measures, accompany RM to meet customers) in soft collection (before 90dpd) Prepare collection and workout strategy and submit for approval (after 90dpd) Meet customers to discuss and agree on strategy/workout plan (after 90dpd) Execute workout plan (after 90dpd) 	<ul style="list-style-type: none"> Cash vault management Cash need and stock forecast Cash delivery to ATM and T/Os ATM re-filling Cash payment and reception for retail & SME customers Collateral physical management

1 At some branches there are SME and Corporate department separately. Activities are similar across the departments
2 HR and Admin functions typically belong to one department (called Hành chính & nhân sự)

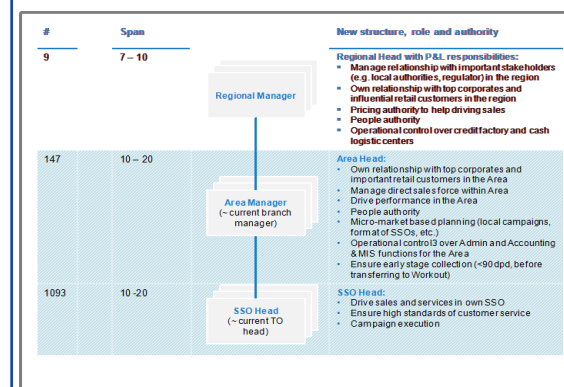
Where should these activities be centralised?

Determine appropriate level of centralization (National, Regional, Area)



What is the resulting network structure in the bank?

Lay out the new comprehensive network structure of the Bank based on various centralization level of activities



GUIDING PRINCIPLES AND KEY ENABLERS

9 Back-office processes to be moved out of SSOs

Our guidelines provide a framework for deciding which activities should stay in branch and which should be moved out

Key questions to answer

- Which activities should stay in the branch and which should move out?
- Where should the activities be done?
- What are the key constraints on moving certain activities out of a branch?

Front Office Sales Focus

- Front office to concentrate on sales and service
- Administrative burden minimized and moved to central operations where relevant

Document Management

- Physical document handling to be kept local, e.g. if there are legal requirements.
- Scanning of documents to support central processing

Time Criticality

- Time critical transactions to be performed in the branch
- Platform support / “upfront” availability of information to front-line is critical

Process Standardization

- Institutionalized processes which can apply consistent rules and logic to transactions best done centrally, e.g. credit underwriting

Complexity

- Complex sales / service transactions requiring “high-touch” interfacing / hand holding better done in front lines
- Complex follow-ups and Investigations done at the back

Local Regulatory Requirements

- State level regulatory requirements may require certain activities to be done locally instead of centrally

Cost Efficiencies

- “Commodity” or low complexity transactions (esp. in support functions like HR or Finance) may be moved to a central function

Physical Infrastructure

- Activities related to physical infrastructure (e.g. network, building, facilities) will need to be kept local rather than central

GUIDING PRINCIPLES AND KEY ENABLERS

9 Back-office processes to be moved out of SSOs

As part of centralization, specific activities may be moved out of the branch and into a central back-office

		Services	Complexity	Time-Critical?	Front-Office Fulfillment	Back-Office Fulfillment	Design Features
Transactions		Cash – Deposits – Withdrawals – Foreign notes exchange	Low Low Low	Yes Yes Yes	✓ ✓ ✓		<ul style="list-style-type: none"> ▪ Front office fulfills transactions and inquiries that are: <ul style="list-style-type: none"> ▪ Time-critical ▪ Simple / straight-through ▪ Minimal verification required ▪ Back office fulfills transactions and inquiries that are: <ul style="list-style-type: none"> ▪ Complex ▪ Requires updates to accounts ▪ Requires manual verification and / or decisioning ▪ Requires 3rd party interaction
		Payments – 3 rd party payments – Domestic payments – Foreign payments – Cheques / BG	Low Low Low Low	Yes Yes Yes Yes	Setup instructions	Process payments	
		Recall / Stop Payments	Medium	Yes	Forward-dated	On / After payment date	
		Account / data maintenance – Cards – Trade finance – Loans – Trading / Investment – Channel subscription – Modify / update personal details	Medium High High High Medium Medium	Yes Yes Yes Yes Yes Yes	Application ✓ (automated)	✓ ✓ ✓ ✓ ✓	
		Rejects and Dishonors	High			✓	
		Product inquiries	Medium		✓		
Inquiries		Balance inquiries	Low		✓		
		Transaction history (view / print)	Low		✓		
		Disputes and complaints	Medium – High			✓	
		Trace	Medium - High			✓	

Source: EY Analysis

GUIDING PRINCIPLES AND KEY ENABLERS

10 Standardization of back-office processes

Some key trends are emerging in banking operations management ...

Key Trends

Standardization

- Product-line specific information silos make bank operations inefficient.
- Separate operations and management for each product line results in duplication, higher costs and lower efficiency

Centralization

- Only some percentage of back-office processes must be dedicated to "product-specific" processing.
- The rest of the processes and resources can be shared and centralized.

Automation

- Automation of operational management across operational controls (e.g. checks and balances), monitoring (e.g. real-time dashboards for processing information), as well as measurement

Governance

- Increasing regulatory pressures require a greater level of oversight across banks. Manual processes and information silos impede banks' progress towards compliance

- Banks that can bring about greater standardization in their core processes will stand to gain in terms of competitiveness and speed to market

What Banks Are Doing

- Banks identify processes for standardization across core operations – typically split into three layers, i.e. the transaction capture, transaction processing and output layers

- Banks centralize processes such as payments processing, cash and trade reconciliations, as well as services like data management

- Many banks are moving towards real-time processing, monitoring and measurement – permitting a consolidated view of processing across the bank; to improve risk management and efficiency

- Banks are starting to standardize processes and information into centers of excellence and also remove data silos, so as to better support regulatory mandates.

- Standardization, centralization and automation can work hand-in-hand to break down processing and information silos and improve efficiencies across the bank

GUIDING PRINCIPLES AND KEY ENABLERS

10 Standardization of back-office processes

Banks attempt to standardise and centralize core back-office processes in order to realise five key benefits

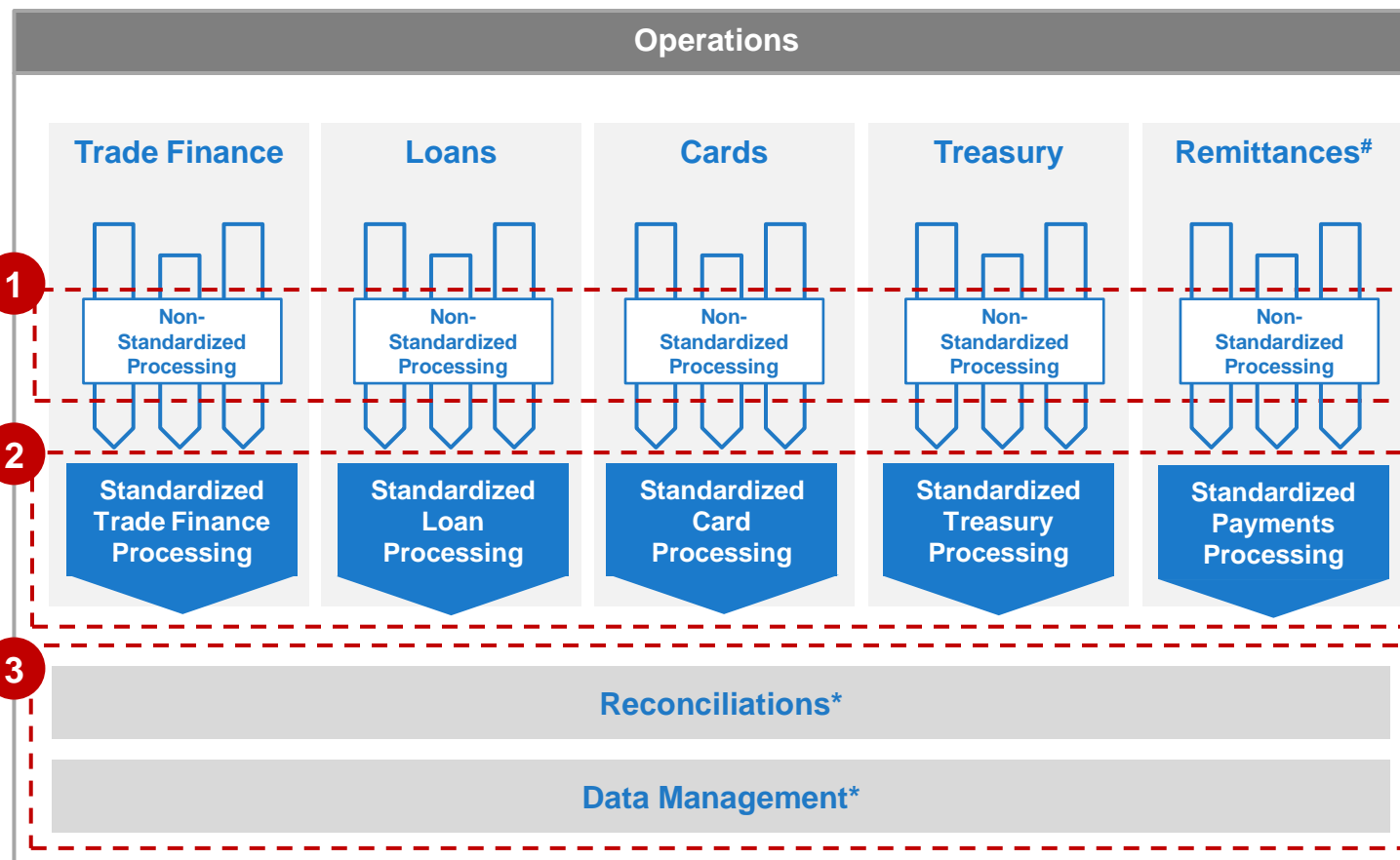
Benefit	Description
1 Improved efficiency and accuracy	<ul style="list-style-type: none">Standardising core operations functions can enhance seamless process design and execution. This helps to decrease the number of handoffs, speed execution, and reduce the risk of errors
2 Improved data integrity	<ul style="list-style-type: none">Standardising operations functions and placing them in one “Operations Center” makes it easier for the bank to integrate data across multiple technology platformsThe bank can work with a single master data set across all the operations functions to reduce the risk of inconsistencies
3 Economies of scale	<ul style="list-style-type: none">In the ideal state, a bank can standardise and physically locate operations functions in a single site. This helps to realize synergies and economies of scale on core shared functions and supporting facilities, especially in terms of site support / IT infrastructure costs
4 Easier cross-functional improvement	<ul style="list-style-type: none">An Operations Center with standardised operations functions has a cross-product perspective and supports functional diversity and innovationIt is easier for the bank to facilitate / gain buy-in on the sharing and implementation of effective operations practices across functions
5 Better talent management	<ul style="list-style-type: none">Having multiple, standardised operations (e.g. payment, reconciliations) in one locale may provide a greater variety of work opportunities for employees by allowing them to cross-train and rotate jobs among different functionsIt also gives the bank more flexibility to scale up and down in a particular function by allowing people to be redeployed to different standardised functions if needed.

Source: EY Analysis

GUIDING PRINCIPLES AND KEY ENABLERS

10 Standardization of back-office processes

Back-office processes can be classified into three broad categories – to aid identification of what can be standardised



1 "Non-Standardized" processing
"Non-standard" processing areas will still remain – to cater to local areas, or specific segments or customer-level business rules

2 Standardized processing per product

- Identify processing activities within each product silo and standardize
- Examples include trade finance and credit underwriting processing

3 Standardized processing across products

- Identify cross-product areas for standardization
- Candidate processes are those which are done within product processing silos currently
- Extraction of these into a central operations team (usually supported by a strong technology platform) yields cost efficiencies

Considerations

- Location** – where should each of the standardized functions sit?
- Technology** – strong technology platforms (e.g. loan origination, payment systems) are usually needed to support standardization

Refers to vanilla payments (i.e. international payments and VND remittance) handled by the Payment Center

* In the ideal state, standardized processing capabilities across products (e.g. central reconciliations and data management) will be present. However, such capabilities usually need to be supported by strong technology platforms, e.g. a cross product auto reconciliation system. In the interim, VTB may be constrained by product-specific platforms (e.g. trade finance, treasury, cards) and may need to do reconciliations and data management within each of the product silos.

High Level Operating Model

1. Operating Model Concept
 - Purpose of the Operating Model
 - Becoming Customer Centric
2. Guiding Principles and Key Enablers
3. High Level Operating Model
 - Organization and Governance
 - Performance Measures
 - Process Model
 - Technology
4. Transition Considerations
5. Appendix

ORGANIZATION AND GOVERNANCE

Key questions to answer

What are the principles of good organization design?

What are the key improvement areas of the organization design in order to meet the needs of the business strategy ?

What is the proposed organization structure ?

What are the key roles and responsibilities in the management structure ?



ORGANIZATION AND GOVERNANCE

What are the principles of good organization design?

The guiding principles for good organization design focus on clarity, organizational efficiency and solid governance

The design enables delivery of ABCBank's vision, mission and business strategy and supports the delivery of stated business performance goals

- Establishment of business units in the organization structure
- Embedding segmentation in the organization structure

The design enables appropriate communication lines and networks

- Establish business unit operating committees
- Establish business partnering

Roles and responsibilities do not create overlap and duplication of effort

- Establish CXO positions for enterprise functions
- Roles of SSO's, Areas, Regions and Head Office functions to be clear
- Establish logical groups of roles and responsibilities then build physical organization structure

The design drives more efficient and streamlined business/operational processes and workflows

- Separate "customer-facing" and "back-office" capabilities
- Back-office functions are aligned with appropriate organization units

There is a clear chain of command (or influence) and well defined authority for decision making

- BOD members to chair key management committees including business unit operating committees
- Committee structures to oversight strategic initiatives

Compliance considerations (SBV) need to be built into the design

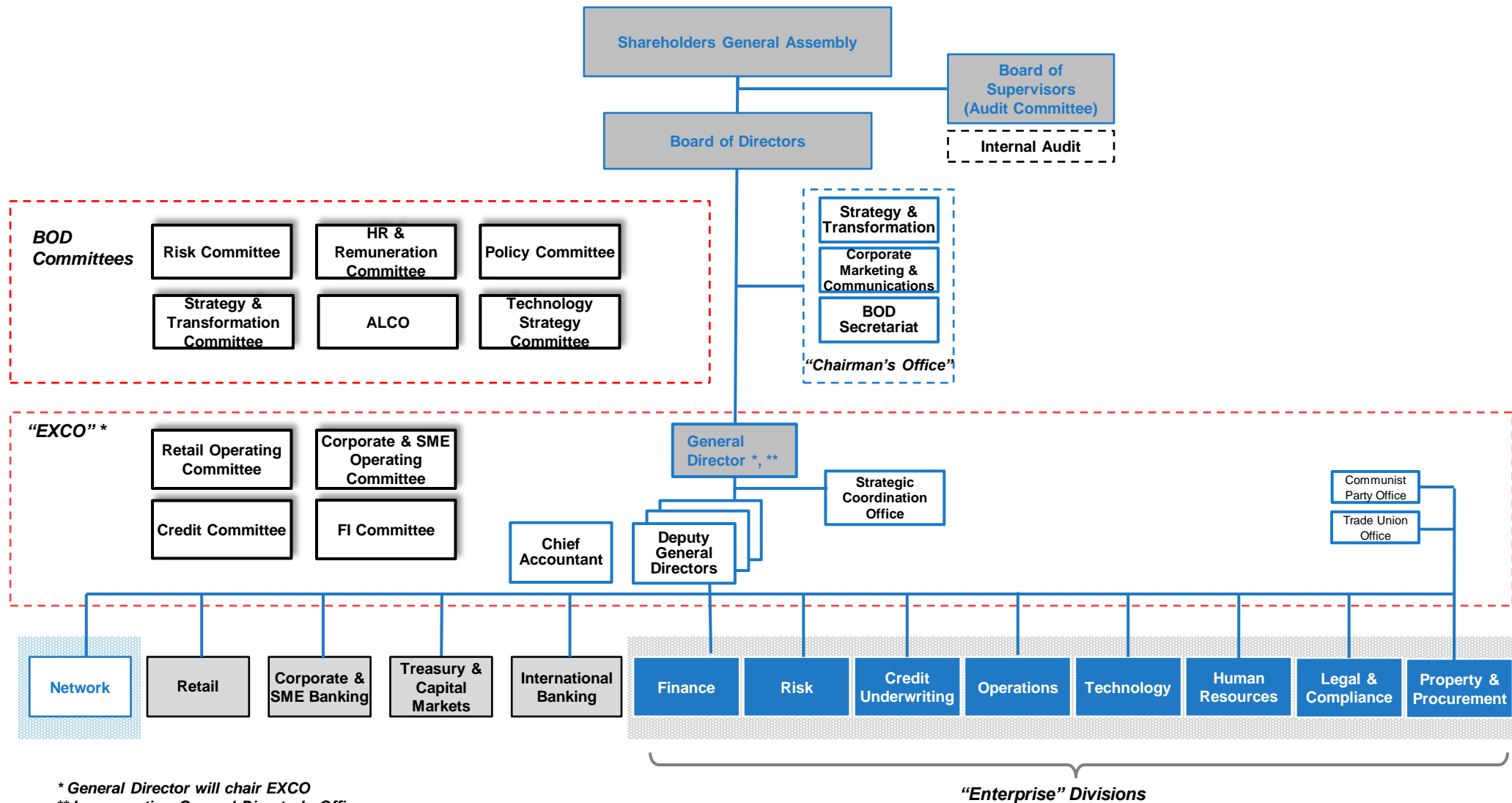
- BOD provides ultimate oversight on behalf of shareholders
- HR and Risk committees are mandatory
- General Director is part of BOD and leads BOM
- Chief Accountant and Deputy General Director must be part of BOM

What are the key improvement areas of the organization design in order to meet the needs of the business strategy ?



ORGANIZATION AND GOVERNANCE

Proposed organization and governance structure



* General Director will chair EXCO

** Incorporating General Director's Office

ORGANIZATION AND GOVERNANCE

Clear governance, roles and responsibilities (new proposed committees)

	Roles Description	Composition
Executive Committee (“EXCO”)	<ul style="list-style-type: none"> Drive coordination across bank Discuss and agree bank-wide strategies Review Bank-wide financial performance Continually assess progress of key investments Monitor and review Bank-wide cultural assessments 	<ul style="list-style-type: none"> 1 BOD member (General Director) BU Heads Network Head or representatives Heads of Enterprise Functions
Business Unit Operating Committees	<ul style="list-style-type: none"> Manage the individual Business Units ie Retail and Corporate Business Units Make joint decisions across the Network and SBU Used as a communication forum to update all managers e.g. business performance Used to prioritize and/or initiate actions and / or projects e.g. establish a task force 	<ul style="list-style-type: none"> 1 BOD member SBU Head Network Head (s) CCO CIO and Head of Operations Finance/HR Business Partners
Payment Sub-Committee	<ul style="list-style-type: none"> Provides a drive and a focus for Payments initiatives across the bank Receives proposed strategic initiatives and makes recommendations Coordinates initiatives with network, business and technology/operations Represent ABC on national committees to influence key decisions impacting payments 	<ul style="list-style-type: none"> 1 BOD member SBU Heads Network Head or representative CIO or representative Head of Payment Center
Transformation Steering Committee	<ul style="list-style-type: none"> Directing the ORP Transformation Program Making key decisions on Priorities for ORP program at strategic level Making key decisions on Cost, Time, Scope, Quality and Business Benefit changes within the ORP Program 	<ul style="list-style-type: none"> Chairman or Delegate BOD members TMO Director ORP Sponsors
Technology & Operations Committee	<ul style="list-style-type: none"> Advise BOD on Technology and Operations strategy Manage and prioritize the Technology & Operations capability and investments Oversight implementation of strategic initiatives Review significant operational outages Possible to split into Technology Committee and the Operations Committee 	<ul style="list-style-type: none"> General Director or Deputy General Director CIO and Technology Department Heads Head of Operations and Department Heads Finance/HR Business Partners

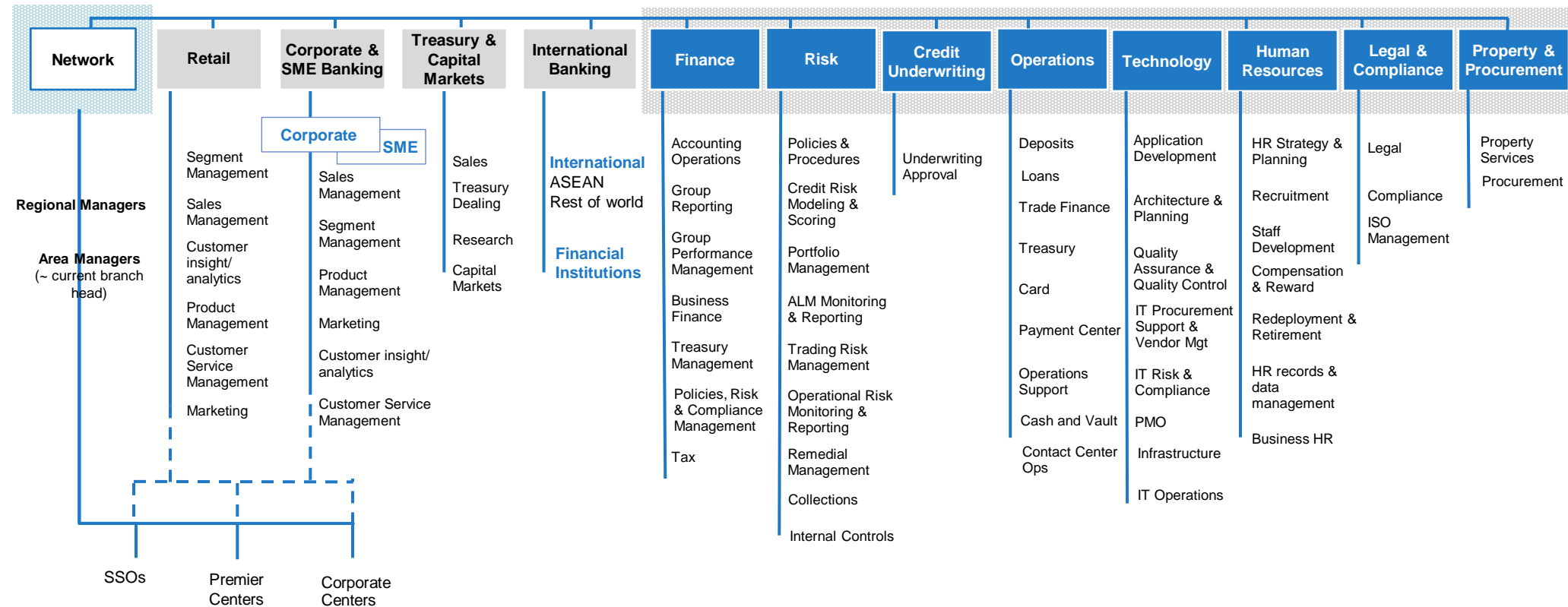
ORGANIZATION AND GOVERNANCE

Clear governance, roles and responsibilities (existing committees)

	Roles Description	Composition
HR Committee	<ul style="list-style-type: none"> Assist BOD in setting HR and remuneration policies and supervision thereof Assist BOD in reviewing, evaluating and staffing all position under BOD's authority Responsible for organizational structure, Network management and HR management Responsible for salary, bonus and benefits Supervise the compliance of HR regulations Oversight implementation of strategic initiatives 	<ul style="list-style-type: none"> 1 BOD member CHRO Department Heads
Risk Committee	<ul style="list-style-type: none"> Advise BoM on publishing and reviewing the appropriateness and effectiveness of risk management policies and procedures Provide opinions on investment decisions, risk management policies Identify risk appetite, risk tolerance and approval authority Approve risk management policies and procedures 	<ul style="list-style-type: none"> 1 BOD member CCO, CFO BU Heads Head of Credit, Market and Ops Risk
Policy Committee	<ul style="list-style-type: none"> Review policies and procedures issued by BoD in order to ensure the completeness, consistency, timeliness, compliance and appropriateness with VTB's operations Propose policies and procedures which need to be complemented, replaced or amended Review and evaluate policies and procedures issued by BoM in order to ensure consistency and compliance with BoD's regulations Co-operate with Supervisory Board and other relevant departments to check and review the compliance with BoD's policies and procedures semi-annually 	<ul style="list-style-type: none"> 1 BOD member BU Heads Network Head CRO, CFO, CHRO, Ops, CCO
ALCO	<ul style="list-style-type: none"> Identify and recommend on scale, structure and growth of assets and liabilities of ABCBank Manage interest rate risk, liquidity risk and exchange rate risk VTB interest rate policies toward customers and internal fund transfer pricing policy Others as delegated by BOD 	<ul style="list-style-type: none"> CFO CRO Head of Treasury BU Heads
Credit Committee	<ul style="list-style-type: none"> Review and approve credit limit or change the credit limit for one customer or customer group within authority Submit to the BOD/authorized representative of BOD for consideration and approval credit limit or change the credit limit that exceed approval authority of Credit Committee Decide the credit approval limit hierarchy 	<ul style="list-style-type: none"> CCO CRO BU Heads Head of Credit limit granting, Head of Underwriting

ORGANIZATION AND GOVERNANCE

Proposed “vertical” functional structure (excluding committees)



Note: Non-banking subsidiaries (not shown) include: Insurance, Asset Management, Leasing and Remittances

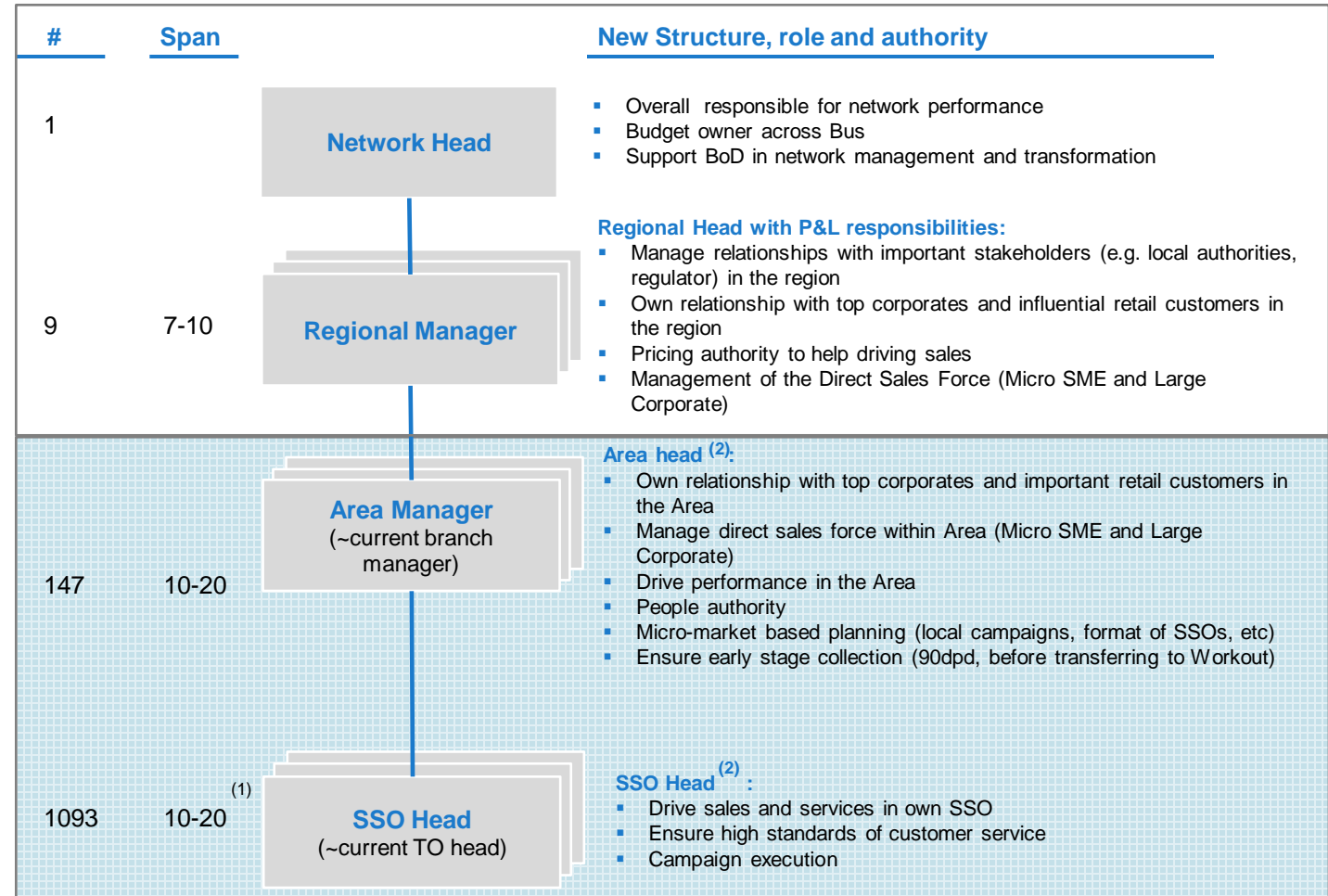
ORGANIZATION AND GOVERNANCE

Network

Source: McKinsey
Business Strategy

Highlights

- Network management across regions, areas and SSOs to drive efficiency in full banking value chain, effectively managing distribution network. Manage network performance.
- Regional manager is positioned as a regional strategic and business leader. Regional office will “host” some back-office functions.
- Area manager to drive business results across SSOs.
- No back-office presence in SSOs



1 Current span of ~7.5 should aspire to increase to the optimal range as customer base grows

2 Area Head could transition from current Branch Head role; SSO Head could transition from current TO Head role, with complete new roles and authorities

Network – Area and Regional Offices Design Philosophy

Regional Office

The Regional Office is a **management overlay** in the Network organization established to **manage a geographic group of Areas** (~10-20 Areas per Region). It may or may not be co-located with an Area Office or SSO.

The primary objective of a Regional Office remains to **drive sales & service across the Areas within the Region**

There is **no back-office activity directly reporting into the Regional Office**

However there will be some “**business partnering**” support from **Finance and Human Resources** who will have a **presence at the Regional level**.

A **limited amount of back-office processing will be regionalized** such as accounting operations, HR operations and credit underwriting as part of the “Credit Factory” model. **These functions will report directly to Head Office**, albeit having a physical presence in the Regional Office

Area Office

The Area Office is a **management overlay** in the Network organization established to **manage a geographic group of SSOs** (~10-20 SSOs per Area). It may or may not be co-located with an existing SSO.

The primary objective of an Area Office remains to **drive sales & service across the SSOs within the Area**

There is **no back-office activity directly reporting into the Area Office**

The objective is to **eliminate back-office activities from SSOs and Area Offices**. However some **location-dependent support will remain at Area level** such as Loan Operations and Cash & Vault

Due to the **extensive amount of change that is being forecast due to the transformation** and the **inherent risk levels** in branches we are proposing that there is **Operational Risk representation at every Area Office level**.

Enterprise Divisions

Fundamentally the objective is to **reduce or eliminate back office activities from the Network**. This achieves two important goals:

- It **focuses management and staff on sales and servicing the customer** in line with the customer-centric philosophy; and
- It **drives efficiency of back office processes** through standardization, centralization, automation and/or elimination

Back-Office support falls into one of three categories:

1. Back-office activities which are **completely eliminated from the Network and are managed at Head Office** only. However HO will deploy some of its staff around the Network depending on where the business needs are e.g. IT Operations Support
2. Back-office activities which are **physically required at a Regional level but which report direct to their respective HO Divisions**. e.g. HR Operations, Accounting Operations. However this is likely part of the longer journey to full centralization or shared services.
3. Back-office activities which are **physically required at an Area or City level but which report to their respective HO Divisions**. e.g. Operational Risk, Cash & Vault, Loan Operations.

Note that the key enabler to this model is technology and process standardization

We explain each division in detail in the Detailed Target Operating Model document “Detailed TOM”. This document is organized into the following chapters:

1. Network
2. Retail
3. Corporate & SME
4. Treasury & Capital Markets
5. International Division
6. Credit Underwriting and Credit Risk Management
7. Operations
8. Finance
9. Operational Risk, Market Risk and Internal Controls
10. Human Resources
11. Technology
12. Legal and Compliance
13. Property & Procurement
14. Chairman's Office and General Director's Office

Each chapter contains operating model information i.e. organizational structures; what are the key interactions with other bank departments; process model; performance measures; job descriptions; technology and transition considerations.

High Level Operating Model

1. Operating Model Concept
 - Purpose of the Operating Model
 - Becoming Customer Centric
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3. High Level Operating Model
 - Organization and Governance
 - Performance Measures
 - Process Model
 - Technology
4. Transition Considerations
5. Appendix

PERFORMANCE MEASURES

Key questions to answer

What are key principles for performance **measurement** design ?

What are the performance **measures** for the business units and divisions?



PERFORMANCE MEASURES

What are key principles for Performance Metrics design ?

The fundamental principle behind Performance Metric design is “what gets measures gets done”

Implement KPIs selectively to promote behavior which is consistent with and aligned to the bank's strategy

- Shared KPIs for Branch managers and BU heads
- Enterprise functions measured on productivity – avoid mixing up “sales” and enterprise “back-office” roles
- Sales and Service measured as such
- Introduction of matrix reporting and “solid” versus “dotted line” reporting

KPIs to cascade top-down from the bank's executive body through to all staff

- Bank's balance scorecard (BSC) prepared at the highest level
- Department roles clearly defined and measured

KPIs to reflect actual accountability – management and staff must have ability to affect outcomes

- SSO's KPIs primarily reflect sales and volume targets
- Back office KPIs tend to reflect operational efficiency

PERFORMANCE MEASURES

Example of Performance Measurement Scorecard

Main Responsibilities

Chief Financial Officer (CFO)

- To monitor and manage the bank's financial performance and contribute a fiscal perspective to the executive management team.
- Present and report the bank's financial performance to internal and external stakeholders
- Responsible for managing the bank's capital and funding requirements
- Assist to develop and define the overall strategy for the bank

Key KPIs for the Head of the Division

KPIs are organised across the industry-standard four dimensions of Finance, Customer, Operations and People

Divisional Balanced Scorecard

A proposed weightage of importance of the different KPIs relevant to the division

Financial

- Bank Profit After Tax Growth (%)
- Relative Total shareholder Return (TSR) (%)
- Cost-Income Ratio (%)
- Return on Risk Weighted Assets (RRWA) (%)
- Average Cost of Funds (%)

Weight

45%

Customer

- Internal Customer Satisfaction Index
- Average investment analyst rating
- Variance to financial guidance provided to Investors (%)

Weight

20%

Operations

- Overhead expense (%)
- Month-end close timing (M + days)
- Number and materiality of significant operational risk or audit issues identified in Finance

Weight

25%

People

- % Qualified Accountants/ FTE
- Employee Satisfaction (%)
- Key Employee Retention (%)

Specific KPIs are listed together with their unit of measurement

Weight

10%

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2. Guiding Principles and Key Enablers
3. High Level Operating Model
 - Organization and Governance
 - Performance Measures
 - Process Model
 - Technology
4. Transition Considerations
5. Appendix

PROCESS MODEL

Key questions to answer

What are the principles of good process architecture design?

What is a process model and why is it useful?

What does the target process model for ABCBank look like?

What is the role of the Network (SSOs, Areas, Regions) in the Process Model?

What are the key opportunities for Centralization ?



PROCESS MODEL

What are the principles of good process architecture design?

The guiding principles for good process design focus automation, reduction in manual hand offs and clear process governance

Process governance and ownership is clear and unambiguous- end-to-end process ownership is optimized

- Establishment of Enterprise functions
- Governance relationship between Head Office and the Network is clarified

Understanding of process inputs, activities, outputs and resources used (data) is clear

- Centralization of processes requires a thorough understanding of inputs, data, activities and outputs

Similar processes should be grouped and managed collectively across an organization

- Establishment of Enterprise functions such as Finance
- Establishment of Payment Center

Manual or bespoke processes should only be performed where there is a clear business rationale

- The business strategy defines particular customer segments which require more “hands-on” and/or “personal” attention e.g. the development of the “High Net worth” segment

Data provided to processes is of high quality (thus avoiding rework) and processes automated (e.g. STP and workflow) as far as possible

- Single customer ID across the organization
- Financial close process automated to enable a M+5 close
- Loan origination process

Manual process hand-offs between departments to be avoided at all costs

- Automation of the loan origination process
- Further centralization of back-office processes to be enabled through automation

PROCESS MODEL

What is a process model and why is it useful?

A Process Model is built upon a business architecture* and forms the foundation of process analysis and improvement within the bank.

Business Architecture

A business architecture is the foundation upon which an operating model can be built.

It consists of four layers which help to cement the end-to-end business capabilities (process, technology and organization) across the bank – documenting a full-view of how it responds to customers and the market

Sales & Service

Customer touch points and sales / service processing will remain at SSOs

Intelligence

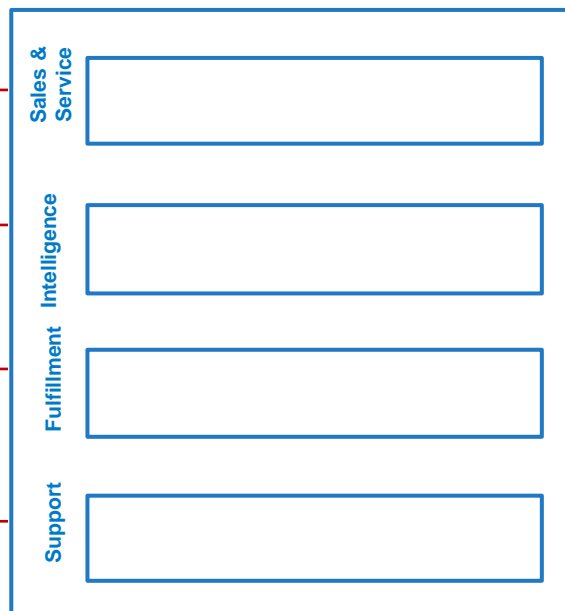
Customer insight, product development and marketing activities mostly coordinated centrally at Head Office

Fulfillment

Specific cross-product fulfillment may be centralized into processing centers at Head Office, some activities (e.g. credit underwriting remain at regions)

Support

Support functions like Finance, HR, IT distributed through the network – some level of representation of these functions at area, region and centrally consolidated into corporate functions at the Head Office



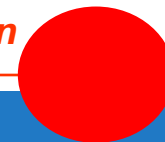
Process Model

A Process Model may be overlaid onto the business architecture, providing the following benefits:

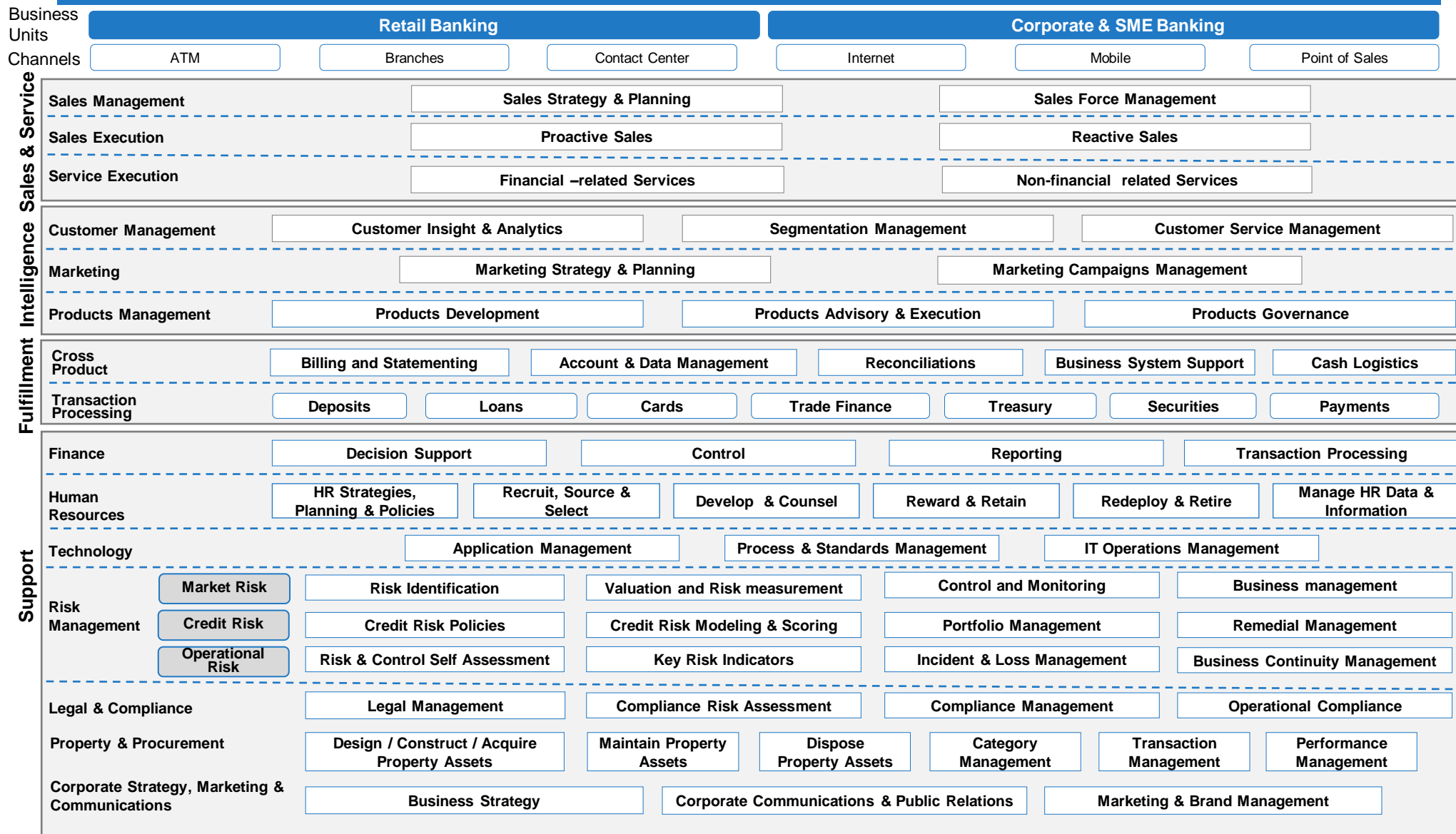
- Makes explicit the front-to-back processing capabilities in the bank
- Form a basis for process analysis and business improvement
- Sets out a framework for identifying common processing elements across the organization



* More details on the business architecture can be found in the Appendix



What does the target process model for ABCBank look like?



PROCESS MODEL

What is the role of the Network (SSOs, Areas and Regions) in the process model?

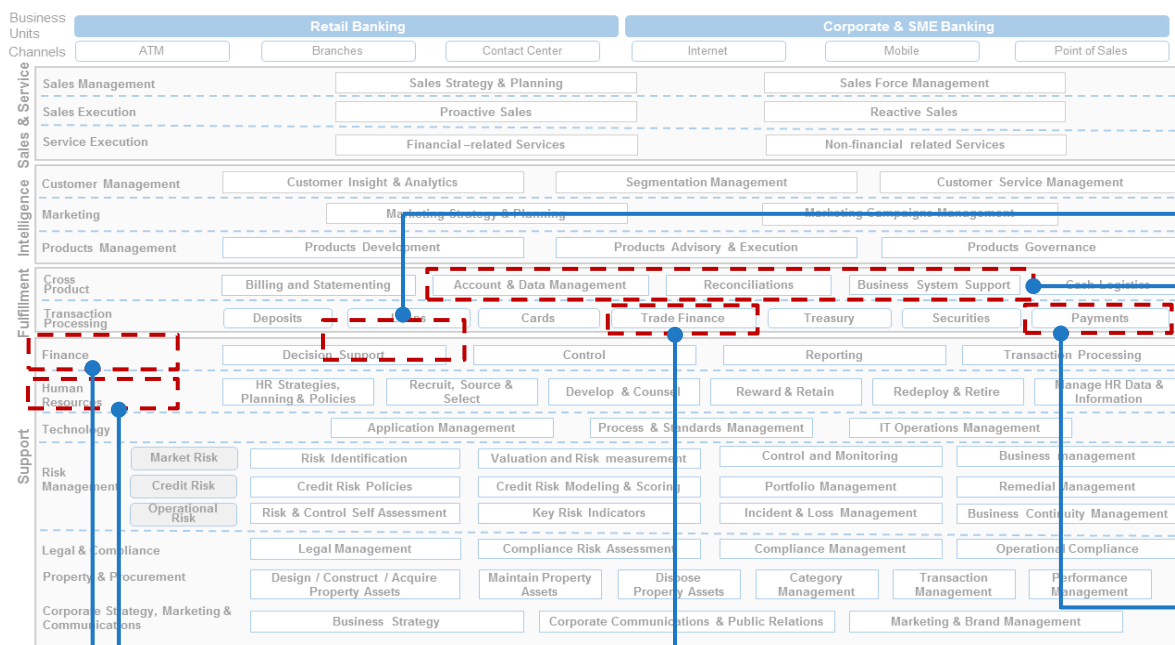
Each part of the Network will focus on processing specific layers and components in the process model



PROCESS MODEL

What are the key opportunities for centralization?

Within the process model, there are several focus areas which are candidates for centralization



Credit Underwriting

“Credit factories” to be established to centralize credit underwriting for specific loan types and extract cost efficiencies

Data management, Reconciliations & Business System Support

Data management, reconciliations and business system support can be centralized to some extent (e.g. nostro / vostro reconciliations, core bank parameterization)

Payments Processing

“Vanilla payments” (international and domestic remittance) can be centralized into a Payments Center.

Corporate Functions

Specific corporate functions like Finance and HR present opportunities for centralization into regional or head office levels

Trade Finance

Some level of centralization already established for trade finance (e.g. scanning forms and routing to central trade finance processing center)

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1. Operating Model Concept
 - Purpose of the Operating Model
 - Becoming Customer Centric
2. Guiding Principles and Key Enablers
3. High Level Operating Model
 - Organization and Governance
 - Performance Measures
 - Process Model
 - Technology
4. Transition Considerations
5. Appendix

Key questions to answer

What are key principles for good technology and data architecture design?

What is a technology architecture and why is it useful?

What are the technology capabilities ABCBank needs to support the business strategy?

What does the target technology architecture for ABCBank look like?

How are the technology capabilities phased for delivery?



What are key principles for good technology and data architecture design?

The fundamental principles behind Technology and Data are that they should be used effectively together to enable the business to achieve its objectives in a smarter and more efficient way

The technology architecture should be closely aligned to the business and process architecture

- Clear delineation between “front-office” and “back-office” applications
- Introduction of ERP

Applications should be rationalized along component-based design principles

- Applications selected on “fit-for-purpose” basis
- Applications aligned to business processes e.g. Payments
- Identification of business owners

Master data management should be rigorously implemented across the bank

- Clear master data governance structure
- Clear bank-wide data model
- Clear master-data change management and controls

The organization must focus on adhering to the highest standards of data quality

- Clear processes in place for data enrichment
- Clear identification of golden source
- Implement data quality KPIs

Technology architecture must be flexible and capable of adapting to rapid changes in business needs

- Best-of-breed core banking system
- Sales and service tools
- Data warehousing, analytics and reporting capabilities

What is a technology architecture and why is it useful?

A Technology Architecture is built upon a business architecture*. It helps to lay out enterprise IT application capabilities to drive business performance.

Business Architecture

A business architecture is the foundation upon which an operating model can be built.

It consists of four layers which help to cement the end-to-end business capabilities (process, technology and organization) across the bank – documenting a full-view of how it responds to customers and the market

Sales & Service

Customer touch points and sales / service processing will remain at SSOs

Intelligence

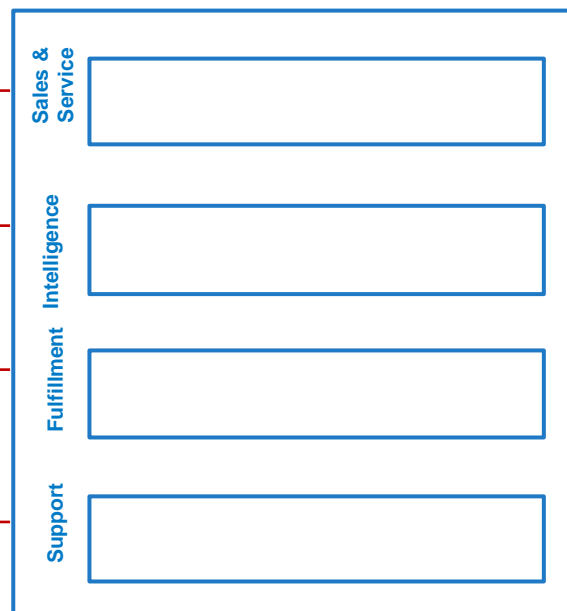
Customer insight, product development and marketing activities mostly coordinated centrally at Head Office

Fulfillment

Specific cross-product fulfillment may be centralized into processing centers at Head Office, some activities (e.g. credit underwriting remain at regions)

Support

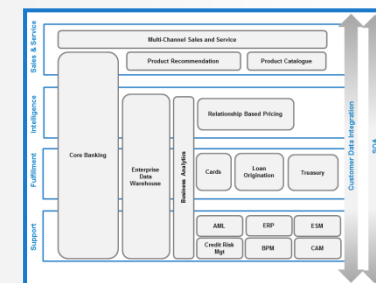
Support functions like Finance, HR, IT distributed through the network – some level of representation of these functions at area, region and centrally consolidated into corporate functions at the Head Office



Technology Architecture

A Technology Application Architecture may be overlaid onto the business architecture, providing the following benefits:

- Clarifies the supporting IT application to support business operations
- Establish foundation for other technology architectures (e.g. data, network, integration)
- Aids IT application portfolio analysis and assessment

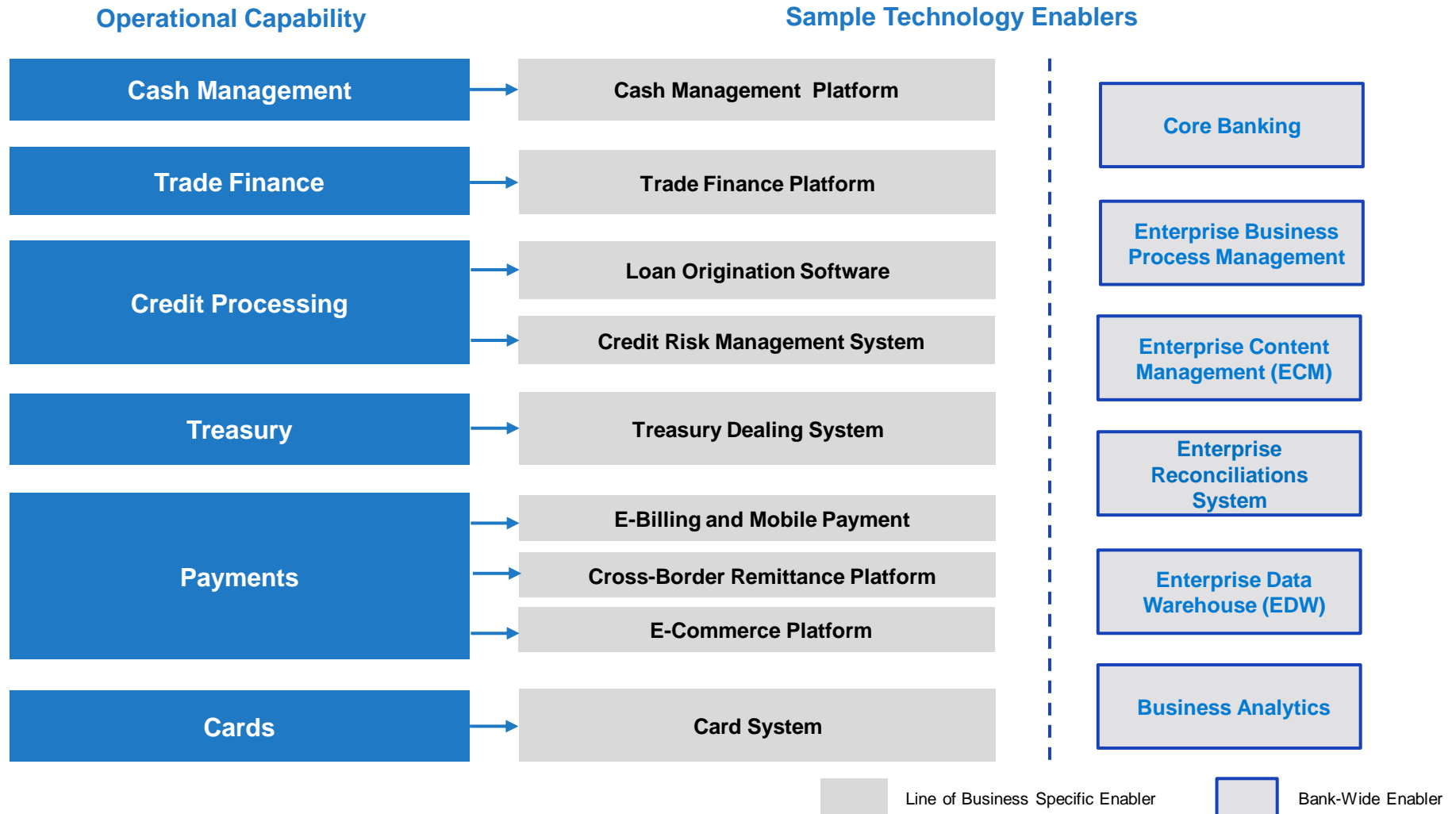


* Covers the Technology Application Architecture as opposed to data, network, integration architectures. More details on the business architecture can be found in the Appendix

TECHNOLOGY

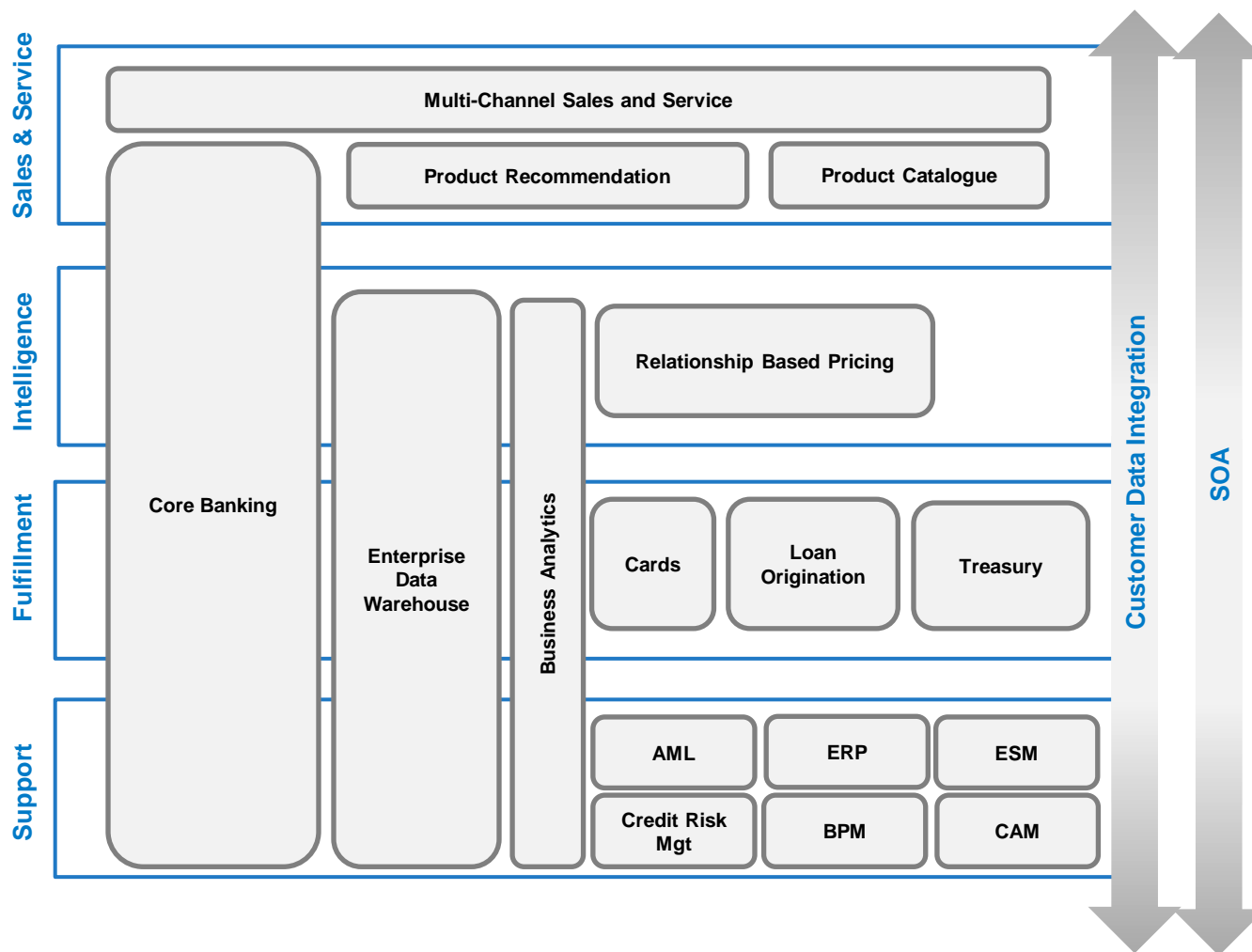
What are the technology capabilities ABCBank needs to support the business strategy?

A number of technology enablers will be key for supporting ABCBank's operational capabilities



What does the target technology architecture of ABCBank look like?

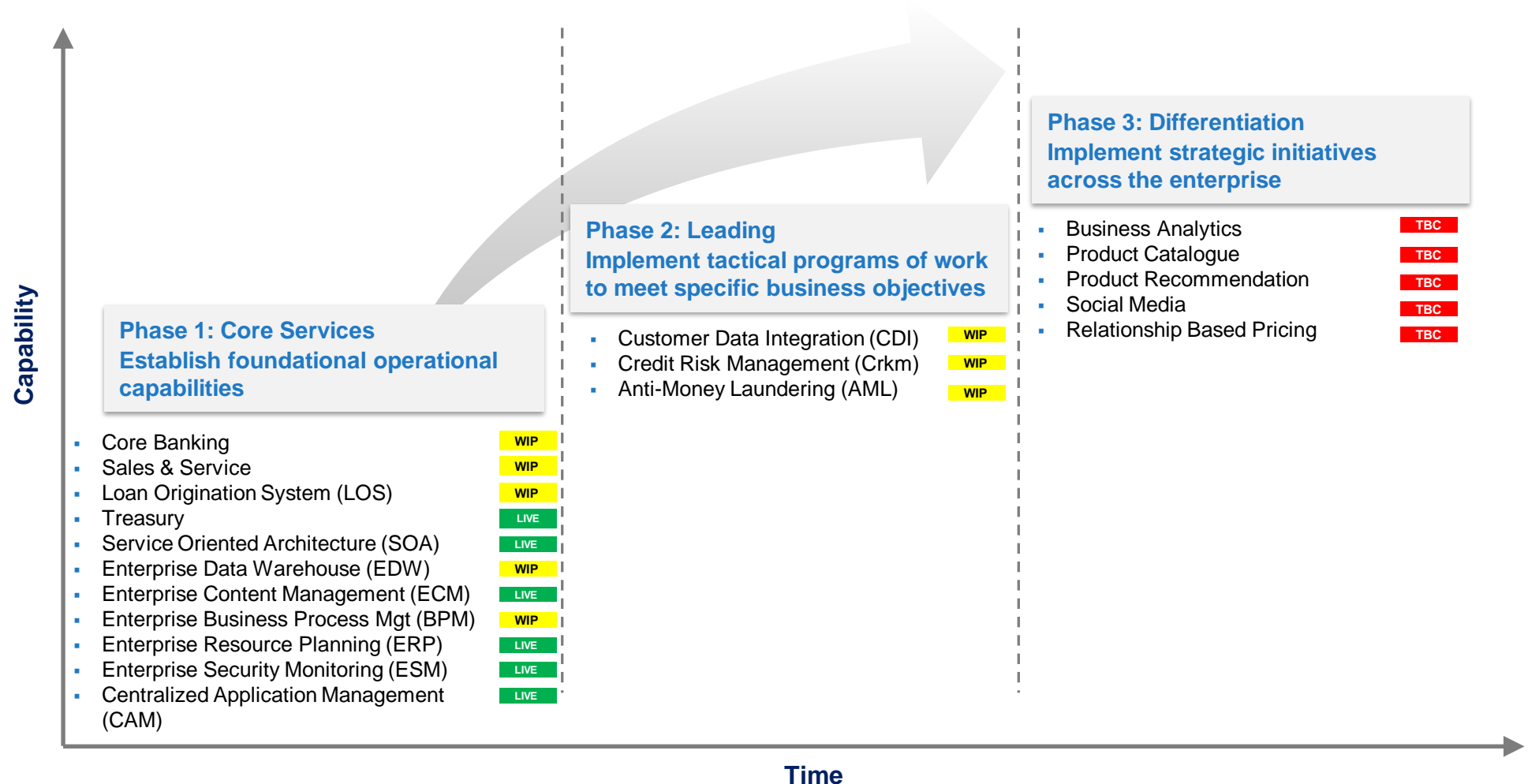
The target application architecture of ABCBank will support business capabilities in each layer of the business architecture



No.	Technology Capability
1	Core Banking
2	Sales & Service
3	Loan Origination System (LOS)
4	Treasury
5	Service Oriented Architecture (SOA)
6	Enterprise Data Warehouse (EDW)
7	Enterprise Content Management (ECM)
8	Enterprise Business Process Mgt (BPM)
9	Enterprise Resource Planning (ERP)
10	Enterprise Security Monitoring (ESM)
11	Centralized Application Management (CAM)
12	Customer Data Integration (CDI)
13	Credit Risk Management (Crkm)
14	Anti-Money Laundering (AML)
15	Business Analytics
16	Product Catalogue
17	Product Recommendation
18	Social Media
19	Relationship Based Pricing

How are the technology capabilities phased for delivery?

The technology capabilities have been positioned to be delivered in phases and these need to be synchronized with operating model capabilities



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 - Purpose of the Operating Model
 - Becoming Customer Centric
2. Guiding Principles and Key Enablers
3. High Level Operating Model
 - Organization and Governance
 - Performance Measures
 - Process Model
 - Technology
4. Transition Considerations
5. Appendix

TRANSITION CONSIDERATIONS

Key questions to answer

What are the guiding principles for the migration strategy to the new Operating Model?

What is the advised migration strategy to the new Operating Model?

What are the benefits ?

How could the bank eventually move to the McKinsey “End State” ?



TRANSITION CONSIDERATIONS

What are the guiding principles for the migration strategy to the new Operating Model?

The overriding principles for migration strategy is that there should be significant measurable change in 3 – 5 years

The Operating Model should be “practical” and “implementable”

- The target should be realistic about the extent of change possible to achieve in the 3-5 year timeframe

The Operating Model should be achievable in 3 – 5 years

- The target is the EY Operating Model
- Branch manager will continue to hold significant PnL responsibility at branch level
- The enterprise functions should be implemented
- The BOM governance model should start to migrate to an EXCO governance model

The Operating Model should incorporate all current transformation initiatives

- The target should include the core banking system implementation
- The target state should include the new loan origination system and EWS
- The target state should include the current credit risk transformation initiatives

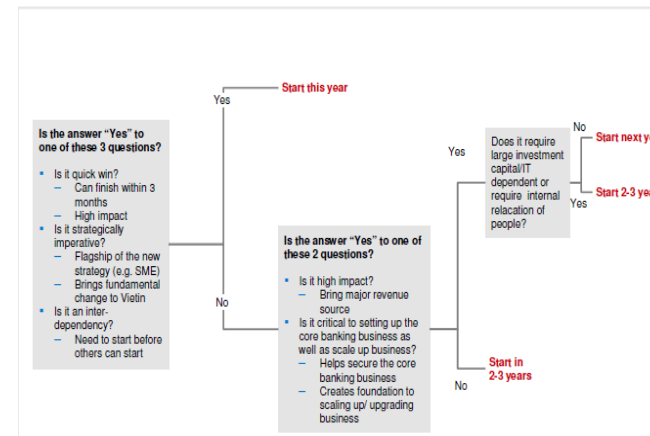
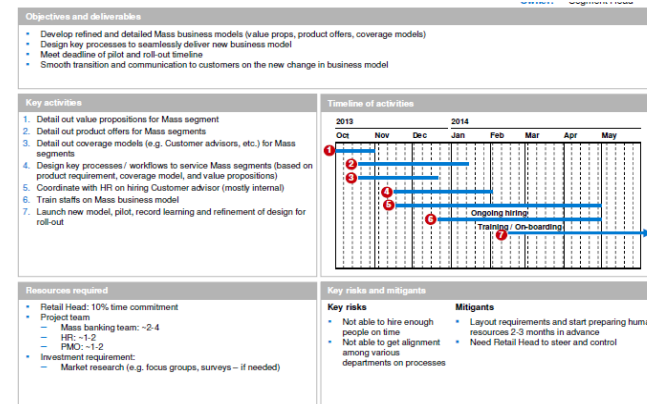
TRANSITION CONSIDERATIONS

What is the advised migration strategy to the new Operating Model?

The migration path to the Operating Model is set out in the overall Plan and Roadmap for the bank-wide transformation (McKinsey deliverable).

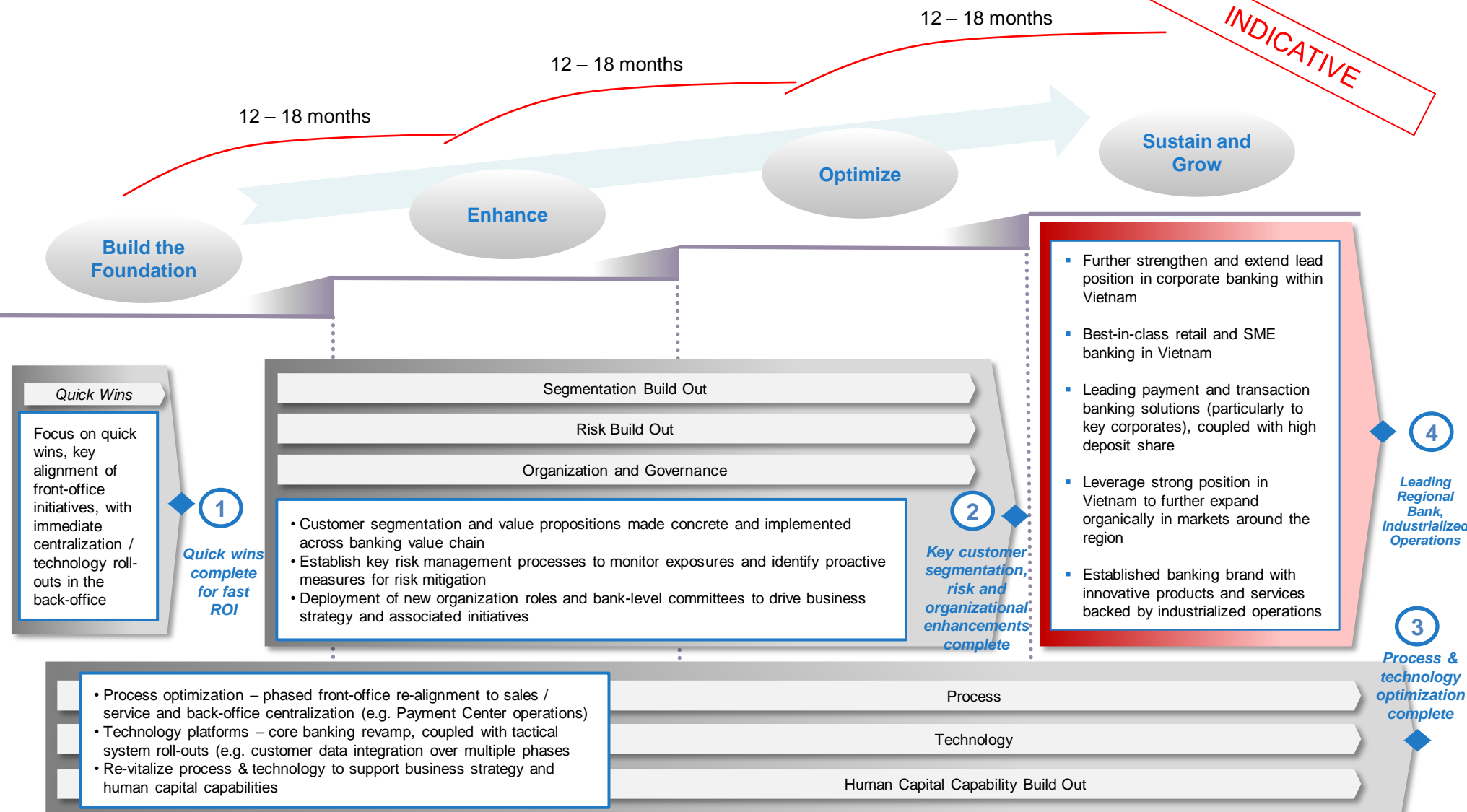
There are some critical questions the roadmap needs to address:

- What are the quick wins which can be implemented rapidly?
- What will be the overall deployment strategy e.g. pilot by Area?
- When will the key technology enablers “go-live” e.g. core banking, LOS etc.
- Can the bank's skills and competencies keep pace with the transformation?
- What are the key high-level milestone dates for the transformation? How can the transformation be “packaged-up” with stages?



TRANSITION CONSIDERATIONS

What are the benefits ?



High Level Operating Model

1. Operating Model Concept
 - Purpose of the Operating Model
 - Becoming Customer Centric
2. Guiding Principles and Key Enablers
3. High Level Operating Model
 - Organization and Governance
 - Performance Measures
 - Process Model
 - Technology
4. Transition Considerations
5. Appendix
 - Business Architecture

APPENDIX – BUSINESS ARCHITECTURE

Key questions to answer

What is the business architecture and why is it useful ?

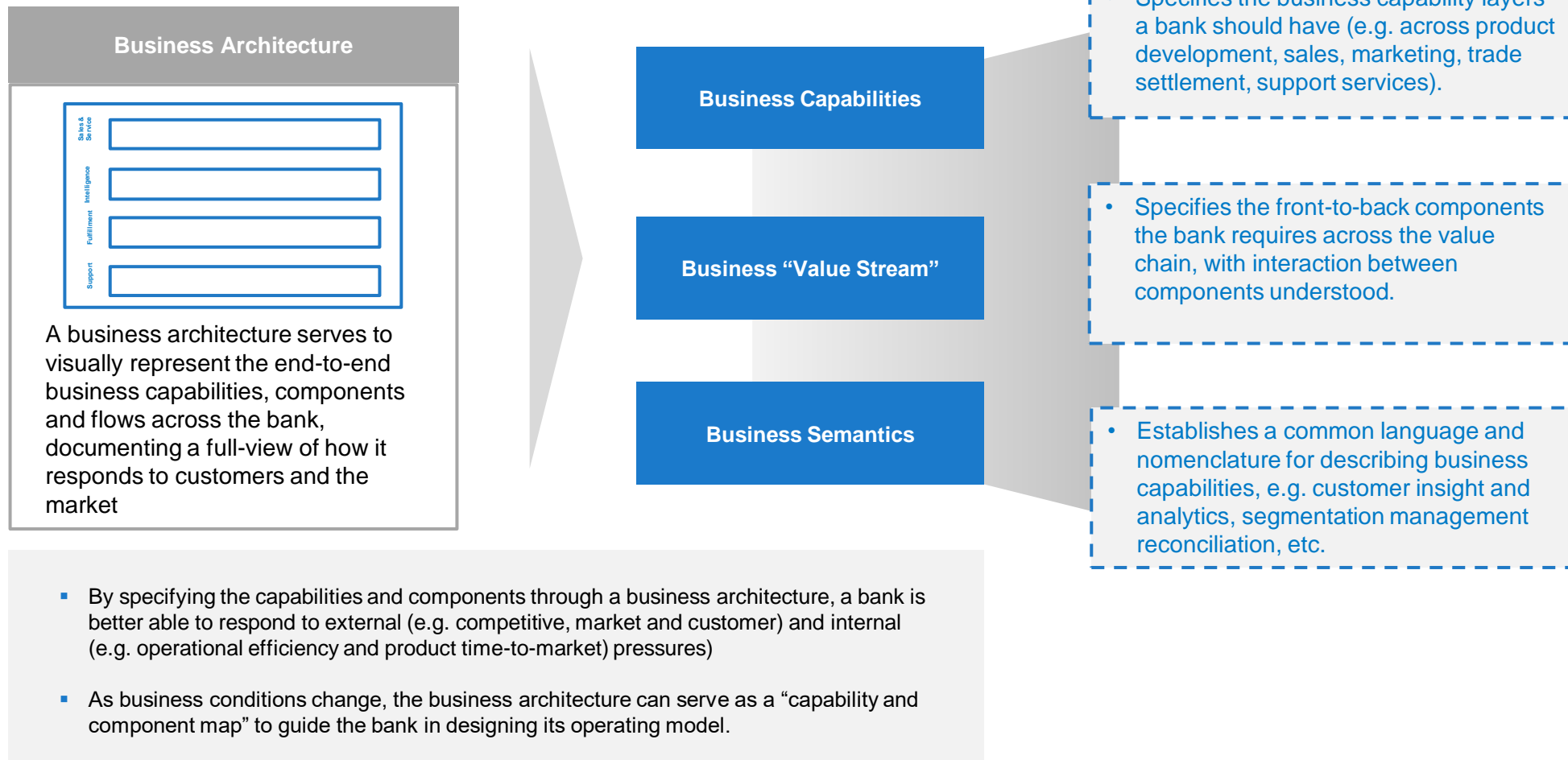
What is best practice for business architecture design?



APPENDIX – BUSINESS ARCHITECTURE

What is the business architecture and why is it useful?

The Business Architecture is a conceptual model which helps to establish a framework for the Operating Model design



APPENDIX – BUSINESS ARCHITECTURE

What is best practice for business architecture design?

A robust business architecture should aim to “differentiate in the front” and “simplify in the back”

Key themes

Industrialized Operating Model

Differentiation

The customer experience is the critical differentiator – and this is primarily driven through distribution channels

Sales & Service

- Quick and nimble front-office processes to support simple products and services
- High touch, customized approaches for complex product sales and service

Intelligence

- Customer insight and profiling to understand needs and risk appetites
- Product recommendation and suitability assessments

Implications

- **Process** – drive process standardization, simplify front-to-back processes
- **Organization** – align organization to be customer-centric, align front-to-back organization units to deliver on unified customer experience
- **Technology** – deploy standard platforms to automate processing and drive STP for core processes

Simplification

Banking has evolved into a service industry. Processing activities are less likely to be differentiators. Banks seeking to simplify processing to drive scale and efficiency

Fulfillment

- Straight-Through-Processing (STP) of key operational flows
- Optimization of resources / workload in back-office operations
- Standardization and centralization of key processes to simplify operations
- Automation to realize cost efficiencies in operational processing

Support

- Tight enterprise risk management, compliance and control
- Shared services facilities for processing commoditized transactions

APPENDIX – BUSINESS ARCHITECTURE

Case Studies – Industrialised banks

	Customer Centric with shared central manufacturing	Product Centric Distribution with some shared services	Multi-brand with central manufacturing
Characteristics	<ul style="list-style-type: none"> ▪ Customer centric model, with a strong focus on sales and service ▪ Thick intelligence capability to aggregate for segment solutions ▪ Centralised or product siloed manufacturing 	<ul style="list-style-type: none"> ▪ Product driven model - Vertical integration along product silos focused ▪ Thin shared services layers, result of secondary focus on cost reduction 	<ul style="list-style-type: none"> ▪ Highly centralised manufacturing operations whilst maintaining distinct brands
Base Model			
Sales & Service			
Intelligence	Strong, distinct Intelligence and service integration geared to deliver tailored segment solutions	Partial intelligence and service integration	
Fulfillment	Central manufacturing	Deposit Fulfillment Lending Fulfillment Some shared manufacturing, e.g. transactions	Central manufacturing
Support	Shared Support functions	Shared Support functions	Shared enterprise functions

Examples

