

JSC BANK FOR FOREIGN TRADE OF VIET NAM

Address: 198 Tran Quang Khai St, Ha Noi
Business Registration No. 0100112437
(7th revision dated 10th January, 2012)

SOCIALIST REPUBLIC OF VIETNAM

Independence - Freedom – Happiness

-----o0o-----

Hanoi, April 10th 2013

REPORT OF THE BOARD OF DIRECTORS ON ACTIVITIES IN 2012 AND DIRECTIONS FOR 2013

I. ACTIVITIES IN 2012:

1. Overview on economic situation:

- In 2012, the global economic picture has been quite complicated, especially with the public debt crisis still ranging in Europe. On the other hand, the economies of China and Japan have shown positive signs. Economic recovery has also started in the US, albeit at a relatively slow pace.
- Even though domestic inflation was successfully kept at 6.81%, GDP growth was relatively low (5.03%). Vietnam had a trade surplus for the first time, but it was mainly due to lower import growth (~7.1%, totaled US\$ 114.3 billion) and higher export growth (~ 18.3%, US\$ 114.6 billion).
- Credit growth in the banking sector was very low (~ 8.91% annualized) despite the steady decrease of interest rates since the beginning of the year, while deposits from the economy grew by 16.10%. Banks' NPL ratios are at a high rate due to the deteriorating health of the economy and the weakening competitiveness of the business sector. Besides this, the real estates sector has not yet to unfreeze itself.
- The State Bank of Vietnam continues to implement its anti-dollarization policies while putting a tighter leash on gold trading. The banking restructuring program has the initial success. The exchange rate has been relatively stable and the country's foreign exchange reserve has also increased significantly. The interest rates has been adjusted to the reasonable level.

2. Targets set by the 2012 General Shareholders Meeting:

The 2012 Annual General Shareholders Meeting had agreed on the followings:

- i. Business directives for the year 2012 all follow the motto: "Renovation - Standard - Safety - Efficiency".

Main directives include: perfecting the development model built on VCB's strategic plans; applying a standard organizational structure across the Vietcombank network; improving the business performance of VCB subsidiaries; increasing deposits while maintaining credit quality; updating VCB's risk management processes in line with international standards; restructuring VCB's investment portfolio; offering more diverse

and modern banking products and services; enhancing the internal control/internal audit; improving the Bank's competitiveness, management capacity and operation efficiency through closer cooperation with the strategic partner Mizuho; enhancing the role of IT in corporate governance, at management level; and reviewing banking regulations and procedures.

- ii. Business targets for the year 2012: total assets up 18%, credit outstanding up 17%, deposits from the economy up 18%, profit before tax increased to VND 6,550 billion, dividend payout \geq VND 1,200/share, NPL \leq 2.80% of total credit outstanding, etc.
- iii. Remuneration for the Board of Directors and the Supervisory Board was 0.28% of profit after tax.
- iv. Approval in principle for the establishment of three subsidiaries: Assets Management Company, Remittance Company and Consumer Finance Company. The BOD is authorized to complete the necessary procedures as required by the law to facilitate the establishment of the aforementioned subsidiaries at the applicable time.
- v. Approval in principle for the issuance of international bonds: (i) Volume issued: maximum USD 1,000,000,000 (*one billion USD*); (ii) Term: up to 10 years; (iii) Date issued: 2012 or another time as deemed appropriate; (iv) Interest rate: based on the market rate at the time of issuance. The BOD is authorized to approve all matters related to the issuance of international bonds, provided that such decisions assure the success and efficiency of the issuance, comply with existing laws and follow VCB's Charter.
- vi. Approval in principle of the listing of 1,787,023,116 shares owned by the State (which account for 77.11% of VCB's chartered capital) in 2012. The BOD is authorized to complete the necessary procedures as required by the law to facilitate the listing of these shares.

3. Evaluating the implementation of 2012 AGM targets:

In 2012, VCB had maintained its position as the leading bank in Vietnam, while still strictly following guidance from the SBV to implement the Government's monetary policy. The Board of Directors and the Board of Management have closely monitored changes in the business environment and directed VCB's operations accordingly.

In general, VCB has successfully followed the BOD's directives for the year 2012. In the past year, VCB has made significant progress, especially in the management of human resources. Our banking procedures and internal regulations have also been improved and standardized. The operation adequacy ratios have been assured. In addition, internal audit, control and inspection units have been enhanced, thereby improve business efficiency (discounting external factors).

Nevertheless, 2012 was a difficult year, and thus VCB could not achieve some of its business targets. We present below some remarks on the bank's operation in 2012:

- i. *Business targets:*

- Total assets as at 31/12/2012 was VND 414.5 trillion, up 13.02% from 31/12/2011 and accounted for 95.78% of the target. Deposits from the economy reached VND 303.9 trillion, up 25.76% from 31/12/2011 and accounted for 106.57% of the target.
- Credit grew ~ 15.16% compared to YE 2011, making the total outstanding credit balance at the end of the year ~ VND 241.16 trillion, significantly higher than the banking sector's average credit growth (8.91%). VCB was 4th in the sector in terms of credit balance, which took up ~ 8.8% of market share. The NPL ratio was kept at 2.4%, lower than the AGM target of 2.8% and much better than the industry average.
- Export-import turnover reached USD 38.81 billion, accounting for 16.95% of the market. VCB's other businesses also grew relatively well.
- The consolidated profit for 2012 was VND 5,764 billion, approximately 88% of the target and increased by 1.17% compared to 2011. Our income structure still shows the diversity of our activities, where non-interest income accounted for 27.5% of total income.
- ROAA and ROAE in 2012 reached 1.1% and 12.6% respectively.

ii. Network expansion, organization and management:

- VCB finished making reviews and adjustments to its development strategy for the term 2011-2020, including the restructuring of the Bank as oriented by the Government and the SBV.
- VCB opened three new branches and a number of transaction offices. However, the Bank could not meet the targeted number of new branches and transaction offices for 2012 due to the fact that the SBV has not issued new guidances on network expansion.
- VCB successfully standardized the internal audit procedures and established regional internal audit units.
- VCB continued to implement large-scale IT projects: core banking, LOS, TF...
- VCB issued a number of new regulations and policies regarding Internal Control, Fund Pricing Transfer, Internal Audit, Anti-Money Laundering,... In addition, we also made amendments to regulations on the distribution of salary fund, the allocation, management and use of Loan Loss Provisions,...

iii. Risk Management:

- In 2012, VCB has complied with all of the SBV's prudential ratios as set out in the latter's sets of regulations on banking operations.
- In addition, VCB has hired consultants to assess the Bank's current situation and to build the models for measuring credit risk, market risk, operational risk with the aim of meeting Basel II requirements on the safety in the banking operations.
- Over the past year, VCB has continued to strengthen its inspection, internal control and internal audit activities to ensure compliance and prevent risks for the Bank's activities.

iv. PR, marketing and brand repositioning:

- VCB has continued with the project on standardization of VCB brand and on preparation for a launching of a new brand identity system. At the same time, the Bank was active in preparing for its 50th Anniversary.
 - There has been a continued focus on PR activities at VCB in 2012. In order to promote its image and reputation, while giving back to the community where it is a member, the Bank has taken part in many activities intended for social welfare.
 - VCB has also actively participated in the external relations activities, both at home and abroad, improving and strengthening the business partnerships.
- v. *The selection of a strategic partner and the increase of VCB's charter capital:*
- VCB successfully completed the procedures to increase its charter capital by issuing shares to its strategic partner – Mizuho Corporate Bank, Ltd. (MCB).
 - VCB has started the first stages of business collaboration and the technical support with MCB on the basis of sharing customer database, cooperating in training, risk management, retail banking product development, ...
- vi. *Information disclosure and investor relations:*
- In 2012, VCB selected KPMG as the auditor of its interim financial statements and E&Y for its annual financial statements. The Bank has complied with all regulations on information disclosure to ensure the release timing and transparency of its information.
 - VCB maintained the regular contacts and exchanging the information updates to its domestic and foreign shareholders through various channels. The timing and quality of this information are highly valued by all VCB's shareholders. Just in 2012, VCB's IR team has received more than 100 visits from shareholders and institutional investors.
 - VCB successfully listed an additional ~ 1.79 billion State-owned shares in May 2012.
 - At the final trading session of 2012, VCB's stock closing price was VND 27,200/share, increased by 24.77% compared to the closing price of 2011 (VND 21,800/share). Over 142 million shares have been traded in 2012, out of which foreign investors bought ~ 29 million in total shares volume.
- vii. *Results of the implementation of business targets as assigned by the AGM 2012 can be found in Appendix 01.*

4. Existing issues:

- VCB could not meet some of the targets set out in the AGM's 2012 business plans, mainly due to the existing hurdles in the economy. Market share for export and import payments shrunk and a low loan to deposit ratio together led to low efficiency.
- VCB has decided against issuing international bonds in 2012 (as approved by the AGM), taking into account the unfavorable market situations.
- The preparations to establish 03 subsidiaries (Assets Management Company, Remittance Company and Consumer Finance Company) are still in-progress and have not yet given the final point.

5. Assessment of the performance of the Board of Directors, the Board of Management:

- i. 2012 was considered as a year of complicated and unpredictable developments in the domestic and global economies. Under these circumstances, the Board of Directors has worked closely with the Board of Management to stick to the targets assigned by the AGM while still taking into account the current economic situation, thereby arriving at decisive and flexible directives, capturing any opportunity to ensure the Bank's safety and efficiency of business operations.
- ii. The Board of Directors assigned specific tasks to each of its member, strengthened the advisory role of each Committee under the BOD, maintained regular meetings of the BOD and the Standing Committee and collected written opinions to deal with sudden arised issues.
- iii. In addition to its assigned responsibilities, the BOD and the BOM have given considerable attention to researches and discussions on the Bank's directions of future development.
- iv. Overall, the members of the BOD and BOM have exerted great efforts in directing and managing the Bank's activities to follow the right scheme for development and meet the targets set out by the AGM. They have tried best to fulfill their duties to act always in the interest of shareholders, the State and the Bank.

II. DIRECTIONS FOR YEAR 2013:

Experts have predicted that 2013's economic outlook might be brighter than that of 2012, albeit not much and with possibility of further complications. As for Vietnam, GDP growth is forecasted at ~5.5%, with lower inflation than 2012 (~ 6%). Competition will be fierce in all sectors, banking in particular. Monetary policies are expected to remain flexible lossening, and the whole sector's credit growth is expected at ~ 12%.

In this context, VCB's motto is "**Renovation – Quality – Safety – Efficiency**" and our management aims to be "**Acute, Flexible, and Aggressive**". The main directives for the year 2013 are: to keep to the approved strategy for 2011-2020, to promote the Bank's wholesale advantages, to further develop the retail businesses while strongly redirect to VND-dominated structure, to work more closely with Mizuho and take advantage of VCB's inherent strengths to create a sustainable development scheme that would improve the Bank's foundations. Specific directives for different areas are as follows:

- i. *Development model, organization and network structure:*
 - Continue to review the current status of domestic and overseas subsidiaries/representative office to make appropriate restructuring plan to improve their performance.
 - Continue to research and standardize the branch model and to clearly define the functions assigned to each department at the Head Office.
 - Establish ~ 40 new branches and transaction offices.

- Focus on selective recruitment to keep the number of Bank employees growing not exceeded 10%, to afford the labor demand for network expansion.
 - Supply more labors for retail banking area under the development strategy of VCB. In 2013, Retail Banking Department is planned to be set up and more staffs to be supplied for the retail banking and card service units in the branches;
 - Supply labors for new branches and transaction offices. In 2013, the following units are planned to be set up: the private banking branch in Hanoi, new branches in Thai Nguyen, Lang Son, Lao Cai, Dong Anh (Hanoi), Go Vap and Quan 2 (HCM City), Ben Cat- Binh Duong and approximately 30 transaction offices;
 - Supply labors for 2 ongoing established subsidiaries: AMC and Consumer Finance Company, if applicable.

ii. Capital, credit and investment:

- Promote credit growth coupled with tight credit quality control (target credit growth: 12% with NPL ratio less than 3%).
- Be flexible in attracting deposits not only to meet the Bank's needs for capital but also to maximize its efficiency. To balance funds received and distributed, deposits growth should also be kept at 12%.
- Monitor and maintain a reasonable NIM for the Bank.
- Always ready to approach the international bond market as soon as the market condition becomes more favorable.
- Enhance the effectiveness of our NPL management team, thereby increasing the percentage of written-off NPL to be re-collected.
- Review and restructure VCB's investment portfolio as needed; push up the establishment of new VCB subsidiaries according to the plan submitted to AGM 2012.

iii. Other business items and financial results:

- Maintain a good volume of foreign exchange trading to ensure a significant contribution to the Bank's total income.
- Regain VCB's market share in payment and card services, particularly aiming for effective card business.
- Continue to develop modern banking services.
- Towards the profit before tax of VND 5,800 billion, maintain ROA, ROE relatively equal to that of 2012.

iv. Risk management:

- Continue to enhance the role of internal control, inspection and internal audit.

- Monitor the Bank's prudential ratios to comply with SBV provisions and gradually approach international standards. Establish risk measurement models based on international frameworks.
- v. *Investor relations:*
- Maintain contact with and provide information on a timely basis to shareholders and investors.
 - Maintain dividends payment in cash.
- vi. *Human resources management:*
- Continue to offer high-quality training courses to VCB staff.
 - Improve the procedures for recruitment and appointment of personnel.
 - Make more use of staff rotation, especially at the higher management levels.
- vii. *Other contents:*
- Focus on management accounting and the facilitate the set up of management information system for corporate governance activities; increase planning and business information forecasting activities, ...
 - Regularly review and revise current internal regulations and procedures, establish new regulations to perfect a legal framework for all activities of VCB.
- viii. *Details about some of the Bank's main targets for the year 2013 can be found in Appendix 2.*

Even as we face 2013 – a year full of challenges, the Board of Directors, the Board of Management and our staff at VCB are still committed to utilize all available resources and make effective use of opportunities to help the Bank overcome any difficulty and maintain sustainable growth not only in 2013 but also in the years to come.

**On behalf of the Board of Directors
Chairman**

Nguyen Hoa Binh

APPENDIX 1**RESULTS OF IMPLEMENTING TARGETS ASSIGNED BY AGM 2012***Unit: VND billion*

No	Items	2011 Actual	2012 Plan	2012 Actual	2012 Actual /2012 Plan	2012 Actual /2011 Actual
1.	Total assets	366,722	432,731	414,475	95.78%	113.02%
2.	Outstanding credit balance	209,418	245,370	241,163	98.29%	115.16%
3.	Deposits from the economy	241,688	285,192	303,942	106.57%	125.76%
4.	Profit before tax	5,697	6,550	5,764	88.00%	101.17%
5.	Number of staff (person)	12,565	13,990	13,637	97.48%	108.53%
6.	Salary expenses/ Profit before tax (excluding salary)	31.20%	33.00%	32.00%		
7.	New branches and transaction offices	23	81	13		
8.	NPL	2.03%	2.80%	2.40%		
9.	Dividends payout (VND per par value)	1,200	1,200	1,200		

APPENDIX 2**SOME MAIN TARGETS FOR YEAR 2013 TO BE SUBMITTED TO AGM***Unit: VND billion*

No	Items	2012 Actual	2013 Plan	Growth Rate
1.	Total assets	414,475	451,778	9.00%
2.	Outstanding credit balance	241,163	270,102	12.00%
3.	Deposits from economy	303,942	340,415	12.00%
4.	Profit before tax	5,764	5,800	0.62%
5.	Number of staff (person)	13,637	15,001	10.00%
6.	Salary expenses/ Profit before tax (excluding salary)	32.00%	34.00%	
7.	New branches and transaction offices	13	40	
8.	NPL	2.40%	<3.00%	
9.	Dividends payout (VND per par value)	1,200	1,200	