

JSC BANK FOR FOREIGN TRADE OF VIET NAM

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

SOCIALIST REPUBLIC OF VIETNAM

Independence - Freedom – Happiness

-----o0o-----

Hanoi, 10th April 2013

REPORT OF THE SUPERVISORY BOARD

- *Pursuant to the Charter on the organization and operation of the Joint Stock Commercial Bank for Foreign Trade of Vietnam (“Vietcombank”) as approved by the Annual General Shareholders’ Meeting on 22 April 2011 under Resolution No 04/TN2011/NQ-DHDCD;*
- *Pursuant to the Regulation on the organization and operation of the Supervisory Board of Vietcombank (“Supervisory Board”) as approved by the Annual General Shareholders’ Meeting on 22 April 2011 under Resolution No 04/TN2011/NQ-DHDCD;*
- *Based on the operation of Vietcombank, report of the Board of Directors, report of the Board of Management and the operation of the Supervisory Board during the year 2012.*

The Supervisory Board would like to submit the following contents to the Annual General Shareholders’ Meeting of Vietcombank:

I. MAIN OPERATIONS OF THE SUPERVISORY BOARD

In 2012, the Supervisory Board comprises of 04 members, including 3 executive members and 1 non-executive member. Two departments assisting the Supervisory Board are the Operational Supervisory Department and the Internal Audit Department. In 2012, the Supervisory Board has established regional audit divisions in the South and Central Vietnam.

The Supervisory Board has fulfilled its duties for 2012 as stipulated in the Charter on organization and operation of Vietcombank (“Charter”) and the business plan approved by 2012 AGM as follows:

- Monitoring the level at which the Board of Directors, the Board of Management and other managers comply with existing laws and the Bank’s Charter through Vietcombank’s operations.
- Performing the internal audit at Vietcombank’s branches and subsidiaries.
- Assessing the internal control system of Vietcombank.
- Appraising the Bank’s interim financial statements and year-end financial statements for the year ended 31 December 2012.
- Carrying out other duties as stipulated by the Annual General Shareholders’ Meeting or regulated by existing laws and the Bank’s Charter.

II. OPERATIONAL RESULTS OF THE SUPERVISORY BOARD :

1. Operational supervision and internal audit:

1.1. Overall evaluation:

In 2012, the State Bank of Vietnam implemented several important policies such as the application of a ceiling interest rate for deposits, the classification of commercial banks, stricter regulations on the interbank market, the restructuring of weaker banks and a tighter management of the gold market. The domestic financial system, as a result, has been mostly stable: liquidity has improved, interest rates decreased, the threat of “goldization”/dollarization somewhat negated and exchange rates stabilized.

Faced with an unstable economic environment and fierce competition from other commercial banks, the Board of Directors and the Board of Management of Vietcombank have strictly followed the SBV and the Government’s directions as well as kept track of market developments in order to reach its target of “Development – Safety – Efficiency – Standard”. Even though unfavorable market conditions has prevented Vietcombank from meeting some of the targets set by the General Shareholders’ Meeting, there were some accomplishments compared to 2011: the credit and deposit growth was higher than the system average, thus ensuring the safety and efficiency of the Bank’s operations. Vietcombank’s total assets were VND 414,475 billion, up by 13.02% compared to 31/12/2011, equal to approximately 95.78% of the target figure assigned by the General Shareholders’ Meeting, profit before tax was VND 5,764 billion, a 1.17% increase from the 2011 figure and round up to 88.00% of the target figure assigned by the General Shareholders’ Meeting. Vietcombank has also strictly complied with regulations set by the SBV on prudential ratios: the Bank’s Capital Adequacy Ratio (CAR) reached 14.83% as at 31 December 2012; other ratios for liquidity, limit on the equity investment and loans/deposits ratio were all in accordance with the regulations of the SBV.

1.2. Analysis of specific operations:

a. Credit activities:

Vietcombank has paid special attention to keeping credit growth, credit sector growth and credit quality, as the credit growth at 15.16% and giving priority to effective manufacturing projects or business plans of the customers. The Bank has also conformed to prudential ratios as regulated by the local authorities.

Vietcombank has clearly determined the management and direction of credit expansion through the application of risk management tools such as an internal credit rating system, a risk control system and a credit portfolio management by sectors to ensure the quality of credit portfolio. Through its internal credit rating system, together with the regular sector reports and business forecast model, Vietcombank has laid a foundation to standardize risk analysis and gradually met the requirements for Basel II. In addition, many documents on the management of credit activities have been reviewed and amended as necessary to reflect actual changes in the business.

However, with the increase of the number of related customers who are having the credit activities at one branch or several branches, the overall risk management over these related customers requires better branch-to-branch cooperation throughout the entire system.

Economic difficulties resulted in many obstacles for enterprises such as higher manufacturing cost and increasing inventories, lower revenues. This impacted Vietcombank's credit quality. However, the Bank proactively made and utilised provisions as required by the regulations, thus the NPL ratio was successfully kept at 2.4%. The collection of the bad debts and written-off debts need to be further emphasized.

b. Treasury and investment activities:

In 2012, because the SBV adopted policies to stabilize exchange rate and interest rate cap towards the gradual decrease of the interest rate, the tension of liquidity and demand-supply of foreign currencies has been somewhat eased. Operating strictly in line with directions from the Annual General Shareholders' Meeting, Vietcombank has taken steps to attract more deposits from both corporates and individuals. Total deposits were VND 303,942 billion as at 31 December 2012, increased by 25.76% compared to 2011 and achieved 106.57% of the target set by the Annual General Shareholders' Meeting. Vietcombank has also complied with instructions from the Government and the SBV on implementing monetary policies, regulating interest rate ceiling and operating the interbank market.

Also in 2012, due to economic complications, Vietcombank put a focus on reviewing and re-structuring its investment portfolio in an approach to keep or to invest in the effective investment portfolio, while to dispose the ineffective investments, to focus on the core business of the Bank and concentrate on investments which would be beneficial to the operations of the Bank.

c. Accounting and financial management:

Overall, the accounting and financial management of Vietcombank has assured the comprehensive, true and fair recognition of all of the Bank's operations. The financial statements of Vietcombank, audited by Ernst and Young, have been declared in line with current regulations. In 2012, the Bank has implemented the fund transfer pricing system and applied the expense management activities in the direction of cost saving, focusing on high margin services toward the fulfillment of the profit target set by the Annual General Shareholders' Meeting.

d. Retail banking services:

Vietcombank has been seeking solutions to improve the quality of, reduce fees and diversify its offering of retail products, including deposits, credit, card and internet banking services, through the sales promotion campaigns, online services and value-added services. However, the Bank need to invest to the human resource in the retail banking activities, in order to provide the professional retail products, meeting the customer's demand as well as increasing the competence of the customer service activities. On the other hand, aware that risk management is an irreplaceable part of retail banking, Vietcombank has utilized operational risk measuring models in order to establish workflows and build an operational risk report system across the Bank's network. On the whole, our branches all strictly follow current regulations on retail activities.

e. Basic construction:

Vietcombank has implemented 68 basic construction projects in 2012, 16 of which have been completed and put to use, while 52 are still in progress. The Bank is set on a close monitoring of these projects through regular check-ups and inspections of the investment – decision makers and the investment owners. Basic construction projects' value totalled VND 462 billion at 31 December 2012, up 63% compared to 2011. Although the deadlines of several projects had to be adjusted due to the contractors' difficulties as a consequence of the economic crisis, the deadlines for new projects were pushed forward and some projects were even completed ahead of schedule.

f. Information technology:

In 2012, Vietcombank continued to implement many large-scaled and important projects as the project on the replacement of the Core Banking system, centralized trade finance, data management and analysis systems; upgrading the servers, network and confidentiality system; increase the security systems for card and e-bank services, as well as invested in technology for anti-money laundering activities. On the whole, the investment in information technology in 2012 was carried out as planned and met the demand of the Bank.

2. Assessment of Vietcombank's internal control and audit:

In 2012, Vietcombank focused on strengthening its internal control system to comply with the SBV's regulations and approach international standards with an eye on safety, efficiency and legal compliance.

a. System of procedures, rules and regulations

Vietcombank has a relatively comprehensive system of procedures and regulations which ensure that the main activities and the potentially risky operations are guided by clear and detailed documents and/or workflows to show responsibilities. In order to achieve a consistency throughout its network, Vietcombank has been promoting the use of workflows in all of its operations.

Vietcombank regularly reviews documents, regulations, procedures and rules on its operations to makes amendments as needed to reflect current economic and legal conditions. In 2012, Vietcombank reviewed and issued many new procedures/regulations, including risk management procedure, regulation on internal control and internal audit, internal audit procedure, regulation on granting loans which require approval from the Board of Directors, procedures on short-term deposit/loans and trading valuable papers with the SBV or other financial institutions, regulation on methods and security measures for short-term lending on the interbank market, regulation on anti-money laundering, regulation and procedure on fund transfer pricing, regulation on the management of Vietcombank's infrastructure construction projects, regulation and procedure on office leasing and managing Vietcombank's activities for social welfare, etc.

In view of the large volume of complex procedures and regulations and the complex and riskiness of banking operations, Vietcombank regularly reviews its regulatory documents to ensure timely updates and conformity with existing regulations for the management activities.

b. Risk control organization structure

The centralised risk control structure has been reflecting its effectiveness in the past year. In 2012, the main risk for the Bank, including credit risk, market risk and liquidity risk have been managed and controlled under the operation of risk management group in HO, which comprises of Credit Risk Management Department, the Market Risk Management Department and the Operational Risk Management Department. Such departments, in coordination with the functional departments have successfully caught up with the arising issues, identified the potential risks and therefore proposed the suitable and appropriate measures that fit with the change of the market and Vietcombank's operations .

To support the risk management activities, Vietcombank has also implemented many projects with the assistance of the foreign advisory firms and international audit companies such as such as the project on the development of operating risk management with the risk identification, assessment system; project on the development of the market risk management with the improvement of the policies, of the measuring and evaluating risk model under international standards; project on the modeling of evaluating, measuring the loan risk with the purpose of determination of the cost level for the Bank, of management of the investment portfolio and provision allocation under international accounting standards, etc.

c. Compliance and supervision

Vietcombank not only ensured that control points were fully set for each transaction, the Bank also emphasized on the monitoring activities after transactions have been made. Compliance monitoring units are in place at branches and the Head Office to supervise the Bank's every function. In 2012, the compliance unit has been successfully accomplished its duty in the main activities of the Bank, such as credit, accounting and finance, banknotes management, retail banking and operations at the transaction offices. They also perform regular inspection of NPL/potential NPL and unscheduled inspection of potentially high-risk operations such as banknotes and important blank transaction forms and documents. In addition, the compliance units have actively requested the branches to follow the recommendations and requests of the inspection teams at the branches, to report the performance results to the Head Office. Constant supervision is especially helpful in ensuring timely action in the event of errors for the safety and effectiveness of operations at branches.

In order to further enhance the efficiency of the compliance and supervision division, Vietcombank has been developing a uniform procedure/form formats to be used throughout its system.

d. Internal information reporting system

Vietcombank uses the information reporting system for all of its operations. A particular set of reports is issued for each product, almost all of which can be automatically exported from the system through the application softwares for each type of activities. The database is fully archived on the core banking system, making it easier for users to find the information, download and making management reports and other report upon the user's requests. In 2012, Vietcombank also implemented a data integration project for better use of information in reports, which in turn would support management decisions. The implementation of a new core

banking system, centralized trade finance system, operational risk and market risk measurement and assessment model, loan origination management system, etc. will improve the internal information reporting system.

3. Appraisal of financial statements

The Supervisory Board conducted the appraisal the consolidated financial statements of the Bank and its subsidiaries for the year ended 31 December 2012 and would like to announce the results as follows:

- The Consolidated Financial Statements of Vietcombank for the year ended 31 December 2012 fully reflected the performance and financial position of Vietcombank and its subsidiaries as at 31 December 2012 and the performance results for the period from 1 January 2012 to 31 December 2012 and were presented in accordance with the report forms stipulated in the Decision No 16/2007/QĐ-NHNN dated 18 April 2007 issued by the SBV on the financial report mechanism for credit institutions and in accordance with the Vietnamese Accounting Standards and relevant statutory regulations.

- The Consolidated Financial Statements for the year ended 31 December 2012, in all material aspects, gave a true and fair view of the financial position of Vietcombank and its subsidiaries as at 31 December 2012 and of their consolidated results of operations for the year 2012.

The Bank's key figures on equity and assets as at 31 December 2012 and the consolidated results of operations for the year 2012 are as follows:

1. Total assets:	414,475	VND billion
2. Total shareholders' equity:	41,553	VND billion
3. Results of operations in 2012:		
- Profit before tax:	5,764	VND billion
- Income tax expense:	1,337	VND billion
- Profit after tax:	4,427	VND billion
<i>In which: profit after tax of the Bank only</i>	4,271	VND billion
- Non controlling interest	24	VND billion
- Net profit	4,404	VND billion

From the evaluation of operations and performance results for the year 2012 of Vietcombank, the Supervisory Board proposes that the General Shareholders' Meeting approves of the reports on Vietcombank's performance in 2012 which were presented by the Board of Directors and Board of Management.

III. PLAN FOR 2013 AND PROPOSALS:

1. Plan for 2013:

Pursuant to the Supervisory Board's functions and responsibilities, the directives of the Government and the State Bank of Vietnam on monetary policy and measures to ensure

safe and efficient operations and meet Vietcombank's business targets for 2013, the Supervisory Board shall focus on the main activities below:

- 1) Appraise the financial statements for the year ended 31 December 2013 and for the period ended 30 June 2013, review monthly/quarterly figures of material accounts to the financial results such as: investments in subsidiaries, joint ventures and other entities; significant deposits, loans in foreign currencies, provisions and investments for fixed assets.
- 2) Supervise operations in credit, foreign exchange trading, investment activities, basic construction, fixed asset purchases, information technology, accounts recording, and compliance with prudential ratios; monitor the business performance as per the Supervisory Board's proposals, Vietcombank's policies and orientations.
- 3) Implement internal audit as registered with the State Bank of Vietnam.
- 4) Organize training for Supervisory Board members to attain higher professional qualifications and support the integration of information technology into audit and supervision activities.

2. Proposals:

Based on the performance reviews and comments above, the Supervisory Board would like to make the following proposals to the Annual General Shareholders' Meeting, the Board of Directors and the Board of Management:

- 1) Continuously re-structure and closely control the credit portfolio to ensure the targeted structure. Focus on the collection of NPL and the written-off debts with the better efficiency.
- 2) Ensure tight control over the net interest margin and maintain a reasonable cost/income ratio to ensure the efficiency of business operations.
- 3) Regularly review and complete the Bank's policies and regulations to comply with existing regulations and fluctuations of business conditions.
- 4) Continue to upgrade the Bank's information technology system to effectively support business operations and enhance management activities, especially risk management to ensure the prudential ratios in line with current regulations.
- 5) Enhance supervision and internal audit activities; strengthen the system to detect potential risks in Vietcombank's operations to propose timely corrective measure.

Best wishes for a successful General Shareholders' Meeting.

**ON BEHALF OF THE SUPERVIORY BOARD
CHIEF OF THE SUPERVISORY BOARD**

Truong Le Hien