

**JSC BANK FOR FOREIGN TRADE
OF VIET NAM**

Address: 198 Tran Quang Khai St, Ha No
Business Registration No. 0100112437
(8th revision dated 1st August, 2013)

**SOCIALIST REPUBLIC OF VIETNAM
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*Hanoi, April 8, 2014***REPORT OF THE SUPERVISORY BOARD ON OPERATION IN 2013
AND ORIENTATION FOR 2014**

- Pursuant to the Charter on Organization and Operation of the Joint Stock Commercial Bank for Foreign Trade of Vietnam (“VCB”) as approved by the Annual General Shareholders’ Meeting on 25 April 2013 under the Resolution No 06/TN2013/NQ-DHDCD and registered at the SBV by the formal letter No. 1441/TTGSNH6 dated 14/05/2013;

- Pursuant to the Regulation on Organization and Operation of the Supervisory Board of VCB (“Supervisory Board”) as approved by the Annual General Shareholders’ Meeting on 22 April 2011 under the Resolution No 04/TN2011/NQ-DHDCD;

- Based on the operation of VCB, the report of the Board of Directors, the report of the Board of Management and actual operation of the Supervisory Board during the year of 2013.

The Supervisory Board is pleased to submit the following contents to the Annual General Shareholders’ Meeting (AGM) of VCB:

I. MAIN OPERATIONS OF THE SUPERVISORY BOARD IN 2013

The Supervisory Board consists of 05 members, four of whom are executive members. Two departments report directly to the Supervisory Board, including the Operation Supervisory Department and the Internal Audit Department.

In 2013, the Supervisory Board has fulfilled its duties as set out in the Bank’s Charter on Organization and Operation and the operational plan approved by the AGM 2013, which mainly include:

- Monitoring the implementation of decisions and resolutions of the General Shareholders’ Meeting.
- Monitoring the management of the Bank by the Board of Directors, the CEO and other executive members to comply with the law and the Bank’s charter.
- Performing internal audit at branches and subsidiaries of VCB.

- Appraising the financial statements for the first 6 months and for the year ended 31 December 2013 of VCB.
- Monitoring VCB's shareholding structure, including major shareholders and persons related to the Board of Directors, the Supervisory Board and the CEO.
- Other duties as stipulated by the Annual General Shareholders' Meeting, the Bank's Charter and the Board of Directors' proposals.

Operational results of the Supervisory Board are as follows:

1. Monitor VCB's operation to comply with the law and the Bank's Charter:

Our Head Office frequently and systematically monitor activities at our branches and subsidiaries, with a comprehensive focus on governance and administration, risk management in terms of both areas of operation and authorization levels. We also monitor core activities and risky areas of operation; monitor and assess the Bank's performance regulatory requirements on operational safety as prescribed by the Law on Credit Institutions.

Following the Government's guidance on the operation of credit institutions, in 2013, we focused on measuring the level of compliance and the effectiveness of lending activities, investment, capital and foreign currency trading, financing, construction and fixed asset procurement (for example, assessing the effects of Circular 02/2013/TT-NHNN and the debt restructuring process according to Decision 780/QĐ-NHNN on VCB's operation; assessing the branches' performance following the Head Office's policies on credit growth, lending interest rates; revaluing real estate collaterals; measuring the depreciation of buildings on land, assessing the Bank's compliance to regulations on assets procurement procedures, allocating and using deposit limits to financial institutions, monitoring and accounting treasury and investment transactions ...).

Based on supervisory results, the Supervisory Board have made timely advice, proposal, recommendations to the BOD, BOM to minimize risk and ensure the Bank's compliance to existing laws as well as to improve the quality and effectiveness of the Bank's operation.

2. Monitor the performance according to General Shareholders' Meeting's decisions and resolutions in 2013:

Based on orientation and business strategies of VCB in 2013 approved by the General Shareholders' Meeting and targets, as specified by the BOD, BOM, the Supervisory Board frequently monitored and supervised the performance of the Bank in carrying out business targets. The Supervisory Board attended frequent/periodic BOD's meetings to obtain information and timely give proposals, recommendations to

BOD on management, governance and performance according to Regulations on internal control; and based on regular monitoring of the department and the levels of banks on the performance of resolutions and decisions of the AGM/BOD, the Supervisory Board has actively worked with the BOD in directing and governing effectively towards the common goal of the bank.

3. Perform the internal audit tasks:

After establishing audit departments for the South and Central regions in the fourth quarter of 2012, the capability of our internal audit staff has been gradually strengthened and stabilized, audit quality has been improved to ensure inclusiveness, effectiveness and efficiency of the internal audit tasks.

During the year, VCB's internal audit staff has carried out a total of 52 audits (at the Head Office, 48 branches and 02 subsidiaries) and performed 02 themed systematic reviews including lending activities secured by valuable papers and reviewing debt restructuring documents as per the SBV's Decision 780/QD-NHNN. The number of audits rose by 02 units compared to plans and 28 units compared to 2012. Audit activities were diversely carried out on the core services as credit (41 units), accounting (34 units), retail (26 units) ... and 02 comprehensive audit of 2 subsidiaries owned 100% by VCB: VCB Securities company and VCB Leasing.

VCB's internal audit activities have complied with regulations of the SBV's Circular 44/2011/TT-NHNN: implementing risk-oriented audits, ensuring the high risk units and operations to be audited annually, the low risk units and operations to be audited once at least 03 years.

The upgrading information technology systems, improving management reporting system have facilitated internal control to exploit information flexibly, systematically, diversely in many aspects, and then enhancing the quality of processing and analyzing information, developing more audit procedures and shortening the execution time. In addition, the effective support from the Risk management department in providing input information on the types of risks has contributed to the findings and recommendations of the internal audit to make them more realistic and unified among audited units audited, the audit departments and the risk management departments. The findings and recommendations of the internal audit have been fully reported to our executive management, as a basis for the leadership to direct branches and units to timely apply corrective measures and learn from experience.

4. Prepare and review the list of founding shareholders, major shareholders and related people to members of the Board of Directors, the Supervisory Board, the CEO:

The task of preparing and reviewing the list of founding shareholders, major shareholders and related people to members of the BOD, the Supervisory Board, and the CEO has been regularly and frequently performed by the Supervisory Board. In 2013, the list of the members of the BOD, the CEO, and Supervisory Board has changed from 2012, in which 05 new members were added and 03 members were dismissed. Report on monitoring the shareholding of major shareholders and related people to members of the BOD, the Supervisory Board and the CEO was regularly prepared and there were no share transactions by these subjects in the year of 2013.

5. Other duties as stipulated by the Annual General Shareholders' Meeting, the law, the Bank's charter and the Board of Directors' proposals:

– The organization of the inspection and evaluation of construction investment activity has shown the inadequacies of the project process, proposing units to correct and to learn from the experience in the system; giving the advice, proposal to the BOD on the control and directing the owners to comply with the progress of construction, to ensure efficiency in investment activities.

– To improve the quality of audit and supervision, the Supervisory Board has collaborated with the Information Technology department, Technology Project Management department to continue to improve the monitoring indicators to support the orientation of supervision and internal audit work.

– The Supervisory Board has organized training courses for staff, closely collaborating with the BOD, BOM in carrying out the functions and tasks.

II. APPRAISAL OF VCB'S OPERATION IN 2013

1. Performance of orientation and targets approved by AGM:

In the changing business environment and intense competition among banks, the VCB's BOD and BOM have followed the direction of the government, the SBV and market conditions to manage to achieve the goals approved by AGM with the motto: innovation, quality, safety and efficiency. Prior to the difficulties of the economy and the banking sector, but with the determination and efforts of the whole system, VCB has performed basic indicators assigned by the Shareholders' Meeting, namely: total assets reached VND 468,994 billion, up 13.15% compared to 31/12/2013, exceed 3.8% of the plan by the General Shareholders' Meeting, credit growth of 13.74%, 1.6% higher than with plans; capital mobilization from the economy increased by 16.3%, exceeding the 11.1% to the target, increasing the number of labor was lower than the level of 10% set by the Shareholders' Meeting, profit before tax was VND 5,743 billion, equivalent to 99.63% of 2012 profit, accounting for 99.02% of the plan, profit guaranteed payout level according to the plan. With the difficult economic situation, limited production and business activities of enterprises have somewhat

affected VCB's credit quality. VCB has actively used debt provision; thus the bad debt ratio remains at 2.73%, lower than the General Shareholders' Meeting's indicator of 3%.

2. Compliance to the Law and execution to the guidance documents by the Government, the SBV:

2013 is the year which the SBV implemented a number of major policies aiming at achieving important goals to curb inflation and support economic growth at a reasonable level. The financial system - banks have created a basic stability such as dramatic decline of interest rates, flexible credit operating towards expanding coupled with operational safety, improved liquidity, exchange rate and stable foreign exchange market ... Besides there are still difficulties, such as inventory instability and bad debts remain high.

VCB has seriously fully grasp, executive direction and administration of the Government by building action plans to contribute to the SBV to achieve the objectives monetary policy set. VCB always adhere to the policies and direction of the SBV, such as one of the leading banks in reducing the interest rates and in implementing the policy of exchange rate stability; operating credit targeted to the disbursement with priority to the encouraged areas by the Government and the SBV such as exports, agricultural and rural, small and medium enterprises, implementing subsidized lending programs for housing for low-income people; performing well State policy on restructuring, corporate restructuring and modernizing in the period 2013-2015...

VCB manages and closely monitors the indicators of operational adequacy ratios in banking activities as prescribed by the SBV. The criteria for adequacy ratio of the bank's banking activities in 2013 in accordance with the regulations of the SBV as a capital adequacy ratio (CAR) reached 13.37%, the proportion of safe affordability, limited equity share, the coefficient of capital/mobilization were under the provisions of SBV... VCB has obtained the Government and the SBV's permission in case of lending exceeded the prescribed level.

3. Operation of the internal control system:

2013 is the year that VCB continued to consolidate internal control system in all respects to catch up with the development of operational scale, product diversification across sectors, aiming to be the first domestic bank to apply BASEL II standards. VCB is implementing improvements, changes in many aspects including the system of internal regulation policies, risk management systems, information management systems, specifically as follows:

3.1. Document system of internal regulations and policies

VCB often reconstructs or updates, modifies, and supplements the system of internal documents to catch up with changes in the legal system of the State or changes in business goals, products and services of the bank. In 2013, many new procedures related to the business segment as underwriting, debt settlement, interbank lending and deposit, purchasing valuable papers, fund management, investment, financial regulation, information technology... were reviewed in order to issue new ones to suit business practices and prevailing laws.

With a large volume of documents, in which there are lots of documents are related; thus for the convenience of reference, management and use of documents, VCB is in the process of implementing the decentralization process to manage and use documents, classifying, updating the data warehouse to build the complete one.

3.2. Risk management organizational models and checkpoints

3.2.1. Risk management system

In 2013 with an aim to meet the requirements of BASELII, VCB has simultaneously implemented many important projects to improve risk management capabilities, ensuring effective control of major risks.

- *Credit risk*: Along with continuing to improve the quality of the tools to detect, assess, measure and manage credit risk, such as construction of rating criteria and performing periodic review jurisdiction of the credit approval of branches, ensuring the approval competent with proper credit risk management capabilities; enhancing controls of credit risk through preparing industry reports as a basis of credit policy orientation, VCB is still in the process of building a model to estimate credit losses based on database system of internal rating. In order to implement this model in practice soon, VCB should promote collecting the internal databases, developing policies and equipping operational systems.

- *Market risk, liquidity risk*: VCB has completed the project "Enhancing the capacity of market risk management". Based on the project results, VCB has issued regulations on separation, accounting, and managing business books and bank accounts, separated the division of asset liability management (ALM) from the Treasury Department. Currently, VCB is in the process of separating books, completing the construction of policies, procedures, and risk limit framework. In 2013 the capital centralized management has been enhanced through the official implementation of mechanisms of internal funds transfer pricing FTP. To complete the system, VCB is implementing FTP Project at Phase 2 and the asset liability management (ALM) system.

- *Operational risk*: VCB has completed the advisory project "Enhancing the capacity of operational risk management", set up the model of risk control self-

assessment (RCSA) and put into practical implementations. Through the application of model of risk and loss data acquisition, self-risk assessment, VCB has evaluated the level of risk in each business activity to give appropriate control measures.

In 2014, in order to improve risk management capabilities as required by BASEL II as well as comply with requirements for risk management prescribed by the SBV, VCB shall continue to implement the project of analyzing the situation and develop a roadmap for implementation.

3.2.2. Mechanism and checkpoints in business processes

In 2013, VCB regularly organized workshops to review, created workflows to standardize business processes of each business activity, creating detailed manuals for VCB staff. The process of workflow creating has helped VCB detect potential risks in the implementation process, define, assess the suitability of the checkpoint is being designed, thereby, modify, supplement more checkpoints towards increasing the automated control support from the system, mitigating the identified risks to acceptable levels. On the other hand, through the effective implementation of mechanism for continuous test and self-test of applying internal procedures specified in the unit, in parallel with the channel from reporting incidents from lower levels to management level at HO, most inadequacies in business processes have been timely detected and immediately remedied.

At the same time, VCB also focused on human resources, staff capacity improving, particularly in important positions. To strengthen, enhance the quality of personnel, in 2014 VCB has deployed projects to construct remuneration policies and employee metric system, to evaluate the effectiveness of the work of staff at all levels.

3.3. Information system, management reports

VCB is in the process of reviewing information technology systems to ensure to meet standards ISO / IEC 27001:2013 for information security and confidentiality, as planned, VCB will perform to obtain the certification of ISO / IEC 27001 : 2013 in 2014.

During the year, VCB has put in application the program Data Appliance, enabling the decentralized functional departments to exploit proactively, creating diversified reports for purposes of internal control from the system. This program will continue to be improved in order to better serve the needs of exploiting internal governance reports.

3.4. Compliance monitoring department:

Compliance monitoring departments in branches have proved their roles as second control loop from the basic level. Operational control is performed on a

comprehensive array of professional activities such as credit, treasury, retail, accounting Branch managers, attracted attention by the test results, have given timely corrective direction. VCB is developing standardized compliant procedures to provide a united guidance on the inspection in VCB's system.

Evaluation results have shown that the internal control system of VCB has complied with the principles and requirements stipulated in Circular 44/2011/TT-NHNN by the SBV, essentially ensuring the relevance, adequacy, effectiveness and efficiency, meeting the demand of risk detection and prevention. VCB's system of internal documents has been regularly reviewed, updated, amended and supplemented in accordance with the legislation of the State and changes in business goals, products and services of the bank. The system of measurement tools to detect risks is being completed towards ensuring to meet the requirements of the SBV and BASEL II standards. Risk management activities are enhanced through the development of the system of internal management reporting, business software development, to ensure security and confidentiality of information.

III. APPRAISAL OF FINANCIAL STATEMENTS 2013

The Supervisory Board conducted the appraisal of the consolidated financial statements of VCB and its subsidiaries for the year ended 31 December 2013 and confirmed the results as follows:

- The Consolidated Financial Statements fully reflected the performance and financial position of VCB and its subsidiaries, presented in accordance with the report forms stipulated in the Decision No 16/2007/QD-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 the relevant statutory regulations.

- The Consolidated Financial Statements for the year ended 31 December 2013, in all material aspects, gave a true and fair view of financial position of VCB and its subsidiaries as at 31 December 2013 and of their consolidated results of operations for the year 2013.

The Bank's key figures relating to equity and assets as at 31 December 2013 and the consolidated results of operations for the year 2013 are as follows:

1. Total assets:	468,994	VND billion
2. Total shareholders' equity:	42,386	VND billion
3. Business results in 2013:		
- Profit before tax:	5,743	VND billion
- Income tax expense:	1.365	VND billion

- Profit after tax:	4,378	VND billion
<i>In which: profit after tax of the Bank only</i>	4,273	VND billion
- Non-controlling interest	20	VND billion
- Net profit during the year	4,358	VND billion

From the evaluation of operations and performance results for the year 2013 of VCB, the Supervisory Board proposes that the General Shareholders' Meeting approve the report on VCB's performance in 2013 which was presented by the Board of Directors and Board of Management.

IV. ACTION PLAN FOR 2014 AND PROPOSALS:

1. Action plan for 2014:

Pursuant to the Supervisory Board's functions and responsibilities, VCB's action plan in 2014, the directions of the Government and the State Bank of Vietnam on objectives, missions of monetary policies, measures to ensure the safe and efficient business operations; the Supervisory Board shall focus on main activities as follows:

(i) Appraise the financial statements for the period ended 30 June 2014 and for the year ended, review the monthly/quarterly figures of material accounts affecting the financial results such as: investments in subsidiaries, joint ventures and others; significant deposits, loans in foreign currencies and provisions, fixed asset procurement.

(ii) Supervise operations such as credit, foreign exchange trading, investment activities, basic construction and fixed asset purchasing, information technology, accounts recording, and compliance to safety ratios; monitor the business performance as per the Supervisory Board's proposals, VCB's policies and orientations.

(iii) Implement internal audit as registered with the State Bank of Vietnam.

(iv) Train to enhance the Supervisory Board's staff's professional qualifications, support with information technology for audit and supervision.

(v) Adjust and update audit program, supervision criteria to the bank's operation changes and risk management system.

2. Proposals:

From above performance reviews and comments, the Supervisory Board proposes the followings to the Annual General Shareholders' Meeting, the Board of Directors and the Board of Management:

(i) Continue to re-structure and closely control the credit portfolio to ensure the portfolio structure as targeted. Boost up NPL and written off loan collection.

(ii) Maintain the good management over the net interest margin and the reasonable level of cost/income ratio to ensure the efficiency of business operations.

(iii) Continue to review and complete the Bank's policies and regulations to comply with prevailing regulations and fluctuations of business conditions of the bank.

(iv) Continue to upgrade the information technology system to effectively support business operations, the governance, direction and risk management. Boost up the process of advisory packages of improving risk management and governance capacity.

(v) Enhance supervision, internal control activities, continue to complete risk detection system in VCB's operation to alert and give corrective measures and timely prevention.

Best wishes for a successful General Shareholders' Meeting.

ON BEHALF OF THE SUPERVIORY BOARD

CHIEF OF THE SUPERVISORY BOARD

Truong Le Hien