

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

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

**SOCIALIST REPUBLIC OF VIETNAM
Independence - Freedom – Happiness**

-----000-----

*Hanoi, April 8, 2014***REPORT OF THE BOARD OF DIRECTORS
ON ACTIVITIES IN 2013 AND DIRECTIONS FOR 2014****I. ACTIVITIES IN 2013:****1. Overview on economic situation:**

- The global economy has showed some signs of recovery albeit not in the same pace and challenges remain. The US economy has gradually grown, the unemployment rate has been likely to decline. The demand in the eurozone started to increase, however the high unemployment rate has been still a big concern for its member countries. China economy has been complicated, the economic growth has relied on public investment, the credit market has been overheated while the inflation rate has been continued increasing.
- The domestic economy experienced positive movements last year: stable macro economics, controlled inflation, increased committed FDI and export and import turnover. The GDP for the whole year grew ~5.42%, CPI was at lower rate than 2012 (6.04%). However, the domestic manufacturing has not kept up with the previous growth.
- In 2013, the banking sector has been making its efforts to reduce the interest rates, stabilize the exchange rate, control the gold trading market, solve the bad debt, etc., However the banks' operations have been still facing many difficulties due to low credit demand, narrowed net interest margin, high NPL and deteriorating efficiency. The system's credit growth in 2013 was ~12.51%, exceeded the target ratio of ~12%; deposits from the economy grew ~ 15.46%.

2. Targets set by 2013 General Shareholders' Meeting:

The 2013 Annual General Shareholders Meeting agreed on the followings:

- i. Business directives for the year 2013 following the motto: "Renovation – Quality-Safety - Efficiency".

Main directives include: To improve the development model and organizational and network structure; to promote credit growth together with credit quality control, to be flexible in fund mobilization not only to meet the Bank's needs for capital but also to maximize its efficiency; to maintain and enhance foreign exchange trading, card services, other modern banking services; to improve risk management; to maintain investor and shareholder relations, to continue innovating human resources management; to emphasize and promote business planning and forecasting activities, to improve current internal regulation frameworks.

Business targets for the year 2013: total assets up 9%, credit outstanding up 12%, deposits from the economy up 12%, profit before tax increased to VND 5,800 billion, dividend payout $\geq 12\%$, NPL $\leq 3.00\%$ of total credit outstanding.

- ii. The remuneration for BOD and BOS in 2013 at 0.35% of profit after tax.
- iii. Approval of adding Deloitte Vietnam Limited company to "The list of selected audit firms to audit and review VCB's financial statements from 2014 onward".

3. Evaluating the implementation of 2013 AGM targets:

In 2013, in the context of unfavorable macro economy and banking system, VCB has presented its best effort as one of the leading commercial banks, contributing to the implementation of the SBV's policy and to the macro economy stabilization. With management perspectives of "Acute- Flexible-Drastic", the Board of Directors and the Board of Management have closely monitored changes in the business environment and directed VCB's operations accordingly in order to achieve the business targets for 2013.

In the past year, VCB continued improving its business operation and corporate governance. In line with boosting the credit growth, VCB has focused on monitoring credit quality, resolving and recovering bad debts. Other services and FX trading activities has experiences a remarkable growth. By year-end 2013, most business targets have been either met or exceeded the plan.

Some remarks on the bank's operation in 2013 are as follows:

- i. *Business targets:*
 - Total assets as at 31/12/2013 was VND 469 trillion, up 13.15% from 31/12/2012, exceeded the target growth of 9%. Deposits from the economy reached VND 340.3 trillion, up 11.98% from 31/12/2012 and accounted for 99.95% of the target. Deposit growth has been monitored in line with the credit growth, aiming at maximizing the capital use efficiency.

- Loan outstanding to the customers reached VND 274.3 trillion, grew ~ 13.74% compared to YE 2011, significantly higher than the banking sector's average credit growth and exceeded the target. If including investment in corporate bonds, total loans outstanding to the economy increased 14.82% compared to 2012. Lending structure positively changed in line with the Bank's directives: the proportion of individual loans increased from 11.94% in 2012 to 13.58% in 2013; lending in VND grew from 68.85% in 2012 to 76.59% in 2013 (8.91%).
- The NPL ratio was kept at 2.73%, lower than the AGM target of <3% and much better than the industry average.
- Export-import turnover reached USD 41.6 billion, accounting for 15.80% of the market. VCB's other businesses also grew relatively well.
- The consolidated profit for 2013 was VND 5,743 billion, approximately 99.02% of the target and slightly reduced compared to 2012. Our income structure still shows the diversity of our activities, where non-interest income accounted for 30.46% of total income.
- ROAA and ROAE in 2013 were 0.99% and 10.38% respectively. CAR ratio was 13.37%, above the minimum requirement of 9% by the SBV

ii. Network expansion, organization and management:

- VCB has submitted for the SBV's approval on the restructuring plan for 2013-2015 following the Government's and the SBV's guidelines at the Decision No. 254/QĐ-TTg dated 01/03/2012 of the Government and the Decision No. 734/QĐ-NHNN dated 18/04/2012 of the SBV.
- VCB launched one branch and 21 transaction offices. In 2013, VCB was allowed by the SBV to open 15 branches (in which 5 branches shall be opened conditionally) and 26 transaction offices.
- VCB made the adjustment and improvement to the functions of the departments at HO; continued reviewing and standardizing the organization of the internal audit and compliance. The comprehensive review of the organization and function of the department at HO and at the branches has been in progress. The FDI department was established in January 2014; the ALM department at HO was approved to be set up.
- VCB reorganized the organizational structures of a number of branches, established the Individual Banking, SME and Debt Management Divisions at the branches, split some divisions at the branches.
- VCB started the implementation of Basel II application, MIS, KPI projects... Reviewed, adjusted and commenced the business targets, customer relations

assignment to the departments at HO and the branches. The Bank continued to implement the large-scale IT projects: Core banking, TF,...

- VCB issued a number of new regulations and policies, namely Guarantee Regulations, Regulations on the organizations and operations of the taskforces for the management capability enhancement projects, Regulations on Debt Trading, Regulations on the information disclosure, Regulations on the customer benefits protection, Regulations on the Commission and Agency...In addition, we also made amendments to regulations on the distribution of salary and performance salary fund, regulations on the personnel management, finance regulations, regulations on the management of the representatives for shareholding at other companies,...

iii. Risk management:

- VCB has complied with all of the SBV's prudential ratios.
- The projects of evaluation and development of credit, market and operational risks measurement models are in progress, towards the application of Basel II standards on the safety in the banking operations.
- VCB reviewed, adjusted or amended the internal policy, procedures, credit rating and credit information system in accordance with the SBV's regulations on the asset classification, risk provisioning and utilization of provisioning by the credit institutions and foreign bank branches.
- VCB has intensified the inspection, internal control and audit to ensure the compliance and prevent risks for the Bank's activities.

iv. PR, marketing and brand repositioning:

- VCB successfully held the anniversary of 50 years of establishment and related events.
- VCB launched and implemented the new brand name identification system in the whole network and organized campaigns to introduce new brand name to the public as planned.
- In order to promote its image and reputation, apart from PR activities, the Bank has taken part in many activities for social welfare, presenting its social responsibility to the community
- VCB has also actively participated in the external relations activities, both at home and abroad, improving and strengthening the business partnerships (WB-IMF, ADB, ABA summits).

v. Information disclosure and investor relations:

- In 2013, VCB selected Ernst & Young as the auditor of its interim financial statements and annual financial statements. The Bank has complied with all regulations on information disclosure to ensure the release timing and transparency of its information. Some important disclosed information included the high level management change, the disclosure of interim and annual FS.
- 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 2013, VCB's IR team has received more than 100 visits from shareholders and institutional investors. VCB also participated in the critical IR events in Japan, Thailand and Singapore.
- At the final trading session of 2013, VCB's stock closing price was VND 26,800/share. Over 104 million shares have been traded in 2013, out of which foreign investors' net buying reached ~ 6.85 million shares.

vi. *Cooperation with the strategic shareholder:*

- In 2013, VCB and Mizuho held 70 technical assistance sessions for the particular areas; signed the arrangement/contracts on the FX trading and other business alliances.
- Mizuho helped introduce many Japanese corporate and individual customers for opening the accounts with VCB, started providing the retail banking, trade finance and cash management services for the Japanese FDI customers, facilitating the business activities of VCB and enhancing the cooperation between two sides.
- VCB and Mizuho actively exchanged the high-level management visits and training courses,...

vii. *Results of the implementation of business targets as assigned by the AGM 2013 can be found in Appendix 01*

4. Existing issues:

- In 2013, VCB has been working out numerous pricing solutions, actively approaching the potential customers. However, due to the common difficult conditions of the economy, credit growth during the first half of the year was still low and only got better from the second half of the year, thus the overall operational efficiency was not high.

- The bad debts has been constrained, however still at the high rate, the number of recovered bad debts has been substantially increased compared to the previous years, however should be further increased.
- The model of centralized management at the HO for certain activities, including the management of strategic customers, has not yet been very efficient.
- Some office construction projects of the Bank have not meet the progress;
- In 2013, due to the sharp decrease in the market interest rates and the rising provisioning expense, therefore, despite of the significant increase in non-interest income, the Bank's profit before tax has been slightly decreased. The return on the ownership capital is still moderate.

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

- i. 2013 continued to witness difficult economic conditions in both the domestic and international economies. Under such circumstances, the Board of Directors has worked closely with the Board of Management to aim for the targets assigned by the AGM while still taking into account the current economic situation, thereby arriving at decisive and flexible directives, capturing available opportunities to achieve the targets.
- ii. Upon the election of the AGM, the new Board of Directors (for the term 2013-2018) has assigned specific tasks to each of its members, 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 issues and matters under the authority of the BOD.
- iii. In addition to their assigned responsibilities, the BOD and the BOM have also conducted regular meetings and discussions on the Bank's directions for future development of VCB.
- iv. Overall, in 2013, the BOD and BOM have exerted considerable 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 in accordance with the interests of VCB's shareholders and the State.

6. Report on change of BOD members and the State ownership representatives at VCB:

- Mr. Nguyen Phuoc Thanh was appointed by the 6th AGM 2013 to remain as a BOD member. On July 19, 2013, the Prime Minister of Vietnam issued the Decision No. 1205/QĐ-TTg on the appointment of Mr. Nguyen Phuoc Thanh as the Deputy Governor of the SBV. On July 26, 2013, VCB's BOD issued the Decision No. 789/QĐ-VCB.TCCB&ĐT on the appointment of Mr. Nghiem Xuan Thanh, a BOD member, as the new CEO succeeding Mr. Nguyen Phuoc Thanh. The decision became effective from the date of signing.
- On August 15, 2013, the SBV Governor issued the Decision No. 1762/QĐ-NHNN on the assignment of the State ownership representatives at VCB. Accordingly, Mr. Nguyen Phuoc Thanh was no longer the State ownership representative at VCB. The decision was effective from the date of signing. Upon the provision of point b, item 1, Article 52 of VCB's Charter, Mr. Nguyen Phuoc Thanh was no longer the member of VCB BOD from August 15, 2013. VCB has conducted the information disclosure on this regard.

II. DIRECTIONS FOR THE YEAR 2014:

2014 is predicted to see better economic conditions in the world, although still with possible complications. As for Vietnam, the macroeconomic prospect might be brighter. GDP growth is planned at ~5.8%, inflation at ~ 7%. Inflation is constrained and the currency value is flexibly monitored to facilitate the economic stability.

The banking activities continue to be directed to support domestic businesses. Anti-dollarization and banking restructuring programs continue to be the main focus. High NPL is still one of the most challenges for the Vietnam's banking industry in 2014. The industry's credit growth is targeted at 12%-14%, and the plan of bad debt resolution will be significantly boosted.

In this context, VCB's motto is "**Renovation – Growth – Quality**"; the management aims to be "**Acute- Drastic- Connective**". The main directives for the year 2014 are: to keep to the approved strategy for the 2011-2020 period and the restructuring plan for 2013-2015, to promote the Bank's wholesale advantages, to develop vertically, and to focus on the quality and efficiency towards sustainable development in accordance with international standards. In particular, specific directives for different areas are as follow:

i. Development model, organization and network structure:

- Continue reviewing and developing the business strategy and operation.
- Prepare for the establishment of new branches that have been approved in principle by the SBV and continue the preparation for the launching of the branches and transaction offices already approved by SBV.

- Keep the number of staff growing at less than 7%, focusing on selective recruitment and assigning appropriate labor limit across branches.
- Continue standardizing the organizational structure from the Head Office to the branches and clearly define the functions of each department at the Head Office.
- Continue reviewing the current status of the bank's domestic and overseas subsidiaries/representative offices to make appropriate restructuring plans to improve their performance.
- Continue reviewing and classifying the branches to make the appropriate restructuring plans.
- Intensively implement management capability enhancement projects.

ii. Fund mobilization, credit and investment:

- Promote credit growth through the interest preference lending programs of the SBV and the flexible interest rate monitoring; restructure the lending portfolio by focusing on high value customers, promoting individual and SME lending; towards credit growth of ~ 13% in 2014.
- Effectively control the credit quality, constrain the NPL ratio to below 3%.
- Manage a flexible fund mobilization in line with market conditions and the Bank's needs, ensure liquidity stability and fund utilization efficiency, aiming towards fund mobilization growth of ~ 13% in 2014.
- Enhance the effectiveness of bad debt resolution and recovery, increasing written-off loan recovery rate.
- Monitor various efficiency ratios, especially the NIM.
- Review and restructure VCB's investment portfolio, approaching new projects with good investment prospects and in line with market movements.
- Consider the capital raising plan through utilization of share premium fund (IPO and private sales for the strategic shareholder) and of the retained earnings as well as through M&A if applicable.

iii. Other businesses and financial results:

- Establish a flexible pricing policy and a diversified product range, improve customer service efficiency, and aim at increasing income from services.

- Intensively regain and retain market shares in international settlements and card services; maintain the market share in FX, and ensure the FX income of ~ 10% of the total income.
- Aim to achieve profit before tax of ~ VND 5,500 billion on the basis of provision expense of ~ VND 5,000 billion.

iv. Risk management:

- Implement the Basel II application roadmap for 2015-2018
- Manage the adequacy ratios in accordance with the regulations of SBV: Accelerate the progress of implementing of bank's risk assessment and measurement projects.
- Establish and commence the centralization models for credit management and compliance.
- Continue to enhance the role of internal control, inspection and internal audit with the focus on the post-monitoring of the risk implicit operations.

v. Investor Relations:

- Maintain the positive performance of information disclosure activity and regular information exchange with the shareholders and investors.
- Enhance the quality of disclosed information, offer various investor meeting activities.
- Execute stock and bonus dividend payouts for the shareholders.

vi. Human Resource management:

- Set up and implement the human resource strategy, focus on the establishment of the competence frame and the talent development programs.
- Continue developing training programs to enhance the quality of staff.
- Standardize job descriptions, review the job title framework, develop KPI system, from which improve the salary policy and human resource management to assure the proper treatment, as well as to facilitate the operation efficiency of the Bank.
- Make better use of staff rotation, standardize recruitment procedure and appointment of staff.

vii. Corporate governance transformation and capability enhancement projects :

- Improve the MIS system to facilitate the corporate governance and management;

- Continue to accomplish the project of Corebanking and other related project like TF, LOS;
 - Set up the management accounting system , commence the projects of ALM, FTP, MPA (Asset-Liability Management, Fund Transfer Pricing, Multiple Profit Analysis);
 - Commence the KPI project as schedule and effectively;
 - Assure the alignment and connection among the projects
- viii. *Brand name management, Regulations and Strategic Cooperation*
- Continue to cover the unique brand-name identification system over the whole network of the Bank. Approve and implement the internal regulations on the brand name management, issue the manual for use of brand name identification system.
 - Review, improve the current internal regulations and procedures, establish new regulations to perfect a legal framework for all activities of VCB.
 - Intensify the cooperation with Mizuho in the technical assistance as well as in the business activities.
- ix. *Details about some of the Bank's main targets for the year 2014 can be found in Appendix 2.*

The Board of Directors, the Board of Management and our staff at VCB are committed to utilizing all available resources and making effective use of opportunities to help the Bank overcome challenges, maintain sustainable growth in 2014, and achieve the targets set out by the AGM ./.

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

Nguyen Hoa Binh

APPENDIX 1**RESULTS OF IMPLEMENTING THE TARGETS ASSIGNED BY AGM 2013***Unit: VND billion*

No	Item	2012 Actual	2013 Plan	2013 Actual	2013 Actual/ 2013 Plan	2013 Actual/ 2012 Actual
1.	Total assets (VND billion)	414,488	451,778	468,994	103.81%	113.15%
2.	Loans to customers (VND billion)	241,167	270,102	274,314	101.56%	113.74%
3.	Deposits from the economy (VND billion)	304,809	340,415	340,260	99.95%	111.98%
4.	Profits before tax (VND billion)	5,764	5,800	5,743	99.02%	99.64%
5.	Number of staffs (persons)	13,637	15,001	13,864	92.42%	101.66%
6.	Salary expenses/ Profits before tax (excluding salary)	32.00%	34.00%	33.00%		
7.	New branches and transaction offices	13	40	22		
8.	NPL ratio	2.40%	<3%	2.63%		
9.	Dividends payout (% per par value)	12%	12%	12%		

APPENDIX 2**MAIN TARGETS FOR THE YEAR 2014 TO BE SUBMITTED TO AGM***Unit: VND billion*

No	Items	2013 Actual	2014 Plan	Growth Rate
1.	Total assets (VND billion)	468,994	520,583	11.00%
2.	Loans to customers (VND billion)	274,314	309,975	13.00%
3.	Deposits from the economy (VND billion)	340,260	384,493	13.00%
4.	Profits before tax (VND billion)	5,743	5,500	-4.23%
	Profits before tax and provision (VND billion)	9,263	10,500	13.04%
5.	Number of staffs (persons)	13,864	14,834	7.00%
6.	Salary expenses/ Profits before tax (excluding salary)	33.00%	37.00%	
7.	New branches	1	16	
8.	NPL ratio	2.63%	<3%	
9.	Dividends payout (% per par value)	12%	10%	

