

JSC BANK FOR FOREIGN TRADE OF VIET NAM

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Business Registration No. 0100112437
(7th revision dated 10th January, 2012)

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

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Hanoi, April 10th, 2013

REPORT OF BOARD OF DIRECTORS SUMMARY OF THE TERM OF OFFICE IN 2008 – 2013

I. REPORT ON ACTIVITIES IN THE TERM OF OFFICE IN 2008 – 2013

1. Overview on business environment

The Board of Directors of the Joint Stock Commercial Bank for Foreign Trade of Vietnam (2008-2013) has carried out their first term of office in the context of uncertain and unpredictable domestic and global economy, which has negatively affected Vietnam banking industry and Vietcombank in particular.

- The global economic downturn stemmed from the U.S. in the mid-2008, then quickly spread to many countries and regions with complicated developments in the following years. The world economy fell into stagnation and recovery was at very low pace. The sovereign debt crisis makes the economic stability more difficult, especially for the major economic centers such as the U.S, Europe.
- Vietnam's economy does not stand out of the general decline of the world economy. Annual GDP growth rate is always lower than 7%, in 2012 was only 5.03%. Inflation fluctuates, even reaching ~ 20% in a year. Statistics shows, in the period 2011 – 2012, there were about 50,000 businesses shut down and dissolved each year. Slow economic growth, continuous production stagnation poses big challenges to Vietnam's economy.
- Under such difficult business environment, banks faced many challenges, especially rising bad debts and declining business performance.

2. Summary of activities in the term 2008-2013

In such uncertain continuous business environment, Vietcombank has taken advantage of its strengths; flexibly, agilely, innovatively, actively grasped business opportunities and overcome the challenges. Thus, Vietcombank has maintained a good performance during the past five years and ensured safe and efficient operation.

Major results of the period are as follows:

i. Financial results:

- Total assets as of 31/12/2012 reached nearly VND 415 trillion, an increase of VND 192 trillion compared to 31/12/2008, continuously grow with an average increase of ~ 17% per year. Main driven factor to the growth of total assets comes from deposits from the economy, accounting for 65% - 75% total fund of Vietcombank . In the past 5 years, despite the increasingly fierce competition in the funding market, Vietcombank maintained an average growth of 17% per year, of which in 2010 and 2012, the growth rates were over 20%.
- The growth in deposits from the economy has facilitated Vietcombank's credit growth, pushed the average credit growth of the period 2008-2012 to ~ 21% / year, the total outstanding loans increased from nearly VND 113 trillion as of year-end 2008 to VND 241 trillion as end of 2012.
- Total income before provisions for loan losses increased from VND 6.3 trillion in 2008 to VND 9 trillion in 2012, an average increase of 9% per year, while profit after provision for loan losses increased from VND 3.6 trillion to nearly VND 5.8 trillion, equivalent to an average growth rate of ~13% per year.
- Strong competition in both deposits and credit markets had a negative impact on the banks' net interest income. However, Vietcombank has maintained the interest rates spread at ~ 3% over the years.
- Thanks to Vietcombank's efforts in making effective use of its capital, the bank has maintained higher profitability ratios of the earning assets and ownership capital than the banking sector averages.

Main financial results of the period 2008-2013 are presented in Annex 1 of this report.

ii. Review and complete the development strategy for the 2011-2020 period, strengthen and improve the model and structure of organization.

- Vietcombank has reviewed and made adjustment of its 2011-2020 Development Strategy following the directions of the Government, SBV and the Bank's performance, including the restructuring of the bank through strengthening all business areas.
- The organizational model of Head Office has been standardized step by step towards a group-model. Over the past years, Vietcombank has restructured the Treasury group, Credit group, Risk management group by establishing new departments or adjusting functions of existing departments; establishing finance group, retail group;

IT Center, Card Center with organizational model upgraded from IT Center and Card Management Department.

iii. Network development and enhancement of management tools

- Vietcombank has continued to expand its network with total number of branches increasing from 61 (2008) to 79 (2012) and the establishment of 181 sub-branches all over the country during the last five years. In 2010, Vietcombank completed required procedures to officially launch VCB Money, its US-based subsidiary.
- Vietcombank has completed the internal regulation system. Beside principal regulations such as Charter, Internal management, Organization and operation of BOD, many important policies have been issued, especially Risk management, payment and distribution of salary, Financial regulations, Employment management, Network management, Fund transfer pricing...

iv. Improvement of risk management

- Risk management policies have been systematized and consistently applied throughout the system. Moreover, with consultancy of reputable experts, Vietcombank is implementing several projects to develop measurement and management models for major types of risks, including credit risk, operational risk, market risk following the world best practices.
- Loan classification and quality control are highly focused. Vietcombank has applied a qualitative loan classification system since 2nd quarter of 2010, which was built upon E&Y's consultancy and State bank of Vietnam's approval. NPL ratio of Vietcombank, therefore, always reflects truthfully and transparently the Bank's credit quality. Vietcombank has always paid attention to bad debt recovery and put efforts into bad debt handling. NPL ratio of Vietcombank decreased from 4.6% at 31/12/2008 to 2.4% at 31/12/2012 and remained below 3% during 2009-2012 period.

v. Completion of stock issuances as approved by General Shareholders Meetings

- During 2008 - 2012, Vietcombank accomplished approved plans in increasing charter capital including the issuances of right issue at par value to existing shareholders in 2010 and 2011, increasing charter capital by 9.28% and 33% respectively; stock dividends for year 2010, increasing charter capital by 12% (2011); and private issue to Mizuho Corporate Bank (2011), increasing charter capital by 17.65%.
- As at 31/12/2012, Vietcombank's charter capital reached VND 23,174 billion, increased by 91.5% in comparison with 31/12/2008; total shareholder equity was VND 41,553 billion, increased by 198% since 2008.

- The signing of the strategic cooperation agreement with Mizuho Corporate Bank Ltd on 30/09/2011 was a remarkable turning point for Vietcombank, which opened opportunities for future achievement. The cooperation between Mizuho and Vietcombank is an evidence that the Bank has successfully gained trust from foreign investors, especially during the last five years of the world economic slowdown.

vi. Investor relations

- Vietcombank has implemented the information disclosure in compliance with laws, constantly improved its transparency. On the other hand, frequent meetings with shareholders and investors have been organized during the years with good quality information. The Bank's investor relations activities are highly appreciated by many institutional investors.
- Dividend payment policy has been maintained at a stable payout ratio of 12% during the last five years, out of which, cash dividend for four years and stock dividend for one year (2010).
- In 2009, Vietcombank successfully completed its first listing of shares in Ho Chi Minh Stock Exchange. New shares issued each year have also been listed in time. After the latest listing of State-owned shares on 14/05/2012, VCB's stock has become one of the most important stocks on VN-index. VCB's stock is currently selected in VN 30 and one with the biggest capitalization in the market.

vii. Other activities

- VCB brand standardization project, consulted by Allen International (UK), was implemented . On 31/03/2013, Vietcombank launched the new brand identity system, representing the unity of Vietcombank's people in creating a prestigious and sustainable brand.
- A renewal project for Core-banking system was approved in 2011 and has been carried out in time. This is one of the most important projects on information technology of Vietcombank for these years. The Bank has invested significant amount of human and financial resources into the project, in expectation that a new core-banking system will contribute to the modernization of services as well as the improvement of internal management capability.
- Other than ordinary business, Vietcombank has always been conscious of social responsibility, which is recognized through many activities such as sponsors for social welfare programs, financial aids for difficult areas and poor people. These activities have also played an important role in promoting the Bank's image and position in the community.

- In attempts to further reinforce the position in international market, Vietcombank has actively participated in the activities organized by local and international associations or organizations (WB/IMF Annual Forum, World Economic Forum, Asia/ASEAN Bankers Association); communicated with many global financial groups,... This, in turn, has created more opportunities for Vietcombank in international business cooperation.

3. Shortcomings:

Apart from its achievements, looking back to the Period 2008-2012, Vietcombank has been facing some obstacles in its business operations, specified as follows:

- Under tough competition from the domestic and foreign commercial banks, Vietcombank's market shares in some business areas such as export-import settlement, lending, distribution network coverage, etc., tend to be downsized. In light of the current economic downturn, although the Bank tried its best, the recovery ratio of the written-off bad debt is still slower than expected.
- Under the difficult economic environment, despite the best effort exerted by the Bank, the recovery ratio of the written-off bad debt still has been not as expected.
- The income structure of VCB has, although been relatively more diversified than the other peers and much oriented to the increase of non-interest income, still been much relied on the interest income.
- Due to the unfavorable external factors, also in some extent, from the cautious perspective of the Bank, some of Vietcombank's projects have been implemented at a slower pace than expected.
- While the Bank's management of the human resources have been reflecting some development, but such improvement has been still not at the same pace with the development requirements of VCB and the time trends.

4. Evaluation on performance of Board of Directors and Board of Management

The Board of Directors for 2008-2013 term was elected at the first Annual General Shareholder Meeting (AGM), consisting of 7 members. In 2009, the 2nd AGM elected 1 more member for 2008-2013 term. By the end of 2011, total number of BOD members was 5, after the withdrawals of 3 members in 2010, 2011 (resignation of the State ownership representative or retirement). At the 5th AGM taking place in April 2012, AGM agreed to replace 1 member and elect 3 more members, increasing total number to 8 members.

Since the first day Vietcombank officially changed into a joint-stock commercial bank (02/06/2008) till 31/12/2012, there were 207 meetings (55 regular and 152 standing) held by BOD with 83 agreements by vote and 1,313 resolutions issued.

The first official term of Board of Directors has undergone a very challenging period for the economy as well as Vietcombank. The continuous endeavor of all Vietcombank's employees and a close cooperation between BOD and BOM has resulted in the bank's significant performance results. BOD and BOM has fulfilled their main tasks as follows:

- i.* BOD, BOM have flexibly and decisively directed the bank's operation in close view of complicated market movements. The directives of management are specifically set for every year and are strictly followed by the BOD, BOM during their fulfillment of the assigned tasks.
- ii.* BOD has frequently reviewed and evaluated the implementation of tasks assigned by AGM. BOD has also given flexible directions to adapt to changes in the SBV's policies as well as in the market conditions.
- iii.* BOD has assigned specific tasks to each members, set up of the supporting committees, maintained monthly regular meeting as well as standing meeting to deal with arising issues timely.
- iv.* BOD, BOM have closely coordinated in directing and managing Vietcombank's operations. Moreover, BOD and BOM have spent considerable time to discuss major issues, such as: periodical business directions, strengthening information technology system, risk management strategy,...

Overall, Board of Directors and Board of Management have made great efforts to accomplish all tasks assigned by AGM; directed and managed Vietcombank's operation towards strategic direction and all targets set for the period from 2008 to 2012. A constant principle has been sustained for all actions of BOD and BOM: acting in the interest of stakeholders, the State, and the Bank.

II. DIRECTION FOR 2013 - 2018 OFFICE TERM

The world economy is projected to recover after a deep recession; some big economies have started to gain momentum. Domestic economy has also experienced positive signals. However, both domestic and world economy will remain to be unpredictable and challenging in the coming years.

Basing on the results of the last term, key directions for Vietcombank during the period of 2013 – 2018 are: stick to the approved strategy for 2011 – 2020; take advantage of its strengths; make the most use of all opportunities; flexibly aggressively and drastically

stimulate growths in all business lines; ensure safe, efficient and sustainable development.

Main directions and key targets are as follows:

i. Development model, organization and network structure:

- Continue to research and improve organization model towards modern universal financial holding organization. In which, the strategic solution is to improve organization framework, along with strengthen management and business capability.
- Continue to review and standardize the branch model, improve and clarify functions and responsibilities of departments at Head office.
- Develop transaction network in depth and breadth, gradually expand the overseas network.

ii. Treasury, credit and investment:

- Promote credit growth together with credit quality control; execute bad debts and strictly control NPL ratio. Be flexible in fund mobilization, ensure fund growth along with maximizing efficiency.
- Diversify domestic fund mobilization and loans financing channel; expand customer base to SMEs and individuals along with keeping the traditional customers.
- Be ready and actively approach the international capital market by means of syndicated loans, clean loans, refinancing, and bond issuing as soon as the market conditions become more favorable.
- Review and restructure investment portfolios with an emphasis on the efficiency of investments.

iii. Other business areas:

- Diversifying banking products and services, gradually increase the proportion of fee and service income in total income.
- Maintaining and gradually increasing market share in traditional banking services such as settlement or card services.
- Developing modern banking services by combining internal R&D of banking products and application of advanced technologies and practices.

iv. Risk management:

- Continuing to improve risk management mechanism by enhancing the efficiency of each division as well as effective cooperation among divisions. Steadily improving the role of internal control, audit and inspection.
- Increase risk management capability by comprehensive solutions, which focus on developing risk measurement and management models; setting a completely consistent and advanced system of risk management facilities and policies.
- Improve the awareness and intuitive culture in risk management.
- Monitor prudential ratios following the guidelines of SBV and gradually approach to the international practices.

v. *Human resources management:*

- Improve the quality of human resources, given its key role in creating innovation and breakthrough. Strengthen training activities for the purpose of staff allocation & planning, appointment and rotation procedures.
- Reform the staff recruitment, allocation, and appointment process to ensure publicity, transparency and suitability (right person for right position). Enhance staff rotation, especially for potential candidates for high level management positions.
- Continue to improve the salary and bonus policy based primarily on employees' competency and contribution with the aim of motivating Vietcombank staff to dedicate to the Bank's development.

vi. *Other tasks:*

- Continue to implement the new brand identity system over the whole country; increase promoting activities to raise the customers' awareness of the new brand identity and differentiate the Bank's brand in domestic and international market.
- Upgrading and modernizing information technology system to best meet the increasing in complexity and scale requirements in the Bank's operation. Focusing on the completion of core-banking system renewal project as the basis for service quality improvement and internal management capability.

vii. *Main targets:*

The Board of Directors will direct the establishment of main business targets and submit to AGM for approval each year. Main targets for the 2013 – 2018 period are as follows:

Items	Target
Total assets growth (% per annum)	9%-12%

Items	Target
Credit growth (% per annum)	12% - 16%
Deposits growth (% per annum)	12% - 16%
ROE	12% - 15%
NPL ratio	Under 3%
Capital adequacy ratio (CAR)	10% - 12%

Despite the challenging term of 2013-2018 ahead, Vietcombank's Board of Directors and Board of Management commit ourselves to continue the proud history of 50 years of development, to overcome all obstacles, to make the full use of all opportunities in order to fulfill all tasks assigned by AGM.

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

Nguyen Hoa Binh

ANNEX 1

KEY FINANCIAL RESULTS FOR 2013 – 2018

Items	2008 (audited)	2009 (audited)	2010 (audited)	2011 (audited)	2012 (audited)
Operating					
Total assets (billion VND)	222,090	255,496	307,621	366,722	414,475
Charter capital (billion VND)	12,101	12,101	13,224	19,698	23,174
Shareholders' equity (billion VND)	13,946	16,710	20,737	28,639	41,553
Credit outstanding balance (billion VND)	112,793	141,621	176,814	209,418	241,163
Fund mobilization from economy (billion VND)	159,989	169,458	208,320	241,688	303,942
Profit before tax (billion VND)	3,590	5,004	5,569	5,697	5,764
Net profit (billion VND)	2,711	3,921	4,282	4,197	4,404
Number of staff (person)	9,212	10,401	11,415	12,565	13,637
Salary cost/ Profit before tax (excluding salary)	23,32%	28,37%	29,76%	31,20%	32,00%
New branches and offices	70	53	42	23	13
NPL ratio	4,60%	2,47%	2,91%	2,03%	2,40%
Dividends payout (% per face value)	12,00%	12,00%	12,00%	12,00%	12,00%
Annual growth rate					
Profit before tax	14,00%	39,39%	11,29%	2,30%	1,17%
Net profit	13,91%	44,63%	9,21%	-1,99%	4,93%
Credit outstanding balance	15,53%	25,56%	24,85%	18,44%	15,16%
Fund mobilization from the economy	10,48%	5,92%	22,93%	16,02%	25,72%
Total assets	12,53%	15,04%	20,40%	19,21%	13,02%
Efficiency					
Non-interest income/operating income	25.93%	30.02%	28.92%	26.47%	27.50%
Operating cost/operating income	29.00%	37.62%	39.70%	38.33%	39.82%
ROAA	1.29%	1.64%	1.52%	1.24%	1.13%
ROAE	19.74%	25.58%	22.87%	17.00%	12.55%
Loans/deposits	70.50%	83.57%	84.88%	86.65%	79.37%
Pre-Provision Net Operating Profit/Equity	46.20%	37.79%	37.14%	37.15%	25.91%
CAR ratio	8.90%	8.37%	9.67%	11.13%	14.83%