

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

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Hanoi, 10th April, 2013

BOARD OF MANAGEMENT'S REPORT

Overview of Business Environment

In 2012, in the context of the difficulties of the world economy, Vietnam faced many difficulties and challenges such as low GDP growth, difficulties in manufacturing and production and rising bad debts... However, thanks to the Government's sound leadership and the State Bank of Vietnam's flexible implementation of monetary policy, macro-economic is stabilized, especially in the last six months of 2012: CPI remained at lower level, improved balance of payments, increased foreign exchange reserves, stable exchange rate, credit growth of the banking sector reached 8.91%, the total payment increased by 22.4% ...

In 2012, VCB continued to maintain its position as the leading bank in Vietnam, strictly following the State Bank of Vietnam's guidance and contributing to overall implementation of the national monetary policy. Under such risky and turbulent market conditions, Vietcombank's Board of Management has strictly followed the State Bank's direction and policy, adapted to changes in market conditions to share the difficulties with businesses and overcome many challenges to achieve a number of positive results.

Under the authorization of the Board of Directors, on behalf of the Board of Management, the CEO would like to report the business performance for the year 2012 and business plan for 2013 as follows.

Business Performance in 2012

1. Assessment of performance of business targets in 2012:

The performance of VCB is as follows.

- Consolidated profit before tax was VND 5,764 billion, increased by 1,17% compared to 2011, approximately 88% of the year's target.
- Return on Asset (ROA) and Return on Equity (ROE) reached 1.1% and 12.6% in 2012, respectively.

- Total consolidated assets were VND 414.5 trillion, up 13% compared to 2011 (approximately 96% of the year's target)
- Consolidated shareholders' equity was VND 41.5 trillion, up 45.1% compared to 2011.
- Consolidated Loan outstanding was VND 241.2 trillion, up 15.2% compared to 2011 exceeding the adjusted target.
- Consolidated Deposits from the economy was VND 303.9 trillion, up 25.8 % compared to 2011 (approximately 106.6% of the year's target)
- NPLs ratio of 2012 was 2.4%, better than the plan of 2.8% and banking sector's average.
- Volumes of export and import settlement was USD 38.8 billion, accounted for 17% of market share.
- Retail banking has played an important role in the sustained growth of Vietcombank.
- Most of targets for card business was successfully achieved.

2. Performance in 2012 and corporate governance

In 2012, VCB has achieved positive business outcomes. In the past year, VCB significantly improve its corporate governance; especially human resources management. Internal procedures and regulations continued to be improved towards the international standards. Besides, prudential operation ratios were ensured; audit and inspection system were also strengthened.

2.1. Maintain stable and sustained source of funding

In order to maintain a stable source of funding in 2012, VCB has well implemented fund mobilization solutions such as appropriate interest rate, customer services and product diversification ...

As at 31/12/2012, total deposits from the economy increased by 25.8% compared to 2011. VCB's market share for capital mobilization is still number 4 in the banking system.

By customers, (i) deposits from corporates stood at VND 141.9 trillion, up 18.1% compared to 2011. (ii) Deposits from individuals reached VND 162.1 trillion, a 33.3% increase compared to 2011 accounted for 54% of deposits from the economy. These figures reflected the society's recognition of VCB's reputation and brand name, as well as showing VCB's appropriate strategy in developing retail banking to maintain a stable source of funding.

By currency: deposits in VND increased by 33.3% while deposits in foreign currency increased by 4.3%, compared to that of 2011. The proportion of VND in total deposits from economy increased significantly from ~55% in 2008 to 77% in 2012. Therefore it is shown that

VCB needs to maintain its competitive advantages in raising foreign currency funds in the coming years.

2.2. Ensure safety and efficiency for credit activities and controlling credit quality

In response to the government's and SBV's directions of supporting the enterprises, VCB has proactively implemented many lending programs with attractive interest rate, focusing on prioritized sectors set by the Government. VCB's credit activities has therefore achieved many positive outcomes in 2012. Up to 31/12/2012, VND loan outstanding was VND 241.2 trillion, up 15.2% compared to 2011 and maintained the market share of 8.8% and the forth position in the banking system. *By currency*, outstanding loans in VND increased by 22.2% while outstanding in foreign currency went up 4% compared to 2011. *By term*, short-term loans has increased significantly by 21.3%, whereas medium and long-term outstanding grew by 6.4%.

In 2012, VCB has carried out many lending programs with preferential interest rates in both VND and USD with total disbursement of equivalent VND 113.6 trillion. Loan outstanding for SMEs was over VND 33.1 trillion, accounted for 13.7% of the total loans outstanding. Loans for individuals were around VND 28.8 trillion, up 37.9% and accounted for up 12% of the total loans outstanding. Loans for non-production fields were down to VND 11 trillion, accounted for 4.6% of the total loans outstanding only.

Being aware of the difficult business environment and deteriorated health of enterprises, VCB has always considered credit risk management as its top priority to ensure the lending quality. Therefore as at 31/12/2012, NPLs ratio only stood at 2.4%, better than the target of 2.8%.

2.3. Review and re-structure investment portfolio

VCB paid much attention to re-structure the investment portfolio by efficiency criteria. As at the end of 2012, total equity capital invested in joint ventures and joint stock companies was VND 3.058 billion (not including subsidiaries), accounting for 12.8% of chartered capital and capital reserve of VCB, strictly complying with laws. Total investment in 2012 increased VND 261.68 billion compared to end of 2011, including from the joint venture VND 68.2 billion as well as from other long-term investment of VND 163.4 billion. Total revenue from investment in 2012 was VND 468.6 billion with ROE of 15,3%.

2.4. Promote the banking services and improving operating efficiency

In 2012, despite fierce competition from foreign banks that have the strength of foreign currency funds, as a result of effective actions such as high quality customer services,

preferential interest rate and fees for the potential customers ..., VCB has achieved positive results in import-export settlement. Export-import turnover through VCB in 2012 reached \$ 38.81 billion with a slight increase of 0.09% compared to the last year, accounting for nearly 17% market share of the country's total export turnover.

VCB has made a great effort in foreign exchange trading, implementing many flexible solutions to ensure payment commitment for the customers, and ensuring the import of oil and other essential products for the economy. However, due to unfavorable economic conditions, revenue from FX trading was approximately USD 24.02 billion, down 32.56% compared to the previous year.

The year 2012 ended successfully for VCB's card business. *On card payment* (i) volume of international card payment increased by 22% and continued to maintain its leading position in this field, accounting for 50% market share. (ii) Volume of domestic card payment was double compared to 2011. *On card turnover*, (i) turnover of international credit cards went up 17%; (ii) turnover of international debit cards increased 7% (iii) turnover of domestic debit card was up 18% compared to 2011. *On number of card issued*, the number of issued credit and domestic card increased by 16% and 6% respectively. The increase in number of credit card issued in 2012 is thanks to the significant campaign project for AMEX card and the introduction of 3 new products (JCB, AMEX Platinum and Visa Platinum for VIP customers).

VCB has always been the leading player in applying modern technology in retail banking services. The retail customer base of VCB has steadily increased to 7 million customers. Deposits from individuals by 2012 were VND 162.1 trillion, an increase of 33.3% compared to 2011. Loans for individual customers by the end of 2012 was VND 28.8 trillion, up 37.9% compared to 2011. Remittance services were nearly USD 1.23 billion (around 74% of the year's target). Vietcombank's e-banking services has exceeded the set target.

2.5 Strengthen risk management and system administration

In 2012, VCB has always strictly complied with SBV's prudential regulations. To enhance the operational capacity and safety of the system, risk management was always considered as the top priority. VCB initiatively reviewed and restructured customer portfolio in order to improve credit quality; gradually improved credit risk management model such as probability of default (PD, LGD); implementing the consulting project "*Improving risk management practices for VCB*"; Initial testing exchange rate risk measured by the method of *Value at Risk (VaR)*. In addition, inspection, monitoring and auditing continued to be enhanced. VCB has completed the performance monitoring indicators for the whole system as well as improved the quality of remote monitoring. Cases of violations, complaints and denunciations,

anti-corruption and crime were properly handled.

2.6 Improve Marketing activities, service quality, sales and customer care

In 2012, VCB has implemented marketing and customer care programs in line with its business strategy. VCB has also implemented promotion campaigns, sales incentives for branches; customer support at customer service center; free hotline service for VIP card customers. VCB has issued separate policies for every customer segment and organised training courses on customer service skills to attract and to retain the traditional and increase the potential customers.

2.7 Focus on technological infrastructure development

VCB has implemented new project of Core Banking system – I stage, new trade finance system- initial and bidding stage, equipped tools for data management and analysis in order to improve and upgrade management information systems (MIS); finished upgrading the centralized server system toward cloud model and equipped software solutions for risk reduced card business transactions... More updated application programs (risk management systems for card services, foreign exchange trading system, and internal fund transfer pricing ...) are applying in VCB's business activities to diversify a range of products, improving quality of service as well as enhance the competitiveness of VCB in the financial market.

2.8 Strengthen the organizational structure, network development and human resource training.

In 2012, VCB has continued to improve Block/Group Model at Head office. According to this, Head office focuses on policy making and branches focuses more on sales. VCB has already launched the operation in Nam Dinh, Ninh Binh and Ha Nam branches, 10 new established transaction offices and prepared for the establishment of Asset Management Company (AMC) and Consumer Finance Company. Besides, VCB also focused on human resources development which is considered as the key to success and effectiveness.

2.9 Strengthen the activities of PR, communications, brand re-positioning, social responsibility and relations with investors:

VCB actively developed relationships with social media and the appearance on the mass media, sponsored a number of large-scale events; and officially launched new brand identity system on March 31st. VCB also participated in PR relationship both in Vietnam and abroad, strengthened and developed business partnerships. At the same time, VCB always strictly followed regulations on information disclosure, organized meetings with domestic and foreign investors. Besides, VCB has shown its social responsibilities through social welfare

contribution therefore promoting the VCB's image, position and reputation.

2.10 Promote strategic partnership

2012 marked the first year of the strategic partnership between VCB and Mizuho. VCB has actively implemented the technical support and business cooperation with Mizuho, specifically: experience sharing from Mizuho in many fields; implementing business mutual beneficial co-operation in treasury, credit, trade finance, payment. VCB has completed procedures to increase charter capital (private issue for the strategic partner - Mizuho Corporate Bank Ltd. ..)

3. Business results of the subsidiaries

In 2012, despite difficulties and challenges of the economy, VCB's subsidiaries have made the most use of their internal resources in order to create a solid foundation for the sustainable development in 2013. As at 31/12/2012, the business performance of the those subsidiaries recorded some positive results as follows:

- ▶ *Vietcombank Securities (VCBS)*: Thanks to the prosperity of the stock market in the early months of 2012, the company's performance had positive results compared to the year of 2011. Profit before tax in 2012 reached VND 49.04 billion, increasing almost 3 times compared to that in 2011 and exceeding 7% of year's target.
- ▶ *Vietcombank Financial Leasing (VCBL)*: Profit before tax reached VND 63.9 billion , increasing by 33.9% compared to that in 2011. NPLs of the company declined from 6.47% in 2011 to 4.6% in 2012.
- ▶ *Vietnam finance company Limited (Vinafico)*: Profit before tax of 2012 reached over HKD 2.92 million, a sharp increase compared to that in 2011 thanks to the positive changes in customer development.
- ▶ *TN Monex Company*: The company has been granted the operating license in the state of California, launching its second transaction office in San Jose state and recruiting some agents, opening its Deposits trading service account at Wells Fargo bank, which create favorable conditions for the expansion and services providing.

DIFFICULTIES AND WEAKNESSES

Regardless of achievements in 2012, there still remains some difficulties and weaknesses in the operation of VCB that need to be fixed and tackled

- Due to the unfavorable business environment in 2012, some main business targets were not reached.

- VCB's strength in export-import payment activities has been decreasing gradually, segment tends to decrease considerably, and NPLs seems to increase.
- Advantages in brand reputation and network to develop customer base have not exploited successfully.

BUSINESS PLAN FOR THE YEAR OF 2013

The world economy of 2013 has been forecasted in continued difficulties and uncertainties. In 2013, Vietnam's economy will also be affected by the existing issues of 2012. GDP growth is forecasted at 5.5%, inflation rate remains as of 2012.

In 2013, some key tasks set by SBV for the banking sector include: cautious and flexible monetary policy in order to control inflation, stimulating economic growth higher than 2013; managing exchange rates and interest rate in line with inflation changes and macroeconomic situation, especially with the inflation fluctuation, towards a target of payment growth at 14%-16%, credit growth at about 12%.

In view of the business environment, closely following directions of the Government and SBV, VCB has determined to operate under the motto "***Renovation – Standard – Safety – Efficiency***" with the management philosophy: "***Sharpness – Flexibility - Drastic***", Business orientation of Vietcombank in 2013 is: *Stick to VCB's business strategy for the period of 2011 - 2020, together with traditional wholesales banking, further strengthen the retail banking, taking advantage of any opportunities, focusing on competent and sustainable.*

Some main business targets for the year of 2013 submitted to General Shareholders

Meeting by the Board of Directors

	Targets	Plan for 2013
1	Total assets	Increase by 9%
2	Loan outstanding	Increase by 12%
3	Non-performing loans	Under 3%
4	Deposits from economy	Increase by 12%
5	Profit before tax	VND 5,800 billion
6	Employees	Increase under 10%

To achieve above business objectives, Vietcombank will need to emphasize on following tasks and solutions:

1. Continuously maintain the stability of fund mobilization, stimulating credit growth in parallel with controlling credit quality.

Focus on fund mobilization from individuals and always consider as the stable funding sources of Vietcombank. Research, implement the co-brand, cross-selling funding products which combine capital mobilization and lending under the motto “*Make the differentiation*”. Study the approach towards foreign currency mobilization and fund raising from international market and foreign organisations.

Stimulate the appropriate credit growth in parallel with quality and efficiency. For corporate customers, credit growth is focused on overall benefits for the customers. Focus in lending to the prioritized sectors under the directions of the Government. Develop the individual loans as one of retail banking activities towards the sustainable development of Vietcombank. Improve the credit quality through improving and applying various supporting tools in credit risk management. Enhance the NPL collection and processing by: (i) provision, (ii) loans selling and discounting, and (iii) loan restructuring.

2. Continue the restructuring of investment portfolio by efficiency

- Review the investment portfolio; divest the low-efficient investments which do not support the operation of Vietcombank. Review, restructure the subsidiaries to assure the efficient operation and in accordance with laws.
- Complete internal regulations on investment activities, on subsidiaries’ operation.

3. Improve service quality, maintain market share.

Maintain the market share of export - import settlement and develop customer base: Improve the capability of payment activity; establish the list of important customers for international payment service; issue customer policy based on customer classification, implement flexible customer policy, especially service prices, fees and exchange rate; develop trade finance products in terms of customer selection and classification.

Developing retail banking services and card business: (i) evaluate the efficiency of operation and retail banking products based on implementation of the retail banking development plan; (ii) Standardize, diversify products and services based on customer segment. Increase loans for individual customers; (iii) Branches focus on selling standardized products, gradually decrease manual works.

4. Improve administrative management, system administration, and apply management methodology in line with international standard.

- Enhance the Management's flexibility and responsiveness to business environment.
- Enhance the distant monitoring and supervision, regularly supervise the operation of the Bank, all its branches and subsidiaries. Continue improving internal audit activity.
- Research and implement management information system (MIS) in order to meet the bank's requirement of business administration.

5. Continuously complete organizational structure and net-work branch development

- Continue to standardize Vietcombank organizational structure at the head office and branches.
- Plan to establish 40 new branches and transaction offices if favorable.
- Establish two subsidiaries: Asset Management Company (AMC) and Consumer Finance Company if favorable.

6. Strengthen risk management

- Enhance quantitative model applicable for credit, market and operation risk management.
- Improve operation risk management through supervision, training and guidance on working procedures and regulations for staff; implement the framework of business ethic; accelerate the implementation of working procedures to improve operational efficiency and reduce operational risk.
- Consolidate and improve the quality of credit approval to minimize NPLs. Complete credit risk management supporting tools to control the loan quality.

7. Human resource training and development

- Continue to evaluate, rotate staff among different departments in Head Office (HO), between HO and branches, between branches and branches. Complete job description framework for each position in order to allocate right person to right place.
- Apply working efficiency management system, implement performance scoring scheme and salary-bonus policy based on working efficiency and scope.
- Focus on training for staff and management positions.

8. Complete new brand- identity recognition system which is standardized and consistent throughout the Bank network

Complete standardized brand-name system, gradually adopt brand-name recognition system throughout the bank, co-operate with the media to synchronously implement the brand-name identified system throughout the bank.

9. Information technology development

Continue to implement Core Banking system and Data appliance system; implement guidance, log-in permission for trade finance system and other systems used for Vietcombank's business operation.

10. Strengthen the co-operation with Mizuho

- Focus on prioritized sectors which require technology assistance in order to enhance the efficiency of technology support from Mizuho Corporate Bank.
- Enhance co-operation in providing retail banking services to corporate customers of Mizuho Corporate Bank, emphasize on potential customers bringing much benefits to Vietcombank; Accelerate the supporting cooperation from Mizuho Corporate Bank to the branches of Vietcombank with the aim at increasing the transaction of the existing Japanese customers of the branches...

11. Social corporate responsibility and internal communication

- Actively response to and participate in the social welfare activities. Study and develop the new sponsor ways to improve, diverse and develop the long-term support to the community in the social welfare activities.
- Promote communications activities to make Vietcombank's brand-name and image familiar to the public and customers. Enhance shareholder's relation and foreign affairs.

All the optimistic achievements of Vietcombank in 2012 have created favorable conditions and great motivation for Vietcombank in completing the business plan of 2013, heading to successfully accomplish 2010-2015 period strategies. Under the harsh, complicated domestic and international business environment, Vietcombank in 2013 will focus on the long-term and sustainable development, in order to maintain and enhance core values built up over the last 50 years. In the near future, the Board of Directors, the Board of Management and all Vietcombank's staff will still be highly co-operative, innovative, flexible, creative and drastic to overcome all difficulties and challenges, continue to bring the high business efficiency and contribute to build up a solid and strong Vietcombank.

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