

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

Address: 198 Tran Quang Khai St, Ha Noi  
Business Registration No. 0100112437  
(11<sup>th</sup> revision dated 7<sup>th</sup> November, 2014)

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

-----o0o-----

*Hanoi, April 5<sup>th</sup>, 2016***REPORT OF THE SUPERVISORY BOARD ON OPERATION IN 2015  
AND ORIENTATION FOR 2016**

- Pursuant to the Charter on Organisation and Operation of Joint Stock Commercial Bank for Foreign Trade of Vietnam (“Vietcombank”) approved by the Extraordinary General Shareholders’ Meeting on 26 December 2014 under the Resolution No 08/BT2014/NQ-DHDCD and verified by the State Bank of Vietnam under the Circular No 621/NHNN-TTGSNH dated 28 January 2015;

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

- Based on the operation of Vietcombank, report of the Board of Directors, report of Board of Management and operation of the Supervisory Board during the year 2015.

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

**I. MAIN OPERATIONS OF THE SUPERVISORY BOARD IN 2015**

The Supervisory Board comprises 04 members as of 31 December 2015, of which there are 3 executive members and 1 non-executive member, and two assisting departments including the Operation Supervisory Department and Internal Audit Department.

The Supervisory Board performed and fulfilled its duties of 2015 as stipulated in the Charter on Organisation and Operation and the operational plan approved by the AGM 2015, main activities are as follows:

**1. Monitor operation and compliance to regulations and Vietcombank’s charter:**

Monitoring activities are frequently and systematically performed from the Head office to branches and subsidiaries, focusing on comprehensively monitoring

Vietcombank's governance and administration, risk management in activities and performing levels; frequently monitoring core activities or risk areas; monitoring and measuring performance and compliance to regulations on the bank's operational safety prescribed by the Law on Credit Institutions.

Following the guidance and direction of the Government and the State Bank of Vietnam (SBV) on operation of credit institutions in 2015, monitoring activities were focused on credit, investment, capital and foreign currency trading, financing, construction and fixed asset procurement... In addition to regular monitoring, the Supervisory Board has implemented under the thematic review to assess regulatory compliance and risk aspects such as reviewing the implementation of the program with preferential interest rates; the implementation of regulations / conditions for granting credit for a number of large customers; the management of the limits, the rate of security; the management of internal advance, procedures and procurement documents of purchasing assets and the management of IT projects; monitoring compliance with the provisions on the grant and use of the deposit limits for financial institutions, monitoring and accounting of capital and equity investment transactions; leading inspection and evaluation of construction projects of branch /transaction offices...

Based on the supervisory results, the Supervisory Board have raised operational deficiencies, and made appropriate advice, proposal, and recommendations to the BOD, BOM on measurements on risk limit and reduction, to assure compliance to the regulations and improve quality and effectiveness of the operation.

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

Based on the orientation and business strategies of Vietcombank in 2015 approved by the General Shareholders' Meeting, the BOD, BOM have specified into indicators of each business segment. Through regular monitoring reports, the Supervisory Board frequently monitored and supervised the performance of business targets. The Supervisory Board attended frequent/periodical BOD's meetings to obtain information and propose recommendations to the BOD on management, governance and performance according to Regulations on internal control. Besides, the Supervisory Board's regular monitoring of the department and the levels of banks on the performance of resolutions and decisions of the AGM / BOD has helped the BOD track the implementation progress of set strategies and plans in order to provide timely guidance to the departments; hence support the BOD's governance of the bank.

## **3. Perform internal audit tasks:**

In 2015, Vietcombank's internal audit has witnessed many changes in the organizational structure and personnel structure. With the establishment of the Internal Inspection Department under the Board of Management to replace the compliance system which was distributed at the branches, a part of the Internal Audit Department has been moved to the Internal Inspection Department to carry out on – site inspections. During the year 2015, Vietcombank's Internal Audit has fulfilled compliance audits in 39 units and 03 theme audits, exceeding the 2015 planned audits registered with the State Bank. Total number of engagements carried out by the Head Office in 2015 has increased compared with 2014. In addition to on –site audits, the Internal Audit also reviewed the inspection results, to meet the requirements of Circular 44/2011/TT-NHNN. Based on the inspection/audit result, the branches have basically complied with Vietcombank internal procedures and regulations on credit, accounting, retail and IT operations. Auditees have drawn lessons and enhanced their controls to minimize errors. Audit findings and recommendations have been effective, actively contributed to improve the quality, safety and effectiveness of the bank's operations.

Vietcombank is one of the 10 commercial banks selected by the State Bank for pilot implementation of Basel II from 2015 to 2018. Vietcombank is implementing the IT audit project and Internal Audit/ Inspection Capability Improvement & Internal Audit Transformation project. With these projects, Vietcombank Internal Audit will be improved in order to meet Basel II requirements on IA.

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

The preparation and reviewing of 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 2015, the list of the members of the BOD, CEO, and the Supervisory Board has not changed from 2014. Reports on monitoring the shareholding of major shareholders and related people to members of the BOD, the Supervisory Board, and the CEO were regularly prepared. In 2015, there was no share buying and selling transaction of the BOD, BOM members and Supervisory Board.

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

In 2015 the Supervisory Board has advised the BOD on setting business strategies; investing in projects of the bank's conversion, management capacity improvement; has taken part in implementing related components of the project

“Improving the bank’s risk management capacity as required by the Basel II capital treaty”, and has organized training courses for staff to meet higher job requirements.

## **II. APPRAISAL OF VIETCOMBANK’S OPERATION IN 2015**

### **1. Performance of orientation and targets approved by the AGM:**

In a changing business environment and intense competition among banks, the Vietcombank’s BOD and BOM have followed the direction of the government, the SBV and market conditions to achieve the goals approved by AGM with the motto: speedup, effectiveness, and sustainability. With the determination and efforts of the whole system, Vietcombank has fulfilled basic indicators assigned by the Shareholders' Meeting, namely: total assets were VND 674,395 billion, up 16.9% compared to 31 December 2014, exceeded 4.83% of the plan by the General Shareholders' Meeting; profit before tax was VND 6,827 billion, up 16.83% compared to 2014, exceeded 15.72% of the plan; loan to customer was VND 387,152 billion, up 19.74% compared to 31 December 2014, exceeded 5.96% of the plan; capital mobilization from the economy was VND 503,007 billion, up 18.52%, achieved 5.82% higher than that of the plan; bad debt was 1.84%, down 0.47% compared to 31 December 2014 and lower than that of the plan (< 2.5% of total loan); the number of branches increased by 6 compared to 31 December 2014, fulfilled the target plan; total number of employees was kept to increase less than 5% as set out by the target plan, net profit sufficient to cover dividend payment rate at 10% according to the plan

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

Vietcombank has fully grasped the objectives set out by the Government and the State Bank of Vietnam through building concrete action plans. Vietcombank always adheres to the policies and direction of the SBV, such as compliance to interest rate and exchange rate policies, focusing on implementing the preferential loan packages for sectors which are encouraged by the Government and the SBV; and implementing State policies on corporate restructuring, acquisitions, and innovation for the period 2013-2015...

Vietcombank manages and closely monitors the indicators of operational adequacy ratios in banking activities as prescribed by the SBV. The capital adequacy ratio (CAR) reached 11.04%, liquidity ratios, LDR have complied with the provisions regulated by the SBV. Vietcombank has obtained the Government and the SBV’s permission in case of lending exceeded the prescribed level.

### **3. Vietcombank internal control system**

#### **3.1. Control environment assessment**

### ***3.1.1 Vietcombank's organizational structure under 3 levels of defense.***

In 2015, as a result of the project “Basel II diagnostic and planning for risk management improvement”, Vietcombank has implemented 31 initiatives. The internal control system has been upgraded and improved from the organizational structure, the internal regulations, the database system methodology and management tools. In essence, the current organizational structure which consists of 3 levels of defense is suitable for risk management

### ***3.1.2 Internal Policies and Regulations assessment***

Major changes in state laws and regulations as well as regulations on business activities have been updated in Vietcombank's policies and internal regulations in a duly and timely manner. The update of those changes basically ensures the adequacy of Vietcombank's procedures in operational activities and a clear stipulation of risk management and control policies.

## **3.2. Assessment on risk control system**

Vietcombank has developed a risk management system from the Board of Director, Board of Management, risk management departments at the Head office to the control system in every process, operational departments to ensure supervision and risk minimization in the bank activities.

Risk Management Committee under the Board of Director has periodically reviewed and assessed the current and potentially significant risks to propose risk management strategy..

Asset Liability Management Committee (ALCO) under the Board of Management has evaluated the macro economic and banking effects on Vietcombank activities; exchange rate and market interest rates fluctuations, the bank's liquidity; and thereby making adjustments on policy, orientation, business plan ... to promptly respond to the market.

### ***3.2.1. The risk management compliance and inspection***

*Credit Risk Management:* The credit risk management has been enhanced to improve credit quality and reduce bad debt ratio, via measures such as risk assessment, credit quality management; issuance of risk management policy, and evaluation report.

*Market Risk Management:* To fully update and standardize the policy framework for market risk management, in accordance with Basel II, Vietcombank updated and issued many regulations and procedures for the market risk/ liquidity risk and interest rate risk on the banking book management. Limits for market risk, liquidity risk and

foreign exchange risk are monitored daily after transaction date and market risk reports are monthly prepared.

*Operational Risk Management:* The management of operational risk has also been focused and improved, by the official issue of the “Regulation on the methodology and authorization to handle operational risks at Vietcombank”. The “Fraud Detection Framework” project has been approved by the Board of Director and will be implemented in 2016 in order to support early risk warning. This system will help the risk management/inspection/auditing departments with more effective control work, early detection and prevention of incidents and fraud risks in the bank operation.

*The Compliance and inspection:* The compliance **and inspection** have been strengthened with the reorganization of the internal inspection department with nearly 200 personnel at headquarters and 5 regional divisions, for on site inspection and coordinate with branches and H.O departments to report the control self assessment.

### ***3.2.2 Assessment on the implementation of limit mechanism / decentralization, authorization***

Basically, the branches have complied with the regulations of the decentralization, authorization of credit purchasing, and retail banking activities.

As for credit activities, the bank has yearly reviewed the decentralization system of credit approval, pursuant to the detailed evaluation criteria which have been defined in internal regulations.

### ***3.2.3 Assessment on the design and effectiveness of the control system in some specific processes.***

The control system is designed as such the key points in the process are to ensure that activities with potential risks are involved by at least 02 staff, in line with the principle of "2 hands 4 eyes" to prevent risks and frauds. The compliance and inspection have been strengthened to ensure efficiency and effectiveness of the control.

### **3.3. Assessment on the IT system / information reports**

The IT system runs efficiently, meeting most of the requirements of users which is relevant to operations and risks management. However, due to the scale of operation, trading volume, and market demand for banking products which tend to increase during rush hours, the IT system poses certain difficulties. On the other hand, to meet the requirements of the capability improvement projects in coming time and to achieve market leadership position, Vietcombank IT system needs to further develop to create a technology platform for the projects and to maintain the bank's inherent strengths.

In general, the information reporting system is accurate, sufficient, timely, and meets the requirements of the bank governance and management. The capability enhancement projects implemented in 2015 and the following years are expected to enhance the quality of management reporting.

### III. APPRAISAL OF FINANCIAL STATEMENTS

The Supervisory Board conducted the appraisal of the consolidated financial statements of the Bank and its subsidiaries for the year ended 31 December 2015 and confirmed the results as follows:

- The Consolidated Financial Statements of Vietcombank for the year ended 31 December 2015 fully reflected the performance and financial position of Vietcombank and its subsidiaries as at 31 December 2015, 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 financial institutions and in accordance with the Vietnamese Accounting Standards and the relevant statutory regulations.

- The Consolidated Financial Statements for the year ended 31 December 2015, in all material aspects, gave a true and fair view of financial position of Vietcombank and its subsidiaries as at 31 December 2015 and of their consolidated results of operations for the year 2015.

The Bank's key figures relating to equity and assets as at 31 December 2015 and the consolidated results of operations for the year 2015 are as follows:

1. Total assets:	674,395	VND billion
2. Total shareholders' equity:	45,172	VND billion
3. Results of operations in 2015:		
- Profit before tax:	6,827	VND billion
- Income tax expense:	1,495	VND billion
- Profit after tax:	5,332	VND billion
<i>In which: profit after tax of the Bank only</i>	5,208	VND billion
- Non controlling interest	18	VND billion
- Net profit during the year	5,314	VND billion

### IV. ACTION PLAN FOR 2016 AND PROPOSALS:

#### 1. Action plan for 2016:

Pursuant to the Supervisory Board's functions and responsibilities, action plan by Vietcombank in 2016, the directives of the Government and the State Bank of Vietnam on objectives, missions to conduct monetary policy, measures to ensure the safe and efficient business operations, the Supervisory Board shall focus on the main activities as follows:

1) Appraise the financial statements for the year ended 31 December 2016 and for the period ended 30 June 2016; review on a monthly/ quarterly basis accounting items which have significant impacts on the financial results such as: investments in subsidiaries, joint ventures and others; significant deposits, loans in foreign currencies, fixed asset procurement and provisions.

2) Supervise operations such as credit, foreign exchange trading, investment activities, and basic construction and fixed asset purchasing, information technology, accounts recording, and compliance to safety ratios; monitor the implementation progress of the project to improve the bank's risk management capacity according to the Basel II capital treaty; monitor the business performance as per the Supervisory Board's proposals, Vietcombank's policies and orientations.

3) Fulfill the audit plan as registered with the State Bank of Vietnam, review the inspection results of the Internal Inspection Department; review and assess independently and objectively on the adequacy, efficiency and effectiveness of the internal control system.

4) Implement the project on Internal Audit Capability Improvement transformation to Basel II, continue the IT Audit Project, participate in other relevant projects and initiatives at Vietcombank.

5) Strengthen human resources, training for the staff; facilitate the purchasing of the audit/supervision system.

## **2. Proposals:**

Based on the 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:

1) Continuously re-structure and closely supervise the credit portfolio to ensure quality as targeted. Focus on collection of non – performing and off – balance sheet loans. To strengthen management and identification of customer groups. Promote management on loans granted for high risk sectors.

2) Well manage operating expense to ensure business efficiency



- 3) Continue to review and complete the Bank's policies and regulations to comply with prevailing regulations and changes in business targets of the bank.
- 4) Implement on – schedule the projects of bank governance improvement
- 5) Enhance, internal audit/ inspection/ supervision activities, upgrade risk detection system in Vietcombank to timely alert, prevent and detect errors and frauds.

*From the review of the operations and financial results of Vietcombank 2015, the Supervisory Board proposed the General Meeting of Shareholders to approve the report on the activities in 2015 by the BOM and BOD.*

***Best wishes for a successful General Shareholders' Meeting.***

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

**Truong Le Hien**