

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

Address: 198 Tran Quang Khai St, Ha Noi
Business Registration No. 0100112437
(12th revision dated 16th December, 2016)

**SOCIALIST REPUBLIC OF VIETNAM
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Hanoi, April 18, 2017

**REPORT OF THE SUPERVISORY BOARD ON OPERATION IN 2016
AND ORIENTATION FOR 2017**

- Pursuant to the Charter on Organisation and Operation of Joint Stock Commercial Bank for Foreign Trade of Vietnam (“Vietcombank”) approved under the Resolution No 09/TN2016/NQ-DHDCD of the Annual General Shareholders’ Meeting on 15 April 2016 and verified by the State Bank of Vietnam under the Document No 880/NHNN-TTGSNH dated 17 February 2017;

- 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 (BOD), report of the Board of Management (BOM) and operation of the Supervisory Board during the year 2016.

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 2016

The Supervisory Board comprises 04 members as of 31 December 2016, among 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 2016 as stipulated in the Charter on Organisation and Operation and the operational plan approved by AGM, 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 2016, 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 credits under Board of Directors' authority; the implementation of regulations / conditions for granting credit for a number of large customers; the management of the limits, operational safety ratios ; monitoring compliance with the provisions on the grant and use the deposit limits for financial institutions; leading inspection and evaluation of construction projects of branches /transaction offices...

Based on supervisory results, the Supervisory Board has pointed out operational deficiencies, timely provided advice, proposal, and recommendations to BOD, BOM on measurements on supervision, revising and completing internal regulations... to limit, reduce risk, to ensure compliance to the regulations and improve quality and effectiveness of the operation. In general, BOD and BOM have directed and managed the bank's business operation as per targeted; achieved business targets have been better than those planned; BOD and BOM have complied with regulations of the Law on Financial Institutions and VCB's charter in 2016.

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

The Supervisory Board monitored BOD, BOM in implementing business orientation and targets in 2016 as approved by the General Shareholders' Meeting, and frequently monitored and supervised the performance of business targets assigned by the BOD and BOM to business units throughout the Bank to achieve the strategy set by the General Shareholders' Meeting.

Attending frequent/periodic BOD's meetings has helped the Supervisory Board obtain information and timely provide proposals and recommendations to BOD on management, governance and performance according to Regulations on internal control. Besides, the Supervisory Board's regular monitoring of the performance of resolutions and decisions of the AGM / BOD has helped BOD track the implementation progress of set strategies and plans to timely direct the departments and the levels of banks and supported the BOD's government.

3. Performing the internal audit:

In 2016, the Internal Audit (IA) continued to complete the transformation to meet Basel II requirements. As the Internal Inspection Department conducts a review of 100% of branches under the direct guidance of the BOD, Internal Audit department has focused more on the implementation of specialized audits, IT audit, risk management framework audit, assessment of capital adequacy of bank. In 2016, Internal Audit has completed 20 audits at the units and carried out 4 specialized audits, exceeding the audited plan of 2016 which was registered with the SBV. In addition to the audit at the units, IA has carried out the assessment of inspection results of the Internal Inspection department, ensuring compliance with the requirements of Circular 44/2011/TT-NHNN. The results of the audit showed that the units basically complied with VCB's internal procedures and regulations and laws. The findings and recommendations of inspection, audit and supervision have contributed positively to improving the quality, efficiency and safety of the system.

In 2016, Internal Audit has implemented both the IT Audit and the project of improving and transforming the Internal Audit functions. The implementations of these projects lead to changes in quality and quantity of the operations of the Internal Audit, meeting the international risk management requirements. IA has strengthened its audit staff, perfected the skills and methods of auditing, especially in the field of information technology audit and risk management framework, aiming to completely perform the duties and responsibilities of Internal Audit as required by Basel II.

4. Other duties as stipulated by the Annual General Shareholders' Meeting, and the Bank's charter:

In accordance with the provisions of the Law on Credit Institutions, the Supervisory Board has appraised the interim and annual financial statements of the Bank to assess the truthfulness and reasonableness of the financial data submitted to the annual general meeting of shareholders in accordance with the related laws and internal regulations.

The Supervisory Board has reviewed and updated the list of founding shareholders, major shareholders and related people to members of the BOD, the Supervisory Board, and the CEO on a regular basis. In 2016, there was one share purchasing transaction of the internal person which was implemented in accordance with regulations on information disclosure in the stock market.

II. APPRAISAL OF VIETCOMBANK'S OPERATION IN 2016

1. Performance of orientation and targets approved by AGM:

In a changing business environment and intense competition among banks, Vietcombank'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 "Acceleration, Effectiveness, Sustainability" and the direction "Innovation, Discipline, Responsibility". With the determination and efforts of the whole system, Vietcombank has surpassed all the key business targets assigned by the Shareholders' Meeting, namely: total assets were 787,907 billion, up 16.83% compared to 31 December 2015, exceeded 2.94% of the plan by the General Shareholders' Meeting; profit before tax was 8,523 billion, up 24.84% compared to 2015, exceeded 13.64% of the plan; total credits was 460,808 billion, up 18.85% compared to 31 December 2015, exceeded 1.58% of the plan; fund mobilization from the economy was 600,737 billion, up 19.28% compared to 2015, 3.72% higher than that of the plan; bad debt was 1.461%, down 0.33 % compared to 31 December 2015 and lower than that of the plan (< 2.5% of total loan); the number of branches increased by 5, meeting the plan; profit assures dividend payment rate according to the plan.

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

Vietcombank has seriously fully grasped the direction and governance of the Government by building action plans to contribute to the SBV in achieving the objectives of the monetary policy set. 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 those areas encouraged by the Government and the SBV; well implementing the State polices on the bank restructuring.

Vietcombank manages, monitors and complies with the indicators of operational safety ratios in banking activities as prescribed by the SBV (capital adequacy ratio (CAR), the proportion of Loans/ Deposit...). VCB has obtained the Government and the SBV's permission in cases of lending, investing in other credit institutions exceeding the prescribed level.

3. Internal control system :

3.1. Assessment of control environment

3.1.1 Assessment of the governance structure of the Bank according to three lines of defenses

In 2016, the Bank continued to implement many important programs and projects to transform the system, improve business capability and risk management in line with advanced international practices such as Basel II, programs of transforming

the wholesale operation model, finalizing the asset management function, fund transfer price , building a multi-dimensional profit analysis system...

The internal control system has been upgraded, refined and improved from the internal organizational model, document system, database system to the management, monitor and supervision tools/ methods. Basically, the current organizational model of the bank is in line with the risk management model consisting of 3 lines of defense.

3.1.2 Assessment of the policy system, documents, and internal regulations

Major changes in the system of legal documents of the government as well as in business activities are updated in a timely manner in the internal regulations, basically ensuring the principle of full development of specific procedures for business operations, in which specify policies for control and management of risk.

3.2. Assessment of the risk management system and control points

The Bank has built up a risk management framework from the BOD, BOM, the risk management departments at the HO to the control system in each process and department to ensure control and mitigation of risks in banking operations.

In 2016, the Board of Directors of VCB issued a new regulation on the operation of the Risk committee. The Risk committee advises the BOD on the management of risks arising from the bank's business and investment activities. In 2016, the Risk committee focused on assessing the overall risk positions and component risks (credit risk, market and liquidity risk, and operational risk), compliance with limits, operational safety ratios, implementation of the Basel II program, providing risk assessment in the upcoming period and recommendations.

In 2016, BOD also issued new regulations on the organization and operation of the Assets and Liabilities Management Committee (ALCO). In 2016, ALCO focused on the review of the macroeconomic report, the banking sector, asset and liability management at the bank and the report on the assessment of interest rate / foreign exchange risk involving FIs. On that basis, ALCO commented on market developments and business situation at the bank, set out the tasks to be carried out next and considered for approval of the proposals from relevant departments related to interest rates, interest rate products, exchange rates, capital mobilization - use of capital, risk management, principles of accounting, management and ratios / Risk limits, quotas for trading book, bond trading plans for banking books, etc..

3.2.1 Activities of the credit, market and operational risk management, and activities of Supervisory Board and Internal Inspection Department

Credit risk management: In 2016, the credit risk management has strengthened the management and control of credit risks in the whole system in order to improve

the quality of credit and reduce NPL ratio, in particular, the Bank has focused on amending, supplementing and replacing the system of internal regulations relating to: Regulations on credit limits for corporate customers; Credit guarantee policy and regulations on implementation of credit guarantee policy; Regulations on the organization and operation of credit boards of enterprises and financial institutions; Credit rating system; Credit procedure for Corporate and SMEs; Promulgate orientation for lending to the real estate and some economic sectors.

Market risk management: the Bank continues to standardize the policy framework for managing market risk, liquidity risk and interest rate risk on banking books in line with Basel II risk management requirements, specifically including the amendment of the trading book / banking book regulations, the market risk limits for trading books, the valuation method for foreign exchange products, foreign exchange futures and swaps, spot debt securities; issued a liquidity management and interest rate risk management procedures on banking books, regulations on customers behavioral model methodology for deposits and loans...

Operational risk management: In 2016, the operational risk management framework has been developed by the Bank in line with international practice, towards meeting Basel II's requirements. The bank's basic operational risk management policies / procedures have been issued in accordance with laws and regulations and suitable with the bank's practice, and meet the international practice of operational risk management. Apparently, the bank has developed tools in the operational risk framework to identify, measure and evaluate system-wide operational risks in order to identify, prevent, and implement risk management measures. Raise awareness, boost compliance with internal regulations of the bank, enhance internal control, including: (i) reporting and handling operational risk incidents (LCD); (ii) RCSA; (iii) Monitoring key risk indicators (KRI),... The project of development and implementation of fraud risk management framework at the bank has been completed, met the objectives of constructing fraud risk management framework and tools to identify early warning indicators for fraud risks.

Internal inspection: The Internal Inspection department performed inspection at 100% of the branch in the system, facilitating the early identification of risk in the first line of defense, facilitating the bank to detect and prevent risks, and minimizing losses in operation. Internal audit focuses on in-depth audit of the second line of defense and evaluate the working result of Internal Inspection.

3.2.2 Assessment on the implementation of delegation mechanism

Basically, branches have complied with internal regulations on decentralization, authorization in credit activities, asset / service procurement, and retail operations.

In credit activities, the Bank has reviewed the credit approval authority of its branches, based on the set of detailed assessment criteria as stipulated in the internal documents.

3.2.3 Assessment on the design and performance of control points in specific business processes

Basically, the design of control points in business processes is quite adequate; procedures have control points at critical points in the process, ensuring that at all the operations that are likely to arise risk, there are at least two officers involved, following the principle of "two hands four eyes" to prevent risks and fraud. However, there are still some controls that are not effective yet, they do not play the role of preventing risks because staffs do not strictly adhere to the procedures or due to the lack of human resources leading to inadequately allocate resources at control points. Therefore, some shortcomings and mistakes in the process of business operation still occur.

3.3. Assessment on the IT system/ reporting information

IT systems basically meet most of the user requirements in operational and risk management activities. However, due to the scale of operations, trading volume and market demand for banking products tend to increase rapidly at some peak periods; IT systems still face certain difficulties. The bank is investing in innovation and enhancing the IT center's ability to maintain its position in the market through the implementation of its core banking system, develop IT system in the direction of service, standardize and have plan to invest in information technology infrastructure, organizational restructuring and investment in human resources specialized in information technology.

The information reporting system is basically accurate, complete and timely to meet the needs of management and administration.

III. APPRAISAL OF THE FINANCIAL STATEMENTS FOR YEAR 2016

The Supervisory Board conducted appraisal of the consolidated financial statements of the Bank and its subsidiaries for the year ended 31 December 2016 and confirmed the results as follows:

– The Consolidated Financial Statements of Vietcombank for the year ended 31 December 2016 fully reflected the performance and financial position of Vietcombank and its subsidiaries as at 31 December 2016, presented in accordance with the report forms stipulated in the Decision No 16/2007/QĐ-NHNN dated 18 April 2007 and Circulars No 49/2014/TT-NHNN dated 31 December 2014 issued by the SBV on the

financial reporting 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 2016, in all material aspects, gave a true and fair view of financial position of Vietcombank and its subsidiaries as at 31 December 2016 and of their consolidated results of operations for the year 2016.

The Bank's key figures relating to equity and assets as at 31 December 2016 and the consolidated results of operations for the year 2016 are as follows:

1. Total assets:	787,907	VND billion
2. Total shareholders' equity:	48,102	VND billion
3. Results of operations in 2016:		
- Profit before tax:	8,523	VND billion
- Income tax expense:	1,672	VND billion
- Profit after tax:	6,851	VND billion
<i>(Profit after tax recorded in the single financial report)</i>	<i>6,612</i>	<i>VND billion</i>
+ Non-controlling interest	19	VND billion
+ Net profit during the year	6,832	VND billion

IV. ACTION PLAN FOR 2017 AND PROPOSALS:

1. Action plan for 2017 of the Supervisory Board:

Pursuant to the Supervisory Board's functions and responsibilities, action plan by Vietcombank in 2017, 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 main activities as follows:

- 1) Appraise the interim and yearly financial statements and monthly/quarterly review material accounts to 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 of 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 of the roadmap of the project improving 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) Continue to implement the project on Internal Audit Capability Improvement transformation to meet requirement of Basel II, continue to implement the IT Audit Project period 2, actively participate in the bank management capacity enhancing projects, and develop audit staff to meet the requirements of risk management of the 3rd safeguard round.
- 5) Strengthen human resources, training for the staff of the Supervisory Board; and facilitate the purchasing of the software to serve audit/supervision activities.

2. Proposals:

From 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 control the credit portfolio to ensure the portfolio structure and credit quality as targeted; implement credit control in line with the credit growth target of 2017 and credit control measures as directed by the SBV. Continue to focus on recovery of bad debt, debt which was written off balance sheet. Enhance the identification and management of large customer groups, and related customer groups; strengthening the management of outstanding loan industries which are affected by the continuous change of world or domestic market prices. Limit and strictly control the level of credit concentration, credit limit in risky sectors; increasingly review and evaluate lending to potentially risky areas for appropriate management measures; ensure safety and effectiveness in operation.

2) Manage operating expense as planned.

3) Strengthen information technology applications, enhance the capability of the information technology system, ensure the security of the information technology system in banking activities.

4) Continue to review and complete the Bank's policies and regulations to comply with prevailing regulations and changes in business targets of the bank.

5) Implement the project on schedule, and programs to improve the bank's management capacity.

6) Enhance supervision, internal control activities, continue to complete risk detection system in Vietcombank's operation to alert and give timely correction and measurement.

From the review of the operations and financial results of Vietcombank 2016, Supervisory Board proposed to the General Meeting of Shareholders to approve the report on the activities in 2016 by the BOM and BOD.

Best wishes for a successful General Shareholders' Meeting.

**ON BEHALF OF THE SUPERVISORY
BOARD**

CHIEF OF THE SUPERVISORY BOARD

Truong Le Hien