

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

Address: 198 Tran Quang Khai St, Ha Noi
Business Registration No. 0100112437
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**SOCIALIST REPUBLIC OF VIETNAM
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*Hanoi, April 9th, 2015***REPORT OF THE SUPERVISORY BOARD ON OPERATION IN 2014
AND ORIENTATION FOR 2015**

- Pursuant to the Charter on the organization and operation of the JSC Bank for Foreign Trade of Vietnam as approved by the 2014 Extraordinary General Shareholders Meeting in Resolution No. 08/BT2014/NQ-DHDCD dated 26th December 2014 and registered at the State Bank of Vietnam by the registration confirmation No. 621/NHNN-TTGSNH dated 28th January 2015;

- Based on the Regulation on Organization 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 Vietcombank actual operation, the Board of Directors report, the Board of Management report and the Supervisory Board operation result in the year of 2014.

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 2014

At the time of 31/12/2014, the Supervisory Board comprises 04 members in 2014, among which there are 3 executive members and 1 non-executive member, 1 member less than that as of 31 December 2013 (due to the transfer to another position), and two assisting departments including the Operation Supervisory Department and Internal Audit Department.

The Supervisory Board performed and fulfilled its duties of 2014 as stipulated in the Charter on Organization and Operation and the operational plan approved by AGM 2014, main activities are as follows:

- Monitoring the performance according to General Shareholders’ Meeting’s decisions and resolutions.

- Monitoring the operations and compliance with the law and the Bank's charter by the Board of Directors, CEO, and other managers in the management of the Bank.
- Performing the internal audit tasks at VCB branches and subsidiaries. Appraising the financial statements of the first 6 months and financial statements for the year ended 31 December 2014 of Vietcombank.
- Monitoring the fluctuation of VCB's shareholding of major shareholders and related people in the Board of Directors, the Supervisory Board and CEO.
- Other duties as stipulated by the Annual General Shareholders' Meeting, the law, the Bank's charter and the Board of Directors' proposals.

Operation results of the Supervisory Board are as followed:

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

Monitoring activities have been 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 by the Government and the State Bank of Vietnam (SBV) on operation of credit institutions, monitoring activities were focused on measuring compliance and effectiveness of credit, investment, capital and foreign currency trading, financing, construction and fixed asset procurement in such as reviewing the program of loan classification according to Circular 02/2013/TT-NHNN; reviewing collaterals which are stocks; reviewing the transfer of land using right and attached properties as collaterals to build branches' offices; reviewing the repayment schedule and grace periods of some medium and long term loans; reviewing the internal funds transfer pricing program; reviewing the compliance of procedures, procurement documents of purchasing assets; reviewing and measuring the regulations compliance on providing and using deposit limits of financial institutions, monitoring the record of capital trading and investment transactions; being the clue of inspection and evaluation the operation of 12 branches' office construction projects....

Based on supervisory results, the Supervisory Board has timely made advice, proposal, recommendations to BOD, BOM the method to limit risk and to assure the regulations compliance as well as to improve quality and effectiveness of the operation.

2. Monitor the performance according to General Shareholders' Meeting's decisions and resolutions in 2014:

Based on orientation and business strategies of Vietcombank in 2014, which were approved by the General Shareholders' Meeting, the BOD, BOM have identified the task for each business division in order to fulfill the assigned targets. Through assessing periodically report, the Supervisory Board has frequently monitored and supervised business performance to make it align with the targets. The Supervisory Board attended frequent/periodic BOD's meetings to obtain information and timely give proposals, recommendations to BOD on management, governance and performance according to Regulations on internal control. In addition, the Supervisory Board's regular monitoring all bank's department and the levels on performing the AGM/BOD's resolutions and decisions has helped BOD to track the implementation progress of the bank's strategies and plans as well as revealed the actual difficulties to timely direct and support for the BOD's governance.

3. Perform the internal audit tasks:

During the year 2014, VCB's internal audit with 69 staff has carried out audits in 50 business units and performed 06 themed systematic reviews including loans portfolios in petroleum's import, loans portfolios in fishing industry at branches in the Mekong delta region, card services, branches' office construction activities, activities for social welfare, and investment trust activities. The number of audits rose by 04 units compared to 2013.

The internal audit has implemented the compliance auditing function at branches in compliance with the requirements of the Circular 44/2011/TT-NHNN (Circular 44). Its audits are risk-based to ensure the high-risk units and activities to be audited annually, the low-risk ones to be audited at least every 03 years. Based on internal audit findings, Head Office functional departments have to enhance their continuous monitoring with a view to minimizing risks. Audit recommendations have been brought into force to improve the quality, safety and effectiveness of the bank's activities.

The internal audit should implement the project of IA capacity improvement in compliant with Basel II in the coming time. The main goal is to enhance internal audit human resources, improve audit skills to meet Basel II requirement, including the audit assessment of the second line of defense and validation of risk management models.

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

Preparing and reviewing the list of founding shareholders, major shareholders and related people to members of the BOD, the Supervisory Board, and the CEO have been regularly and frequently performed by the Supervisory Board. In 2014, the list of the members of the BOD, CEO, and the Supervisory Board has changed as in 2013, 01 new member was added and 04 members were dismissed. Report on monitoring the shareholding status of major shareholders, the related people to BOD, the Supervisory Board, and the CEO was regularly prepared. In 2014, there was a share transaction of a BOD member and VCB published the information as per prevailing regulations.

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

– To improve the quality of audit and supervision, the Supervisory Board has collaborated with the Information Technology department, Technology Scheme department to continue to improve the monitoring indicators to support the orientation of supervision and internal audit work.

– The Supervisory Board has assigned staff to take part in the project “Analyze the current situation and develop roadmaps for improving the capacity of risk management as required by the Basel II capital treaty”, and has organized training courses for staff to meet the higher job requirements.

II. APPRAISAL OF VIETCOMBANK'S OPERATION IN 2014

1. Performed of orientation and targets approved by AGM:

In the changing business environment and intense competition among banks, the BOD and BOM managing the bank business activities with the motto: innovation, growth, quality followed the direction of the government, the SBV and market conditions to achieve the targets approved by AGM. Facing the economic difficulties, Vietcombank has exceeded the basic indicators assigned by the Shareholders' Meeting with the whole system's determination and efforts, such as: total assets up 23.03% compared to 31/12/2013, exceed 10.84% AGM assigned plan, profit before tax was 5,876 billion VND, exceed 6.85% of the plan; credit growth of 17.87%, 4.31% higher than planned; capital mobilization from the economy increased by 26.97% , exceeded 12.36% the target, the number of labor increased lower than the set level of 7% by the AGM, the 2014 profit guaranteed dividend payout level according to the plan. With the difficult economic situation, limited production and business activities of enterprises have somewhat affected Vietcombank's credit quality. Vietcombank has enhanced the deployment of favorable-interest loan programs, actively used provision, sold debts to VAMC and strived to collect bad debts; as the result, the bad debt ratio remains at 2.31%, which was lower than AGM targeted of 3%.

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

Monetary policies in 2014 have played an important role to curb inflation and support economic growth at a reasonable level. Banks and financial system have created a basic stability such as dramatic decline of interest rates, flexible credit operating towards expanding coupled with operational safety, improved liquidity, exchange rate and stable foreign exchange market ... Besides there are still difficulties, such as inventory instability and bad debts remain high.

Vietcombank has seriously followed the executive direction and administration of the Government by building action plans contributing to achieve the SBV's monetary policy objectives. Vietcombank always adhere to SBV policies and direction, such as: to be one of the leading banks reducing the interest rates and implementing exchange rate stability policy; operating credit targeted to the disbursement with priority to the encouraged areas by the Government and the SBV such as exports, agricultural and rural, small and medium enterprises; performing well State policy on restructuring, corporate restructuring and modernizing in the period 2013-2015...

Vietcombank manages and closely monitors the operational adequacy ratios in banking activities as prescribed by the SBV. The criteria for adequacy ratio of the bank's banking activities in 2014 in accordance with the regulations of the SBV as a capital adequacy ratio (CAR) reached 11.61%, the proportion of safe affordability, limited equity share, the LDR reached 76.18%, guaranteed under the provisions of SBV. VCB has obtained the Government and the SBV's permission in case of lending exceeded the prescribed level.

3. Operation of the internal control system:

VCB has generally completed the project "Gaps and Recommendations for Basel II Compliance Requirements" in 2014. Results from the project have pointed out the gaps that need to be filled to comply with international practices and Basel II requirements. Furthermore, VCB has also paid greater attention to the transformation of business model towards centralization and specialization of operational activities in order to streamline labor and enhance productivities. Accordingly, the internal control system structure has also been changed to meet the objectives mentioned above. The system of internal regulations, database systems and the model/ admin tools have been reviewed and improved continuously, details as follows:

3.1. Internal regulations and policies document system

Major changes in state laws and regulations as well as regulations on business activities have been updated in VCB's policies and internal regulations in a duly and

timely manner. The update of those changes ensures the adequacy of VCB's procedures in operational activities and a clear stipulation of risk management and control policies. To standardize the VCB's policies and regulations, VCB has issued the Guideline for preparation, issuance and management of internal regulations, establishing the basis for a regular revise and update of such regulations.

3.2. Organization structure, risk management system and checkpoints

Generally, controls in internal procedures have been designed and established in internal procedures sufficiently and in compliance with Circular 44. The organizational structure, mechanisms, policies and risk identification, measurement and management systems have been established to ensure the compliance with the State Bank of Vietnam's regulations and meet the requirement of risk control. VCB has launched the project "Gaps and Recommendations for Basel II Compliance Requirements" in 2014 for further steps in coming years.

3.2.1. Organization and segregation of duties

In 2014, VCB launched some projects in terms of duty segregation which include: (i) an establishment of Trade Finance Center in the Head Office to specialize transactions process; (ii) a division of Treasury Management and Dealing Department into Treasury Dealing Department and Asset and Liability Department to segregate the dealing function from the risk (liquidity, interest rate and exchange risks) management function.

Other projects that have started from 2014 and will be further implemented in 2015, include, among others, a transformation of credit management model towards centralization and the Branch Concept project to enhance the sales function of retail banking office.

3.2.2. Risk management tools and systems

- *Credit risk:* VCB has improved the tools for risk identification, assessment, measurement and management such as: (i) reviewing credit approval authorization in line with the risk management capacity, (ii) periodically reviewing and updating reports on industry analysis, issuing the credit guidelines of industries and customers, (iii) using PD and LGD as inputs to establish a risk-based loan evaluation program and to enhance the credit risk control through the improvement and update of credit risk management reports.... The matter of customer group management has received increasing attention in recent years. The review and revision of VCB's policies and system facilities to monitor credit risk of groups of related customers are underway.
- *Market risk:* In 2014, banking book and trading book were separated, for better risk management in each book. VCB has developed methodology and tools for

market risk measurement and tested risk measurement models. Furthermore, VCB is establishing the bank's transaction limit system and has initially issued a number of transaction limits for trading book and standardized the mark-to-market methodology for such books. Those movements have established a basis to manage market risk in a standard limit and evaluation framework. For the year 2015, it is necessary for VCB to review and improve the risk measurement methodology/models, to develop the model validation methodology for model validating before their official launch.

- *Liquidity risk and interest rate risk on banking book:* In 2014, VCB developed the behavior model for deposits and loans, setting up steps to separate the model development group and the model validation group. In 2015, it is necessary for VCB to enhance the project on fund management system to create database for running models.
- *Operational risk:* After the completion of “Enhance the operational risk management capability” project in 2013, VCB has, at the early steps, developed some operational risk management tools such as Risk and Control Self-Assessment (RCSA), Monitoring Key Risk indicators (KRIs), Internal Loss data Management (ILM) and Action Tracking. In 2014, VCB continued to open training courses in operational risk management (basic courses for new staff, advanced courses) in order to raise the awareness of operational risks among employees. Such courses also supported branches in their self-reviewing and establishing control points. Additionally, VCB has started launching the reporting and statistic program for operation risk events and experimenting Action Tracking mechanism. Those help to generate database for operational risk management framework in compliance with Basel II and to provide inputs for operational risk management models. In 2015, VCB needs to continue developing methodology for operational risk management and focus on developing IT solutions and collecting data to launch operational risk management models in compliance with Basel II.

3.3. IT system and reporting system

- In information security matter, VCB was the first bank in Vietnam that received ISO/IEC - 27001:2013 certificate in 2014.
- IT facilities for transactions and management reports have significantly developed last year. VCB has enhanced the application of data analysis and extracting program in the Head Office departments, inspecting the Management Information System project, developing or adding facilities for operational activities and reporting, and improving system automatic control.

- A number of programs supporting the business activities such as FTP, ALM, Core banking, TF, LOS and other projects were launched in 2014 and will be implemented in the coming years.

Evaluation results have shown that the internal control system of VCB has complied with the principles and requirements stipulated in Circular 44/2011/TT-NHNN by the SBV. In general, such system is appropriate, sufficient, effective and efficient, meeting the requirements for risk detection and prevention.

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 2014 and confirmed the results as follows:

- The Consolidated Financial Statements of Vietcombank for the year ended 31 December 2014 fully reflected the performance and financial position of Vietcombank and its subsidiaries as of 31 December 2014, presented in accordance with the report forms stipulated in the Decision No 16/2007/QD-NHNN dated 18 April 2007 issued by the SBV on the financial report 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 2014, in all material aspects, gave a true and fair view of financial position of Vietcombank and its subsidiaries as of 31 December 2014 and of their consolidated results of operations for the year 2014.

The Bank's key figures relating to equity and assets as at 31 December 2014 and the consolidated results of operations for the year 2014 are as follows:

1. Total assets:	576.989	VND billion
2. Total shareholders' equity:	43.351	VND billion
3. Results of operations in 2014:		
- Profit before tax:	5.876	VND billion
- Income tax expense:	1.265	VND billion
- Profit after tax:	4.611	VND billion
<i>In which: profit after tax of the Bank only</i>	4.476	VND billion
- Non-controlling interest	19	VND billion
- Net profit during the year	4.593	VND billion

From the evaluation of operations and performance results for the year 2014 of Vietcombank, the Supervisory Board proposes that the General Shareholders'

Meeting approve the report on Vietcombank's performance in 2014, which was presented by the Board of Directors and Board of Management.

IV. ACTION PLAN FOR 2015 AND PROPOSALS:

1. Action plan for 2015:

Based on the Supervisory Board's functions and responsibilities, VCB 2015 action plan, the direction of the Government and the SBV on objectives and missions of conducting monetary policy, ensuring safe and efficient business operations, the Supervisory Board shall focus on main activities as follows:

1) Appraise the financial statements for the year ended 31 December 2015 and for the period of 30 June 2015 of material accounts to the financial results such as investments in subsidiaries, joint ventures and others; significant deposits, loans in foreign currencies and provisions, fixed asset procurement.

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 business performance as per the Supervisory Board's proposals, Vietcombank's policies and orientations.

3) Implement internal audit as registered with the State Bank of Vietnam.

4) Continue to take part in projects of enhancing bank management capacity, the project of changing internal audit model to improve internal audit staff and information technology programs for auditing and monitoring.

5) Train to enhance the Supervisory Board staff's professional qualifications, develop technical skills, audit methodologies step by step to perform fully functions and responsibilities as required by Basel II.

2. Proposals:

From 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 as targeted. To boost up dealing with NPL and written off loan collection. To strengthen management and identification of relationship-related customer.

2) Maintain the good management over the net interest margin and maintain the reasonable level of cost/income ratio to ensure the efficiency of business operations.

3) Continue to review and complete the Bank's policies and regulations to comply with prevailing regulations and the bank's business conditions.

4) Boost up the process of projects of improving bank management and capacity, develop tools to identify, measure, give early warnings inherent risk.

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

Best wishes for a successful General Shareholders' Meeting.

ON BEHALF OF THE SUPERVIORY BOARD

CHIEF OF THE SUPERVISORY BOARD

Truong Le Hien