HSBC BANK (VIET NAM) LTD.

CAPITAL ADEQUACY RATIO DISCLOSURE

As at 30 June 2022

According to Circular No. 41/2016/TT-NHNN dated 30 December 2016 on Capital Adequacy Ratio for banks and branches of foreign banks

STATEMENT OF HSBC BANK VIETNAM'S LEGAL REPRESENTATIVE ON CAPITAL ADEQUACY RATIO AS AT 30 JUNE 2022

Title	Description	As at 30.06.2022 VND million
A	**Capital = (A1) + (A2) – (A3)**	**14,541,160**
A1	Tier 1	14,165,950
A2	Tier 2	375,210
A3	Deductions from capital	-
B	**Risk-weighted asset = (B1) + (B2)**	**78,704,559**
B1	Credit risk	78,348,525
B2	Counterparty credit risk	356,034
C	**Minimum capital requirement for market risks = (C1) + (C2)**	**24,084**
C1	Regulatory capital for interest rate risk	357
C2	Regulatory capital for foreign exchange risk	23,727
D	**Minimum capital requirement for operational risks = [(D1) + (D2) + (D3)]/3*15%**	**809,580**
D1	BI - Y2022 – 2nd Quarter 2022	5,595,034
D2	BI - Y2021 – 2nd Quarter 2021	4,911,065
D3	BI - Y2020 – 2nd Quarter 2020	5,685,501
E	**Total Risk-weighted asset = (B) + 12,5*[(C) + (D)]**	**89,125,359**
Tier 1 CAR	**Tier 1 CAR = (A1)/(E)**	**15.89%**
CAR	**Capital Adequacy Ratio (CAR) = (A)/(E)**	**16.32%**

As at 30 June 2022, HSBC Bank Vietnam Ltd. (hereafter referred to as "HSBC Viet Nam") reported Capital Adequacy Ratio at 16.32%, on a capital base of VND14,541 billion, of which, Tier 1 capital is VND14,166 billion and Tier 2 capital is VND375 billion.

The Bank does not have any subsidiaries, associate parties and does not incur any deduction from capital at the reporting date.

Capital Adequacy Ratio is calculated automatically by designated software built based on Circular No. 41/2016/TT-NHNN dated 30 December 2016 on Capital Adequacy Ratio for banks and branch of foreign banks.

On the 1H22 performance, HSBC Viet Nam's Capital adequacy ratio has been stable and higher than the regulatory limit guided by the State Bank of Vietnam ("the SBV") and internal CAR target ratio in year 2022. The ratio is expected to be well maintained in the next 3 years, in line with regulatory requirements and to support our customer's business growth. Accordingly, HSBC Viet Nam does not have a need nor plan to increase charter capital in the upcoming period.

HSBC Viet Nam, on annual basis, continues to allocate 15% profit after tax to supplement charter capital and financial reserves as per the local regulation and also prepare (as part of our contingency plan), the capital increase plan under stress scenarios as documented in the Internal Capital Adequacy Assessment Report.

I hereby approve the disclosure of Capital Adequacy Ratio as at 30 June 2022 which provides true and fair information and complies with prevailing regulations.

On behalf of and Representative of HSBC Bank Vietnam Ltd.

Ho Chi Minh City, 22 August 2022

NGÂN HÀNG TRÁCH NHIỆM HỮU HẠN MỘT THÀNH VIÊN HSBC (VIỆT NAM)

Timothy Mark Redvers Evans	**Nguyen Thi Thanh Truc**
Chief Executive Officer	**Chief Financial Officer and Chief Accountant**

I. THE CALCULATION PROCESS OF CAPITAL ADEQUACY RATIO

Capital Adequacy Ratio calculation process including:

- collect relevant data from data sources and departments
- process Capital Adequacy Ratio using application software
- extract reports and validate the results
- analyse Capital Adequacy Ratio, report and planning.

II. CREDIT RISK

A. Qualitative aspects

1. Risk management

The Members' Council is responsible for the bank's overall risk management and for approving the risk management strategies and principles through risk governance and escalation from Risk Management Committee (RMC) and Risk Management Meeting (RMM). Monitoring and controlling risk is primarily based on reporting and limits established by HSBC Viet Nam, overviewed by HSBC Group and regulated by the State Bank of Vietnam ("the SBV"). Senior management assesses the appropriateness of the provision for credit losses on an on-going basis.

HSBC Viet Nam follows the HSBC Risk Management Framework (RMF) for the overall risk management to achieve its strategic aims. The day-to-day risk management responsibilities are delegated to individuals within the senior management team. These individuals are accountable for their assigned risks, and report and escalate as necessary through the risk governance structures. Policies, procedures and limits are defined to ensure that business activities remain within risk appetite.

All employees have a role to play in risk management. These roles are defined using the Three Lines of Defence model which is based on the activities performed. This model consists of the First Line of Defence ("LOD") (Risk Owner, Control Owner and Chief Control Officer), Second LOD (Risk Stewards) and Third LOD (Internal Audit). The model delineates management accountabilities and responsibilities for risk management and the control environment within each LOD, thereby creating a robust control environment to manage risks.

2. Credit Risk management

Credit risk is defined and controlled by the Bank based on a well-defined credit risk management strategy. The strategy is also a solid foundation to build up the credit risk management structure, internal credit rating system, and credit risk controlling measurements.

(i) *Credit risk management strategy*

The strategy is defined in the Country Risk Plan (CRP) for Wholesale Banking (WSB) and in the Retail Credit Activities for Wealth and Personal Banking (WPB), which focuses on business development activity to optimize the prevailing operating model and business environment. The key business strategies are as follows:

- Support business growth within credit risk appetite of the bank
- Achieve and maintain risk assets of high quality
- Control and management of risk, minimize credit losses whilst enhancing risk-adjusted returns.

(ii) *Credit risk management structure*

HSBC Viet Nam develops the appropriate structure to manage credit risk. According to Circular No.13/2018/TT-NHNN dated 18 May 20218, the credit risk approval team is the first LOD. The lending functions are segregated:

- Credit Risk Management: the Risk function is responsible for asset quality management and recovery. Risk executives have a clear modus operandi and authority, and Risk functions are staffed by personnel with loan management and recovery experience
- Relationship Management: where the credit process has become segmented for reasons of efficiency, frontline Relationship Managers should retain principal responsibilities for the effectiveness of each aspect of the management of relationships
- Credit Operations/Administration: manage security documentation, make available facilities and monitor repayment of advances.

(iii) *Credit rating system*

HSBC Viet Nam applies a Credit Risk Rating system on credit customers to assign internal ratings that allow consistent and accurate differentiation between high and low risk customers and their facilities. In addition, various risk assessment tools and analytical scoring models are introduced to yield measures of Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD) as key drivers of credit risk management in the Group risk rating systems.

(iv) *Credit risk measurements and control*

Credit risks of the corporate lending portfolio is strictly managed and controlled by the management team, Wholesale Credit Risk Management (WCRM), WSB and the Operations Department. On a periodic basis, reports, meetings and sample checks are conducted to mitigate credit risks and provide further assurance that these are operating as expected. A brief about measurements for controlling of credit risks are listed out as below:

- Regular update on the overall status of credit risk management to RMM
- Risk Management Committee meetings on an on-going basis
- Wholesale Credit Review Unit (WCRU) review
- Daily monitoring of excesses and overdue loans
- Monthly WSB EXCO
- Monthly sampling process
- Watch-Worry-Monitor (WWM) meeting
- Wholesale Banking Risk Control Management Meeting (WSB RCMM).

Retail credit risk is managed over the risk management cycle which consists of six steps:

- Planning products and risk management controls

- Acquiring accounts
- Maintaining accounts and managing credit quality
- Collecting delinquencies
- Bad debt management
- Evaluating performance and refining plans and controls.

Retail credit risk management systems, consisting of all internal policies, guidance, procedures and risk portfolio standard reports, ensures compliance with regulatory requirements and internal Group requirements being met. These documents provide a full overall and detailed framework, including but not limited to Credit risk management, Credit risk appetite, Credit limits to every single customer, Credit approval delegation, Collateral assets, Lending policy and procedure to each customer segment, etc.

Regular monitoring of new lending applications, portfolio management and early warning indicators are undertaken by the second LOD - Risk team. Key insights and recommended management actions are reported to the RMM regularly.

The Risk Settlement Committee (RSC), an assistant body of the Members' Council, is organized to exercise the senior management's oversight of debt classification, provisioning, and usage of provisions against credit risks. The reporting approach and supervision follow Local regulations issued by the SBV and are aligned with Group.

Responding to any early warning signals, the appropriate strategies are worked out to manage impairment amounts, and specific provisions in accordance with the local regulatory requirement. Furthermore, exceptional reports are developed to monitor the past due loans closely as an active management of controlling any new bad debts as well as reviewing collaterals for recovery. For regulatory reporting, all approved local impairments have been submitted on a timely basis to the SBV.

Since easing restrictions and re-opening borders, Vietnam's economy has been recovering well. However, some customers are still affected by the Covid-19 impact, including the likely continued disruption in supply chains and trade flows caused by China's strict policy against Covid-19. Both Business and Risk are continuing to monitor and carry out portfolio health checks on a targeted basis depending on the situation as it evolves to ensure the quality of the credit portfolio. The Bank conducts debt restructure, exemption or reduction of interest and fees, retention of debt category to assist borrowers affected by the Covid-19 pandemic in accordance with Circular No. 01/2020/TT-NHNN dated 13 March 2020 and Circular No. 03/2021/TT-NHNN dated 02 April 2021 and Circular No. 14/2021/TT-NHNN dated 07 September 2021. The moratorium support is subject to clients' request and the bank's internal credit assessment.

The bank provides support for credit growth following the economic recovery in Vietnam. Recently, the impact from the Russia/Ukraine conflict and macro-economic headwinds, including the rising inflationary environment especially on energy/food/commodities, may also trigger interest rate and FX risks. Furthermore, a potential recession (or stagflation) in the US may also impact demand from these markets to Vietnam. Thus, HSBC Viet Nam continues to closely monitor these factors as well as their impact to the credit portfolio performance so as to take the appropriate actions and formulate a prompt solution to mitigate risks and ensure sustainable business growth.

3. List of independent credit rating agencies used for Capital Adequacy Ratio calculation

HSBC Viet Nam uses independent credit rating issued by Moody's, Fitch and Standard & Poor's to identify credit risk weight for the receivables from financial institutions.

4. Portfolio of collaterals, third-party guarantees, on-balance sheet netting and eligible credit derivatives for credit risk mitigation

HSBC Viet Nam uses term deposit as credit risk mitigation by collaterals in Capital Adequacy ratio calculation as at 30 June 2022.

B. Quantitative aspects

1. Credit risk according to credit rating

Credit risk-weighted assets	Credit rating	Credit risk-weight (%)	30.06.2022 VND million
Recievable from foreign financial institutions	From AAA to AA-	20	11,863,729
	From A+ to BBB-	50	911,805
	From BB+ to B-	100	-
	Under B- or no rating available	150	2,794
Receivables from local credit institution with original term over 3 months	From AAA to AA-	20	-
	From A+ to BBB	50	-
	From BB+ to BB-	80	1,016,605
	From B+ to B-	100	232,781
	Under B- or no rating available	150	1,554,640
Receivables from local credit institution with original term under 3 months	From AAA to AA-	10	-
	From A+ to BBB	20	-
	From BB+ to BB-	40	605,384
	From B+ to B-	50	825
	Under B- or no rating available	70	224,292
Total			**16,412,855**

2. Credit risk by risk weight classification

Risk-weighted asset by credit risk

	30.06.2022 VND million
Receivables from Government	-
Receivables from Financial Institution	16,131,581
Receivables from Corporate	52,750,543
Secured Loans by Real estate	719,547
Mortgage home Loans	368,960
Retail Loans	7,416,090
Bad debt	72,384
Other assets	889,420
Total	**78,348,525**

Risk-weighted asset by counterparty credit risk

	30.06.2022 VND million
Proprietary Trading	-
Repo and reverse repo	-
Derivatives for hedging purpose	356,034
Trading of foreign currency and financial assets to serve customers and partners as specified in Point D Clause 32 Article 2 of Circular 41.	-
Total	**356,034**

3. Credit risk by sector

Risk-weighted asset by credit risk

	30.06.2022 VND million
Agriculture, forestry and aquatics	1,205,641
Industry and Construction	33,935,050
Trading and Services	18,231,503
Others (*)	24,976,331
Total	**78,348,525**

(*) consist of receivables from individual customers, financial institutions and other assets.

Risk-weighted asset by counterparty credit risk

	30.06.2022 VND million
Agriculture, forestry and aquatics	295
Industry and Construction	31,170
Trading and Services	43,294
Others (*)	281,275
Total	**356,034**

(*) Receivables from financial institutions.

4. Credit risk before and after applying risk mitigation

	Risk weighted assets before risk mitigation	Credit risk mitigation by Collateral	Risk weighted assets affer risk mitigation
	VND million	VND million	VND Million
On Balance sheet	66,301,448	1,774,253	64,738,305
Off Balance sheet	14,981,868	1,525,526	13,966,254
As at 30.06.2022	**81,283,316**	**3,299,779**	**78,704,559**

III. OPERATIONAL RISK

A. Qualitative aspects

1. Operational Risk Management and Policies

Operational risk is the responsibility of all employees and business management, supported by the HSBC Group's Risk Management Framework (RMF). The RMF describes how HSBC Viet Nam manages both financial and non-financial risks across all parts of the Bank.

In order to manage Operational risks, HSBC Viet Nam applies the adoption of the Three Lines of Defence risk governance model:

1) **The First Line of Defence** owns the operational risks. They are responsible for identifying, recording, reporting and managing risks, and ensuring that the right controls and assessments are in place to mitigate these risks.

2) **The Second Line of Defence** sets policy and guidelines for managing operational risk, and provides advice and guidance on effective risk management. The Second Line are risk management specialists comprising Risk Stewards and the Operational Risk Function.

3) **The Third Line of Defence** is Internal Audit who independently ensure that HSBC is managing operational risk effectively.

Identifying and assessing Operational risks and controls is in accordance with the Operational Risk Functional Instruction Manual (FIM). HSBC Viet Nam uses 'HSBC Helios' for the management of Operational Risk.

The Risk and Control Assessment (RCA) process provides a forward-looking view of operational risk across all levels to help understand our risks and determine whether the material operational risks are controlled within acceptable levels. All relevant RCAs are recorded in Helios, the operational risk system. HSBC Viet Nam implements controls to mitigate Very High and High Inherent Risks, with continuous control monitoring and then, as part of the RCA process, assess Residual Risk after these controls.

Where a risk is deemed to be Inherently Very High or High, it requires a full RCA. The materiality of each risk is assessed to determine the maximum plausible impact on the business over the next 12 months and the residual risk, taking into consideration the extent to which the control environment effectively mitigates that risk.

The Local Materiality Criteria (LMC) has also been approved to support Risk Owners in identifying their Locally Significant Risks (LSR).

2. Business continuity plan

The Bank's business continuity plan is fully documented in HSBC's Business Continuity Management Policy & Procedure Manual. The plan is updated regularly and tested at least once a year.

The objectives of Business Continuity Management (BCM) are:

- to minimize the impact of any unplanned disruption to the Bank's operations and associated costs of recovery;
- to effect a prioritized recovery in the shortest timeframe possible following a disaster;
- to avoid duplicated effort by management and recovery personnel in the recovery process;
- to protect customer services, revenue generation and the integrity of data and documents.

BCM addresses the worst-case scenario involving the total loss of a facility and/or denial of access to a facility. The scope of the BCM program is for all business units, departments and branches; it also covers:

- Cyber-attack on computer systems
- Physical security of premises
- The loss of more than 1 main building
- Pandemic related business disruption (e.g. COVID-19).

B. Quantitative aspects

1. Business index

	30.06.2022 VND million
IC – Net interest and similar operation	2,829,559
SC – Total commission and fee incomes, Total commission and fee expenses, Other incomes, Other expenses	1,567,472
FC – Absolute Gains/losses from foreign currency trading, trading of trading securities and investment securities	1,198,003
BI – Business index	**5,595,034**

2. Minimum capital requirement for operational risks

	30.06.2022 VND million
BI_{2022} – Business index – 2nd Quarter 2022	5,595,034
BI_{2021} – Business index – 2nd Quarter 2021	4,911,065
BI_{2020} – Business index – 2nd Quarter 2020	5,685,501
$BI_{2020\text{-}2022}$ – Business index 2020-2022	5,397,200
Ratio	15%
Minimum capital requirement for operational risks	**809,580**

IV. MARKET RISK

A. Qualitative aspects

1. Market Risk Management and Policies

(i) *Definition*

- Market risk is the risk of losses on financial investments caused by adverse price movements. Market risk includes: interest rate risk, foreign exchange risk, equity risk and commodity risk.

In HSBC Viet Nam, there are two types of market risk: foreign exchange risk and interest rates risk.

- Foreign exchange risk is the risk incurs from market volatility of foreign exchange rate, gold price whilst the Bank maintains an opened foreign exchange position or gold position.

- Interest rate risk incurs when there is interest rates fluctuation in market, impacting to valuable papers (holding securities), financial instruments, interest rate derivatives in trading book of the Bank.

(ii) *The Market Risk management procedures*

HSBC Viet Nam has established the procedures for market risk management such as:

- Group market risk management policy
- Trading/banking book discrimination policy
- Limit setting and management framework
- Documentations for market risk methodology includes: sensitivity analysis, VaR framework (including stress VaR and VaR back-testing) and stress testing.

(iii) *Organizational structure*

HSBC Viet Nam is using the Three Lines of Defense model which is based on the activities performed. This model consists of:

- First Line of Defense ("LOD"): Global Markets and Markets Treasury, Global Market Product Control, Market Middle Office_ Market risk data services (Offshore).
- Second LOD: Wholesale Credit and Market Risk Management, Traded Risk Management.
- Third LOD: Internal Audit

The model delineates management accountabilities and responsibilities for risk management and the control environment within each LOD, thereby creating a robust control environment to manage risks.

(iv) *Market risk measures*

Currently, HSBC Viet Nam is measuring market risk by Standardized Measurement Method (SMM), which is followed Circular 41-2016/TT NHNN, and report market risk capital charge on monthly basic. Moreover, HSBC Viet Nam already applied Internal Model Approach which is applied whole Group and complied with Basel III and other international standards.

- Sensitivity Analysis is a technique to analyze the impact of the income or economic value of the financial instruments or investment portfolio that are influenced by the change of some underlying market risk factors.
- Value at risk (VaR) is a technique that estimates the potential losses on risk positions in the trading portfolio as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence. Our models are predominantly based on historical simulation. VaR is calculated at a 99% confidence level for a one-day holding period rates and historical observation period of 500 days.
- Stressed VaR is a measure to assess market risk exposure of Trading Book in crisis period. In the general market VaR calculation, the sampled data is taken from the recent history.
- Back-testing: We validate daily the accuracy of our VaR models by back-testing them against both actual and hypothetical profit and loss. Hypothetical profit and loss excludes non-modelled items such as fees, commissions and revenues of intra-day transactions.

- Stress testing is a methodology to assess the potential impact of extreme market movements or crisis on Trading Book portfolio, which includes the impact on profitability and capital adequacy. The stress scenarios should cover the factors contributing to remarkable gains or losses in the Trading Book portfolios.

(v) *Exposure monitoring and control:*

Market risk exposure is managed by limit framework which is established based on Risk appetite, market condition and business strategy. These limits are allocated to Entity level, trading desks, group of products, each products, each traders and trading intention.

The limit structure is regulated on limit mandate and summarized as bellow:

Whole bank limits	- VaR - Stressed VaR - Daily/monthly/yearly maximum loss limit
Foreign exchange risk limits	- VaR - Stressed VaR - Net short position limit - Daily/monthly/yearly maximum loss limit
Interest rate limits	- VaR - Stressed VaR - PVBP limit - Daily/monthly/yearly maximum loss limit

(vi) *Risk reporting*

HSBC Viet Nam has established the internal report system for market risk with daily, monthly, quarterly, half-year, yearly and ad-hoc reports. These reports also have been defined by target audiences. The content of market risk report includes:

- Market risk exposures
- Market risk limit, limit utilization and excess
- VaR, Stressed Var and Stress Testing
- Profit and loss from GM
- And others as requested.

2. Proprietary trade strategy

HSBC Viet Nam doesn't perform proprietary trade in the six-month period ended at 30 June 2022.

3. Trading book category

Category	Product Name
Trading book	
Bond/Bill	VND Government Treasury Notes/Bills/Bonds
Interest Swaps	USD IRS
Cross Currency Swaps	USDVND CSW (onshore)
Loans and deposits (internal)	Loans and deposits (internal)
FX - Spot	Spot
FX - Forward and Swap	Forward and Swap - non G7 currencies
FX - Forward and Swap	Forward and Swap - G7 currencies
FX funding swap	FX funding swap
Back-to-Back	
Back-to-Back Interest Rate Swaps	Major currencies (non-VND)
Back-to-Back bonds for 20 years	VND government bonds and corporate bonds

B. Quantitative aspects

Minimum capital requirement for market risk

	Market risk assets	Minimum capital required for market risk
	VND million	VND Million
Interest rate risk	357	4,463
Stock price risk	-	-
Foreign exchange risk	23,727	296,588
Commodity price risk	-	-
Option transactions	-	-
As at 30.06.2022	**24,084**	**301,051**