HSBC

HSBC BANK (VIET NAM) LTD.

CAPITAL ADEQUACY RATIO

For the year ended 31 December 2020

According to Circular 41/2016/TT-NHNN dated 30 December 2016 on Capital Adequacy Ratio for banks and branches of foreign banks

HSBC BANK (VIET NAM) LTD.

STATEMENT OF HSBC BANK VIETNAM'S LEGAL REPRESENTATIVE ON CAPITAL ADEQUACY RATIO FOR THE YEAR ENDED 31 DECEMBER 2020

Title	Description	As at 31.12.2020 VND million, %
A	**Capital = (A1) + (A2) – (A3)**	**12,723,790**
A1	Tier 1	12,449,360
A2	Tier 2	274,430
A3	Deductions from capital	-
B	**Risk-weighted asset = (B1) + (B2)**	**68,817,389**
B1	Credit risk	68,599,663
B2	Counterparty credit risk	217,726
C	**Minimum capital requirement for market risks = (C1) + (C2)**	**49,567**
C1	Regulatory capital for interest rate risk	7,886
C2	Regulatory capital for foreign exchange risk	41,681
D	**Minimum capital requirement for operational risks = [(D1) + (D2) + (D3)]/3*15%**	**843,388**
D1	BI – Y2020	5,049,011
D2	BI – Y2019	6,039,679
D3	BI – Y2018	5,779,072
E	**Total Risk-weighted asset ={(B) + 12,5*[(C) + (D)]}**	**79,979,328**
	Capital Adequacy Ratio (CAR) = (A)/(E)	**15.91%**

As at 31 Dec 2020, HSBC Bank Vietnam Ltd. (hereafter referred to as "HSBC Vietnam") achieves 15.91% in Capital Adequacy Ratio. Capital base is VND 12,723 billion. Of which, Tier 1 capital is at VND 12,449 billion and Tier 2 capital is at VND 274 billion.

HSBC Vietnam 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 application software designed according to Circular 41/2016/TT-NHNN dated 30 December 2016 on Capital Adequacy Ratio for banks, foreign banks branches. HSBC Viet Nam ensures the accuracy, completeness and timeliness of data.

Capital Adequacy Ratio calculation process includes:

- collect relevant data from data sources and departments
- calculate Capital Adequacy Ratio using application software

- extract reports and validate results
- use Capital Adequacy Ratio in analyzing, planning and reporting process

On annual basis and on ad-hoc basis (when necessary), HSBC Vietnam conducts the projection for capital adequacy ratio and capital planning for the next 5 years. The planning and forecasting of capital are based on the business plan as well as the potential effects of the economic situation on the Capital and Risk Weighted Assets of HSBC Vietnam in the following years. Besides, the capital plan is also carried out on the basis of absolutely compliance with the risk limit regulated by State Bank of Viet Nam.

Based on the latest projection on September 2020, the forecasted capital adequacy ratio of HSBC Vietnam will remain stable and always be higher than the minimum limit of 8% set by SBV and the risk appetite / targeted capital adequacy ratio of the Bank for 5-year period from 2021 to 2025. For HSBC Viet Nam, there is no plan to raise capital base in 2021.

I hereby approve Capital Adequacy Ratio information for the year ended 31 December 2020 which provides accurate information and complies with relevant regulations.

On behalf of and Representative of HSBC Bank Vietnam Ltd.

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

Timothy Mark Redvers Evans

Legal Representative

25 March 2021

HSBC BANK (VIET NAM) LTD.

I. CREDIT RISK

A. Qualitative Content

1. Risk management

The Members' Council is responsible for the bank 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 the Bank, overviewed by HSBC Group and regulated by the State Bank of Vietnam (SBV). Senior management assesses the appropriateness of the provision for credit losses on a quarterly basis.

The Bank follows HSBC Risk Management Framework (RMF) for the overall risk management that it takes 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 First Line of Defence ("LOD") (Risk Owner, Control Owner and Business Risk and Control Managers), Second LOD (Risk Stewards) and Third LOD (Global 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 HSBC Vietnam based on the well-defined credit risk management strategy. The strategy is also the 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 Wholesales 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 following:

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

(ii) *Credit risk management structure*

HSBC Vietnam develops the appropriate structure to manage credit risk. According to Circular 13, credit approval team was transferred to the first LOD. The lending functions are segregated:

- Credit Risk Management: 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*

The Bank establishes and builds a Credit Risk Rating system applied on credit customers to assign internal ratings that allow consistent and accurate differentiation between high and low risk across customers and their facilities. In addition, various risk assessment tools and analytical scoring models are introduced to yield measures of PD, LGD and EAD as key drivers of credit risk management in the Group risk rating systems.

(iv) *Credit risk measurements and control*

Credit risks of corporate lending portfolio is strictly managed and controlled by Management team, Wholesales Market Risk (WMR), WSB and Operation Department. In periodic basis, reports, meetings and sampling check conducts to mitigate credit risks as well as launch the strategies properly. A brief about measurements for controlling of credit risks lists out as below:

- Monthly update the status of credit risk management to RMM
- Quarterly risk management committees
- Wholesale Credit Review Unit (WCRU) review
- Daily monitoring of excesses and overdue loan
- Monthly WSB EXCO
- Monthly sampling process
- Watch-Worry-Monitor (WWM) meeting
- Wholesale Banking Risk Control Management Meeting (WSB RCMM).

During 2020, the Covid-19 pandemic impacted on corporate customers severely, however, the situation is still under control of the bank. WSB together with WMR has completed stress checks of the portfolio covering 95% of the Cat A limits to identify customers with high and medium risk rated. The bank are closely monitoring specific actions for high risk names and continue to closely monitor developments for medium risk names. In addition, HSBC Vietnam developed a credit relief program to support clients in line with Circular 01/2020/TT-NHNN dated 13 March 2020.

Retail credit risk is managed during 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 system, 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 limit to Credit risk management, Credit risk appetite, Credit limit to every single customer, Credit approval delegation, Collateral assets, Lending policy and procedure to each customer segments, etc.

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

For managing debt classification and provision, on quarterly basis, 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 follows both Group and Local regulations issued by SBV Vietnam.

The quarter-on-quarter movement of debt classification and provisioning is presented for the Member Council approval and oversight. Responding to any early warning signal, the appropriate strategies are worked out to manage impairment amount, and specific provision in accordance to 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 if in case. For regulatory reporting, all approved local impairments has been submitted to the SBV timely.

3. List of independent credit rating agencies to be used in Capital Adequacy Ratio calculation

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

4. Credit risk mitigations

HSBC Vietnam performs credit risk mitigation using marginal deposit in Capital Adequacy ratio calculation as at 31 December 2020.

B. Quantitative contents

1. Credit risk according to credit rating

Credit risk-weighted assets	Credit rating	Credit risk-weight (%)	31.12.2020 VND million
Recievable from foreign financial institutions	From AAA to AA-	20	10,535,500
	From A+ to BBB-	50	859,479
	From BB+ to B-	100	-
	Under B- or no rating available	150	2,771
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	289,439
	From B+ to B-	100	563,952
	Under B- or no rating available	150	649,235
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	478,209
	From B+ to B-	50	-
	Under B- or no rating available	70	3,403
Total			**13,381,988**

2. Credit risk by customers

	31.12.2020 VND million
Receivables from Government	-
Receivables from Financial Institution	13,381,988
Receivables from Corporate	47,575,272
Secured Loans by Real estate	1,069,599
Mortgage home Loans	411,922
Retail Loans	5,711,290
Bad debt	89,028
Other assets	578,290
Total	**68,817,389**

3. Credit risk by business sectors

	31.12.2020 VND million
Agriculture, forestry and aquatics	27,404,411
Industry and Construction	9,237,422
Trading and Services	14,342,914
Others (*)	17,832,642
Total	**68,817,389**

(*): Others consist of Receivables from individual customers, financial institutions and other assets.

4. Credit risk before and after applying risk mitigation

	As at 31.12.2020	
	Risk weighted assets before risk mitigation	**Risk weighted assets affer risk mitigation**
	VND million	**VND million**
On Balance sheet	54,839,819	54,184,019
Off Balance sheet	14,929,970	14,633,370
Total	**69,769,789**	**68,817,389**

II. OPERATIONAL RISK

A. Qualitative Content

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 the Bank manage both financial and non-financial risks across all parts of the Bank.

In order to manage Operational risks, HSBC Vietnam 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 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 RCAs are recorded in Helios, the operational risk system. HSBC 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. Plan to maintain continuous operations

The Bank's business continuity plan is fully documented in HBVN 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 (both Metropolitan and Centre Point are down).

During Covid-19 pandemic, HSBC Vietnam arranged multiple Major Incident Group meetings to discuss communication to staff, customers and regulators, travel restrictions, well-being of employees and customers. We also updated a number of operational processes to improve efficiency during the period of restricted mobility. To follow Directive 16 from the government, which requires people not to move around if not necessary, HBVN implemented work from home strategy with around 90% of our team not accessing the primary offices with no impact to our operations.

B. Quantitative contents

1. Business indicators

	31.12.2020 VND million
IC – Net interest and similar operation	2,953,239
SC – Total commission and fee incomes, Total commission and fee expenses, Other incomes, Other expenses	1,385,718
FC – Absolute Gains/losses from foreign currency trading, trading of trading securities and investment securities	710,054
BI – Business indicators	**5,049,011**

2. Minimum capital requirement for operational risks

	31.12.2020 VND million
BI - Y2020	5,049,011
BI - Y2019	6,039,679
BI - Y2018	5,779,072
Minimum capital requirement for operational risks	**843,388**

III. MARKET RISK

A. Qualitative contents

1. Market Risk Management and Policies

(i) Definition

- Market risk is to reflect the risk incurring from market factors, such as foreign exchange rates, interest rates, credit spreads, equity prices and commodity prices, will reduce our income or the value of our portfolios.

In HBVN, 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

HBVN has established the procedures for market risk management such as:

- Group market risk management policy

- Trading/banking book classification 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*

HBVN 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 Balance Sheet Management, Global Market Product Control
- Second LOD: Wholesale Credit and Market Risk, Credit 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, HBVN 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, HBVN 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:*

Maker 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*

HBVN 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 Vietnam doesn't perform proprietary trading as at 31 Dec 2020.

3. Trading book category

Category	Product Name
Trading book	
Bond/Bill	VND Government Treasury Notes/Bills/Bonds
Interest Swaps	VND IRS
Interest Swaps	USD IRS
Cross Currency Swaps	USDVND CSW (onshore)
Cross Currency Swaps	Non USD/VND CSW with HKH (under same cap of USD/VND CSW offshore)
Loans and deposits (internal)	Loans and deposits (internal)
FX - Spot	Spot

Category	Product Name
Trading book	
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 contents

Minimum capital requirement for market risks segregated by interest rate risk and foreign exchange risk

	31.12.2020 VND million
Minimum capital requirement for market risks by interest rate risk	7,886
Minimum capital requirement for market risks by foreign exchange risk	41,681
Minimum capital requirement for market risks	**49,567**