



HSBC BANK (VIET NAM) LTD.

CAPITAL ADEQUACY RATIO DISCLOSURE

For the year ended 31 December 2022

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

STATEMENT OF HSBC BANK (VIET NAM) LTD.'S LEGAL REPRESENTATIVE ON CAPITAL ADEQUACY RATIO AS AT 31 DECEMBER 2022

Title	Description	As at 31.12.2022 VND million
A	Capital = (A1) + (A2) – (A3)	16,355,379
A1	Tier 1	15,977,157
A2	Tier 2	378,222
A3	Deductions from capital	-
B	Risk-weighted asset = (B1) + (B2)	96,066,865
B1	Credit risk weighted assets	95,809,243
B2	Counterparty credit risk weighted assets	257,622
C	Minimum capital requirement for market risks = (C1) + (C2)	324
C1	Regulatory capital for interest rate risk	324
C2	Regulatory capital for foreign exchange risk	-
D	Minimum capital requirement for operational risks = [(D1) + (D2) + (D3)]/3*15%	911,984
D1	Business Index (BI) - Y2022	8,134,673
D2	Business Index (BI) - Y2021	5,055,991
D3	Business Index (BI)- Y2020	5,049,011
E	Total Risk-weighted asset = (B) + 12,5*[(C) + (D)]	107,470,715
Tier 1 CAR	Tier 1 CAR = (A1)/(E)	14.87%
CAR	Capital Adequacy Ratio (CAR) = (A)/(E)	15.22%

As at 31 December 2022, HSBC Bank Vietnam Ltd. (hereafter referred to as “HSBC Viet Nam”) reported Capital Adequacy Ratio at 15.22%. Capital was VND16,355 billion, of which, Tier 1 capital was VND15,977 billion and Tier 2 capital was VND378 billion.

HSBC Viet Nam 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 (Circular 41).

According to the “Assessment of adherence to capital adequacy ratio imposed by the State bank (“SBV”)” and “Capital Plan” in HSBC Viet Nam’s 2022 Internal Capital Adequacy Assessment Report, HSBC Viet Nam’s Capital adequacy ratio was stable and safely above the regulatory limit and the Bank’s CAR_{target} in 2022, and is forecasted to be maintained well in the next 3 years. Accordingly, it is not necessary to increase capital base in the upcoming period.

HSBC Viet Nam plans to retain 30% attributable profit of year 2022-2027. Besides, on annual basis, HSBC Viet Nam withholds 15% profit after tax for reserves as per regulation which contributes to total capital of the bank.

In case when there is a need to increase HSBC Viet Nam’s capital base in stress scenarios, the following sources of capital increase can be considered:

- Adjusting Dividend
- Raising Tier 2 Capital
- Loan Book Actions
- Other RWA Management and Risk Exposure Mitigation Actions
- Cost Reduction Actions

I hereby approve the disclosure of Capital Adequacy Ratio as at 31 December 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, 21 March 2023



Timothy Mark Redvers Evans
Legal Representative

Nguyen Thi Thanh Truc
Chief Financial Officer and
Chief Accountant

I. THE CALCULATION PROCESS OF CAPITAL ADEQUACY RATIO

Capital Adequacy Ratio production process includes:

- 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, disbursement and monitor loan payment.

(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. HSBC Viet Nam 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.

HSBC Viet Nam provides support for credit growth following the economic recovery in Vietnam. Recently, the impact from the Russia/Ukraine conflict, local CRE trigger 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 Viet Nam. 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.

WSB and WCRM have conducted a ‘pulse check’ review for LC portfolio impacted by CRE triggers (particularly on the names which have issued corporate bonds and CRE eco-system) and Marco variables (Covid19/Inflation/ Recession/Russia-Ukraine/FX). The exercise is resulted 16 names at high and medium risk rating, of which 2 high risk CRE names and 14 medium risk. The high risk name is existing WWM list and the 14 medium names are being closely monitored.

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 31 December 2022.

B. Quantitative aspects

1. Credit risk according to credit rating

Credit risk-weighted assets	Credit rating	Credit risk-weight (%)	31.12.2022 VND million
Receivable from foreign financial institutions	From AAA to AA-	20	21,294,437
	From A+ to BBB-	50	170,381
	From BB+ to B-	100	-
	Under B- or no rating available	150	246,579
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	1,268,616
	From B+ to B-	100	239,456
	Under B- or no rating available	150	1,764,817
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	1,456,375
	From B+ to B-	50	2,242
	Under B- or no rating available	70	363,504
Total			26,806,407

2. Risk weighted asset by risk weight classification
Credit risk-weighted assets

	31.12.2022
	VND million
Receivables from Government	-
Receivables from Financial Institution	26,613,121
Receivables from Corporate	56,440,589
Secured Loans by Real estate	865,063
Mortgage home Loans	1,902,105
Retail Loans	8,638,919
Bad debt	106,591
Other assets	1,242,855
Total	95,809,243

Counterparty credit risk-weighted assets

	31.12.2022
	VND million
Proprietary Trading	-
Repo and reverse repo	-
Derivatives for hedging purpose	257,622
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	257,622

3. Risk-weighted asset by sector
Credit risk-weighted assets

	31.12.2022
	VND million
Agriculture, forestry and aquatics	2,176,719
Industry and Construction	30,421,498
Trading and Services	24,529,570
Others (*)	38,681,456
Total	95,809,243

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

Counterparty credit risk-weighted assets

	31.12.2022 VND million
Agriculture, forestry and aquatics	-
Industry and Construction	20,044
Trading and Services	44,292
Others (*)	193,286
Total	257,622

(*) Receivables from financial institutions.

4. Risk-weighted assets before and after applying risk mitigation

	As at 31.12.2022		
	Risk-weighted assets before risk mitigation	Credit risk mitigation by Collateral	Risk-weighted assets after risk mitigation
	VND million	VND million	VND Million
On Balance sheet	79,972,549	1,829,844	78,649,909
Off Balance sheet	18,086,209	1,125,305	17,416,956
Total	98,058,758	2,955,149	96,066,865

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

	31.12.2022 VND million
IC – Net interest and similar operation	5,016,363
SC – Total commission and fee incomes, Total commission and fee expenses, Other incomes, Other expenses	1,835,427
FC – Absolute Gains/losses from foreign currency trading, trading of trading securities and investment securities	1,282,883
BI – Business index	8,134,673

2. Minimum capital requirement for operational risks

	31.12.2022 VND million
BI ₂₀₂₂ – Business index - Y2022	8,134,673
BI ₂₀₂₁ – Business index - Y2021	5,055,991
BI ₂₀₂₀ – Business index - Y2020	5,049,011
BI ₂₀₂₀₋₂₀₂₂ – Business index 2020-2022	6,079,892
Ratio	15%
Minimum capital requirement for operational risks	911,984

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 stressed 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	<ul style="list-style-type: none"> - VaR - Stressed VaR - Daily/monthly/yearly maximum loss limit
Foreign exchange risk limits	<ul style="list-style-type: none"> - VaR - Stressed VaR - Net short position limit - Daily/monthly/yearly maximum loss limit
Interest rate limits	<ul style="list-style-type: none"> - 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 year ended at 31 December 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
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

	As at 31.12.2022	
	Market risk-weighted assets	Minimum capital required for market risk
	VND million	VND Million
Interest rate risk	4,050	324
Stock price risk	-	-
Foreign exchange risk	-	-
Commodity price risk	-	-
Option transactions	-	-
Total	4,050	324