



**HSBC BANK (VIET NAM) LTD.  
CAPITAL ADEQUACY RATIO DISCLOSURE**

**For the year ended 31 December 2021**

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 VIETNAM'S LEGAL REPRESENTATIVE ON  
CAPITAL ADEQUACY RATIO FOR THE YEAR ENDED 31 DECEMBER 2021**

Title	Description	As at 31.12.2021 VND million
<b>A</b>	<b>Capital = (A1) + (A2) – (A3)</b>	<b>13,396,394</b>
A1	Tier 1	13,067,634
A2	Tier 2	328,760
A3	Deductions from capital	-
<b>B</b>	<b>Risk-weighted asset = (B1) + (B2)</b>	<b>76,632,254</b>
B1	Credit risk	76,300,693
B2	Counterparty credit risk	322,561
<b>C</b>	<b>Minimum capital requirement for market risks = (C1) + (C2)</b>	<b>256</b>
C1	Regulatory capital for interest rate risk	256
C2	Regulatory capital for foreign exchange risk	-
<b>D</b>	<b>Minimum capital requirement for operational risks = [(D1) + (D2) + (D3)]/3*15%</b>	<b>807,234</b>
D1	BI - Y2021	5,055,991
D2	BI - Y2020	5,049,011
D3	BI - Y2019	6,039,679
<b>E</b>	<b>Total Risk-weighted asset = (B) + 12,5*[(C) + (D)]</b>	<b>86,716,879</b>
<b>Tier 1 CAR</b>	<b>Tier 1 CAR = (A1)/(E)</b>	<b>15.07%</b>
<b>CAR</b>	<b>Capital Adequacy Ratio (CAR) = (A)/(E)</b>	<b>15.45%</b>

As at 31 December 2021, HSBC Bank Vietnam Ltd. (hereafter referred to as “HSBC Viet Nam”) achieves 15.45% in Capital Adequacy Ratio. Capital base is VND13,396 billion. Of which, Tier 1 capital is VND13,067 billion and Tier 2 capital is VND329 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 system built based on Circular 41/2016/TT-NHNN dated 30 December 2016 on Capital Adequacy Ratio for banks, foreign banks branches. The Bank verified and ensures the data's accuracy, completeness and timeliness.

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

According to the Implementation and Compliance assessment in HSBC Vietnam's 2021 Internal Capital Adequacy Assessment Report, HSBC Vietnam's Capital adequacy ratio has always been stable and higher than the regulatory limit guided by the State Bank of Vietnam ("SBV") and HSBC Vietnam's 2021 CAR Target ratio. The ratio is expected to be well maintained in the next 3 years. In light with this, the Bank 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 for the year ended 31 December 2021 which provides accurate information and complies with prevailing regulations.

On behalf of and Representative of HSBC Bank Vietnam Ltd.

Hochiminh City, 23 March 2022



  
\_\_\_\_\_  
**Timothy Mark Redvers Evans**  
**Chief Executive Officer**



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**Nguyen Thi Thanh Truc**  
**Chief Financial Officer and**  
**Chief Accountant**



**I. CREDIT RISK****A. Qualitative aspects****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 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 a quarterly basis.

HSBC Viet Nam 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 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 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 Viet Nam 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

HSBC Vietnam 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 Probability at 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 sampling checks are conducted to mitigate credit risks as well as launch the strategies properly. A brief about measurements for controlling of credit risks are listed 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).

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 limited 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 are 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 timely 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 are following Local regulations issued by SBV Vietnam and aligned with Group.

The periodic movement of debt classification and provisioning is presented for the Member Council's approval and oversight. 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 if in case. For regulatory reporting, all approved local impairments have been timely submitted to the SBV.

As the Covid-19 situation stabilises in Vietnam, the economy is recovering well after the Government has changed the strategy to safe and flexible adaptation with Covid-19 (Resolution 128). However, the severe impact from the fourth wave of Covid-19 are still affecting customers as shown in the 4Q2021 report. 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. In addition to Circular 03/2021/TT-NHNN dated 02 April 2021 (Circular 03), the SBV also issued Circular 14/2021/TT - NHNN dated 7 September 2021 (Circular 14) amending Circular 01/2020/TT-NHNN on debt rescheduling, exemption or reduction of interest and fees, retention of debt category to assist borrowers affected by Covid-19 pandemic. Following that, HSBC Viet Nam built up the procedure and identified customers meeting the criteria mentioned by Circular 03 and Circular 14. The moratorium support will be subject to clients' request and the bank's internal credit assessment. Apart from releasing tightening on credit policy with conditions for recovered industries, HSBC Viet Nam will continue to closely monitor the credit portfolios 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 31 December 2021.

**B. Quantitative aspects**
**1. Credit risk according to credit rating**

Credit risk-weighted assets	Credit rating	Credit risk-weight (%)	31.12.2021 VND million
Receivable from foreign financial institutions	From AAA to AA-	20	16,131,081
	From A+ to BBB-	50	990,553
	From BB+ to B-	100	-
	Under B- or no rating available	150	2,736
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	629,125
	From B+ to B-	100	237,847
	Under B- or no rating available	150	1,373,481
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	330,504
	From B+ to B-	50	1,303
	Under B- or no rating available	70	-
<b>Total</b>			<b>19,696,630</b>

**2. Credit risk by risk weight classification**

Risk-weighted asset by credit risk

	<b>31.12.2021</b>
	<b>VND million</b>
Receivables from Government	-
Receivables from Financial Institution	19,565,228
Receivables from Corporate	48,741,893
Secured Loans by Real estate	765,656
Mortgage home Loans	372,249
Retail Loans	5,916,872
Bad debt	83,414
Other assets	855,381
<b>Total</b>	<b>76,300,693</b>

Risk-weighted asset by counterparty credit risk

	<b>31.12.2021</b>
	<b>VND million</b>
Proprietary Trading	-
Repo and reverse repo	-
Derivatives for hedging purpose	322,561
Trading of foreign currency and financial assets to serve customers and partners as specified in Point D Clause 32 Article 2 of Circular 41.	-
<b>Total</b>	<b>322,561</b>

**3. Credit risk by sector**

Risk-weighted asset by credit risk

	<b>31.12.2021</b>
	<b>VND million</b>
Agriculture, forestry and aquatics	973,824
Industry and Construction	31,666,981
Trading and Services	16,825,107
Others (*)	26,834,781
<b>Total</b>	<b>76,300,693</b>



**Risk-weighted asset by counterparty credit risk**

	<b>31.12.2021</b>
	<b>VND million</b>
Agriculture, forestry and aquatics	-
Industry and Construction	101,702
Trading and Services	89,457
Others (*)	131,402
<b>Total</b>	<b>322,561</b>

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

**4. Credit risk before and after applying risk mitigation**

	<b>As at 31.12.2021</b>		
	<b>Risk weighted assets before risk mitigation</b>	<b>Credit risk mitigation by Collateral</b>	<b>Risk weighted assets after risk mitigation</b>
	<b>VND million</b>	<b>VND million</b>	<b>VND Million</b>
On Balance sheet	64,618,096	1,331,503	62,708,388
Off Balance sheet	14,537,034	1,228,411	13,914,866
<b>Total</b>	<b>79,155,130</b>	<b>2,559,914</b>	<b>76,623,254</b>

**II. 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).

Viet Nam has been affected by COVID pandemic through 4 waves since early of 2020. The wave 4th in 2021 caused the most severe impact to people’s health, safety and the country economy. HSBC Viet Nam continued efforts to maintain services throughout the hardest ever year. Services to customers have been maintained within normal service levels throughout the year 2021. Due to the frequent changes of the situation, all departments (i.e. GB/GF/DBS) continuously reviewed and adjusted Business Continuity plans to respond to the situation that customers have no access to bank facilities while all staff work from home. The pandemic in Viet Nam is not expected to end this year or next year. With the threat of new variant, Omicron is still unclear, HSBC Viet Nam will continue to monitor the situation and manage the controls accordingly to ensure the continuity of our services to customers.

**B. Quantitative aspects**
**1. Business index**

	<b>31.12.2021</b> <b>VND million</b>
IC – Net interest and similar operation	2,505,366
SC – Total commission and fee incomes, Total commission and fee expenses, Other incomes, Other expenses	1,487,528
FC – Absolute Gains/losses from foreign currency trading, trading of trading securities and investment securities	1,063,097
<b>BI – Business index</b>	<b>5,055,991</b>

**2. Minimum capital requirement for operational risks**

	<b>31.12.2021</b> <b>VND million</b>
BI <sub>2021</sub> – Business index - Y2021	5,055,991
BI <sub>2020</sub> – Business index - Y2020	5,049,011
BI <sub>2019</sub> – Business index - Y2019	6,039,679
BI <sub>2019-2021</sub> – Business index 2019-2021	5,381,560
Ratio	15%
<b>Minimum capital requirement for operational risks</b>	<b>807,234</b>

**III. 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.
- Second LOD: Wholesale Credit and Market Risk Management (Onshore), Traded Risk Management (Offshore).
- 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"> <li>- VaR</li> <li>- Stressed VaR</li> <li>- Daily/monthly/yearly maximum loss limit</li> </ul>
Foreign exchange risk limits	<ul style="list-style-type: none"> <li>- VaR</li> <li>- Stressed VaR</li> <li>- Net short position limit</li> <li>- Daily/monthly/yearly maximum loss limit</li> </ul>
Interest rate limits	<ul style="list-style-type: none"> <li>- VaR</li> <li>- Stressed VaR</li> <li>- PVBP limit</li> <li>- Daily/monthly/yearly maximum loss limit</li> </ul>

(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 2021.

**3. Trading book category**

Category	Product Name
<b>Trading book</b>	
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
<b>Back-to-Back</b>	
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 31.12.2021	
	Market risk assets	Minimum capital required for market risk
	VND million	VND Million
Interest rate risk	3,200	256
Stock price risk	-	-
Foreign exchange risk	-	-
Commodity price risk	-	-
Option transactions	-	-
<b>Total</b>	<b>3,200</b>	<b>256</b>