BPCE INTERNATIONAL

INFORMATION DISCLOSURE

Capital Adequacy Ratio and Related Risk Management Information
For the 6-month period ended 30 June 2022

(Issued as per Circular 41/2016/TT-NHNN dated 30 December 2016 by the Governor of the State Bank of Vietnam on the capital adequacy ratio for operations of banks and/or foreign bank branches)

CONTENTS

I. INTRODUCTION

From 01 January 2022, BPCE IOM - HO CHI MINH CITY BRANCH (the "Branch") has officially launched its full implementation with the regulations on the capital adequacy ratio as stipulated by Circular 41/2016/TT-NHNN dated 31 December 2016 ("Circular 41").

Accordingly, the Branch performs the calculation of the risk-weighted assets and the minimum capital requirement according to the standard approach. Circular 41 also requires the Branch to disclose certain information on the capital adequacy ratio and risk management policy framework every six months.

The disclosure of information in accordance with the provisions of Circular 41 aims to provide relevant parties (investors, customers, partners, management agencies, etc.) with transparent information on the Branch's capital status, the valuation of assets as well as the Branch's risk management framework, thereby assessing the Branch's capital adequacy and risk management capacity.

The disclosure for the period from 01 January 2022 to 30 June 2022 is the first disclosure period of the Branch. As a result, it does not have figures compared with previous periods/years. In this report, the terms "capital requirement" and "required capital" are understood to mean the total minimum required capital which is set at 8% of the risk weighted assets and regulatory capital according to Article 6 of Circular 41.

II. SCOPE OF DISCLOSURE

1. Qualitative Aspect

The Branch is a foreign bank branch and does not calculate the consolidated capital adequacy ratio but only calculates the Branch's capital adequacy ratio based on the Branch's audited financial statements.

The disclosure of information on capital adequacy ratio as of 30 June 2022 is presented in accordance with the guidance of Circular 41 at Appendix 05 *Disclosure requirements*, including:

(1) Scope of measurement capital adequacy ratio calculation;

(2) Equity capital structure;

(3) Capital adequacy ratio

- *Qualitative aspect: information about capital adequacy ratio calculation process and capital plan to ensure capital adequacy ratio is maintained;*
- *Quantitative aspect: details of capital adequacy ratio spreadsheets;*

(4) Risk management framework for credit risk, operational risk, and market risk.

2. Quantitative Aspect

The Branch must regularly maintain a capital adequacy ratio (CAR) determined based on the Branch's financial statements of at least 8%, which is determined by the following formula:

$$CAR = \frac{C}{RWA + 12,5(K_{OR} + K_{MR})} \times 100\%$$

Where:

- **C**: Owners' equity;
- **RWA:** Risk-weighted assets;
- **K_{OR}:** Regulatory capital for operational risk;
- **K_{MR}:** Regulatory capital for market risk.

III. COMPOSITION OF THE OWNER'S EQUITY

1. Qualitative Aspect

The Branch's equity capital includes Tier 1 capital and Tier 2 capital minus deductions specified in Appendix 01 of Circular 41:

- Tier I capital: Own capital basically represents the capital capacity of the Branch including allocated capital, reserve fund for supplementing charter capital and undistributed profit. As of 30 June 2022, the Branch did not incur any deductions from Tier 1 capital.
- Tier 2 capital: additional capital including other reserve funds, 80% of general provision according to regulations on classification of assets, and other factors. As of 30 June 2022, Tier 2 capital only includes 80% general provision and no deductions.

2. Quantitative Aspect

The equity structure of the Branch as of 30 June 2022 is presented in the following table:

Date of report: 30/06/2022

Unit: million VND

ITEM	AMOUNT
TIER 1 CAPITAL (A) = (A1) - (A2)	**1,089,800**
Breakdown of Tier 1 Capital (A1) = ∑1÷7	**1,089,800**
(1) Contributed capital	1,784,797
(2) Reserved fund for charter capital supplement	22,893
(3) Investment fund for operation development	-
(4) Investment in capital construction, procurement of fixed assets	-
(5) Undistributed profit (Retained Earning)	(717,890)
Deduction from Tier 1 Capital (A2) = ∑6÷7	**-**
(6) Accumulated loss	-
(7) Credits for capital contribution, share purchase at other credit institutions	-
TIER 2 CAPITAL (B) = B1 - B2 - (13)	**55,949**
Breakdown of Tier 2 Capital (B1) = ∑8÷10	**55,949**
(8) Financial reserved fund	44,008

(9) 80% of general provision in accordance with regulations of the State Bank on classification of assets, level, and method of setting up risk provision and use of risk provision applicable to credit institutions, foreign bank branches	11,941
(10) Secondary debts issued, concluded by the banks that fully meet conditions:	-
Deduction from Tier 2 Capital (B2) = (11) + (12) + (13)	-
(11) Positive difference between total of the amounts in entries10 and 1.25% of "Total risk-weighted assets" as regulated in Appendix 2.	-
(12) The positive difference among the amounts in the Item (10) and 50% of A (Tier 1)	-
(13) Purchase, investment in secondary debts issued by other credit institutions, foreign bank branches which are eligible for being recorded to tier 2 capital of such credit institutions, foreign bank branches (excluding secondary debts which are taken as collateral, discount, rediscount of the customers).	-
(14) The positive difference between (B1- B2) and A	-
OWNER'S EQUITY (C) = (A) + (B) – (14)	**1,145,749**

IV. CAPITAL ADEQUACY RATIO

1. Qualitative Aspect

The Branch has developed a tool to calculate the CAR monthly and issued the *Regulations on Management and Calculation of the CAR* in accordance with Circular 41, stipulating responsibilities and authority of stakeholders to input, calculate, review and report on the capital adequacy ratio and the early warning threshold in capital adequacy management.

Accordingly, the capital adequacy ratio calculation process includes the following steps:

- Collect and consolidate data necessary for the calculation process;
- Calculate the capital adequacy ratio according to the prescribed method; and
- Check results, report, and store.

To avoid cases of non-conformance with the minimum capital adequacy ratio requirements under Circular 41, the Branch has implemented the internal control threshold for the Branch. Accordingly, if and when the capital adequacy ratio of the Branch is lower than the internal control threshold of 11%, Risk and Compliance Department of the Branch will report to the Asset and Liabilities Committee and the Management of the Branch for discussion and timely decision on actions to be taken in accordance with the Branch's risk appetite and the regulations of the State Bank of Vietnam.

In case the allocated capital of the Branch is not enough or when there is a request to increase capital, the Management of the Branch will report to the Head Office for a resolution of additional capital injection.

2. Quantitative Aspect

The capital adequacy ratio of the Branch as of 30 June 2022 is presented in the following table:

Date of report: 30/06/2022

Unit: million VND

ITEM	AMOUNT
(1) Own equity = (1.1) + (1.2) – (1.3)	**1,145,749**
(1.1) Tier 1 capital	1,089,800
(1.2) Tier 2 capital	55,949
(1.3) Items deductible from equity	
(2) Credit risk weighted assets = (2.1) + (2.2)	**3,291,964**
(2.1) Credit risk weighted assets	3,286,100
(2.2) Counterparty risk weighted assets	6,213
(3) Market risk weighted assets = ∑(3.1)÷(3.5)	**-**
(3.1) Interest rate risk	-
(3.2) Stock price risk	-
(3.3) Commodity price risk	-
(3.4) Foreign exchange risk	-
(3.5) Option transaction risk	-
(4) Operational risk weighted assets = (4.1) + (4.2) + (4.3)	**6,275**
(4.1) IC indicator	5,152
(4.2) SC indicator	779
(4.3) FC indicator	344
(5) Total risk weighted assets {=(2)+12.5*[(3) + (4)]}	**3,298,238**
(6) Capital adequacy ratios (CAR) (=(1)/(5))	**33.99%**

V. CREDIT RISK

1. Qualitative aspect

a. Credit risk management policy

The credit risk management policy is a component of the Branch's Risk Policy, developed based on the requirements of the local regulations as well as in accordance with the Head Office's risk policies and approval scheme delegated to the Branch. The policy sets out the principles and basis for credit risk management activities at BPCE IOM - HO CHI MINH CITY BRANCH, including:

- Close supervision of the Branch's management via different committees;
- Systematic organization in accordance the model of 3 lines of defense, ensuring risk identification, measurement, monitoring and reporting;

- A credit process in line with the credit risk appetite and strategy adopted at the Branch from time to time;
- Implementation and management of systems and models to measure credit risk in line with common best practices.

b. Internal credit rating system

The internal credit rating system (ONI tool) is built to measure the risk level of customers periodically or when necessary, through credit ratings.

The results of the rating are one of the bases for credit granting approval and credit quality management in line with the Bank's operational scope and actual situation.

When information is available, the Branch uses the rating results of 3 independent credit rating agencies, namely Moody's, Standard & Poor's, and Fitch Rating to consider the risk coefficients for claims to financial institutions.

c. Measurement, monitoring, and supervision

Credit risk is monitored throughout the lifecycle of a credit transaction from review, appraisal, approval (by the Head Office) to ensure that credit activities comply with applicable laws and regulations.

Credit risk is strictly controlled, following the credit risk management strategy, contributing to minimizing the total credit risk incurred by the operations of the Branch.

Relevant limits (e.g., limits applied to certain sectors of higher risks) are put in place to control risks and optimize profits, ensuring ratios according to internal regulations and current regulations. This also aims at minimizing the concentration risk inherent in the Branch's portfolio.

The information exchange mechanism on credit risk management is established in many ways (top-down, bottom-up and between related departments), allowing all individuals at all levels and related departments to be informed, disseminated, uniformly and fully aware of the policies, procedures, and objectives of credit risk management.

As a matter of fact, Risk & Compliance Department of the Branch oversees the second level of controls on credit risks. At the level of the Head Office, Compliance and Permanent Control of BPCE IOM ensures the permanent control tasks the Risk & Compliance Department of BPCE IOM HCMC oversees are carried out via a follow-up of the Branch's periodic Internal Control Supervision Committee at the Head Office level.

Like all other risks being subject to controls, the credit risks controls are part of the annual control Plan established by the Branch and validated by the Head Office.

d. Credit risk mitigation

The Branch has adopted several policies and methods to minimize credit risk in business operations. One of those methods is by way of collateral. Collateral must comply with the provisions of the law on security transactions and, at the same time, the independence, reliability, and value of the assets for the purpose of protecting the Branch's interest in such assets.

2. Quantitative aspect

a. Assets on the balance sheet subject to credit risk weight

Date of report: 30/06/2022

Unit: million VND

ITEM	BALANCE-SHEET	OFF-BALANCE SHEET	
	AMOUNT	**AMOUNT**	**CREDIT CONVERTED AMOUNT**
Cash & Cash equivalence	-	-	-
Claims on State Bank	28,517	-	-
Claims on financial institutions	1,668,640	-	-
Claims on corporate clients	2,276,711	-	-
Claims on Other assets	27,471	-	-
Off-balance items	-	43,439	18,485
TOTAL	**4,001,339**	**43,439**	**18,485**

b. Claims on financial institutions

Date of report: 30/06/2022

Unit: million VND

Classification	Credit rating	Credit-risk weight	Amount	Credit risk weight value
Claims on overseas financial institutions (shorter than 3 months)	From AAA to AA-	20%	2,704	541
	From A+ to BBB-	50%	1,417,274	708,637
	From BB+ to B-	100%	-	-
	Below B- or unrated	150%	-	-
Claims on domestic financial institutions (shorter than 3 months)	From AAA to AA-	10%	-	-
	From A+ to BBB-	20%	139,850	27,970
	From BB+ to BB-	40%	107,339	42,936
	From B+ to B-	50%	1,473	736
	Below B- and unrated	150%	-	-
TOTAL			**1,668,640**	**780,820**

c. Credit quality of assets

Date of report: 30/06/2022

Unit: million VND

ITEM	NON-PERFORMING	PERFORMING EXPOSURE
Claims on financial institutions	-	1,668,640
Claims on corporate clients	35,605	2,241,106
Off-balance items	-	43,439
TOTAL	**35,605**	**3,953,184**

d. Credit risk mitigation

Date of report: 30/06/2022

Unit: million VND

Item	Credit-converted exposure	With collaterals	Amount of collaterals
Claims on corporate clients	2,372,047	489,253	99,072

e. Assets with credit conversion factors (CCF) and credit risk mitigants (CRM)

Date of report: 30/06/2022

Unit: million VND

ITEM	Before CCF and CRM		After CCF and CRM		Credit risk weighted assets	
	Balance sheet	Off-balance sheet	Balance sheet	Off-balance sheet	Amount	%
Claims on financial institutions	1,668,640	-	1,668,640	-	780,820	46.79%
Claims on corporate clients	2,241,106	43,439	2,220,158	18,485	2,460,007	110.80%
Bad debts	35,605	-	35,605	-	17,803	50.00%
Cash & Cash at SBV	28,517	-	28,517	-	-	0.00%
Other assets	27,471	-	27,471	-	27,471	100.00%
TOTAL	**4,001,339**	**43,439**	**3,980,391**	**18,485**	**3,286,100**	**82.56%**

f. Assets per credit risk weight

Date of report: 30/06/2022

Unit: million VND

Credit risk weight	**0%**	**20%**	**40%**	**50%**	**60%**	**80%**	**90%**	**95%**	**100%**	**110%**	**120%**	**140%**	**150%**	**160%**	**200%**	**Total risk weighted assets**
Claims on financial institutions		142,554	107,339	1,418,747												**1,668,640**
Claims on corporate clients		-	-	35,300	54,596	426,647	18,550	423,361	-	115,519	603,587	485,244	53,420	15,723	6,695	**2,238,642**
Bad debts				35,605												**35,605**
Cash and claims on SBV	28,517															**28,517**
Other assets									27,471							**27,471**
TOTAL	**28,517**	**142,554**	**107,339**	**1,489,652**	**54,596**	**426,647**	**18,550**	**423,361**	**27,471**	**115,519**	**603,587**	**485,244**	**53,420**	**15,723**	**6,695**	**3,998,875**

g. Assets per sector

Date of report: 30/06/2022

Unit: million VND

Sector	Exposure to credit risk weight	Total credit risk weight
Administrative activities and support service	28,160	39,424
Agriculture, forestry, and aquaculture	7,719	10,806
Commerce and retail; repairing motor vehicle, motorcycle, motorbike, family, and individual belongings	558,574	599,910
Distribution of water; management and processing of waste, water waste	16,782	18,460
Financial, banking, insurance activities	1,668,640	780,820
Processing industry	1,656,033	1,805,021
Scientific and technological activities	6,980	4,188
Others	55,988	27,471
TOTAL	**3,998,875**	**3,286,100**

VI. OPERATIONAL RISK

1. Qualitative Aspect

Operational procedures are set up and implemented at all operational departments to formalize and standardize the daily workflow. In addition, the records of all transactions incurred are centralized and saved by a dedicated core banking system.

For operational risk management, Risks and Compliance Department is set up and dedicated for strengthening internal control (to be specific, 2nd line of defense) and implementing training programs on legal knowledge and business operations.

The department also put in place necessary operational risk management tools (in line and with the support of the Head Office) to more effectively identify, measure, monitor, control, and report material risks.

a. Organizational structure for operational risk management

Operational risk management applies to all departments of the Branch, including the front office (i.e., Corporate Banking Department, Treasury Department, etc.), back office (i.e., operational departments/functions), as well as supporting departments.

- Branch Management: the highest managing and supervisory body.
- Risk Committee: reviewing issues and activities related to risk management in general and operational risk in particular. To be specific, Compliance function is responsible for

strengthening awareness of regulatory compliance. Risks function is responsible for increasing awareness of operational risk management.

- Audit Department: responsible for regular inspections of the effectiveness of operational risk management.

b. Scope and features of operational risk report management mechanism

Any major risk exposures identified that may jeopardize the Branch's finances or normal operation in general must be reported to Risks and Compliance Department promptly, and to the regulators if deemed necessary, so that actions may be taken in response. Violations of the law must be reported by Head of Compliance.

Risks & Compliance Department makes regular disclosures on the Branch's operational risks, risks information and other major issues, and reports in periodic meetings to Risk Committee, Assets and Liabilities Management Committee, Steering Committee, and in particular, to the Branch Management.

The Branch maintains a self-evaluation system for key risks indicator, the results of which are reported to the Branch Management and the Head Office on a periodic basis.

c. Policies and strategies for operational risk mitigation

Based on the severity and frequency of operational risk events, countermeasures such as risk avoidance, risk transfer, risk control and absorption are taken and formalized into action plans.

The Branch reduces the level of risk exposure or even forgo the business altogether for risks with extremely high frequency and severity (significant contingencies).

For risks with very high frequency and low severity, regular internal self-checks, knowing the client, and staff training can facilitate real-time detection of potential risks, so that proper measures can be taken in response.

For risk of very low frequency and low security, losses from such risk can be absorbed into operational expenses.

For operational risks arising from business activities, potential losses are reduced by strengthen internal controls, risk monitoring and staff training, and when and where possible, transferring risks through insurance or outsourcing.

2. Business Continuity Plan (BCP)

a. Planning for impact

The BCP foresees the following scenario: loss of premises, loss of IT data/services, loss of staff, loss of external supplier and other emergency disasters.

- Loss of premises is when the main location of operation is no longer accessible. In such case, the plan calls for a backup site where minimal working conditions, including system infrastructure and staffing, is available for backup purposes.

In addition, some of the staff members can work from home using internet connections to securely connect to the Branch's information systems, should the circumstances require this.

- Loss of IT data/services includes four possibilities of different levels: power outage, loss of connection of main leased line connection, loss of connection of the main and backup leased line connection, total loss of connection in the region and loss of the main IT system and backup IT system.

  Power outage: There is uninterruptible power supply (UPS) installation in the office which is regularly maintained.

  Loss of connection of main leased connection: The Branch can access to the system infrastructure and the backup datacenter via main leased line and backup leased line. Should the main line be down, the Branch may switch to the backup line or relocate certain critical staff members to the backup site (also known as disaster recovery site) according to the severity of the disrupted connection.

  Loss of connection of main and backup leased connections and total loss of connection in the region: In case all the service providers are unavailable, the Branch will consider seeking the assistance from Head Office to process those critical transactions or relocate the back-up site to ensure continuous operation as a substitute for the working office if the crisis continues.

- Loss of staff will have a big impact with respect to the business continuity due to the relatively small size of the Branch. The current backup plan in case of staff's absence cater for two types of back-ups. The Branch may hire temporary or contracted staff locally or seeking the assistance from Head Office in sending some suitable staff or processing certain critical transactions.
- Loss of external essential suppliers will have a devastating impact on the Branch as the Branch is on the trend of outsourcing to maintain a reasonable operation cost. The monitoring of essential services and providers are under the responsibility of Risks and Compliance Department.
- Other emergency disasters may render the Branch unable to maintain the normal operation of the business. In such unplanned situation, the Branch may rely on various reactions when the situation calls.

b. BCP activation measures

   Not all crises require a full activation of the BCP. The scenarios requiring the activation of the BCP can be broadly divided into these categories:

   - When the main office premise/infrastructure remains accessible.
   - When the main office premise/infrastructure is no longer accessible.
   - When the main office premise/infrastructure is partially accessible.

   In each category, the Branch shall have detail measures to activate the BCP.

c. Recovery procedure

As the Branch is relatively small, the recovery procedure depends on the amplitude of the losses incurred to the Branch's main premises and may be divided into 2 categories:

- If the premises are damaged less than the extent of complete unavailability. In this case, temporary restoration of part of the premises shall be conducted to offer customers services still functional.
- If the premises are seriously damaged more than that, disaster recovery site shall be activated to offer customers services still functional. Along with the operation of the services in the disaster recovery site, the Branch shall make efforts to restore the original business premises.

d. Communication procedure

During a disaster, the Branch Management shall maintain a constant communication channel with the Head Office to seek the consultation and consent during the handling and resolution of the disaster, including the official notice to the Branch's clients and the public.

The Branch will make efforts to timely announce the disastrous situation suffered by the Branch, the tentative business suspension period, tentative operation restoration date or alternative operation plan during the suspension period to ensure the best interest for its own and its customers.

e. Management of important records

A copy of the BCP documentation and other important information are stored in the disaster recovery site.

All important records should be saved in best-available technology system if possible and in case of loss, damage, or destruction, the backup copy should be checked and restored.

f. Training, awareness, and testing

The Branch carries out training and awareness programs in one or more of the following forms: BCP walkthroughs, briefings, access to shared BCP documents and participation in BCP tests.

BCP should be tested at least once a year in view of new developments such as new regulations, products, systems. It is important that all staff members should participate in the drill. The tests can be conducted as a single test or as a combination of some scenarios, subject to the decision of the Branch Management from time to time. After a test is completed, an assessment report should be prepared and sent to the Branch Management as well as the Head Office.

g. Regular update

If the BCP is activated, then a report should be conducted right after the operation has been resumed back to normal. Recommendations and action plans should be incorporated in the plan and followed up by Risks and Compliance Department.

3. Quantitative aspect

Date of report: 30/06/2022

Unit: million VND

Year	Interest cost	Service cost	Foreign exchange cost	Business index
Q2/2019	34,065	4,290	2,816	41,171
Q2/2020	32,852	4,201	2,356	39,409
Q2/2021	36,127	7,080	1,708	44,915
Capital requirement for operational risk (Kor)				**6,275**

VII. MARKET RISK

1. Qualitative aspects

a. Strategies and processes for market risk of the Branch

Strategy for market risk management seeks risk diversification and prudent evaluation, with a focus on balancing risk versus return. As part of the Risk Policy, market risk management policies, guidelines for authorization, guidelines for risk management of financial derivatives and investments, internal controls and risk management measures are stipulated and implemented if business and activities required.

As a principle, the management of market risks is monitored by Treasury Department as the first-line defense and Risks and Compliance Department as the second-line defense based on the approved transactions or limits and loss tolerance for financial instruments and trading units set by the Head Office for the Branch.

Any overrun, exception or major event must be reported immediately to the Branch Management, who will decide on a response if needed.

b. Structure and organization of market risk management function

Treasury Department is dedicated to organizing the funding of the Branch and to propose very limited products to customers (essentially currency exchange and FX hedging).

Risk and Compliance department carries out daily ex post monitoring and transfers the results of controls to Branch's Management and Head Office, highlighting, if necessary, any time they find a ratio approaching to the internal threshold and, of course in, case of breach.

Risk Committee has the responsibility to oversee risk management policies, risk management assessment, and risk management mechanisms for new businesses. The Assets and Liabilities Management Committee reports to the Branch Management and is responsible for reviewing the Branch's market risk limits and activities.

c. Summary of the business strategy

The Branch currently do not have proprietary trading.

2. Quantitative aspects

Regulatory capital for market risk (K_{MR}) shall be determined according to the following formula:

$$\mathbf{K_{MR} = K_{IRR} + K_{ER} + K_{FXR} + K_{CMR} + K_{OPT}}$$

Where:

- **K_{IRR}:** Regulatory capital for interest rate risk, except options;
- **K_{ER}:** Regulatory capital for equity risk, except options;
- **K_{FXR}:** Regulatory capital for foreign exchange risk (including gold), except options;
- **K_{CMR}:** Regulatory capital for commodities risk, except options;
- **K_{OPT}:** Regulatory capital for options.

The Branch does not incur activities of interest rate risk, stock price risk, commodity price risk, and option transactions.

Capital for the foreign exchange risk is only required should the net foreign exchange position is 2% greater than the owner's equity. As of 30 April 2022, the net foreign exchange position of the Branch is 2% less than the owner's equity then.

Validated by the legal representative
General Manager

(signed)

Juan-Pedro Duran Lopez