

INFORMATION DISCLOSURE

Capital Adequacy Ratio and Related Risk Management Information For the 6-month period ended 31 December 2023

(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)

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I. INTRODUCTION

In accordance with Circular 41/2016/TT-NHNN dated 30 December 2016 ("Circular 41"), BPCE IOM Ho Chi Minh City Branch (referred to as "BPCE IOM" or the "Branch") diligently calculates the risk-weighted assets and minimum capital requirement using the standard approach. Circular 41 mandates the Branch to disclose specific information concerning the capital adequacy ratio and risk management policy framework on a biannual basis.

The purpose of this disclosure, as stipulated by Circular 41, is to provide transparent information to relevant parties, including investors, customers, partners, and regulatory bodies. By presenting the Branch's capital status, asset valuation, and risk management framework, this report enables an assessment of the Branch's capital adequacy and risk management capacity.

The following disclosure adheres to the provisions of Circular 41 and pertains to the period from 01 July 2023 to 31 December 2023. Throughout this report, the terms "capital requirement" and "required capital" refer to the total minimum capital mandated by Article 6 of Circular 41, which is set at 8% of the risk-weighted assets and regulatory capital.

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 31 December 2023 is presented in accordance with the guidance of Circular 41 at Appendix 05 *Disclosure requirements*, including:

(1) *Scope of measurement capital adequacy ratio calculation;*

This section outlines the parameters and factors considered in the calculation of the capital adequacy ratio.

(2) *Equity capital structure;*

Details regarding the structure of the Branch's equity capital, including its composition and relevant components, will be provided.

(3) *Capital adequacy ratio*

- *Qualitative aspect:* information pertaining to the process of calculating the capital adequacy ratio and the Branch's capital plan to maintain an adequate ratio;
- *Quantitative aspect:* details of capital adequacy ratio spreadsheets.

(4) *Risk management framework*

The risk management framework implemented by the Branch for credit risk, operational risk, and market risk. This framework ensures comprehensive risk mitigation strategies and regulatory compliance.

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.

The Branch's financial statements serve as the basis for calculating the capital adequacy ratio, enabling a quantitative assessment of the Branch's capital strength and risk exposure.

It is worth noting that these disclosures aim to provide a comprehensive understanding of the Branch's capital adequacy, risk management practices, and their compliance with Circular 41 guidelines.

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 1 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 31 December 2023, 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 31 December 2023, Tier 2 capital only includes the financial reserves fund and 80% general provision and no deductions.

2. Quantitative Aspect

The equity structure of the Branch as of 31 December 2023 is presented in the following table:

Unit: MVND

ITEM	31/12/2023	30/06/2023
Tier 1 Capital	1,148,037	1,117,237
Tier 2 Capital	61,392	57,346
Deductions from calculation of equity capital	-	-
Owner's equity	1,209,429	1,174,583

IV. CAPITAL ADEQUACY RATIO

1. Qualitative Aspect

The Branch has established a comprehensive framework for calculating the Capital Adequacy Ratio (CAR) in accordance with Circular 41. This framework includes the development of a monthly calculation tool and the issuance of regulations governing the management and calculation of the CAR. These regulations define the responsibilities and authority of stakeholders involved in inputting, calculating, reviewing, and reporting the capital adequacy ratio and early warning thresholds.

The capital adequacy ratio calculation process consists of the following steps:

- Collecting and consolidating necessary data for the calculation process;
- Calculating the capital adequacy ratio using the prescribed method; and
- Checking the results, generating reports, and storing the information.

To ensure compliance with the minimum capital adequacy ratio requirements outlined in Circular 41, the Branch has implemented an internal control threshold of 11%. If the Branch's capital adequacy ratio falls below this threshold, the Risk and Compliance Department will report to the Asset and Liabilities Committee and the Branch's Management. This allows for discussion and timely decision-making on appropriate actions, considering the Branch's risk appetite and the regulations of the State Bank of Vietnam.

In situations where the allocated capital is insufficient or there is a need for additional capital injection, the Management of the Branch will report to the Head Office for resolution.

2. Quantitative Aspect

The capital adequacy ratio of the Branch as of 31 December 2023 is presented in the following table:

Unit: MVND, %

ITEM	31/12/2023	30/06/2023
Risk-weighted assets for credit risk	4,167,059	3,423,882
<i>Credit risk</i>	4,165,132	3,421,610
<i>Counterparty credit risk</i>	1,927	2,272
Capital requirements for market risk	-	-
Capital requirements for operational risk	16,180	4,244
Tier 1 capital adequacy ratio	26.28%	32.13%
Capital adequacy ratio	27.68%	33.78%

V. CREDIT RISK

1. Qualitative aspect

a. Credit risk management policy

The credit risk management policy of BPCE IOM - HO CHI MINH CITY BRANCH is an integral part of its overall Risk Policy. This policy is developed in compliance with local regulations and aligns with the risk policies and approval scheme delegated by the Head Office. It establishes the principles and framework for credit risk management activities, including:

- Close supervision of the Branch's management through various committees;
- Implementation of a three lines of defense model, ensuring effective risk identification, measurement, monitoring, and reporting;
- Adoption of a credit process that aligns with the Branch's credit risk appetite and strategy;
- Implementation and management of systems and models to measure credit risk, following industry best practices.

b. Internal credit rating system

The Branch utilizes an internal credit rating system known as the ONI tool to periodically assess the risk level of customers or when necessary. Credit ratings derived from this system serve as a basis for credit approval and credit quality management within the operational scope of the Bank.

Additionally, when information is available, the Branch considers the risk coefficients for claims to financial institutions by incorporating the rating results of three independent credit rating agencies: Moody's, Standard & Poor's, and Fitch Rating.

c. Measurement, monitoring, and supervision

The Branch maintains a comprehensive approach to measuring, monitoring, and supervising credit risk throughout the lifecycle of credit transactions. This includes review, appraisal, and approval processes, ensuring compliance with applicable laws and regulations. The credit risk management strategy is strictly followed to minimize the total credit risk associated with the Branch's operations.

To optimize profits and control risks, the Branch sets relevant limits, especially for sectors with higher risk, in line with internal regulations and current regulatory requirements. This approach also aims to mitigate concentration risk inherent in the Branch's credit portfolio.

The Branch establishes mechanisms for information exchange on credit risk management, facilitating communication among different levels and departments. This ensures that individuals at all levels and relevant departments are fully informed, aware of credit risk management policies, procedures, and objectives.

The Risk & Compliance Department oversees the second level of credit risk controls within the Branch, while Compliance and Permanent Control of BPCE IOM at the Head Office level ensure the oversight and follow-up of the Branch's periodic internal control supervision. Credit risk controls are included in the annual control plan established by the Branch and validated by the Head Office.

d. Credit risk mitigation

According to Circular 41, credit risk mitigation is implemented through one or a combination of the following measures: third-party guarantee, collateral, credit derivatives, and on-balance sheet netting.

The branch currently does not have any transactions mitigated by credit derivatives, collateral, or guarantees.

2. Quantitative aspect (31/12/2023)

a. Risk-weighted assets for credit risk exposure

Unit: MVND

No.	Item	Risk-weighted assets (RWA)
1	Cash & Cash equivalence	-
2	Claims on State Bank	-
3	Claims on financial institutions	1,059,833
4	Claims on corporate clients	3,076,911
6	Other assets	28,388
7	Total	4,165,132

b. Risk-weighted assets for credit exposure with credit rating

Unit: MVND

Classification	Credit rating	Credit-risk weight	Risk-weighted assets (RWA)
Claims on overseas financial institutions (shorter than 3 months)	From AAA to AA-	20%	4,561
	From A+ to BBB-	50%	1,027,627
	From BB+ to B-	100%	-
	Below B- or unrated	150%	-
Claims on domestic financial institutions (shorter than 3 months)	From AAA to AA-	10%	7,002
	From AAA to AA-	20%	10,003
	From BB+ to BB-	40%	9,802
	From B+ to B-	50%	837
	Below B- and unrated	70%	-
Total			1,059,833

c. Risk-weighted assets for credit exposure by industry sector

Unit: MVND

Industry sector	Risk-weighted assets (RWA)
Administrative And Support Service Activities	46,382
Agriculture, Forestry and Fishing	7,094
Financial, Banking and Insurance Activities	1,059,833
Manufacturing	2,071,382
Professional, Scientific and Technical Activities	10,185
Water Supply; Waste and Wastewater Management and Treatment Activities	12,381
Wholesale And Retail Trade; Repair of Motor Vehicles, Motorcycles and Other Motor Vehicles	929,486
Total	4,136,744

d. Risk-weighted assets for credit risk exposure (including on-balance and off-balance sheet) before and after the effect of credit risk mitigations

Unit: MVND

Item	Risk-weighted assets (RWA)
Risk-weighted assets for credit risk exposure before the effect of credit risk mitigations	4,352,592
Credit risk mitigations	
<i>Credit risk mitigation by the collateral</i>	-
<i>Credit risk mitigation by the on-balance sheet netting</i>	180,742
<i>Credit risk mitigation by the third-party guarantee</i>	-
<i>Credit risk mitigation by the credit derivative</i>	-
Risk-weighted assets for credit risk exposure after the effect of credit risk mitigations	4,136,744

e. Risk-weighted assets for counterparty credit exposure

Unit: MVND

Item	Risk-weighted assets (RWA)
Foreign exchange transaction	1,927
Total	1,927

- f. Risk-weighted assets for counterparty credit exposure before and after the effect of credit risk mitigations

Unit: MVND

Item	Risk-weighted assets (RWA)
Risk-weighted assets for counterparty credit exposure before the effect of credit risk mitigations	1,972
Credit risk mitigations	
<i>Credit risk mitigation by the collateral</i>	-
<i>Credit risk mitigation by the on-balance sheet netting</i>	-
<i>Credit risk mitigation by the third-party guarantee</i>	-
<i>Credit risk mitigation by the credit derivative</i>	-
Risk-weighted assets for counterparty credit exposure after the effect of credit risk mitigations	1,972

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 responsible for overall risk oversight.
- Risk Committee: Reviews and addresses issues and activities related to risk management, including operational risk. The Compliance function is responsible for strengthening awareness of regulatory compliance, while the Risks function focuses on increasing awareness of operational risk management.
- Audit Department: Responsible for conducting regular inspections to assess the effectiveness of operational risk management practices.

b. Scope and features of operational risk report management mechanism

The Branch maintains a robust reporting mechanism for operational risks, ensuring prompt identification and response to major risk exposures that may impact the Branch's financial stability or normal operations. Key features of the operational risk reporting mechanism are as follows:

- Risks and Compliance Department receives timely reports on major risk exposures and, if necessary, escalates them to regulators for appropriate actions. The Head of Compliance is responsible for reporting any violations of laws.
- Regular disclosures on operational risks, risk information, and significant issues are made by the Risks & Compliance Department in periodic meetings with the Risk Committee, Assets and Liabilities Management Committee, Steering Committee, and Branch Management.
- The Branch employs a self-evaluation system for key risk indicators, with periodic reporting of the results to the Branch Management and Head Office.

c. Policies and strategies for operational risk mitigation

To mitigate operational risks, the Branch implements policies and strategies tailored to the severity and frequency of operational risk events. Key measures include:

- Risk Avoidance, Transfer, Control, and Absorption: For risks with high frequency and severity, the Branch may reduce risk exposure, discontinue certain business activities, or transfer risks through appropriate insurance or outsourcing arrangements.
- Real-Time Risk Detection: Risks with high frequency and low severity are addressed through regular internal self-checks, client knowledge, and staff training. This facilitates the timely detection of potential risks and the implementation of appropriate mitigation measures.
- Absorption of Low-Frequency, Low-Impact Risks: Operational risks with low frequency and low severity are absorbed into operational expenses, minimizing their impact on the Branch's financials.
- Strengthened Internal Controls and Staff Training: Operational risks arising from business activities are mitigated through enhanced internal controls, ongoing risk monitoring, and comprehensive staff training programs.

2. Business Continuity Plan (BCP)

a. Planning for impact

The Business Continuity Plan (BCP) of the Branch takes into account various scenarios that may disrupt normal operations. These scenarios include loss of premises, loss of IT data/services, loss of staff, loss of external suppliers, and other emergency disasters. The BCP outlines the following measures:

- Loss of Premises: In the event the main operational location becomes inaccessible, the BCP includes a backup site with minimum working conditions, including system infrastructure and staffing, for continuity of operations. Additionally, staff members can work remotely using secure internet connections if required.

- Loss of IT Data/Services: The BCP considers different levels of IT disruptions, such as power outages, loss of main and backup leased line connections, and total loss of regional connectivity. The Branch has limited uninterruptible power supply (UPS) installations to mitigate power outages. Backup data centers and alternate leased line connections ensure access to essential systems. Based on the severity of the disruption, critical staff members may be relocated to the backup site or alternative arrangements can be made with the assistance of the Head Office.
- Loss of Staff: Due to the relatively small size of the Branch, the absence of staff can significantly impact business continuity. The BCP incorporates two types of backup plans. Temporary or contracted staff can be hired locally, or assistance can be sought from the Head Office to ensure the continuation of critical operations.
- Loss of External Essential Suppliers: The Branch relies on outsourcing to maintain operational efficiency. The Risks and Compliance Department is responsible for monitoring essential services and providers to mitigate the impact of any disruptions.
- Other Emergency Disasters: The BCP acknowledges the possibility of unforeseen emergency situations and provides flexibility in response. The Branch will respond to such situations based on the specific circumstances and implement appropriate measures.

b. BCP activation measures

The BCP recognizes that not all crises require full activation. Activation measures are categorized based on the accessibility of the main office premises/infrastructure: when they remain accessible, when they are no longer accessible, or when they are partially accessible. Detailed measures are established within each category to guide the activation of the BCP.

c. Recovery procedure

The recovery procedure depends on the extent of damage to the Branch's premises and is divided into two categories:

- If the premises are damaged but remain partially available, temporary restoration efforts are conducted to ensure the provision of functional customer services.
- If the premises are significantly damaged, the disaster recovery site is activated to provide operational continuity. Concurrently, the Branch makes efforts to restore the original business premises.

d. Communication procedure

During a disaster, the Branch Management maintains constant communication with the Head Office for consultation and consent regarding disaster handling and resolution. Official notices are issued to clients and the public, providing information about the disaster situation, anticipated business suspension period, tentative operation restoration date, or alternative operation plans during the suspension period. Timely communication ensures the best interests of the Branch and its customers.

e. Management of important records

BCP documentation and other critical information are stored in the disaster recovery site. All important records are preferably stored using the best-available technology system. Backup copies are regularly checked and restored to prevent loss, damage, or destruction.

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 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

Unit: MVND

Year	Interest cost	Service cost	Foreign exchange cost	Business index
Q4.23	132,293	8,602	355	141,250
Q4.22	91,159	8,487	1,578	101,224
Q4.21	64,113	12,127	4,892	81,132
Capital requirements for operational risk				16,180

VII. MARKET RISK

1. Qualitative aspects

a. Strategies and processes for market risk of the Branch

The Branch's market risk management strategy aims to achieve risk diversification and prudent evaluation while maintaining a balanced approach between risk and return. The Risk Policy outlines market risk management policies, authorization guidelines, risk management measures, and internal controls for financial derivatives and investments. These policies and guidelines are implemented as necessary based on the Branch's business activities and requirements.

Market risk management is primarily the responsibility of the Treasury Department, acting as the first-line defense, and the Risks and Compliance Department, serving as the second-line defense. The Treasury Department monitors and manages market risks based

on approved transactions and limits, as well as the loss tolerance for financial instruments set by the Head Office.

Any instances of overruns, exceptions, or major events are promptly reported to the Branch Management for necessary action.

b. Structure and organization of market risk management function

The Treasury Department is responsible for organizing the funding of the Branch and primarily offers limited products to customers, focusing on currency exchange and FX hedging. They ensure the availability of appropriate funding to support the Branch's operations.

The Risks and Compliance Department conducts daily ex-post monitoring of market risks, ensuring compliance with established controls. The department regularly reports the monitoring results to the Branch's Management and Head Office. They highlight any instances where ratios approach internal thresholds or breaches occur, allowing for timely action and remediation.

The Risk Committee oversees the implementation of risk management policies, assesses risk management mechanisms for new businesses, and ensures adherence to risk management guidelines. The Assets and Liabilities Management Committee, reporting to the Branch Management, reviews the Branch's market risk limits and activities to ensure alignment with the overall risk strategy.

c. Summary of the business strategy

The Branch does not currently engage in proprietary trading activities. The business strategy focuses on serving customers through essential offerings such as currency exchange and FX hedging. The Branch's market risk management framework is designed to support this strategy by mitigating risks associated with these activities and maintaining a balanced risk profile.

Overall, the Branch's market risk management approach emphasizes prudent evaluation, risk diversification, and adherence to established policies and controls. The collaboration between the Treasury Department, Risks and Compliance Department, Risk Committee, and Assets and Liabilities Management Committee ensures effective oversight and management of market risks within the Branch.

2. Quantitative aspects

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

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

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 31 December 2023, 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)

Philippe Lafue