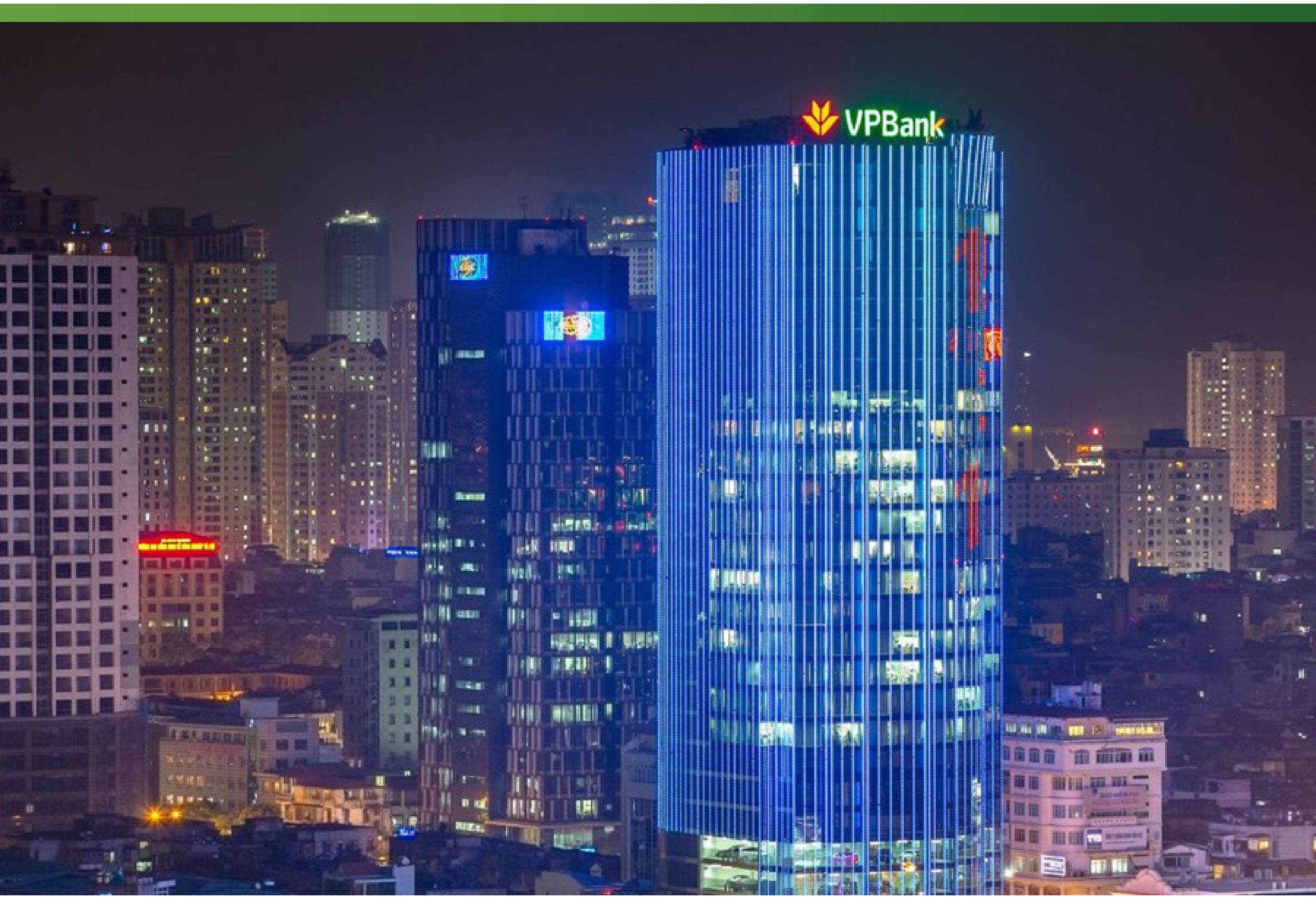
CAPITAL ADEQUACY RATIO DISCLOSURES

30 JUNE 2019

2019

30
JUNE



VPBank

VIETNAM PROSPERITY JOINT STOCK COMMERCIAL BANK

Contents

Tables

Appendices

Introduction

Regulatory Framework

The State Bank of Vietnam (SBV) requests all banks to adopt Basel standards on minimum capital requirements - Standardized Approach (Pillar 1 of Basel II) and Risk Governance (Pillar 2 of Basel II) starting from 1 January 2020. Moreover, by 2025, implementation of Basel II Advanced Approach shall be piloted in state-owned banks and top notch commercial banks.

Regulatory framework for Basel II implementation in Vietnam consists of:

- Circular 41/2016/TT-NHNN (Circular 41) dated 31 December 2016, prescribes the capital adequacy requirements for banks as official guidelines on implementation of Pillar 1 and Pillar 3 - Basel II's standardized approach.
- Circular 13/2018/TT-NHNN dated 18 May 2018, stipulates Basel II – Pillar 2 requirements on the organization of risk management, assessment of particular types of risks as well as additional capital requirements for stress events and risks which are not covered in Pillar 1.

Circular 41 has not been effective yet (from 1 January 2020) for all banks; however, the SBV encourages banks to apply for early compliance. In April 2019, VPBank was officially approved by the SBV for early application of Circular 41, which made VPBank ("the Bank") to be the forth bank to comply with Basel II standards in Vietnam.

The aim of disclosure requirements under Circular 41 and Basel II's Pillar 3 is to provide banks' stakeholders (investors, depositors, regulators and etc.) with transparent view on banks' capital conditions, risk exposures, and risk management framework, hence capital adequacy.

Scope of Disclosures

Capital Adequacy Ratio Disclosures on 30 June 2019 comprise both quantitative and qualitative information, which are produced in accordance with Article 20 and Appendix 5 of Circular 41, including: (1) Available capital, (2) Risk Weighted Assets of 3 main risk types and their movement and (3) Risk Management Framework.

The disclosures are conducted under the requirements of capital adequacy disclosures regulations of VPBank, and planned to be published semi-annually in VPBank's website https://www.vpbank.com.vn/For_investor.

Disclosed information is reconciled with published financial statement of the same period.

For this is the first time of CAR disclosures, there are no comparative figures for the previous year or period. In this report, the term "capital requirement" and "required capital" represent the total minimum capital charge set at 8% of risk weighted assets ("RWA") by Article 6 of Circular 41.

Key Metrics

Unit: VND billion

Separate

Tier 1 Ratio	Total Capital Adequacy Ratio	Average Credit Risk Weight (*)
12.03%	**10.12%**	**80.35%**
Tier 1 Capital (after deduction) (**)	Total Available Capital	Total Risk Weighted Assets
33,632	**28,284**	**279,617**

Consolidated

Tier 1 Ratio	Total Capital Adequacy Ratio	Average Credit Risk Weight (*)
10.53%	**11.24%**	**80.30%**
Tier 1 Capital (after deduction)	Total Available Capital	Total Risk Weighted Assets
38,146	**40,730**	**362,271**

(*) Average credit risk weight is equal to Credit RWA (Separate: VND 248,134bln and Consolidated: 297,940bln) divided by Total Outstanding Balance (Separate: VND 308,811bln and Consolidated: VND 371,033bln). The Total Outstanding Balance includes (1) Credit exposures: customers and other FIs and (2) non-credit exposures: Vietnamese Government, fixed assets, cash and other assets. If excluding the non-credit exposures, average credit risk weight on separate and consolidated basis are 89.5% and 87.7% respectively.

(**) Investment in and purchase of share of other credit institutions will be deducted from Total Capital when calculating available capital, except for being deducted from Tier 1 Capital. Accordingly, for separate basis, Tier 1 Capital is higher than Total Available Capital.

Scope of CAR Calculation

According to the SBV's requirements, the group of entities that involve dominantly in banking activities are subjected to be in compliance with CAR calculation framework on both consolidated and separate basis.

First, CAR calculation framework is applied on a consolidated basis to preserve the integrity of capital in banks with subsidiaries by eliminating double gearing.

Furthermore, as one of the principal objectives of banking supervision is the protection of depositors, it is essential to ensure that capital recognized in capital adequacy measures is readily available for those depositors. Accordingly, banks also need to ensure adequate capitalization on a separate basis for bank-subsidiaries.

VPBank and Subsidiaries

VPBank has 2 subsidiaries, including VPBank Asset Management Company and VPBank Finance Company with holding ratio of 100%. Both companies are subjected to consolidated basis according to accounting policies.

VPBank
Vietnam Prosperity JSC. Bank
VPBank

FE CREDIT
VPBank Finance Company Limited
FE Credit

VPBank AMC
VPBank Asset Management Company
VPB AMC

Exclusion of Investment in Insurance Subsidiaries

According to Point 3b – Article 6, Circular 41, insurance company subsidiary shall not be subjected to CAR calculation. Accordingly, when measuring regulatory capital for banks, in principle, the bank can deduct banks' equity and other regulatory capital investments in insurance subsidiaries. Under this approach, the bank would remove the insurance entity's accounting exposures from its consolidated balance sheet assets and liabilities when calculating CAR.

Since VPBank has no insurance subsidiary, the regulatory consolidated balance sheet is the same with accounting consolidated one.

Mapping of Accounting Asset Categories with Regulatory Risk Categories

Regulatory risk exposure classes are based on different criteria from accounting asset types and are therefore not comparable on line by line basis.

Each balance sheet item on the Balance Sheet asset side is subjected to a regulatory asset category which shall be mapped into RWA calculation framework for 3 different types of risk i.e. credit risk, counterparty credit risk and market risk.

Table 1 and Table 2 present how the Bank's accounting items are classified into each risk's required capital calculation framework. In addition, they also indicate the different treatments between accounting and regulatory balance sheet i.e. deduction of long term investment on the regulatory balance sheet. The aggregated amount of items in Table 1 and Table 2 is not equal to the accounting total assets because the exposures in these 2 tables are face value - not taking into account the deduction from provisions.

Unit: VND billion

Table 1: Mapping of Financial Statement Categories with Regulatory Risk Categories - Separate

		Carrying Value					
		As reported in published financial statements	Under scope of regulatory consolidation	Subject to the credit risk framework	Subject to the counterparty credit risk framework	Subject to the market risk framework	Subject to deduction from capital or not subject to Regulatory Capital Requirements
ASSETS							
Cash, gold and gemstones	*a*	2,444	2,444	2,444	-	-	-
Balances with the SBV	*b*	6,321	6,321	6,321	-	-	-
Balances with and loans to other credit institutions	*c-1, c-2*	20,481	20,481	20,331	150	-	-
Securities held for trading	*d*	4,909	4,909	-	-	4,909	-
Derivatives and other financial assets(*)	*e*	34	34	-	34	43(**)	-
Loans and advances to customers	*f*	185,507	185,507	185,507	-	-	-
Debt purchased	*g*	3,937	3,937	3,937	-	-	-
Investment securities	*h-1, h-2*	50,476	50,476	50,476	-	-	-
Long-term investments	*i*	7,828	7,828	239	-	-	7,589
Other assets (including Fix Assets, Investment Properties, Other Assets)	*j, l*	15,633	15,633	15,633	-	-	-
Total		**297,568**	**297,568**	**284,887**	**184**	**4,909**	**7,589**

Table 2: Mapping of Financial Statement Categories with Regulatory Risk Categories - Consolidated

		Carrying Value					
		As reported in published financial statements	Under scope of regulatory consolidation	Subject to the credit risk framework	Subject to the counterparty credit risk framework	Subject to the market risk framework	Subject to deduction from capital or not subject to Regulatory Capital Requirements
ASSETS							
Cash, gold and gemstones	*a*	2,444	2,444	2,444	-	-	-
Balances with the SBV	*b*	6,761	6,761	6,761	-	-	-
Balances with and loans to other credit institutions	*c-1, c-2*	19,982	19,982	19,832	150	-	-
Securities held for trading	*d*	4,909	4,909	-	-	4,909	-
Derivatives and other financial assets (*)	*e*	101	101	-	101	43 (**)	-
Loans and advances to customers	*f*	247,633	247,633	247,633	-	-	-
Debt purchased	*g*	-	-	-	-	-	-
Investment securities	*h-1, h-2*	50,828	50,828	50,828	-	-	-
Long-term investments	*i*	161	161	161	-	-	-
Other assets (including Fix Assets, Investment Properties, Other Assets)	*j, l*	20,617	20,617	20,617	-	-	-
Total		**353,434**	**353,434**	**348,275**	**251**	**4,909**	**-**

(*) Derivatives and other financial assets belong to Asset if net value is positive, belong to Liability if net value is negative.
(**) Total amount of derivatives in trading book, subjected to market risk framework.

Capital Adequacy Ratio

Process of CAR Calculation

In 2018, VPBank officially issued the process of CAR calculation which formalizes: (1) roles and responsibilities of each unit in CAR calculation process; (2) steps and coordination mechanism among related units, and (3) quality control of CAR calculation.

To ensure high transparency, accuracy and security of CAR & RWA results, calculation process is designed based on four-eyes principle and automatically executed in the dedicated IT solution. The database of the system interacts with other systems to accurately, completely and timely get the input data for calculation.

CAR calculation goes through 3 main steps:

- Collect and validate data;
- Calculate automatically in the system;
- Deliver the results, archive and provide analytical reports.

In this process, Risk Management Division plays a central role while other units such as Finance, Business Intelligence Competence Center and IT provide support on data validation, extraction and reconciliation.

Capital Plan

VPBank conducts an annual capital planning as part of Internal Capital Adequacy Assessment Process (ICAAP). In which, the forward looking assessment of capital requirements given the Bank's business strategy, risk profile, risk appetite is the input for capital plan.

The capital plan is developed from both regulatory and economic capital viewpoints, aiming to ensure that capital resources:

- Remain sufficient to meet the Bank's risk profile and outstanding commitments;
- Exceed minimum regulatory requirements of CAR by targeting minimum CAR at 9%, hence above minimum levels, to ensure sustainable execution of the Bank's business plans;
- Allow the Bank to sustain economic downturn or adverse market events;
- Stay in line with the Bank's strategic and operational goals and shareholders and investors' expectations.

VPBank is assessing credit risk (including counterparty credit risk), market risk, operational risk, concentration risk, interest risk in banking book through economic capital.

The integration between risk and capital management framework helps to optimize the amount of capital resources to fulfill regulatory requirements and business demand.

Unit: VND billion

Table 3: Capital Adequacy Ratio & RWA

		Separate	Consolidated
A	**Total Risk Weighted Assets**	**279,617**	**362,271**
	Credit risk weighted assets	248,134	297,940
	Counterparty risk weighted assets	526	552
	Operational risk weighted assets	27,372	60,194
	Market risk weighted assets	3,585	3,585
B	**Total Capital Requirement**	**22,369**	**28,982**
	Capital requirement for Credit risk	*19,851*	*23,835*
	Capital requirement for Counterparty risk	*42*	*44*
	Capital requirement for Operational risk	*2,190*	*4,816*
	Capital requirement for Market risk	*287*	*287*
C	**Available Capital**	**28,284**	**40,730**
	Tier 1 capital (after deduction)	33,632	38,146
	Tier 2 capital (after deduction)	2,241	2,584
D	**Capital Adequacy Ratios**		
	Tier 1 ratio	12.03%	10.53%
	Capital Adequacy Ratio (CAR)	**10.12%**	**11.24%**

Regulatory Capital Base

Constituents of Capital Base

Under regulatory requirements, VPBank's capital base is divided into two main categories, namely Tier 1 and Tier 2, depending on the degree of permanence and loss absorbency exhibited. The main features of capital securities issued by the Bank are detailed below.

Tier 1 capital – core capital comprises equity capital and disclosed reserves. There is no obligation to pay a coupon or dividend to the shareholder arising from this type of capital. The equity capital is available for unrestricted and immediate use to cover any risks and losses.

Tier 2 capital – supplementary capital comprises (1) Other reserves allocated from after-tax income, (2) 50% of the increase due to re-valuation of fixed assets, (3) 45% of the increase due to re-valuation of long-term investment, (4) 80% of general provisions under the SBV's regulations on classification of owned assets, levels and methods for making provision for credit losses and use of such provision applied for Bank (5) Hybrid instruments issued by Bank and (6) Subordinated debts.

Certain adjustments following regulatory requirements are applied to determine the Bank's capital base. For instance, capital contributions or purchase of share of other credit institutions is deducted.

Eligible Capital Instruments

As of 30 June 2019, VPBank has VND 2,877 billion subordinated bonds. These subordinated bonds were issued by end of 2016 so that according to Circular 41, VND 1,151 billion is eligible for Tier 2 capital. The subordinated bond's features comply with SBV's Tier 2 capital requirements prescribed in Appendix 1, Circular 41.

In particular, the bond's term and conditions were structured to ensure the level of stability and loss absorbency capacity as below:

- Original maturity: 5 years and 1 day;
- Bonds are unsecured ;
- VPBank shall stop interest payment and defer accumulated interest payment to next period if interest payment has negative impact on business performance;
- Bond holders are paid only after other debtors are paid;
- VPBank shall repurchase these subordinated bonds only under conditions that all adequacy ratios are in line with SBV's requirements after repurchasing;
- In case of bank liquidation, subordinated debt will only be repaid after other liabilities are discharged;
- Interest rate: Fixed or floating. The fixed interest rate or formula used for determining interest rate shall be pre-defined and provided in the contract or document issued.

Unit: VND billion

Table 4: Separate Available Capital Composition

		Ref	Available Capital
	SEPARATE TIER 1 CAPITAL (A) = A1 – A2		**33,632**
	Separate Tier 1 capital components (A1) = ∑1÷7		**36,199**
1	Charter capital (financed and contributed capital)	*m*	25,300
2	Reserves supplementing charter capital	*s-1*	203
3	Reserves for operations development	*s-3*	1,223
4	Financial reserve	*s-2*	1,497
5	Capital for investment in fundamental construction and fixed asset purchase		-
6	Undistributed profits	*t*	6,687
7	Share premium	*o*	1,289
	Deductions from Separate Tier 1 capital (A2) = ∑ 8÷10		**2,567**
8	Goodwill		75
9	Accumulated loss		-
10	Treasury stock	*p*	2,492
	SEPARATE TIER 2 CAPITAL (B) = B1 - B2 -19		**2,241**
	Separate Tier 2 capital components (B1) = ∑11÷16		**2,241**
11	Other reserves allocated from after-tax income as regulated by laws (not including commendation fund, welfare fund and fund for steering committee rewards)		-

12	50% of the increase due to re-valuation of fixed assets as regulated by laws	-
13	45% of the increase due to re-valuation of long-term investment as regulated by laws	-
14	80% of general provisions under the State Bank's regulations on classification of owned assets, levels and methods for making provision for credit losses and use of such provision applied for credit institutions and foreign branch banks (FBBs)	1,090
15	Hybrid instruments issued by banks/FBBs	-
16	Subordinated debts issued or accepted under loan agreements by a bank that satisfy SBV's conditions prescribed in Appendix 1, Circular 41	1,151
	Deductions from Stand-alone Tier 2 capital (B2) = (17) + (18)	**-**
17	Positive difference between item (14) and 1.25% of Total credit risk weighted assets as regulated in the Circular.	-
18	Positive difference between the value provided in item number (16) and 50% of A	-
19	Purchases of and investments in subordinated debts issued by other credit institutions and FBBs which are eligible to count towards to Tier 2 capital of such credit institutions and FBBs (not including its clients' subordinated debts used as collateral, discounted or re-discounted)	-
	Supplementing deductions	**-**
20	The positive difference between (B1 – B2) and A	-
	Subject to deduction from Capital	**7,589**
21	Credit extensions used for capital contribution or purchase of shares of other credit institutions	-
22	Investment in and purchase of share of other credit institutions	7,552
23	Investment in, purchase of share of entities operating in insurance, securities, remittances, foreign exchange, gold trading, factoring, credit cards, consumer credit, payment intermediary services, credit information	37
24	Investment in, purchase of share of an entity (including affiliates), investment fund that exceeding 10% of charter capital and reserves supplementing charter capital of banks/FBBs after deductions stipulated in items (22) and (23)	-
25	Total of investment in, share purchases all entities (including affiliates), investment funds that exceeding 40% of charter capital and reserves supplementing charter capital of banks/FBBs after deductions of items from item (22) to (24)	-
	Equity (C) = (A) + (B) - (21) - (22) - (23) - (24) - (25)	**28,284**

Unit: VND billion

Table 5: Consolidated Available Capital Composition

		Ref	Available Capital
	CONSOLIDATED TIER 1 CAPITAL (A) = A1 – A2		**38,146**
	Consolidated Tier 1 capital components (A1) = ∑1÷8		**40,713**
1	Charter capital (financed and contributed capital)	*m*	25,300
2	Reserves supplementing charter capital	*s-1*	704
3	Reserves for operations development	*s-3*	2,652
4	Financial reserve fund	*s-2*	2,465
5	Capital investment for basic construction, purchase of fixed assets		-
6	Undistributed profits	*t*	8,303
7	Share premium	*o*	1,289
8	Difference due to foreign exchange arising from consolidation of financial statements		-

	Deductions from Stand-alone Tier 1 capital (A2) = ∑ 8÷10		**2,567**
9	Goodwill		75
10	Accumulated loss		-
11	Treasury share	*p*	2,492
	CONSOLIDATED TIER 2 CAPITAL (B) = B1 - B2 -19		**2,584**
	Consolidated Tier 2 capital components (B1) = ∑12÷18		**2,584**
12	Other reserves allocated from after-tax income as regulated by laws (not including commendation fund, welfare fund and fund for steering committee rewards)		-
13	50% of the increase due to re-valuation of fixed assets as regulated by laws		-
14	45% of the increase due to re-valuation of contributions for long-term investment as regulated by laws		-
15	80% of general provisions under the State Bank's regulations on classification of owned assets, levels and methods for making provision for credit losses and use of such provision applied for credit institutions and foreign branch banks (FBBs)		1,433
16	Hybrid instruments issued by banks/FBBs		-
17	Subordinated debts issued or accepted under loan agreements by a bank that satisfy SBV's conditions prescribed in Appendix 1, Circular 41		1,151
18	Minority Interest		-
	Deductions from Consolidated Tier 2 capital (B2) = (19) + (20) + (21)		**-**
19	Positive difference between item (14) and 1.25% of "Total credit risk weighted assets" as regulated in the Circular.		-
20	Positive difference between item (17) and 50% of A		-
21	Purchases of and investments in subordinated debts issued by other credit institutions and FBBs which are eligible to count towards to Tier 2 capital of such credit institutions and FBBs (not including its clients' subordinated debts used as collateral, discounted or re-discounted)		-
	Supplementing deductions		**-**
22	Positive difference between (B1-B2) and A		-
	Subject to deduction from Available Capital		**-**
23	Credit extensions used for capital contribution or purchase of shares of other credit institutions		-
24	Investment in, purchase of share of other credit institutions		-
25	Investment in, purchase of share of subsidiaries that are not consolidated and subsidiaries that are not operating according to insurance business law		-
26	Investment in, purchase of share of an entity (including affiliates), investment fund that exceeding 10% of charter capital and reserves supplementing charter capital of banks/FBBs after deductions stipulated in items (22) and (23)		-
27	Total of investment in, share purchases all entities (including affiliates), investment funds that exceeding 40% of charter capital and reserves supplementing charter capital of banks/FBBs after deductions of items from item (22) to (24)		-
	Consolidated Available Capital (C)= (A) + (B) - (23) - (24) - (25) - (26) - (27)		**40,730**

Credit Risk

Credit risk is one of the Bank's material risks, accounting for the highest percentage of VPBank's regulatory capital requirement (88%). In order to manage and mitigate credit risk, during recent years, VPBank has been continuously enhancing and improving credit governance frameworks, upgrading information system and technology, and implementing various initiatives to reinforce credit risk management practice. Moreover, VPBank has been step by step preparing for Internal-Rating Based approach compliance under Basel II standards.

Credit Risk Management Policy

In 2018, VPBank re-issued Credit risk management policy to synthesize principles, content and methods to implement credit risk management in the Bank. Credit risk management policy stipulates the management framework which consists of:

- Credit risk identification and classification;
- Credit risk management strategies and principles;
- Top down and bottom up credit risk limits
- End-to-end credit risk management process: identification, measurement, monitoring and reporting.

With the issuance of Credit risk management policy, VPBank has been conveying firm directives and clear guidance on credit mitigation to business units in particular and to all VPBank employees in general. This action helps to minimize risk quantum in activities that expose to potential risks and narrow the gap between credit risk management of the Bank and international practice.

Credit risk identification and classification

Credit risk is the risk of financial loss if a customer or counterparty fails to meet a payment obligation under a contract. It arises principally from direct lending, trade finance and leasing business as well as from off-balance sheet products, such as guarantees and credit derivatives, and from the Bank's holdings of debt and other securities.

Credit risk management strategies and principles

VPBank defines credit risk management strategies based on (i) target market and business direction for each segment; (ii) capital capacity, human resources and IT capacity; (iii) overall credit portfolio of VPBank; and (iv) macro–economic conditions. The Bank's credit risk management strategies touch every credit activity and are translated into various credit policies/procedures, including but not limited to: Credit granting policy, Regulation on credit granting condition, Credit underwriting and approval procedures, Regulation on non-performing loan management, etc.

The Bank's credit risk management strategy is reviewed at least on an annual basis or ad-hoc basis.

Credit risk limits

VPBank has developed risk appetite which represents the quantum of risk that the Bank has capacity to accept. The Bank's credit risk appetite is in line with risk management framework and risk profile of the Bank and already considers capital and financial plan as well as business performance assessment approach. VPBank's risk appetite is translated into top-down limits that ensure compliance with SBV's requirements and in accordance with risk quantum of industries as well as payment capacity of customers.

Since 2018, VPBank is conducting stress tests on not only credit RWA but also on capital and other material risks to assess the total impact on CAR under stressed scenarios.

All units and individuals of the Bank are fully aware of the importance of limit compliance. VPBank monitors limit compliance on daily or monthly basis and triggers timely alerts to prevent limit violations. Limit compliance status and all limit violations are reported and discussed in periodical meetings of Risk Management Committee & Councils to come up with appropriate treatments.

End-to-end credit risk management process

Identification, measurement, monitoring and reporting of credit risk are embedded in every step of credit life cycle from customer selection, credit underwriting, credit approval, credit monitoring and collection. A structural approval authority framework is firmly established that stipulates the maximum amount of credit granting for each approval level. Especially, to reduce processing time, minimize subjective judgmental opinions and identify risks timely, the Bank has applied advanced statistical models into automating credit approval for Retail and SME segments. For other segments, credit rating models play an important role in credit underwriting and credit decision making process. In addition, VPBank has also utilized behavior models to design acquisition campaigns and collection strategies that help the Bank approach customers with low risk and high return as well as improve collection efficiency.

Preparation For Internal Ratings - Based Approach (IRB)

Since 2015, VPBank has been using a wide range of credit scorecards, for Retail and SME segments, both application and behavior. In last 2 years, the Bank developed successfully PD models for local credit institutions and large corporates. These models have been being utilized in various activities, such as credit approval, portfolio management, early warning, and collection activities. This provides a great advantage for VPBank to prepare for IRB approach implementation.

Disclosures on Credit Risk Weighted Assets

According to Circular 41, credit risk weighted assets are calculated under standardized approach. Risk weight is assigned based on customer types, product features and risk & financial profile of customers. However, in order to accommodate to local market, to improve the granularity and risk sensitivity, and to reflect the conservative view, Circular 41 has adjusted to incorporate some features of Basel IV. Circular 41's requirements are even more conservative toward high-risk portfolio and missing information. Below summarizes adjustments of Circular 41 to Credit RWA:

- To encourage SMEs, Circular 41 introduces new asset class for SME with favorable risk weight of 90% rather than applying the same criteria based on external rating under Basel II. This RW is still higher than RW 85% under Basel IV;
- For regular corporate customers, Basel II relies solely on external rating to assign RW, which results in flat RW 100% (unrated) for all corporate exposures in developing market such as Vietnam. To mitigate this weakness, Circular 41 adopts a consultative paper of Basel Committee to define RW based on leverage ratio and total assets;
- Similarly to Basel IV, Circular 41 introduces four types of specialized lending that are not included in Basel II. Compared with Basel IV, RW of these asset types under Circular 41 is much more prudent;
- Instead of applying CCF of 0% for cancelable commitments as in Basel II, Circular 41 applies stricter CCF of 10%.

Unit: VND billion

Table 6: Credit RWA and Capital Requirement	Separate		Consolidated	
	RWA	Capital required	RWA	Capital required
Sovereign	300	24	300	24
Financial Institutions	23,590	1,887	23,112	1,849
Corporate	136,563	10,925	136,563	10,925
Secured by real-estate	21,920	1,754	21,920	1,754
Residential mortgage	1,557	125	1,557	125
Regulatory retail	33,375	2,670	75,870	6,070
NPL	6,157	493	10,356	828
Other	24,673	1,974	28,262	2,261
As of Jun 2019	**248,134**	**19,851**	**297,940**	**23,835**

Disclosures on the Bank's Use of External Credit Ratings

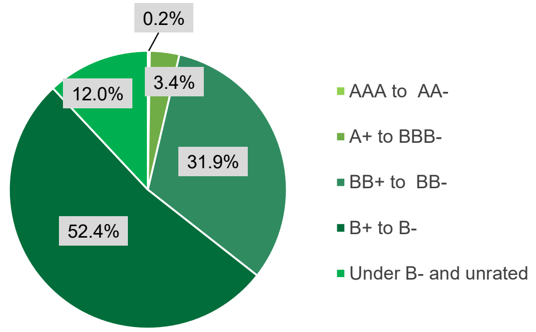
Circular 41 requires banks to use risk assessments prepared by External Credit Assessment Institutions (ECAIs) or ECAs to determine the risk weights applied to rated counterparties. ECAIs' risk assessment is utilized to define RW for following asset classes:

- Central governments and central banks (except Vietnamese government and SBV);
- Public sector entities, regional governments and local authorities;
- Financial institutions.

VPBank uses credit assessment of 2 ECAIs for this purpose – Moody's Investor Service (Moody's) and Standard & Poor's Rating Agency (S&P), which are accepted by the SBV as regulated in Article 5, Circular 41.

As of 30 June 2019, VPBank does not have exposures to foreign governments and other central banks as well as public sector entities, regional governments and local authorities of other sovereigns. Only financial institutions exposures in the Bank's portfolio are subjected to RW assignment based on ECAIs' credit assessment.

99% of financial institutions exposures are to local banks and are mainly dominated by those with external ratings from B+ to B- (52%) and BB+ to BB- (32%).



Exposure distribution by external rating

Table 7: Rating Agency

Standard & Poor's	Moody's
AAA, AA+, AA, AA-	Aaa, Aa1, Aa2, Aa3
A+, A, A-	A1, A2, A3
BBB+, BBB, BBB-	Baa1, Baa2, Baa3
BB+, BB, BB-	Ba1, Ba2, Ba3
B+, B, B-	B1, B2, B3
CCC+ and below	Caa1 and below

Unit: VND billion

Table 8: CR RWA by External Credit Rating for Local Financial Institutions

		RW	Separate RWA	Separate Capital required	Consolidated RWA	Consolidated Capital required
Original term under 3 months	AAA to AA-	10%	-	-	-	-
	A+ to BBB-	20%	139	11	159	13
	BB+ to BB-	40%	2,494	200	2,622	210
	B+ to B-	50%	3,412	273	3,412	273
	Under B- and unrated	70%	3,456	276	2,631	210
	Total		**9,501**	**760**	**8,824**	**706**
Original term above 3 months	AAA to AA-	20%	-	-	-	-
	A+ to BBB-	50%	-	-	-	-
	BB+ to BB-	80%	2,711	217	2,901	232
	B+ to B-	100%	9,575	766	9,575	766
	Under B- and unrated	150%	1,652	132	1,652	132
	Total		**13,938**	**1,115**	**14,128**	**1,130**

Unit: VND billion

Table 9: CR RWA by External Credit Rating for Foreign Financial Institutions	RW	Separate		Consolidated	
		RWA	Capital required	RWA	Capital required
AAA to AA-	20%	14	1	14	1
A+ to BBB-	50%	134	11	143	12
BB+ to BB-	100%	0	0	0	0
B+ to B-	100%	0	0	0	0
Under B- and unrated	150%	3	0	3	0
Total		**151**	**12**	**160**	**13**

Disclosures on Credit RWA by Industry

Credit exposures to customers are contributed by 5 main industries, including:

- Manufacturing;
- Construction;
- Wholesale and Retail; auto, motorbike and other motor vehicles;
- Real estates;
- Individual and personal services.

Individual and personal services industry contributes for the highest percentage of VPBank separate and consolidated lending to customer portfolio, i.e. 25% and 43% respectively. RWA of this industry only accounts for 20% and 36% on separate and consolidated basis respectively. The reason is that the Bank's strategy focuses on retail banking where risk weight is 75%, much lower than other segments**.**

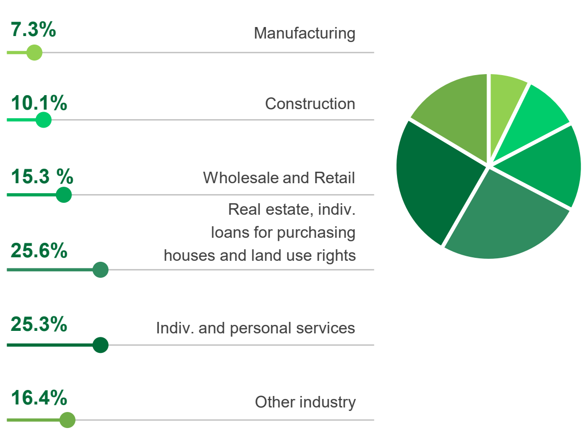
Construction is the highest risk weighted industry (117%). The main driver is Corporate customers.

Real estate is the second highest risk weighted industry, of which SME and Corporate customers fall into the most risk weighted range.

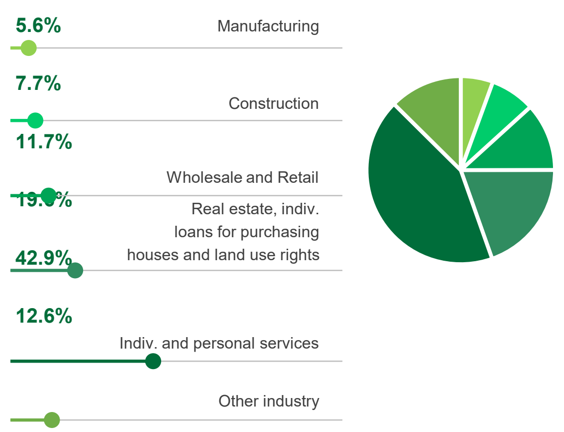
Manufacturing industry has an average RW of **104%,** lower than corporate segment since more than 50% are occupied by Retail and SME exposures.

Exposure distribution

Separate



Consolidated



Credit RWA and Average RW by Industry

Industry	RWA Separate	Risk weight Retail	Risk weight SME	Risk weight Corporate	Risk weight Total	RWA Consolidated	Risk weight Retail	Risk weight SME	Risk weight Corporate	Risk weight Total
Individual and Personal Service	36.343	76%	104%	120%	76%	83.037	76%	104%	120%	76%
Real estate, indiv. loans for purchasing houses and land use rights	48.130	54%	147%	135%	99%	48.130	54%	147%	135%	99%
Construction	22.355	77%	107%	121%	117%	22.355	77%	107%	121%	117%
Wholesale and Retail (*)	27.601	78%	97%	105%	95%	27.602	78%	97%	105%	95%
Manufacturing	14.372	78%	103%	113%	104%	14.372	78%	103%	113%	104%
Other Industry	33.896	77%	116%	115%	109%	33.896	77%	116%	115%	109%

(*) Wholesale and Retail; Auto, Motorbike and Other motor vehicles industry.

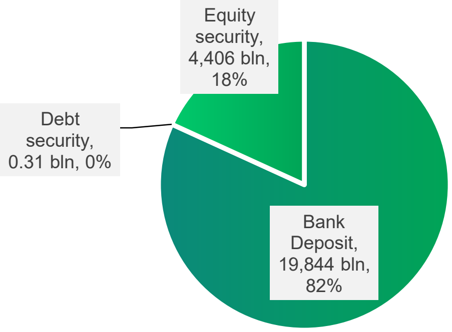
Risk Mitigation under Standardized Approach

According to Circular 41, credit risk mitigation is available in the form of eligible guarantee, financial collateral, credit derivatives and off-balance sheet netting.

VPBank does not have credit risk mitigation in the form of credit derivatives and off-balance sheet netting.

For eligible guarantee, the exposure is divided into covered and uncovered portions. Covered portion attracts risk weight of the protection providers while uncovered portion attracts the risk weight of the obligors.

Currently, CRM of VPBank comprises of 3 main sub-types: bank deposit, eligible equity security and eligible debt security in which term deposit accounts for 82% total CRM of VPBank.



Unit: VND billion

Table 10: Credit Mitigation in form of Eligible Collateral

	On-Balance sheet			Off-Balance sheet		
Separate	**CRM**	**RWA Pre - CRM**	**RWA post - CRM**	**CRM**	**RWA Pre - CRM**	**RWA post - CRM**
Sovereign	-	223	223	1	78	77
Financial Institutions	-	23,291	23,291	-	299	299
Corporate	9,191	127,941	118,856	6,728	20,301	17,707
Secured by real-estate	-	21,910	21,910	-	10	10
Residential mortgage	81	1,716	1,557	-	-	-
Regulatory retail	3,813	35,431	33,321	7	58	53
NPL	61	6,088	6,000	35	174	157
Other	3,889	28,019	24,673	443	169	-
Total	**17,035**	**244,619**	**229,831**	**7,214**	**21,089**	**18,303**

Consolidated	**CRM**	**RWA Pre CRM**	**RWA Post CRM**	**CRM**	**RWA Pre CRM**	**RWA Post CRM**
Sovereign	0	223	223	1	78	77
Financial Institutions	0	22,813	22,813	0	299	299
Corporate	9,191	127,941	118,856	6,728	20,301	17,707
Secured by real-estate	0	21,910	21,910	0	10	10
Residential mortgage	81	1,716	1,557	0	0	0
Regulatory retail	3,813	77,926	75,817	7	58	53
NPL	61	10,287	10,199	35	174	157
Other	3,889	31,597	28,262	443	169	0
Total	**17,035**	**294,413**	**279,637**	**7,214**	**21,089**	**18,303**

Market Risk

Market risk is the risk of losses due to unexpected and adverse fluctuations in market factors (such as exchange rates, interest rates, equity prices, commodity prices, etc.). Market risk arises from direct investments in financial instruments and products whose price movements are explained by such risk factors.

Market risk is one of the material risks to the banks. According to Circular 41, for purpose of identifying the Capital charge for market risk, banks must develop:

- Documented policies on conditions and criteria for determining items of the trading book to calculate exposures in the trading book, ensuring that they are separated from the banking book;
- Policies and procedures on determining exposure in order to calculate the Capital charge for market risk. These policies and procedures should, at a minimum, address: (i) Proprietary trading strategies, (ii) Market risk limits, (iii) Procedures for management of market risk exposures; (iv) Procedures for monitoring market risk exposure.

Market Risk Management Policy

Market risk policy in VPBank is in line with the Bank's objectives, business strategy, risk appetite and SBV's regulations. The policy sets out:

- Principles of market risk identification, measurement, monitoring and reporting;
- Principles of models back-testing and model validation;
- Principles of market risk limit setting: Market risk limits shall be set up following top down management approach (base on risk appetite, capital allocation for market risk, structure of profit allocation) or bottom up approach (based on business projects, historical data, etc.).

Market risk limits in VPBank include:

- Stop-loss limit;
- High-water mark limit;
- Maximum holding time;
- Total holding position limit;
- PV01 limit;
- Market conformity check.

These limits are reviewed by Risk Division on periodical basis (at least annually) or on ad-hoc basis upon occurrence of significant market fluctuations. Review frequency and results are reported to Market Risk Management Council (MACO).

Trading Strategies

Trading activities are not considered a main activity. Being engaged into customers' deposits taking business, the Bank does not want to expose deposit customers to excessive market risks through building up big trading book positions or participating in highly risky speculative transactions.

VPBank developed trading strategies stipulating: eligible instruments, risk limits adhere to portfolio, hedging strategy and closing position strategy upon crisis based on portfolio structure.

All trading strategies are reviewed by Risk Management Division and have dedicated limits set.

Segregation of Trading & Banking Book

VPBank has already issued internal regulations on (1) Criteria for trading book – banking book classification and (2) Principles on trading book and banking book management; with main highlights as below:

- All transactions and positions shall belong to either trading book or banking book;
- Trading book is impacted by market risks; hence, its profit shall be influenced by market fluctuations. Whilst, banking book consists of available-for-sale and held to maturity positions; its net interest income shall then be influenced by interest rate risk and credit risk;
- Differences in the nature of financial instruments between these two books, as well as differences in risk and profit criteria, are well reflected in accounting principles, risk management and general management principles.

Trading book consists of:

- Trading transactions (except derivatives transactions hedged for Banking book items);
- Underwriting for issuance of financial instruments;
- Derivatives transactions aimed at hedging risks arising from trading transactions;
- Foreign exchanges or financial asset sale transactions aimed at meeting the demands of customers, partners and back-to-back transactions of these ones.

Banking book consists of financial instruments and positions which do not belong to Trading book.

Capital Charge for Market Risk

Under Circular 41, Capital requirement for market risk is calculated by using standardized measurement method, in which fair value is used to determine market risk exposure. VPBank has clear guidelines on fair value calculation which also set out input data, principles of using valuation model, and valuation methods for each type of instruments.

To ensure transparency and reliability, VPBank only uses input data that is extracted from available and official sources such as VPBank's centralized data warehouse, Bloomberg and Reuters, etc. In addition, to facilitate treasury operation and risk management practice as well as enhance data quality, VPBank implemented Treasury system to automate the entire process of transaction initiation, risk management and operations.

Capital charge for market risk includes:

- Capital charge for interest rate risk, except options;
- Capital charge for equity risk, except options;
- Capital charge for foreign exchange risk (including gold), except options;
- Capital charge for commodities risk, except options;
- Capital charge for options.

Unit: VND billion

Table 11: Market risk – RWA and Capital Requirement	**Separate**		**Consolidated**	
	RWA	Capital required	RWA	Capital required
Interest rate risk	2,293	183	2,293	183
Equity position risk (*)	-	-	-	-
Foreign exchange rate risk	1,292	103	1,292	103
Commodities risk (*)	-	-	-	-
Options risk (*)	-	-	-	-
As of Jun 2019	**3,585**	**287**	**3,585**	**287**

(*) As of 30 Jun 2019, VPBank does not have capital charge for equity risk, commodities risk and options because these activities are not included in the Bank's portfolio.

Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk is relevant to every aspect of business. It covers a wide spectrum of issues, in particular legality, compliance, security and fraud. Losses arising from breaches of regulations and law, unauthorized activities, errors, omission, inefficiency, frauds, system failures or external events all fall into the definition of operational risk.

To manage, mitigate and protect bank against operational risks, VPBank has deployed a comprehensive operational risk policy framework and developed business continuity plans.

Operational Risk Management Policy

Operational risk management policy in VPBank was developed and implemented, following standards and widely accepted models that are in accordance with international practices and Basel II standards and complying with Circular 13/2018/TT-NHNN, as shown in below diagram:

Organizational structure and risk governance

Risk appetite, strategy and objectives

1 Operational Risk Management Toolkit

Collect and analyze internal and external operational risk events

- Risk & Control Self Assessment
- Key Risk Indicator
- Scenario Analysis

2 Operational Risk Management

Outsourcing

Technology application

New Products, Processes, Projects, Systems

3 Other Activities

Ethics and awareness of operational risk management

Technological system to support operational risk management

Internal monitoring and reporting

Solutions for operational risk events

Business Continuity Management

As an annual practice, in order to ensure business continuity and minimize financial and non financial losses in case of sudden crisis or business disrupting events, VPBank has continued to update and test business continuity plan for key functions, applying consistently to all units within the Bank.

VPBank has developed business continuity management policy which sets out:

- Principles of business continuity management;
- Business continuity management organization;
- Principles of business continuity plan development.

Business continuity management ensures the following:

Principles of business continuity plan development

Business continuity plan is developed for all Head Office units and branches in case of natural disasters (fire, explosion, flood, storm, earthquake); bank robbery; threats; smashing and disease outbreaks.

Business continuity plan is developed based on risk analysis and impact assessment on all activities of the Bank. As a result, list of activities in priority order and necessary resources are identified to cover material activities with appropriate reaction plan.

Frequency of business continuity plan review

Business continuity plans are reviewed, evaluated and updated annually or on ad-hoc basis if there are (1) changes in location and organization structure, (2) major changes in human resource or information technology, and/or (3) findings that require improvement. The Bank conducts annual testing for Business continuity plans to assess the suitability and effectiveness of the developed plans.

IT backup

The Bank maintains a disaster recovery center for the Bank's data backup, deployment of important information systems. For these systems, VPBank has strictly conducted periodical testing of conversion from the main system to the backup system at least every 3 months.

Communication

Business continuity plans are documented and communicated to bank-wide employees. The Bank conducts various trainings in the form of **both on-site and e-learning** annually to equip all employees with necessary skills and knowledge to respond efficiently and effectively to emergencies. All employees are well aware of the importance of business continuity management as well as their roles and responsibilities in the event of any emergency and disaster.

Capital Charge for Operational Risk

Capital charge for operational risk under Circular 41 is calculated using standardized approach, equal to a fixed percentage (15%) of the average of business indicators over the previous three years. The business indicator comprises three macro-components of the Bank's income statement, including interest, services and financial component. RWA for operational risk is equal to Capital charge multiplied by 12.5.

As of 30 June 2019, operational risk RWA accounts for 9.8% and 16.6% total RWA on separate and consolidated basis respectively.

Unit: VND billion

Table 12: Operational Risk – RWA and Capital Requirements	Separate		Consolidated	
	RWA	Capital required	RWA	Capital required
Interest Component (IC)	10,611	849	24,308	1,945
Services Component (SC)	9,551	764	20,568	1,645
Financial Component (FC)	7,210	577	15,318	1,225
As of Jun 2019	**27,372**	**2,190**	**60,194**	**4,816**

Abbreviations

The following abbreviations are used across this document.

CCF: Credit Conversion Factor

CAR: Capital Adequacy Ratio

CRM: Credit Risk Mitigation

ECAIs: External Credit Assessment Institutions

ECA: Export Credit Agencies

FBB: Foreign Branch Bank

FE Credit: VPBank Finance Company

IRB: Internal Ratings-Based Approach

KRI: Key Risk Indicator

NPL: Non-Performing Loan

PD: Probability of Default

RCSA: Risk Control Self-Assessment

RW: Risk Weight

RWA: Risk Weighted Assets

SBV: State Bank of Vietnam

SME: Small and Medium Enterprises

VPB AMC: VPBank Asset Management Company

Unit: VND billion

Reconciliation of Balance Sheets – Financial Accounting to Regulations

		Ref	Separate Regulatory Balance Sheet	Consolidated CAR calculation Balance Sheet
	ASSETS			
A1	**I. Cash, gold and gemstones**	a	**2,444**	**2,444**
A2	**II. Balances with the State Bank of Vietnam**	b	**6,321**	**6,761**
A3	**III. Placements with and credit granting to other credit institutions**		**20,481**	**19,982**
A3-1	1. Placements with other credit institutions	c-1	18,090	17,357
A3-2	2. Credit granting to other credit institutions	c-2	2,392	2,625
A4	**IV. Securities held for trading**		**4,891**	**4,891**
A4-1	1. Securities held for trading	d	4,909	4,909
A4-2	2. Provision for securities held for trading		(18)	(18)
A5	**V. Derivatives and other financial assets**	e	**34**	**101**
A6	**VI. Loans and advances to customers**		**182,738**	**243,518**
A6-1	1. Loans and advances to customers	f	185,507	247,633
A6-2	2. Provision for loans and advances to customers		(2,769)	(4,115)
A7	**VII. Debt purchase**		**3,919**	**-**
A7-1	1. Debt purchase	g	3,937	-
A7-2	2. Provision for debt purchasing		(18)	-
A8	**VIII. Investment securities**		**49,907**	**50,259**
A8-1	1. Available-for-sale securities	h-1	48,993	48,993
A8-2	2. Held-to-maturity securities	h-2	1,483	1,835
A8-3	3. Provision for investment securities		(569)	(569)
A9	**IX. Long-term investments**	i	**7,828**	**161**
A9-1	1. Investments in subsidiaries		7,667	-
A9-2	2. Other long-term investments		228	228
A9-3	3. Provision for long-term investments		(67)	(67)
A10	**X. Fixed assets**	j	**1,502**	**1,896**
A10-1	1. Tangible fixed assets		1,241	1,343
A10-1-1	a. Cost		1,925	2,282
A10-1-2	b. Accumulated depreciation		(683)	(940)
A10-3	3. Intangible fixed assets		260	554
A10-3-1	a. Cost		570	1,001
A10-3-2	b. Accumulated amortization		(310)	(447)

Unit: VND billion

Reconciliation of Balance Sheets – Financial Accounting to Regulatory

		Ref	Separate	Consolidated
			Regulatory Balance Sheet	CAR calculation Balance Sheet
	ASSETS			
A12	**XII. Other assets**	I	**14,131**	**18,720**
A12-1	1. Receivables		9,646	11,316
A12-2	2. Accrued interest and fee receivables		2,969	4,410
A12-3	3. Deferred tax assets		-	-
A12-4	4. Other assets		1,556	3,040
A12-4-1	Other assets		1,556	3,040
A12-4-2	- In which: Good will		-	-
A12-5	5. Allowance for other assets		(39)	(45)
Total Assets as of 30 Jun 2019			**294,195**	**348,732**
	LIABILITIES AND OWNERS' EQUITY			
B1	**TOTAL LIABILITIES**		**260,499**	**310,524**
B11	**I. Amounts due to the Government and the State Bank of Vietnam**		**2,021**	**2,021**
B12	**II. Deposits and borrowings from other credit institutions**		**31,492**	**45,436**
B2-1	1. Deposits from other credit institutions		16,579	16,589
B2-2	2. Borrowings from other credit institutions		14,913	28,848
B13	**III. Deposits from customers**		**194,351**	**197,363**
B14	**IV. Derivatives and other financial liabilities**		**-**	**-**
B15	**V. Other borrowed and entrusted funds**		**320**	**320**
B16	**VI. Valuable papers issued**		**25,012**	**53,755**
B17	**VII. Other liabilities**		**7,305**	**11,629**
B7-1	1. Accrued interest and fee payables		5,143	6,300
B7-2	2. Deferred tax liabilities		-	-
B7-3	3. Other liabilities		2,162	5,329
B7-4	4. Provision for contingent liabilities and off-balance sheet commitments		-	-

Unit: VND billion

Reconciliation of Balance Sheets – Financial Accounting with Regulatory

		Ref	Separate Regulatory Balance Sheet	Consolidated CAR calculation Balance Sheet
	OWNERS' EQUITY		**33,695**	**38,208**
B21	**VIII. Owners' Equity and Reserves**		**33,695**	**38,208**
B8-1	1. Owners' Equity		24,097	24,097
B8-1-1	a. Charter capital	*m*	25,300	25,300
B8-1-2	b. Construction investment fund	*n*	-	-
B8-1-3	c. Share premium	*o*	1,289	1,289
B8-1-4	d. Treasury shares	*p*	(2,492)	(2,492)
B8-1-5	e. Preferred share	*q*	-	-
B8-1-6	g. Others	*r*	-	-
B8-2	2. Reserves		2,923	5,821
B8-2-1	h. Capital supplementary reserve	*s-1*	203	704
B8-2-2	i. Financial reserves	*s-2*	1,497	2,465
B8-2-3	j. Investment and development fund	*s-3*	1,223	2,652
B8-3	3. Foreign exchange differences		(12)	(13)
B8-4	4. Difference on revaluation of assets		-	-
B8-5	5. Retained earnings	*t*	6,687	8,303
Total Liabilities And Owners' Equity as of 30 Jun 2019			**294,195**	**348,732**

Vietnam Prosperity Joint Stock Commercial Bank

Add: 89 Lang Ha Street, Dong Da District, Hanoi
Tel: 024 392 888 69 Fax: 024 392 888 67
Website: www.vpbank.com.vn