Shinhan Bank

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PUBLIC DISCLOSURE ON CAPITAL ADEQUACY RATIO

(In accordance with Circular 41/2016/TT-NHNN dated 30/12/2016)

As of 30th June 2021

TABLE OF CONTENTS

I. INTRODUCTION

Shinhan Bank Vietnam Limited ("the Bank") is a one-member limited liability bank established by Shinhan Bank Korea and incorporated in the Socialist Republic of Vietnam.

The Bank is established in Socialist Republic of Vietnam under Operation License No.106/GP-NHNN issued by the State Bank of Vietnam ("SBV") on 17 December 2019, amended the Operation No.341/GP-NHNN on 29 December 2008 and Business Registration Certificate No.0309103635, amended the 17th time on 14 August 2019, issued by Department of Planning and Investment of Ho Chi Minh City. The operation duration of the Bank is 99 years from 29 December 2008.

The principal operations of the Bank are to mobilize short, medium and long-term funds in the forms of term deposits, demand deposits; to receive entrusted investment and development funds from domestic credit institutions; to borrow from other financial institutions; to grant short, medium and long-term loans; to contribute capital, to invest in join-ventures, to trade bonds and to trade foreign currencies in accordance with laws; and to provide other banking services.

Circular 41/2016/TT-NHNN ("Circular 41') on capital adequacy ratio for banks and foreign bank branches has been issued on 30 December 2016 by SBV aiming to enhance regulatory capital by introducing a new set of risk-based capital standards. Although its effective date was 01 January 2020, the Bank had been approved by SBV to early implement Circular 41 from 01 October 2019.

Under Circular 41, all commercial banks and foreign bank branches must maintain a minimum capital adequacy ratio of 8%.

II. SCOPE OF CAPITAL ADEQUACY RATIO CALCULATION

1. Qualitative Content

According to regulations on financial reporting for credit institutions and foreign bank branches, the following entities are subject to consolidation and non-consolidation of the Bank:

- Subsidiaries: *not existed*
- Affiliated companies: *not existed*
- Exempt companies (insurance companies): *not existed*

The Bank, consisting of no subsidiaries or affiliated companies, shall only be subject to minimum adequacy ratio based on its Financial Statements.

2. Quantitative Content

Amount of investment in a subsidiary which is an insurance business enterprise: *not incurred*

III. CAPITAL STRUCTURE

1. Qualitative Content

As of 30th June 2021, the Bank has not issued any debt-equity instruments. The Bank's own capital consists mainly of contributed capital from Shinhan Bank of Korea ("Mother bank") and retained earnings from initial investment in Vietnam until now.

2. Quantitative Content

The following table presents the Bank's capital components.

Table 01 – Own Capital

Unit of currency: Million VND

Criteria	Amount *(30/06/2021)*
Tier 1 Capital	19,842,710
Tier 2 Capital	442,488
Items deducted from Capital	-
Own Capital	**20,285,198**

IV. CAPITAL ADEQUACY RATIO

1. Qualitative Content

(a) Procedure of capital adequacy ratio calculation

The Bank has issued internal policies and guidelines on calculating and managing capital adequacy ratio, detailing responsibilities and authorities of each stakeholder on logging, data cleansing, calculating, monitoring, auditing & reporting on capital adequacy ratio, as well as setting up warning limits and action plans.

Since 2013, with the support of Mother Bank, the Bank has developed Risk Data Mart to perform risk management according to Basel II standards. By 2019, the Bank has coordinated with specialists to upgrade system and fully implement the requirements for calculating capital adequacy ratio as prescribed in Circular 41. This system, based on an integrated database from core banking and market data, creates an automated process of calculating capital adequacy ratio.

(b) Capital planning to secure capital adequacy ratio

After setting target adequacy ratios for next 3-years, the Bank shall annually assess the business and legal environment to make appropriate adjustment. The Bank's business and capital planning shall be closely linked to the established target on capital adequacy ratio.

2. Quantitative Content

Table 02 – Risk Weighted Assets & Capital Adequacy Ratio

Unit of currency: Million VND

Criteria	Amount *(30/06/2021)*
Credit risk weighted asset, in which:	98,933,277
Credit risk	98,376,919
Counterparty credit risk	556,358
Capital requirement for operational risk	962,086
Capital requirement for market risk	549,643
Tier 1 capital ratio (%)	16.84
Capital adequacy ratio (%)	**17.22**

V. Credit Risk

"Credit risk" is the risk that customers do not perform or are unable to partially/fully perform the loan repayment obligations under contracts/agreements with the Bank, exclude for the cases belong to counterparty credit risk. In particular, customers (including credit institutions, foreign bank branches) have relations with the Bank in receiving credit (including receiving credits through trust), receiving deposits, and corporate bond issuance.

"Counterparty credit risk" is the risk that the counterparty does not perform or is unable to partially/fully perform its payment obligations before or in the due date of its proprietary, repo, and reverse repo transactions; trading of derivative products for hedging risks; FX trading, financial asset trading to serve the customers and counterparties' demand. In which, counterparty (including credit institutions, foreign banks' branches) have transactions with the Bank including proprietary transactions; repo transaction and reverse repo transaction; trading of derivative products to prevent risks; FX trading, financial asset trading to serve the customers and counterparties' demand.

1. Qualitative Content

(a) Credit Risk Management policy

The Bank's credit risk management policy is issued and periodically reviewed/updated to ensure credit risk management is adhered throughout the process of approaching, assessment, approval and post disbursement management to comply with regulations of SBV and relevant laws.

❖ Credit risk management principles

i) When there is conflict in the pursuit of balancing risk and profitability, mitigating risk shall take priority;

ii) The Bank shall attempt to improve bank-wide RAROC (Risk adjusted Returns on Capital) through the management of expected loss and unexpected loss; and

iii) For all transactions which may have credit risk potential, the Bank shall attempt to quantify credit risk, establish limits together with other appropriate actions.

❖ Credit risk management strategy

The Bank manages asset soundness by applying separate limits on Non-performing loan ratio and Non-performing credit ratio for each customer type, as well as each industry and economic sector. In addition, the Bank determines credit-risk-compensated cost by charging interest rates according to the customer's creditworthiness and credit enhancement measures.

❖ Credit risk management structure

Similar to operational risk, market risk, and other major risks, credit risk management is organized as following.

i) Senior management's supervision:

- Members' Committee: To promulgate regulations, policies and risk appetites on credit risk management within the authority of the Members' Committee complying with the Bank's Charter and provisions of related laws
- Risk Management Committee: To assist and advise the Members' Committee in credit risk management.
- Board of Controllers: To oversee the Internal Audit Department in performing internal audit for credit risk management
- General Director: To promulgate credit risk limits according to the Bank's strategic plans and risk appetites as well as oversee the execution of strategies, policies, resolutions and decisions set forth by Members' Committee.
- Risk Committee, Credit Risk Settlement Committee: To assist General Director in matters related to credit risk.

ii) Business units, related management departments: are organized as 03 defensive lines as following:

- First line of defense: All departments and branches that hold assets related to credit risk, generate revenue and take risk-based decisions will bear the primary responsibility.
- Second line of defense: departments in charge of risk management, credit policy and legal & compliance are functioned as second line in credit risk management.
    - o Propose to build up and revise Credit Policy, credit risk management policies as needed;
    - o Advise senior management on issues related to credit risk management;
    - o Develop, validate, and upgrade credit risk assessment framework and model in a timely manner;
    - o Maintain and enhance Early Warning System to identify customers whose repayment capability is deteriorating in order to propose timely resolutions; and
    - o Managing and monitoring credit risk limits, etc.

- Third line of defense: Internal audit department examines the compliance of credit policies, credit risk management policies to detect frauds, errors; and request corrections and/or policy amendments.

❖ **Internal credit rating system**

The system has been built up to quantify criteria for assessing the likelihood of customers' default on their repayment obligations, including macro socio-economic factors and business environment. The internal credit rating system not only evaluates creditworthiness of customers before making any credit decision but also periodically after loan disbursement in order to control asset soundness, debt classification, and timely take measures to handle bad credits.

(b) List of eligible independent credit rating agencies for calculating the capital adequacy ratio

The Bank is using independent credit ratings of the following eligible organizations: Standard & Poor, Moody's and Fitch Ratings.

(c) List of qualified credit risk mitigations: Security assets, Guarantee, On Balance-Sheet Netting and Credit Derivatives

Table 03 – List of qualified credit risk mitigations

(30/06/2021)

No.	Credit risk mitigations
1	Security assets
	- *Cash, valuable papers, passbooks issued by credit institutions or foreign bank branches*
2	On Balance-sheet Netting
3	Guarantee
4	Credit Derivatives - *Credit insurance policy*

2. Quantitative Content

❖ **Credit risk weighted assets by each selected independent credit rating agencies as following.**

Table 04 – Credit risk weighted assets

(By independent credit rating agency)

Unit of currency: Million VND

By Credit Ratings		Risk Weight	Amount (30/06/2021)		
			Fitch Rating	S& P	Moody's
Claims on countries' governments or central banks, non-central government public sector entities (PSEs) or local governments					
AAA ~ AA-		0%			
A+ ~ A-		20%			
BBB+ ~ BBB-		50%			
BB+ ~ B-		100%			
Under B or non-rating		150%			
Claims on foreign financial institutions (including foreign bank branches operating in Vietnam)					
AAA ~ AA-		20%	367,874	0	1,691,365
A+ ~ BBB-		50%	7,705,293	761,616	1,933,035
BB+ ~ B-		100%	0	0	0
Under B or non-rating		150%			8,476
Claims on domestic credit institutions					
Claims with original terms ≥ 3 months	AAA ~ AA-	20%	0	0	0
	A+ ~ BBB-	50%	0	0	0
	BB+ ~ BB-	80%	0	0	525,239
	B+ ~ B-	100%	3,387,600	0	7,388,049
	Under B or non-rating	150%			2,028,701

By Credit Ratings		Risk Weight	Amount (30/06/2021)		
			Fitch Rating	S& P	Moody's
Claims with original terms < 3 months	AAA ~ AA-	10%	0	0	0
	A+ ~ BBB-	20%	0	0	0
	BB+ ~ BB-	40%	0	0	741,245
	B+ ~ B-	50%	344,915	0	1,819,003
	Under B or non-rating	70%			822,281
Total					29,524,692

❖ **Credit risk weighted assets by credit risk type**

Table 05 - Credit risk weighted assets

(By different parties' risk factor)

Unit of currency: Million VND

No.	Criteria	Amount (30/06/2021)
1	Claims on Vietnam Government, SBV, State Treasury, policy banks	
2	Claims on foreign financial institutions	2,096,656
3	Claims on foreign bank branches operating in Vietnam	10,371,004
4	Claims on domestic credit institutions	17,057,033
5	Claims on corporate loans	39,037,315
6	Claims on real estate backed loan	666,148
7	Claims on home mortgage loan	684,813
8	Claims on regulatory retail credits	26,951,408
9	Claims on NPL	540,937
10	Other assets	971,606
Total credit risk weighted assets		**98,376,919**

❖ **Credit risk weighted assets by industry**

Table 06 - Credit risk weighted assets

(By industry)

Unit of currency: Million VND

No.	Industry	Amount (30/06/2021)
1	Mining	118,012
2	Agriculture, Forestry & Fishing	42,367
3	Hotel & Restaurant	623,081
4	Transportation and Warehouse	1,499,667
5	Whole sale and Retail	2,487,752
6	Construction, Real Estate	2,208,309
7	Service	4,075,210
8	Manufacture (Heavy industry)	12,517,031
9	Manufacture (Light industry)	15,399,599
10	Individuals	27,636,222
11	Finance and Banking	30,096,879
12	Not classified (Other Assets)	1,672,789
Total credit risk weighted assets		**98,376,919**

❖ **Credit risk weighted assets (including On-Balance Sheet & Off-Balance Sheet) before and after applying credit risk mitigation ("CRM") measures.**

Table 07 - Credit risk weighted assets

(Before and after credit risk mitigations)

Unit of currency: Million VND

(30/06/2021)

Total credit risk weighted assets BEFORE CRM	**CRM measures**				**Total credit risk weighted assets AFTER CRM**
	Security Asset	*On Balance-sheet Netting*	*Guarantee*	*Credit Derivatives*	
105,636,518	*6,718,457*		*321,868*	*219,273*	***98,376,919***

❖ **Counterparty credit risk weighted asset by each transaction type**

Table 08 – Counterparty credit risk weighted assets

Unit of currency: Million VND

No.	Criteria	Amount (30/06/2021)
1	Derivatives	556,358
	Total counterparty credit risk weighted assets	**556,358**

VI. OPERATIONAL RISK

"Operational risk" refers to the risk arising from inadequate or faulty internal processes, human/system errors, or external events that causes financial losses or negative non-financial impacts on the Bank (including legal risk; not including reputation risk & strategy risk).

1. Qualitative Content

(a) Operational risk management policy

The Bank's operational risk management policy is issued and regularly reviewed, revised to ensure that operational risks are controlled and managed strictly, in accordance with management principle and strategy.

❖ **Operational risk management principles**

Operational risk shall be managed under the following principles:

i) The amount of loss arising from operational risk and the frequency of incidents shall be considered;

ii) Those events which rarely occur but have huge impact shall be noted;

iii) Any changes to business environments and internal management shall be considered;

iv) Operational risk shall be managed with a focus on prevention through systematic data collection and analysis; and

v) Risk awareness shall be emphasized through employee trainings and campaigns aiming to reduce operational risk.

❖ **Operational risk management strategy**

i) Compliance with principles of operational risk management aforementioned;

ii) Development of and compliance with standard guidelines in using outsourcing activities, purchasing insurance, and applying technology; and

iii) Establishment and testing the business continuity plan

❖ **Operational risk management framework**

Besides outlining principle and strategy, the Bank's operational risk management policy also covers the following:

i) Establish and monitor operational risk limits, which consist of financial loss limits based on 06 business groups, and non-financial loss limits (including goodwill, reputation, and incurred legal liabilities);

ii) Fully identify operational risks in every product, business activity, business process, information technology systems and other management systems;

iii) Measure and monitor operational risk through collecting, quantifying, and analyzing loss data compiled by internal & external audit, in conjunction with other suitable methods;

iv) Managing operational risk in compliance with following guiding principles: (1) tolerating unavoidable or acceptable risks; (2) transferring risk to third parties through outsourcing or insurance instruments when risk exceeding acceptable range; (3) controlling operational risk by reducing frequency or impact; and (4) avoiding risks by suspending or restricting a number of related activities;

v) Managing operational risks for new products, new markets, outsourcing and operational risk management in technology applications; and

vi) Business continuity plan, etc.

(b) Business Continuity Plan

The Bank has established and tested Business Continuity Plan in congruence with operational risk management strategy. Business Continuity Plan shall meet the following minimum requirements:

i) Conformity with characteristics and business scale of the Bank;

ii) Back-up resources of man power, IT infrastructure, and database;

iii) Measures to minimize losses from discontinued operations;

iv) Resumed discontinued operations within a targeted timeline; and

v) To be reviewed and tested at least annually to determine the effectiveness of the plan and revise accordingly (if needed).

2. Quantitative Content

Table 09: Required Capital for Operational risk

Unit of currency: Million VND

(30/06/2021)

Term (last 12 quarters)	Business Indicator									
	IC = |Interest Income – Interest Expense|		SC = ∑ (Income from services/other, Expenses for services/others)				FC = ∑|Net gain/loss from FX trading, trading of Trading & Investment Securities|			Business Indicator = IC + SC +FC
	Interest incomes	*Interest expenses*	*Income from services*	*Expense for services*	*Other incomes*	*Other expenses*	*|Net gains/losses from FX trading|*	*|Net gains/losses from trading of Trading Securities|*	*|Net gains/losses from trading of Investment Securities|*	
04 primary quarters	6,304,841	1,585,802	801,164	441,302	418,669	312,656	519,829	0	149,354	7,362,012
04 following quarters	6,218,250	1,758,985	683,825	405,063	89,231	16,695	504,555	0	252,319	6,410,953
04 last quarters	5,227,251	1,364,619	655,196	362,730	70,910	22,436	396,544	0	98,297	5,468,746
Total required capital for Operational Risk (*)									**962,086**	

(*) 3 year average Business Indicator x 15%

VII. MARKET RISK

"Market risk" refers to the risk that may arise due to an adverse fluctuation in interest rates, gold prices, securities prices and commodity prices in the market. Market risk includes interest rate risk, foreign exchange risk, stock price risk and commodity price risk.

1. Qualitative Content

The Bank's market risk management policy is issued and regularly reviewed, revised to ensure that market risks are well recognized, measured, monitored and closely managed.

(a) Market risk management policy

❖ **Market risk management strategy**

The Bank has devised market risk management strategy and periodically evaluated, adjusted when there is a change in business/legal environment to achieve risk management goals:

i) Market risk position in trading book must be used for hedging purposes;

ii) Comply with principles of market risk management in normal condition, stress condition regarding securities price, commodity price, exchange rate, gold price, interest rate in accordance with internal guidelines; and

iii) Applying market risk hedging measures, including:

- ✓ Monitoring and controlling the limits approved by General Director
- ✓ Conducting FX dealing for the purpose of asset and liability management
- ✓ The Bank may perform FX dealing at the request of its customers. However, it should take a back-to-back transaction to close any open FX position.

❖ **Market risk management framework**

i) The organizational structure of market risk management is divided by functions and roles according to the internal control systems, including 03 defensive lines:

- ✓ First defensive line: business units bear the primary responsibility for market risk management.

- ✓ Second defensive line: Risk Management Department shall conduct specialized management to market risk
- ✓ Third defensive line: Internal Audit Department shall perform assigned responsibilities consistent with internal control guideline and internal audit guideline.

ii) Market risk is managed by establishing and monitoring the implementation of market risk limits; including capital limit for market risk, interest rate risk limit, FX position limit, etc.

iii) A comprehensive guidance on market risk management consists of policies, processes and regulations, which outlines framework, principles and methodologies are issued, reviewed, updated, and shared among related units.

iv) The measurement of market risk is performed by a department independent from the business units; equipped with adequate IT infrastructure and database access. In addition, the Bank decentralizes individual approval authority to prevent market risks.

v) Monitoring and reporting on market risk are carried out regularly through limit warning system and periodic reports (daily/monthly/quarterly) in order to promptly alert business units and senior management.

(b) Proprietary trading strategy

i) Proprietary trading strategy - *Currencies*: Based on internal regulations, the Bank may undertake foreign exchange transactions under customers' request. In principle, the Bank must perform back-to-back transactions to close foreign exchange positions. However, based on the actual situation or liquidity need, the Head of Capital Market & Trading Division may decide to keep the foreign exchange position within the acceptable limits from time to time.

ii) Proprietary trading strategy - *Derivatives*: the Bank currently incurred no proprietary trading on derivative products.

iii) Proprietary trading strategy – *Valuable papers*: the Bank currently incurred no proprietary trading on valuable papers.

(c) Trading book portfolio

The Bank's trading book consists of the following.

i) Foreign exchange transactions: to facilitate the demand of customers and counterparties, together with their corresponding back-to-back transactions.

ii) Derivatives transactions: to facilitate the demand of customers and counterparties, together with their corresponding back-to-back transactions.

2. Quantitative Content

Table 10 - Required capital for Market risk

Unit of currency: Million VND

No.	Criteria	Required Capital (30/06/2021)
01	Charged for interest rate risk	66,454
02	Charged for foreign exchange risk	483,188
03	Charged for share price risk	-
04	Charged for commodity price risk	-
05	Charged for options risk	-
	Total	**549,643**

We hereby confirm that the information provided herein is accurate and take all legal responsibilities regard to contents of the public diclosure.

Ho Chi Minh City, 05th October, 2021

Shinhan Bank Vietnam Limited

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