

**HO CHI MINH CITY SECURITIES CORPORATION**

**REPORT ON CAPITAL ADEQUACY RATIO  
AS AT 31 DECEMBER 2018**



**HO CHI MINH CITY SECURITIES CORPORATION**

**REPORT ON CAPITAL ADEQUACY RATIO  
AS AT 31 DECEMBER 2018**

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## HO CHI MINH CITY SECURITIES CORPORATION

### CORPORATE INFORMATION

#### Establishment and operation licence

No. 11/UBCK-GPHĐKD dated 29 April 2003 issued by the State Securities Commission. The Establishment and operation licence was amended several times and the latest amendment No. 09/GPĐC-UBCK was issued on 2 March 2017.

#### Board of Directors

Mr. Do Hung Viet	Chairman
Mr. Le Anh Minh	Vice Chairman
Mr. Nguyen Thanh Liem	Vice Chairman (resigned on 7 March 2018)
Mr. Pham Nghiem Xuan Bac	Member
Mr. Le Thang Can	Member
Mr. Johan Nyvene	Member
Mr. Le Hoang Anh	Member
Mr. Lam Hoai Anh	Member (appointed on 26 April 2018)

#### Board of Management

Mr. Johan Nyvene	Chief Executive Officer
Mr. Trinh Hoai Giang	Deputy Chief Executive Officer
Mr. Le Cong Thien	Deputy Chief Executive Officer
Mr. Stephen James McKeever	Managing Director
Mr. Pham Ngoc Bich	Managing Director
Mr. Bach Quoc Vinh	Managing Director
Mr. Le Anh Quan	Managing Director
Mr. Tran Tan Dat	Managing Director

#### Legal Representative

Mr. Johan Nyvene	Chief Executive Officer
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#### Registered office

5-6th Floor, AB Tower, 76 Le Lai Street,  
Ben Thanh Ward, District 1, Ho Chi Minh City, Vietnam

#### Auditor

PwC (Vietnam) Limited

## HO CHI MINH CITY SECURITIES CORPORATION

### STATEMENT OF THE BOARD OF MANAGEMENT'S RESPONSIBILITY IN RESPECT OF THE REPORT ON CAPITAL ADEQUACY RATIO

The Board of Management of Ho Chi Minh City Securities Corporation ("the Company") is responsible for preparing the report on capital adequacy ratio as at 31 December 2018 ("the Report") in accordance with Circular 87/2017/TT-BTC issued by the Ministry of Finance on 15 August 2017 ("Circular 87/2017/TT-BTC") and prevailing regulations applicable to securities companies operating in Vietnam. In preparing the Report, the Board of Management is required to:

- Select suitable accounting policies and then apply them consistently; and
- Make judgments and estimates that are reasonable and prudent.

The Board of Management is responsible for ensuring that proper accounting records are kept which disclose, with reasonable accuracy at any time the financial position of the Company and which enable the Report to be prepared which comply with the basis of accounting set out in Note 2 and Note 3 to the Report. The Board of Management is also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other errors.

### APPROVAL OF THE REPORT ON CAPITAL ADEQUACY RATIO

We hereby approve the accompanying report on capital adequacy ratio as set out on pages 5 to 33. The Report was prepared and presented in accordance with Circular 87/2017/TT-BTC and prevailing regulations applicable to securities companies operating in Vietnam.

On behalf of the Board of Management



*Johan Nyvene*  
\_\_\_\_\_  
Johan Nyvene  
Chief Executive Officer

Ho Chi Minh City, Vietnam  
27 March 2019





## **INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF HO CHI MINH CITY SECURITIES CORPORATION**

We have audited the accompanying report on capital adequacy ratio as at 31 December 2018 ("the Report") of Ho Chi Minh City Securities Corporation ("the Company") which was approved by the Board of Management on 27 March 2019. The Report includes the report on capital adequacy ratio and explanatory notes including basis of preparation as set out on pages 5 to 33.

### **The Board of Management's Responsibility**

The Board of Management is responsible for the preparation and presentation of the Report in accordance with Circular 87/2017/TT-BTC issued by the Ministry of Finance on 15 August 2017 ("Circular 87/2017/TT-BTC") providing guidance on capital adequacy ratio applicable to securities dealing institutions and sanctions imposed on non-compliance cases and prevailing regulations applicable to securities companies operating in Vietnam and for such internal control which the Board of Management determines is necessary to enable the preparation and fair presentation of the Report that is free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on the Report based on our audit. We conducted our audit in accordance with Vietnamese Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit in order to obtain reasonable assurance as to whether the Report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Report. The procedures selected depend on the auditor's judgment, including an assessment of the risks of material misstatement of the Report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the Company's preparation and fair presentation of the Report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Management, as well as evaluating the overall presentation of the Report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



### Auditor's Opinion

In our opinion, in all material respects, the Company's report on capital adequacy ratio as at 31 December 2018 had been prepared and presented in accordance with Circular 87/2017/TT-BTC and the basis of preparation and reporting principles set out in Note 2 and Note 3 to the Report.

### Other Matter

The independent auditor's report is prepared in Vietnamese and English. Should there be any conflict between the Vietnamese and English copies, the Vietnamese copy shall take precedence.

### For and on behalf of PwC (Vietnam) Limited



  
\_\_\_\_\_  
Nguyen Hoang Nam  
Audit Practising Licence No.  
0849-2018-006-1  
Authorised signatory



\_\_\_\_\_  
Nguyen Thi Cam Nhung  
Audit Practising Licence No.  
2636-2018-006-1

Report reference number: HCM7922  
Ho Chi Minh City, 27 March 2019

**Ho Chi Minh City Securities Corporation**  
Ref:

**SOCIALIST REPUBLIC OF VIETNAM**  
**Independence - Freedom - Happiness**

Re: Report on capital adequacy ratio

Ho Chi Minh City, 27 March 2019

**To: The State Securities Commission**

**REPORT ON CAPITAL ADEQUACY RATIO**  
As at 31 December 2018

We undertake that:

- (1) The Report is prepared on the basis of data updated as at the date of the report in accordance with Circular 87/2017/TT-BTC issued by the Ministry of Finance on 15 August 2017 providing guidance on capital adequacy ratio applicable to securities dealing institutions and sanctions imposed on non-compliance;
- (2) Matters that may affect the financial position of the Company after the date of this Report are updated in the next reporting period;
- (3) We are fully responsible under the laws for the accuracy and truthfulness of the contents of the Report.

**Chief Financial Officer**



Lam Huu Ho

**Head of Internal Control**



Bui Thi Ngoc Thao

**Chief Executive Officer**



The stamp is circular with a red border. The text inside the stamp reads: "S. Q. Đ. S. T. C. P." around the top edge, "CÔNG TY CỔ PHẦN CHỨNG KHOÁN TP. HỒ CHÍ MINH" in the center, and "QUẬN 1 TP. HỒ CHÍ MINH" around the bottom edge. A handwritten signature in blue ink is written over the stamp.

Johan Nyvene



HO CHI MINH CITY SECURITIES CORPORATION

REPORT ON CAPITAL ADEQUACY RATIO  
AS AT 31 DECEMBER 2018

I. LIQUID CAPITAL

No.	DESCRIPTION	Liquid capital		
		Liquid capital (VND)	Deduction (VND)	Addition (VND)
		(1)	(2)	(3)
<b>A</b>	<b>Equity</b>			
1	Owners' capital	1,297,567,580,000		
2	Share premium	330,343,798,499		
3	Treasury shares	(2,893,857,008)		
4	Equity component of convertible bonds	-		
5	Other components of equity	-		
6	Financial assets' revaluation reserve	-		
7	Supplementary capital reserve	129,756,758,000		
8	Financial and operational risk reserve	129,756,758,000		
9	Other equity funds	3,961,374,994		
10	Undistributed earnings	1,172,043,750,012		
11	Provision for impairments of assets	63,156,940,218		
12	Fixed assets' revaluation reserve	-		
13	Foreign currency translation reserve	-		
14	Convertible bonds			-
15	Revaluation adjustments on financial investments carried at cost		-	-
16	Others (if any)	-		
<b>1A</b>	<b>Subtotal</b>			<b>3,123,693,102,715</b>

The notes on pages 16 to 33 are an integral part of this Report.

HO CHI MINH CITY SECURITIES CORPORATION

REPORT ON CAPITAL ADEQUACY RATIO  
AS AT 31 DECEMBER 2018

I. LIQUID CAPITAL (continued)

No.	DESCRIPTION	Liquid capital		
		Liquid capital (VND)	Deduction (VND)	Addition (VND)
		(1)	(2)	(3)
<b>B</b>	<b>Current assets</b>			
<i>I</i>	<b>Financial assets</b>			
1	Cash and cash equivalents			
2	Financial assets at fair value through profit or loss (FVTPL)			
	- Those exposed to position risk			
	- Those excluded from liquid capital		-	
3	Held-to-maturity financial assets (HTM)			
	- Those exposed to position risk			
	- Those excluded from liquid capital		-	
4	Loans			
5	Available-for-sale financial assets (AFS)			
	- Those exposed to position risk			
	- Those excluded from liquid capital		-	
6	Provisions for impairments of financial assets and mortgages			
7	Receivables from disposal of financial assets; dividend and interest receivables			
	- Those due within 90 days			
	- Those due after 90 days		-	
8	Covered warrants not yet issued			
9	Underlying securities designated as hedges against risk from covered warrants issued			-
10	Service related receivables			
	- Those due within 90 days			
	- Those due after 90 days		-	
11	Internal receivables			
	- Those due within 90 days			
	- Those due after 90 days		-	
12	Receivables from failed trades			
	- Those due within 90 days			
	- Those due after 90 days		-	
13	Other receivables			
	- Those due within 90 days			
	- Those due after 90 days		-	
14	Provision for doubtful debts			
<i>II</i>	<b>Other current assets</b>			
1	Advances			
	- Those due within 90 days			
	- Those due after 90 days		-	
2	Office tools and supplies			-
3	Short-term prepaid expenses		8,976,240,525	
4	Pledged assets, mortgages, security deposits in short term		3,405,632,500	
5	Value added tax to be reclaimed			-
6	Tax and other receivables from the State Budget			-
7	Other current assets		2,081,707,500	
8	Provisions for impairments of other current assets			-
<b>1B</b>	<b>Subtotal</b>			<b>14,463,580,525</b>

The notes on pages 16 to 33 are an integral part of this Report.



HO CHI MINH CITY SECURITIES CORPORATION

REPORT ON CAPITAL ADEQUACY RATIO  
AS AT 31 DECEMBER 2018

I. LIQUID CAPITAL (continued)

No.	DESCRIPTION	Liquid capital		
		Liquid capital (VND) (1)	Deduction (VND) (2)	Addition (VND) (3)
<b>C</b>	<b>Non-current assets</b>			
<i>I</i>	<i>Non-current financial assets</i>			
1	Long-term receivables		-	
2	Investments			
2.1	Investments held to maturity			
	- Those exposed to position risk			
	- Those excluded from liquid capital		-	
2.2	Investments in subsidiaries		-	
2.3	Investments in joint ventures and associates		-	
2.4	Other long-term assets		-	
<i>II</i>	<i>Fixed assets</i>		47,422,412,537	
<i>III</i>	<i>Investment properties</i>		-	
<i>IV</i>	<i>Construction in progress</i>		4,447,220,550	
<i>V</i>	<i>Other non-current assets</i>			
1	Pledged assets, mortgages, security deposits in long term		7,528,788,877	
2	Long-term prepaid expenses		100,173,558,928	
3	Deferred income tax assets		1,558,791,879	
4	Deposits in the Settlement support fund		20,000,000,000	
5	Other non-current assets		10,000,000,000	
<i>VI</i>	<i>Provisions for impairments of non-current assets</i>			
	Assets on which the auditor expressed a qualified opinion, an adverse opinion, or a disclaimer of opinion but not excluded from liquid capital according to Article 5 of Circular 87/2017/TT-BTC		-	
<b>1C</b>	<b>Subtotal</b>			<b>191,130,772,771</b>
<b>D</b>	<b>Statutory deposits and collaterals</b>			
1	Statutory deposits			
1.1	Statutory deposits in the Derivatives trading clearing fund		-	
1.2	Statutory deposits for derivatives self-trading activities		73,825,830,000	
1.3	Cash deposits and bank guarantees for issued covered warrants		-	
2	Value of assets used as collateral for liabilities due after 90 days		-	
<b>1D</b>	<b>Subtotal</b>			<b>73,825,830,000</b>
<b>LIQUID CAPITAL = 1A-1B-1C-1D</b>				<b>2,844,272,919,419</b>

The notes on pages 16 to 33 are an integral part of this Report.



HO CHI MINH CITY SECURITIES CORPORATION

REPORT ON CAPITAL ADEQUACY RATIO  
AS AT 31 DECEMBER 2018

II. RISK VALUES

A POSITION RISK VALUE

Item		Risk coefficient (%)	Risk exposure (VND)	Risk value (VND)
		(1)	(2)	(3) = (1) x (2)
<b>I.</b>	<b>Cash and cash equivalents, money market instruments</b>			-
1	Cash (VND)	0	130,030,905,480	-
2	Cash equivalents	0	-	-
3	Valuable papers, money market instruments, certificates of deposit	0	-	-
<b>II.</b>	<b>Government bonds</b>			<b>30,575,000</b>
4	Zero-coupon government bonds	0	-	-
5	Government bonds with coupons		-	-
5.1	Government bonds, government bonds of OECD countries or bonds guaranteed by the Governments or Central Banks of these countries, bonds issued by international organisations including IBRD, ADB, IADB, AFDB, EIB and EBRD	3	1,019,166,667	30,575,000
<b>III.</b>	<b>Corporate bonds</b>			<b>8,145,016,132</b>
6	Listed bonds with a remaining maturity period of less than 1 year, including convertible bonds	8	-	-
	Listed bonds with a remaining maturity period of 1 to less than 3 years, including convertible bonds	10	81,450,161,318	8,145,016,132
	Listed bonds with a remaining maturity period of 3 to less than 5 years, including convertible bonds	15	-	-
	Listed bonds with a remaining maturity period of 5 years or more, including convertible bonds	20	-	-
7	Unlisted bonds with a remaining maturity period of less than 1 year, including convertible bonds	25	-	-
	Unlisted bonds with a remaining maturity period of 1 to less than 3 years, including convertible bonds	30	-	-
	Unlisted bonds with a remaining maturity period of 3 to less than 5 years, including convertible bonds	35	-	-
	Unlisted bonds with a remaining maturity period of 5 years or more, including convertible bonds	40	-	-
<b>IV.</b>	<b>Shares</b>			<b>21,806,376,636</b>
8	Ordinary shares, preference shares of entities listed on the Ho Chi Minh City Stock Exchange; open-ended fund certificates	10	119,869,850,564	11,986,985,056
9	Ordinary shares, preference shares of entities listed on the Hanoi Stock Exchange	15	1,776,000	266,400
10	Ordinary shares, preference shares of unlisted public companies, registered for trading on the UPCoM	20	12,223,125,900	2,444,625,180
11	Ordinary shares, preference shares of public companies registered for depositing, but not listed or registered for trading; shares in an Initial Public Offering (IPO)	30	-	-
12	Shares of other public companies	50	14,749,000,000	7,374,500,000
<b>V.</b>	<b>Fund certificates</b>			<b>4,113,436,912</b>
13	Public funds, including public securities investment companies	10	41,134,369,120	4,113,436,912
14	Member funds, private securities investment companies	30	-	-

The notes on pages 16 to 33 are an integral part of this Report.

HO CHI MINH CITY SECURITIES CORPORATION

REPORT ON CAPITAL ADEQUACY RATIO  
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II. RISK VALUES (continued)

A POSITION RISK VALUE (continued)

Item	Risk coefficient (%)	Risk exposure (VND)	Risk value (VND)
	(1)	(2)	(3) = (1) x (2)
<b>VI. Restricted securities</b>			<b>3,437,179</b>
15 Suspended securities	40	-	-
16 Delisted, cancelled securities	50	6,874,357	3,437,179
<b>VII. Derivatives (Note A)</b>			-
17 Share-index future contracts (*)	8	-	-
18 Government bond future contracts (*)	3	-	-
<b>VIII. Other securities</b>			<b>31,042,912,000</b>
19 Other shares, capital contributions and securities	80	38,803,640,000	31,042,912,000
20 Listed shares on foreign stock exchanges with qualified indices	25	-	-
21 Listed shares on foreign stock exchanges without qualified indices	100	-	-
22 Covered warrants listed on the Ho Chi Minh City Stock Exchange	8	-	-
23 Covered warrants listed on the Hanoi Stock Exchange	10	-	-
24 Covered warrants issued by the Company. Formula: Risk value = $(P_0 \times Q_0 \times k - P_1 \times Q_1) \times R - MD$	N/A	-	-
25 Securities designated as hedges against risk from issued covered warrants (in case of out-of-the-money covered warrants)	N/A	-	-
26 Difference between the value of underlying securities designated as hedges and the value of underlying securities required to hedge against risk from issued covered warrants	N/A	-	-
<b>IX. Risk value of large exposures (if any) (based on equity after required provisions have been made)</b>			-
<b>TOTAL POSITION RISK VALUE (I+II+III+IV+V+VI+VII+VIII+IX)</b>			<b>65,141,753,859</b>

(\*) Formula:

Risk value = (Closing trade value - Value of shares purchased to fulfil the obligation under future contracts) x Risk coefficient of future contracts - Statutory deposits associated with open positions

Closing trade value = Closing price x Quantity of open positions.



HO CHI MINH CITY SECURITIES CORPORATION

REPORT ON CAPITAL ADEQUACY RATIO  
AS AT 31 DECEMBER 2018

II. RISK VALUES (continued)

A POSITION RISK VALUE (continued)

Note A – Position risk value of derivatives

	Value VND
Closing trade value (A)	567,891,000,000
Less: Value of shares purchased to fulfil the obligation under future contracts (B)	(609,025,369,120)
	<hr/>
Position risk exposure	-
Risk coefficient of future contracts	8%
Risk value before deducting statutory deposits (C)	-
Less: Statutory deposits associated with open positions of the Company (D)	(73,825,830,000)
<b>Position risk exposure =MAX {A-B; 0}</b>	-
<b>Position risk value = MAX {C-D; 0}</b>	-

B COUNTERPARTY RISK VALUE

	Risk value VND
Risk value of balances not due (Note B.1)	80,002,906,844
Risk value of balances past due (Note B.2)	39,620,292,148
Risk value of large exposures (Note B.3)	-
	<hr/>
<b>Total counterparty risk value</b>	<b>119,623,198,992</b>
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HO CHI MINH CITY SECURITIES CORPORATION

REPORT ON CAPITAL ADEQUACY RATIO  
AS AT 31 DECEMBER 2018

II. RISK VALUES (continued)

B COUNTERPARTY RISK VALUE (continued)

1. Risk value of balances not due

No.	Risk coefficient (%) Category of balance	Risk value (VND)						Total risk value (VND)
		0% (1)	0.8% (2)	3.2% (3)	4.8% (4)	6% (5)	8% (6)	
1	Term deposits, unsecured loans, receivables from brokerage service and securities trading activities and other receivables bearing counterparty risk	-	1,373,597,882	-	-	16,921,551,718	61,707,757,244	<b>80,002,906,844</b>
2	Financial asset lending (or agreements of similar substance)	-	-	-	-	-	-	-
3	Financial asset borrowing (or agreements of similar substance)	-	-	-	-	-	-	-
4	Reverse repo agreements (or agreements of similar substance)	-	-	-	-	-	-	-
5	Repo agreements (or agreements of similar substance)	-	-	-	-	-	-	-
<b>TOTAL RISK VALUE OF BALANCES NOT DUE</b>								<b>80,002,906,844</b>

The notes on pages 16 to 33 are an integral part of this Report.

**HO CHI MINH CITY SECURITIES CORPORATION**

**REPORT ON CAPITAL ADEQUACY RATIO  
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**II. RISK VALUES (continued)**

**B COUNTERPARTY RISK VALUE (continued)**

**1. Risk value of balances not due (continued)**

Counterparty risk coefficient by counterparty is determined as follows:

<b>No.</b>	<b>Counterparty</b>	<b>Counterparty risk coefficient</b>
(1)	The Government, Government-guaranteed issuers, Governments and Central Banks of countries in the OECD; People's Committees of provinces and independent municipalities	0%
(2)	Stock Exchanges, Securities depository centres	0.8%
(3)	Credit institutions, financial institutions, securities dealing institutions incorporated in OECD countries with credit ratings meeting other internal requirements of the Company	3.2%
(4)	Credit institutions, financial institutions, securities dealing institutions incorporated outside OECD countries or incorporated in OECD countries not meeting other internal requirements of the Company	4.8%
(5)	Credit institutions, financial institutions, securities dealing institutions incorporated and operating in Vietnam	6%
(6)	Other institutions and individuals	8%

**2. Risk value of balances past due**

<b>Past due period</b>	<b>Risk coefficient (%)</b>	<b>Risk exposure (VND)</b>	<b>Risk value (VND)</b>
0 – 15 days from due date	16	-	-
16 – 30 days from due date	32	-	-
30 – 60 days from due date	48	-	-
Over 60 days from due date	100	39,620,292,148	39,620,292,148
<b>TOTAL RISK VALUE OF BALANCES PAST DUE</b>			<b>39,620,292,148</b>

Due date is determined as follows:

<b>Type of securities/transactions</b>	<b>Due date</b>
Derivatives	According to prevailing regulations applicable to derivatives
Listed shares	T+2
Listed bonds	T+1
Over-the-counter transactions	T+n, in which "n" is subject to contractual agreements

**3. Risk value of large exposures**

As at the Report date, the Company did not face counterparty risk arising from large exposures.



HO CHI MINH CITY SECURITIES CORPORATION

REPORT ON CAPITAL ADEQUACY RATIO  
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II. RISK VALUES (continued)

C OPERATIONAL RISK VALUE

No.	Item	Risk value VND
I	Total operating expenses incurred in the most recent twelve-month period up to 31 December 2018	1,510,043,643,600
II	Less: Deductions from total operating expenses ( <i>Note C</i> )	(2,549,454,591)
III	Total adjusted operating expenses (III = I - II)	1,512,593,098,191
<b>IV</b>	<b>25% of Total adjusted operating expenses (IV = 25% x III)</b>	<b>378,148,274,548</b>
<b>V</b>	<b>20% of the Company's legal capital</b>	<b>60,000,000,000</b>
	<b>OPERATIONAL RISK VALUE (Max {IV; V})</b>	<b>378,148,274,548</b>

*Note C* – Deductions from total operating expenses

Item	Value VND
Depreciation and amortisation	20,281,165,370
Increase in revaluation losses of FVTPL financial assets	(12,772,740,741)
Provision/(reversal of provision) for impairments of current financial assets and mortgages	(10,057,879,220)
Provision/(reversal of provision) for impairments of non-current financial assets	-
Provision/(reversal of provision) for doubtful debts	-
Provision/(reversal of provision) for impairments of other current assets	-
Provision/(reversal of provision) for impairments of other non-current assets	-
<b>Total deductions from operating expenses</b>	<b>(2,549,454,591)</b>



HO CHI MINH CITY SECURITIES CORPORATION

REPORT ON CAPITAL ADEQUACY RATIO  
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III. SUMMARY OF RISK VALUES AND LIQUID CAPITAL

No.	Item	Value VND
1	Total position risk value	65,141,753,859
2	Total counterparty risk value	119,623,198,992
3	Total operational risk value	378,148,274,548
<b>4</b>	<b>Total risk value (4=1+2+3)</b>	<b>562,913,227,399</b>
<b>5</b>	<b>Liquid capital</b>	<b>2,844,272,919,419</b>
<b>6</b>	<b>CAPITAL ADEQUACY RATIO (6=5/4)</b>	<b>505%</b>



Lam Huu Ho  
Chief Financial Officer



Bui Thi Ngoc Thao  
Head of Internal Control



Johan Nyvene  
Chief Executive Officer

## HO CHI MINH CITY SECURITIES CORPORATION

### NOTES TO THE REPORT ON CAPITAL ADEQUACY RATIO AS AT 31 DECEMBER 2018

#### 1 GENERAL INFORMATION

Ho Chi Minh City Securities Corporation (“the Company”) is a joint stock company incorporated in Vietnam under the Business registration certificate No. 4103001573 issued by the Department of Planning and Investment of Ho Chi Minh City on 23 April 2003 and the Establishment and operation licence No. 11/UBCK-GPHĐKD issued by the State Securities Commission (“SSC”) on 29 April 2003. The Establishment and operation licence was amended several times and the latest amendment No. 09/GPĐC-UBCK was issued on 2 March 2017.

The Company was listed on the Ho Chi Minh City Stock Exchange in accordance with Decision No. 27/QĐ-SGDHCM issued by the Ho Chi Minh City Stock Exchange on 20 April 2009.

The principal activities of the Company include provision of securities brokerage service, proprietary securities trading, securities investment consultancy service, corporate finance consultancy services, and underwriting and securities custodian services.

#### 2 BASIS OF PREPARATION

##### 2.1 Applicable regulations and interpretations

The Company’s report on capital adequacy ratio as at 31 December 2018 (“the Report”) is prepared and presented in accordance with Circular 87/2017/TT-BTC issued by the Ministry of Finance on 15 August 2017 (“Circular 87/2017/TT-BTC”) providing guidance on capital adequacy ratio applicable to securities dealing institutions and sanctions imposed on non-compliance.

The Report is prepared based on the Company’s financial information as at 31 December 2018.

The Report in Vietnamese language is the official statutory report on capital adequacy ratio of the Company. The Report in English language has been translated from the Report in Vietnamese.

##### 2.2 Reporting currency

The Report is measured and presented in Vietnamese Dong (“VND”).

#### 3 REPORTING PRINCIPLES

##### 3.1 Capital adequacy ratio (“CAR”)

Capital adequacy ratio is an indicator that measures the Company’s financial safety and its ability to meet financial obligations and absorb certain losses resulting from risks arising during its business operation.

The Company’s capital adequacy ratio is determined as below:

$$\text{Capital adequacy ratio} = \frac{\text{Liquid capital} \times 100\%}{\text{Total risk value}}$$

Where total risk value is the total of position risk value, counterparty risk value and operational risk value.

## HO CHI MINH CITY SECURITIES CORPORATION

### NOTES TO THE REPORT ON CAPITAL ADEQUACY RATIO AS AT 31 DECEMBER 2018

#### 3 REPORTING PRINCIPLES (continued)

##### 3.2 Liquid capital

According to Circular 87/2017/TT-BTC, liquid capital is owners' equity that can be converted into cash within ninety (90) days, including:

- a) Owners' capital, excluding redeemable preference shares (if any);
- b) Share premium excluding premium from redeemable preference shares (if any);
- c) Equity component of convertible bonds (applicable to securities companies issuing convertible bonds);
- d) Other owners' capital;
- e) Financial assets' revaluation reserve;
- f) Foreign currency translation reserve;
- g) Supplementary capital reserve;
- h) Financial and operational risk reserve;
- i) Other equity funds made in accordance with prevailing regulations;
- j) Undistributed earnings;
- k) Provision for impairments of assets;
- l) Fifty percent (50%) of the upward revaluation of fixed assets in accordance with prevailing regulations (if written up), or excluding all downward revaluation (if written down);
- m) Deductions specified in Note 3.2.1;
- n) Additions specified in Note 3.2.2;
- o) Other equity (if any).

##### 3.2.1 Deductions

The following items are deducted from the Company's liquid capital:

- a) Treasury shares (if any);
- b) Statutory deposits, including:
  - Deposits in cash and securities at the settlement fund of the Vietnam Securities Depository Centre;
  - Deposits in cash and securities for speculation activities, proprietary trading activities, market making activities for derivatives;
  - Deposits in cash and bank guarantees for covered warrants issued. If the Company provides collateral assets to obtain bank guarantees for covered warrants, the deduction is the minimum of (i) bank guarantee amount and (ii) value of collateral assets determined in accordance with Circular 87/2017/TT-BTC;
- c) Value of assets used as collateral for liabilities of other entities or individuals that are due after ninety (90) days, which is determined in accordance with Circular 87/2107/TT-BTC;
- d) Securities excluded from liquid capital, including:
  - Securities issued by entities related to the Company including: (i) its parent company, subsidiaries, joint ventures and associates and (ii) subsidiaries, joint ventures and associate of its parent company;
  - Securities suspended from transfer for more than ninety (90) days from the reporting date.



## HO CHI MINH CITY SECURITIES CORPORATION

### NOTES TO THE REPORT ON CAPITAL ADEQUACY RATIO AS AT 31 DECEMBER 2018

#### 3 REPORTING PRINCIPLES (continued)

##### 3.2 Liquid capital (continued)

###### 3.2.1 Deductions (continued)

- e) Downward revaluation of financial assets carried at cost compared to market value determined in accordance with Circular 87/2017/TT-BTC, except for those excluded from liquid capital;
- f) Current assets with remaining maturity above ninety (90) days;
- g) Items on which the auditor expressed a qualified opinion, an adverse opinion or a disclaimer of opinion (if any) in the audited/reviewed financial statements.

In determining such deductions, the Company is permitted to take into account the following reliefs:

- Relief on assets used as collaterals for the Company's own obligations is the minimum of (i) their market value determined in accordance with Circular 87/2017/TT-BTC, (ii) their book value and (iii) the remaining value of the obligations;
- Relief on assets collateralised by customers' assets is the minimum of (i) their market value in accordance with Circular 87/2017/TT-BTC and (ii) their book value.

According to Circular 87/2017/TT-BTC, the Company is not required to calculate risk values of assets excluded from liquid capital.

###### 3.2.2 Additions

The following items are added to the Company's liquid capital up to 50% of owners' equity:

- a) Upward revaluation of financial assets carried at cost compared to market value determined in accordance with Circular 87/2017/TT-BTC, except for those excluded from liquid capital as specified in Note 3.2.1;
- b) Debts convertible into equity

Debts convertible into equity classified in either of the two categories below and meeting all criteria listed below:

- Convertible bonds (excluding the equity component included in liquid capital), preference shares with initial preference period of at least five (5) years; or
- Debt instruments with initial term of at least ten (10) years that are only repaid, in any circumstances, after the Company has fully paid off its secured and unsecured debts;

## HO CHI MINH CITY SECURITIES CORPORATION

### NOTES TO THE REPORT ON CAPITAL ADEQUACY RATIO AS AT 31 DECEMBER 2018

#### 3 REPORTING PRINCIPLES (continued)

##### 3.2 Liquid capital (continued)

###### 3.2.2 Additions (continued)

###### b) Debts convertible into equity (continued)

A debt is considered to be convertible into equity when meeting all of the following criteria:

- It is not secured by the Company's own assets;
- The Company is only permitted to redeem before maturity upon request of the holder, or to repurchase in the secondary market after informing the State Securities Commission as required by Circular 87/2017/TT-BTC;
- The Company is able to delay interest payments to the following year if such interest payments would result in a loss in the Company's statement of comprehensive income;
- In case of liquidation, the holder is only repaid after the Company has fully paid off its secured and unsecured debts;
- Upward revision in interest rate, including revision in interest spread, is only permitted after five (5) years since the issue date and only once during its term before conversion into ordinary shares;
- It is registered as an addition to liquid capital in accordance with Circular 87/2017/TT-BTC.

In determining additions to liquid capital from such debts convertible into equity, the Company is required to reduce these additions according to the following principles:

- During the last five (5) years before maturity/conversion, a 20% discount is applied annually on the initial value;
- During the last four (4) quarters before maturity/conversion, another 25% discount is applied on the remaining value at the end of the fourth (4<sup>th</sup>) year.

#### 3.3 Position risk value

Position risk value represents the potential loss due to adverse changes in market value of assets currently owned or to be owned under underwriting commitments.

At the end of trading date, the Company shall determine position risk value of the following groups of asset:

- Group 1: Assets exposed to market risk on net position value;
- Group 2: Undistributed and uncollected securities under firm underwriting commitments during the underwriting period;
- Group 3: The Company's covered warrants in issue;
- Group 4: Future contracts.



## HO CHI MINH CITY SECURITIES CORPORATION

### NOTES TO THE REPORT ON CAPITAL ADEQUACY RATIO AS AT 31 DECEMBER 2018

#### 3 REPORTING PRINCIPLES (continued)

##### 3.3 Position risk value (continued)

###### 3.3.1 Assets exposed to market risk on net position value

###### a) Scope

This group includes the following items:

- Securities in the Company's proprietary trading accounts, excluding covered warrants not yet issued (for securities companies) or trading accounts at other firms (for fund management companies, securities companies without a proprietary trading function), entrusted securities and other securities investments. Such securities include those awaiting settlement from the sellers;
- Securities borrowed on behalf of the Company or on behalf of other individuals/institutions;
- Securities received as collateral, then used or lent to third parties by the Company in accordance with prevailing regulations;
- Cash, cash equivalents, transferable instruments, valuable papers owned by the Company;
- Securities under firm underwriting commitments not fully distributed and collected after the deadline of payment to issuers.

This group does not include the following items:

- Treasury shares;
- Those excluded from liquid capital as specified in Note 3.2.1;
- Matured bonds, debt instruments, valuable papers transferable on the money market;
- Securities hedged by put warrants or future contracts;
- Put warrants and put options used to hedge against risk on underlying securities.

###### b) Position risk value calculation

Position risk value = Net position of each security x Market value x Market risk coefficient

Where:

- Net position of each security at a point of time is the quantity held by the Company at reporting date, adjusted by:
  - Excluding securities lent and securities hedged by put warrants and future contracts;
  - Including securities borrowed in accordance with prevailing regulations.
- Asset valuation principles are specified in Note 3.3.5.
- Market risk coefficient is determined for each specific asset in accordance with Circular 87/2017/TT-BTC and presented in section A of Risk Values in the Report.



## HO CHI MINH CITY SECURITIES CORPORATION

### NOTES TO THE REPORT ON CAPITAL ADEQUACY RATIO AS AT 31 DECEMBER 2018

#### 3 REPORTING PRINCIPLES (continued)

##### 3.3 Position risk value (continued)

##### 3.3.1 Assets exposed to market risk on net position value (continued)

###### c) Risk value of large exposures

Position risk of an asset is increased when the Company's long position in that asset is significant, except for securities under firm underwriting commitments during the underwriting period, Government bonds and Government-guaranteed bonds. Position risk value of large exposures is determined as follows:

- Increased by 10% where the total exposure from investment in shares and bonds of an entity accounts for 10% to 15% of the Company's owners' equity;
- Increased by 20% where the total exposure from investment in shares and bonds of an entity accounts for 15% to 25% of the Company's owners' equity;
- Increased by 30% where the total exposure from investment in shares and bonds of an entity exceeds 25% of the Company's owners' equity.

Dividends, coupons and rights (if any) or interests from deposits, cash equivalents, transferable instruments, valuable papers are included in position risk exposure.

##### 3.3.2 Undistributed and uncollected securities under firm underwriting commitments during the underwriting period

Position risk value of this group of assets is determined as follows:

$$\text{Position risk value} = (Q_o \times P_o - V_c) \times R \times \left[ r + \frac{(P_o - P_1)}{P_o} \times 100\% \right]$$

Where:

- $Q_o$  is the quantity of securities not yet distributed or distributed but uncollected;
- $P_o$  is the underwriting price;
- $V_c$  is the market value of collateral assets (if any), determined in accordance with Circular 87/2017/TT-BTC;
- $R$  is the underwriting risk coefficient, determined based on the remaining distribution period according to the agreement, but not exceeding the distribution period permitted by laws, in particular:

	<b>Underwriting risk coefficient</b>
Remaining distribution period	
Above sixty (60) days	20%
From thirty (30) days to sixty (60) days	40%
Below thirty (30) days	60%
Between the end of distribution period to the date of payment to issuer	80%

## HO CHI MINH CITY SECURITIES CORPORATION

### NOTES TO THE REPORT ON CAPITAL ADEQUACY RATIO AS AT 31 DECEMBER 2018

#### 3 REPORTING PRINCIPLES (continued)

##### 3.3 Position risk value (continued)

##### 3.3.2 *Undistributed and uncollected securities under firm underwriting commitments during the underwriting period (continued)*

- $r$  is the market risk coefficient, determined for each specific asset in accordance with Circular 87/2017/TT-BTC and presented in section A of Risk Values in the Report;
- $P_1$  is the transacted price, determined on the basis specified in Note 3.3.5. In case of initial public offering, initial equitisation auction, bond auction, the transacted price is the most recent book value per share of the issuer, or the opening price (if book value cannot be determined), or par value (for bonds).

After the date of payment to issuer, the Company is required to determine position risk value of undistributed securities in accordance with the requirements specified in Note 3.3.5.

##### 3.3.3 *The Company's covered warrants in issue*

Position risk value of this group of asset is determined as follows:

$$\text{Position risk value} = (P_0 \times Q_0 \times k - P_1 \times Q_1) \times r - MD$$

Where:

- $P_0$  is the settlement price of underlying securities at reporting date determined and announced by the Stock Exchanges;
- $Q_0$  is the quantity of the Company's covered warrants in issue;
- $k$  is the conversion rate;
- $P_1$  is price of underlying securities determined on the basis specified in Note 3.3.5;
- $Q_1$  is the quantity of underlying securities held by the Company to guarantee the fulfilment of its obligation arising from the covered warrants issued;
- $r$  is the market risk coefficient, determined for each specific asset in accordance with Circular 87/2017/TT-BTC and presented in section A of Risk Values in the Report;
- $MD$  is the statutory deposits for covered warrants issued;

Underlying securities used in the calculation of position risk value as above must satisfy all of the following criteria:

- They are included in the issue plan, or registered to the State Securities Commission that they are held in the Company's proprietary trading account with the sole purpose of hedging against risk from covered warrants;
- They are underlying securities of the covered warrants.

When the covered warrants issued are out of the money, according to Circular 87/2017/TT-BTC, the Company is not required to calculate position risk value of issued covered warrants. Instead, it is required to calculate position risk value of underlying securities designated as hedges against risk from covered warrants issued.

The Company is required to calculate position risk value of the difference between the value of underlying securities designated as hedges and the value of underlying securities required to hedge against risk from issued covered warrants, which is corresponding to the hedged value.

**HO CHI MINH CITY SECURITIES CORPORATION**

**NOTES TO THE REPORT ON CAPITAL ADEQUACY RATIO  
AS AT 31 DECEMBER 2018**

**3 REPORTING PRINCIPLES (continued)**

**3.3 Position risk value (continued)**

**3.3.4 Future contracts**

Position risk value of future contracts is determined as follows

$$\text{Position risk value} = \left( \begin{array}{c} \text{Closing trade} \\ \text{value} \end{array} - \begin{array}{c} \text{Value of shares} \\ \text{purchased} \end{array} \right) \times \begin{array}{c} \text{Risk coefficient of} \\ \text{future contracts} \end{array} - \begin{array}{c} \text{Statutory} \\ \text{deposits} \end{array}$$

Where:

- Closing trade value = Closing price x Quantity of open positions;
- Value of shares purchased is the value of underlying securities purchased to fulfil the obligation under future contracts;
- Statutory deposits are assets deposited for speculation activities, proprietary trading activities, market making activities for derivatives.



**HO CHI MINH CITY SECURITIES CORPORATION**

**NOTES TO THE REPORT ON CAPITAL ADEQUACY RATIO  
AS AT 31 DECEMBER 2018**

**3 REPORTING PRINCIPLES (continued)**

**3.3 Position risk value (continued)**

**3.3.5 Asset valuation**

Asset valuation is in accordance with Circular 87/2017/TT-BTC, in particular:

<b>No.</b>	<b>Type of asset</b>	<b>Valuation principles</b>
<b>Cash and cash equivalents, money market instruments</b>		
1	Cash in VND	Carrying value at the reporting date
2	Foreign currencies	Amounts equivalent to VND translated at exchange rates quoted by credit institutions licensed to trade foreign currencies at the reporting date
3	Term deposits	Deposit amount plus accrued interest up to the reporting date
4	Treasury bills, banker's acceptances, commercial papers, transferable certificates of deposit, bonds and discounted money market instruments	Purchase price plus accrued interest up to the reporting date
<b>Bonds</b>		
5	Listed bonds	<ul style="list-style-type: none"> <li>- Quoted price of outright transactions on Stock Exchanges as at the latest trading date prior to the reporting date plus accrued interest (if clean price is quoted);</li> <li>- If the bond is not traded within the two (2) weeks prior to the reporting date, its value is the highest of the followings:                             <ul style="list-style-type: none"> <li>a) Purchase price plus accrued interest;</li> <li>b) Par value plus accrued interest;</li> <li>c) Price based on the Company's internal valuation policy, plus accrued interest.</li> </ul>                             i.e. Max {a, b, c}                         </li> </ul>
6	Unlisted bonds	The highest of the followings: <ul style="list-style-type: none"> <li>a) Quoted price on selected bond quotation system (if any) plus accrued interest;</li> <li>b) Purchase price plus accrued interest;</li> <li>c) Par value plus accrued interest;</li> <li>d) Price based on the Company's internal valuation policy, plus accrued interest</li> </ul> i.e. Max {a, b, c, d}

HO CHI MINH CITY SECURITIES CORPORATION

NOTES TO THE REPORT ON CAPITAL ADEQUACY RATIO  
AS AT 31 DECEMBER 2018

3 REPORTING PRINCIPLES (continued)

3.3 Position risk value (continued)

3.3.5 Asset valuation (continued)

No.	Type of asset	Valuation principles
<b>Shares</b>		
7	Shares listed on the Ho Chi Minh City Stock Exchange	<ul style="list-style-type: none"> <li>- Closing price of the latest trading date prior to the reporting date;</li> <li>- If the share is not traded within the two (2) weeks prior to the reporting date, its value is the highest of the followings:               <ul style="list-style-type: none"> <li>a) Book value;</li> <li>b) Purchase price;</li> <li>c) Price based on the Company's internal valuation policy.</li> </ul> </li> </ul> <p>i.e. Max {a, b, c}</p>
8	Shares listed on the Hanoi Stock Exchange	<ul style="list-style-type: none"> <li>- Closing price of the latest trading date prior to the reporting date;</li> <li>- If the share is not traded within the two (2) weeks prior to the reporting date, its value is the highest of the followings:               <ul style="list-style-type: none"> <li>a) Book value;</li> <li>b) Purchase price;</li> <li>c) Price based on the Company's internal valuation policy.</li> </ul> </li> </ul> <p>i.e. Max {a, b, c}</p>
9	Shares of public companies registered for trading on the UPCoM	<ul style="list-style-type: none"> <li>- Closing price of the latest trading date prior to the reporting date;</li> <li>- If the share is not traded within the two (2) weeks prior to the reporting date, its value is the highest of the followings:               <ul style="list-style-type: none"> <li>a) Book value;</li> <li>b) Purchase price;</li> <li>c) Price based on the Company's internal valuation policy.</li> </ul> </li> </ul> <p>i.e. Max {a, b, c}</p>

HO CHI MINH CITY SECURITIES CORPORATION

NOTES TO THE REPORT ON CAPITAL ADEQUACY RATIO  
AS AT 31 DECEMBER 2018

3 REPORTING PRINCIPLES (continued)

3.3 Position risk value (continued)

3.3.5 Asset valuation (continued)

No.	Type of asset	Valuation principles
<b>Shares (continued)</b>		
10	Shares that are deposited at Vietnam Securities Depositories ("VSD") but not yet listed or registered for trading	<ul style="list-style-type: none"> <li>- The average of transacted prices quoted by at least three (3) independent securities for the latest trading date prior to the reporting date.</li> <li>- In case the Company cannot obtain quotations from at least three independent securities firms, the shares' value is the highest of:               <ul style="list-style-type: none"> <li>a) Price from quotations;</li> <li>b) Price from the most recent reporting date;</li> <li>c) Book value;</li> <li>d) Purchase price;</li> <li>e) Price based on the Company's internal valuation policy</li> </ul> </li> </ul> <p>i.e. Max {a, b, c, d, e}</p>
11	Suspended, delisted or cancelled securities	<p>The highest of the followings:</p> <ul style="list-style-type: none"> <li>a) Book value;</li> <li>b) Purchase price;</li> <li>c) Price based on the Company's internal valuation policy.</li> </ul> <p>i.e. Max {a, b, c}</p>
12	Securities of entities in liquidation or bankruptcy process	80% of the securities' disposal value (announced by the entities or book value) on the latest balance sheet date prior to the reporting date, or price based on the Company's internal valuation policy.
13	Other equities and investments	<p>The highest of the followings:</p> <ul style="list-style-type: none"> <li>a) Book value;</li> <li>b) Purchase price;</li> <li>c) Price based on the Company's internal valuation policy.</li> </ul> <p>i.e. Max {a, b, c}</p>



HO CHI MINH CITY SECURITIES CORPORATION

NOTES TO THE REPORT ON CAPITAL ADEQUACY RATIO  
AS AT 31 DECEMBER 2018

3 REPORTING PRINCIPLES (continued)

3.3 Position risk value (continued)

3.3.5 Asset valuation (continued)

No.	Type of asset	Valuation principles
<b>Fund certificates/shares of securities investment companies</b>		
14	Fund certificates of public closed-end funds/ exchange-traded funds	<ul style="list-style-type: none"> <li>- Closing price of the latest trading date prior to the reporting date;</li> <li>- If the fund certificates/shares are not traded within two (2) weeks prior to the reporting date, its value is the Net asset value ("NAV") per fund certificate at the latest valuation date prior to the reporting date.</li> </ul>
15	Fund units of member funds/ open-end funds, privately issued shares of securities investment companies	NAV per fund unit/share at the latest valuation date prior to the reporting date.
16	Other assets	Based on the Company's internal valuation policy
<b>Fixed assets</b>		
17	Land use rights	Amount reported by an independent valuer appointed by the Company
18	Buildings, including construction in progress	Amount reported by an independent valuer appointed by the Company/ accumulated cost of construction in progress
19	Machinery and equipment, motor vehicles	Net book value
20	Other fixed assets	Amount reported by an independent valuer appointed by the Company
<b>Other securities</b>		
21	Covered warrants issued by other securities dealing entities	<ul style="list-style-type: none"> <li>- Closing price of the latest trading date prior to the reporting date;</li> <li>- Purchase price (for unlisted covered warrants).</li> </ul>
22	Shares listed on foreign stock exchanges	<ul style="list-style-type: none"> <li>- Price in VND translated at applicable exchange rate at reporting date;</li> <li>- Closing price of the latest trading date prior to the reporting date;</li> <li>- If the share is not traded within two (2) weeks prior to the reporting date, its value is the highest of the followings:                             <ul style="list-style-type: none"> <li>a) Book value;</li> <li>b) Purchase price;</li> <li>c) Price based on the Company's internal valuation policy.</li> </ul> </li> </ul> <p>i.e. Max {a, b, c}</p>

## HO CHI MINH CITY SECURITIES CORPORATION

### NOTES TO THE REPORT ON CAPITAL ADEQUACY RATIO AS AT 31 DECEMBER 2018

#### 3 REPORTING PRINCIPLES (continued)

##### 3.4 Counterparty risk value

Counterparty risk value represents the potential loss due to the counterparty's failure to make payment or to transfer assets within the committed period.

At the end of trading date, the Company is required to calculate counterparty risk value on the following balances:

- Term deposits at credit institutions, loans to other institutions and individuals;
- Securities borrowing agreements in accordance with prevailing regulations;
- Securities repo agreements in accordance with prevailing regulations;
- Securities reverse repo agreements in accordance with prevailing regulations;
- Margin lending agreements in accordance with prevailing regulations;
- Balances from co-underwriting contracts with firm underwriting commitment where the Company is the lead underwriter;
- Receivables not due, including receivables on behalf of customers relating to securities selling brokerage activities;
- Receivables that are past due, including bonds, valuable papers, debt instruments that are matured but not yet collected;
- Assets not received after transfer period, including the Company's own securities and customers' securities relating to brokerage activities.

For term deposits at credit institutions; loans to other institutions or individuals; securities borrowing agreements in accordance with prevailing regulations; securities repo agreements in accordance with prevailing regulations; securities reverse repo agreements in accordance with prevailing regulations, margin lending agreements in accordance with prevailing regulations; other receivables and other assets bearing counterparty risk, the counterparty risk value is determined as follows:

$$\text{Counterparty risk value} = \text{Risk coefficient by counterparty} \times \text{Counterparty risk exposure}$$

For balances from co-underwriting contracts with firm underwriting commitment where the Company is the lead underwriter, the counterparty risk value is determined at 30% of the remaining value of outstanding contracts.

For receivables, other receivables and other assets that are past due, assets not received after transfer period including securities, uncollected term deposits at credit institutions; overdue loans to other institutions and individuals; overdue securities borrowing agreements in accordance with prevailing regulations; overdue securities repo agreements in accordance with prevailing regulations; overdue securities reverse repo agreements in accordance with prevailing regulations; overdue margin lending agreements in accordance with prevailing regulations, the counterparty risk is determined as follows:

$$\text{Counterparty risk value} = \text{Risk coefficient by past due period} \times \text{Counterparty risk exposure}$$



## HO CHI MINH CITY SECURITIES CORPORATION

### NOTES TO THE REPORT ON CAPITAL ADEQUACY RATIO AS AT 31 DECEMBER 2018

#### 3 REPORTING PRINCIPLES (continued)

##### 3.4 Counterparty risk value (continued)

Counterparty risk coefficient is determined based on type of counterparty and past due period as stipulated in Circular 87/2017/TT-BTC.

##### 3.4.1 Risk coefficient by counterparty

No.	Counterparty	Counterparty risk coefficient
1	The Government, Government-guaranteed issuers, Governments and Central Banks of countries in the OECD; People's Committees of provinces and independent municipalities	0%
2	Stock Exchanges, Securities depository centres	0.8%
3	Credit institutions, financial institutions, securities dealing institutions incorporated in OECD countries with credit ratings meeting other internal requirements of the Company	3.2%
4	Credit institutions, financial institutions, securities dealing institutions incorporated outside OECD countries or incorporated in OECD countries not meeting other internal requirements of the Company	4.8%
5	Credit institutions, financial institutions, securities dealing institutions incorporated and operating in Vietnam	6%
6	Other institutions and individuals	8%

##### 3.4.2 Risk coefficient by past due period

No.	Past due period	Counterparty risk coefficient
1	0 - 15 days after due date of payment/transfer of securities	16%
2	16 - 30 days after due date of payment/transfer of securities	32%
3	31 - 60 days after due date of payment/transfer of securities	48%
4	Over 60 days after due date of payment/transfer of securities	100%



## HO CHI MINH CITY SECURITIES CORPORATION

### NOTES TO THE REPORT ON CAPITAL ADEQUACY RATIO AS AT 31 DECEMBER 2018

#### 3 REPORTING PRINCIPLES (continued)

#### 3.4 Counterparty risk value (continued)

##### 3.4.3 Counterparty risk exposure

No.	Type of transaction	Counterparty risk exposure
1	Term deposits, unsecured loans, receivables from brokerage service and securities trading activities and other receivables bearing counterparty risk	Entire balance
2	Financial asset lending (or agreements of similar substance)	Max {(Market value of contracts - Value of collateral assets (if any)), 0}
3	Financial asset borrowing (or agreements of similar substance)	Max {(Value of collateral assets - Market value of contracts), 0}
4	Reverse repo agreements (or agreements of similar substance)	Max {(Value of contracts at purchase price - Market value of contracts x (1 - Market risk coefficient)), 0}
5	Repo agreements (or agreements of similar substance)	Max {(Market value of contracts x (1 - Market risk coefficient) - Value of contracts at selling price), 0}
6	Margin lending agreements (or agreements of similar substance)	Max {(Loan balance - Value of collateral assets), 0}

##### 3.4.4 Reliefs on counterparty risk exposure

In determining counter party risk exposure, the Company is permitted to take into account reliefs on the condition that the contracts or agreements meet all of the following criteria:

- The counterparty has collateral assets to secure their obligations, and collateral assets are cash, cash equivalents, valuable papers, transferable money market instruments, listed securities, securities registered for trading on Stock Exchanges, Government bonds, bonds guaranteed by the Ministry of Finance;
- The Company reserves discretion to control, use or transfer the collateral assets in case of default by the counterparty.

The value of collateral assets used as relief on counterparty risk exposure is determined as below:

$$\text{Value of collateral assets} = \text{Quantity} \times \text{Price} \times (1 - \text{Market risk coefficient})$$

##### 3.4.5 Risk value of large exposures

Counterparty risk value of large exposures is determined as follows:

- Increased by 10% where the total exposure from an entity, an individual or a group of related entities and individuals (if any) accounts for 10% to 15% of the Company's owners' equity;
- Increased by 20% where the total exposure from an entity, an individual or a group of related entities and individuals (if any) accounts for 15% to 25% of the Company's owners' equity;
- Increased by 30% where the total exposure from an entity, an individual or a group of related entities and individuals (if any), or an individual and their related parties (if any) exceeds 25% of the Company's owners' equity.

## HO CHI MINH CITY SECURITIES CORPORATION

### NOTES TO THE REPORT ON CAPITAL ADEQUACY RATIO AS AT 31 DECEMBER 2018

#### 3 REPORTING PRINCIPLES (continued)

##### 3.4 Counterparty risk value (continued)

###### 3.4.6 *Bilateral offsetting of counterparty risk exposure*

The Company is permitted to offset counterparty risk exposure bilaterally when:

- The counterparty risks relates to the same counterparty;
- The counterparty risks arise from transactions of similar type;
- The offsetting is agreed by both parties in writing.

##### 3.5 Operational risk value

Operational risk value represents the potential loss due to technical failure, system malfunction, deficiencies in control, human errors, insufficient working capital due to unexpected expenses, losses from investment activities, and other objective causes.

Operational risk value of the Company is determined at the highest of the followings:

- 25% of recurring operating expenses of the Company within the most recent twelve-month period up to the reporting date;
- 20% of the Company's legal capital.

Recurring operating expenses of the Company is determined as total operating expenses charged to the statement of comprehensive income, less the followings:

- Depreciation and amortisation;
- Provision or reversal of provision for impairments of short-term financial assets and mortgages;
- Provision or reversal of provision for impairments of long-term financial assets;
- Provision or reversal of provision for impairments of receivables;
- Provision or reversal of provision for impairments of other current assets;
- Provision or reversal of provision for impairments of other long-term assets.



## HO CHI MINH CITY SECURITIES CORPORATION

### NOTES TO THE REPORT ON CAPITAL ADEQUACY RATIO AS AT 31 DECEMBER 2018

#### 4 SUBSEQUENT EVENTS

On 30 January 2019, the Company declared its plans of share issuances which were approved in the Annual General Meeting of Shareholders on 26 April 2018, in particular:

##### (a) Issuance of bonus shares to existing shareholders

- Bonus ratio: 3:2 (shareholder holding 3 shares as at closing date is entitled to 2 bonus shares)
- Expected quantity of issue: 86,369,445 shares
- Expected par value of issue: VND863,694,450,000
- Bonus shares are freely traded
- Bonus subscription rights are not transferable
- Financial resource of the issuance: undistributed earnings and share premium of audited financial statements for the year 2017
- Closing date: 21 February 2019

##### (b) Issuance of new shares to existing shareholders

- Subscription right ratio: 3:2 (shareholder holding 3 shares as at closing date is entitled to purchase 2 shares)
- Expected quantity of issue: 86,369,445 shares
- Issue price: VND14,000/share
- Expected value of issue: VND1,209,172,230,000
- New shares issued are freely traded
- Bonus subscription rights are transferable once from 28 February 2019 to 12 April 2019.
- Subscription and payment period is from 28 February 2019 to 19 April 2019.
- The Board of Directors are authorised to distribute shares not taken up to other investors at the price not lower than one offered to existing shareholders.

##### (c) Issuance under Employee Stock Option Plan 2018 (ESOP 2018)

- Subscribers: executives of the Company
- Expected quantity of issue: 6,477,000 shares (approximately 5% of quantity in issue)
- Issue price: VND14,000/share
- Expected value of issue: VND90,678,000,000, which is sourced from bonus and welfare fund by VND34,004,250,000 and employees' contribution by VND56,673,750,000
- New shares issued are blocked for transfer according to Policy of ESOP 2018 approved by the Board of Directors
- The Board of Directors are authorised to finalise the list of eligible subscribers and number of shares allotted to each subscriber
- Expected issue date: from 8 to 19 April 2019

Other than these facts, there have been no significant subsequent events occurring after the reporting date that would require adjustments or disclosures to be made in this Report.



**HO CHI MINH CITY SECURITIES CORPORATION**

**NOTES TO THE REPORT ON CAPITAL ADEQUACY RATIO  
AS AT 31 DECEMBER 2018**

The Report was approved by the Board of Management on 27 March 2019.



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Lam Huu Ho  
Chief Financial Officer



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Bui Thi Ngoc Thao  
Head of Internal Control



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Johan Nyvene  
Chief Executive Officer