

KB SECURITIES VIETNAM JOINT STOCK COMPANY

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

KB SECURITIES VIETNAM JOINT STOCK COMPANY

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

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KB VIETNAM SECURITIES JOINT STOCK COMPANY

CORPORATE INFORMATION

Establishment and Operation Licence

No. 77/UBCK-GPHDKD dated 11 June 2008 issued by the State Securities Commission. The Establishment and Operation Licence was amended several times and the latest amendment No. 10/GPDC-UBCK was issued on 21 February 2019.

As at the date of this report on capital adequacy ratio:

Board of Directors	Mr. Park Chunsoo	Chairman (appointed on 26 March 2018)
	Mr. Cho Nam Hoon	Chairman (resigned on 26 March 2018)
	Mr. Yoon Bob Nyol	Member (appointed on 26 March 2018)
	Mr. Oh Cheol Wu	Member (appointed on 26 March 2018)
	Mr. Nguyen Duc Hoan	Member (appointed on 26 March 2018)
	Mr. Jun Sang Hoon	Member (resigned on 26 March 2018)
	Mr. Rho Seung Joon	Member (resigned on 26 March 2018)
	Mr. Mac Quang Huy	Member (resigned on 26 March 2018)
Board of Management	Mr. Nguyen Duc Hoan	General Director (appointed on 30 June 2018)
	Mr. Mac Quang Huy	General Director (resigned on 30 June 2018)
	Mr. Oh Cheol Wu	Deputy General Director (appointed on 30 January 2018)
	Mr. Le Thi Quyen	Acting Deputy General Director
Legal Representative	Mr. Park Chunsoo	Chairman
	Mr. Nguyen Duc Hoan	General Director (appointed on 30 June 2018)
	Mr. Mac Quang Huy	General Director (resigned on 30 June 2018)
Registered office	Floor G, 2 nd and 7 th , Sky City Tower Lang Ha, 88 Lang Ha, Dong Da District, Hanoi, Vietnam	
Auditor	Branch of PwC (Vietnam) Limited in Hanoi	

KB VIETNAM SECURITIES JOINT STOCK COMPANY

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

The Board of Management of KB Vietnam Securities Joint Stock Company (“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 28. 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



Nguyen Duc Hoan
General Director

Hanoi, SR Vietnam
21 March 2019



INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF KB VIETNAM SECURITIES JOINT STOCK COMPANY

We have audited the accompanying report on capital adequacy ratio ("the Report") of KB Securities Vietnam Joint Stock Company ("the Company") which were prepared on 31 December 2018 and approved by the Board of Management on 21 March 2019. The Report comprise the report on capital adequacy ratio as at 31 December 2018 and explanatory notes including basis of preparation and significant reporting principles, as set out on pages 5 to 28.

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 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 Standard 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 judgement, 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 control 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 control. 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 has been prepared and presented in accordance with Circular 87/2017/TT-BTC and Note 2 and Note 3 to the Report.

Basis of preparation of Report on Capital Adequacy Ratio and Restrictions on Use

We would like to draw the reader's attention to Note 2 of the Report, which describes the basis of preparation of the report. The Report was prepared for the Company to comply with the provisions of Circular 87/2017/TT-BTC issued by the Ministry of Finance on capital adequacy ratios and sanctions imposed on securities dealing institutions failing to meet the required capital adequacy ratio. Therefore, the Report is not suitable for use for other purposes. Our auditor's report is solely for the purpose of filing with the State Securities Commission and disclosing information in accordance with Circular 87/2017/TT-BTC and is not intended for any other purpose.


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 Branch of PwC (Vietnam) Limited in Hanoi




Tran Hong Kien
Audit Practising Licence No.
0298-2018-006-1
Authorised signatory


Bui Phuong Hanh
Audit Practising Licence No.
3823-2018-006-1

Report reference number: HAN 2162
Hanoi, 21 March 2019

KB Vietnam Securities Joint Stock Company
Ref: _____

SOCIALIST REPUBLIC OF VIETNAM
Independence - Freedom - Happiness

Re: Report on Capital Adequacy Ratio

Hanoi, 21 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 ("Circular 87/2017/TT-BTC") providing guidance on capital adequacy ratios and sanctions imposed on securities dealing institutions failing to meet the required capital adequacy ratio;
- (2) For matters that may affect the financial position of the Company after the date of this report, we will update them 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 Account



Nguyen Thanh Huyen

Head of Supervisory Board



Pham Thi Bich Thuy

General Director



Nguyen Duc Hoan

KB VIETNAM SECURITIES JOINT STOCK COMPANY

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

I. LIQUID CAPITAL

No.	DESCRIPTION	Liquid capital		
		Liquid capital (1)	Deduction (2)	Addition (3)
A	Equity			
1	Owners' capital	1,107,078,600,000		
2	Share premium	-		
3	Treasury shares	-		
4	Equity component of convertible bonds	-		
5	Other components of equity	-		
6	Financial assets' revaluation reserve	-		
7	Supplementary capital reserve	2,937,033,810		
8	Financial and operational risk reserve	17,807,454,336		
9	Other equity's funds	-		
10	Undistributed earnings	217,222,736,818		
11	Provision for impairment of assets	14,921,090,024		
12	Fixed assets' revaluation reserve	-		
13	Foreign currencies translation reserves	-		
14	Convertible bonds			-
15	Market valuation downside/upside value of financial investments being carried at cost		-	-
16	Others (if any)	-		
1A	Subtotal			1,359,966,914,988

The notes on pages 14 to 28 are an integral part of this Report.

KB VIETNAM SECURITIES JOINT STOCK COMPANY

REPORT ON CAPITAL ADEQUACY RATIO
AS AT 31 DECEMBER 2018

I. LIQUID CAPITAL (CONTINUED)

No.	DESCRIPTION	Liquid capital		
		Liquid capital (1)	Deduction (2)	Addition (3)
B	Current assets			
<i>I</i>	<i>Financial assets</i>			
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 (HTM) financial assets			
	- Those exposed to position risk			
	- Those excluded from liquid capital			-
4	Loans			
5	Available-for-sale (AFS) financial assets			
	- Those exposed to position risk			
	- Those excluded from liquid capital			-
6	Provisions for impairment of financial assets and mortgages			
7	Receivables from disposals of financial assets, dividend receivables and interest receivables			
	- Those due to collect within 90 days			
	- Those due to collect after 90 days			-
8	Covered warrants not yet issued			
9	Underlying securities designated as hedges against covered warrants issued			-
10	Receivables from services provided			
	- Those due to collect within 90 days			
	- Those due to collect after 90 days			-
11	Internal receivables			
	- Those due to collect within 90 days			
	- Those due to collect after 90 days			-
12	Receivables from failed trades			
	- Those due to collect within 90 days			
	- Those due to collect after 90 days			-
13	Other receivables			
	- Those due to collect within 90 days			
	- Those due to collect after 90 days			-
14	Provision for impairments of receivables			
<i>II</i>	<i>Other current assets</i>			
1	Advances			
	- Those due to collect within 90 days			
	- Those due to collect after 90 days			-
2	Office tools and supplies			-
3	Short-term prepaid expenses		4,028,212,352	
4	Short-term pledges, mortgages, collaterals and deposits		2,910,766,034	
5	Value Added Tax to be reclaimed			-
6	Taxes and other receivables from the State Budget			-
7	Other current assets		4,179,693,195	
8	Provisions for impairment of other current assets			
1B	Subtotal			11,118,671,581

The notes on pages 14 to 28 are an integral part of this Report.

KB VIETNAM SECURITIES JOINT STOCK COMPANY

REPORT ON CAPITAL ADEQUACY RATIO
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I. LIQUID CAPITAL (CONTINUED)

No	DESCRIPTION	Liquid capital		
		Liquid capital	Deduction	Addition
		(1)	(2)	(3)
C	Non-current assets			
<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	Investment in subsidiaries			-
2.3	Investment in associates			-
2.4	Other long-term assets			-
<i>II</i>	<i>Fixed assets</i>		15,367,546,799	
<i>III</i>	<i>Investment properties</i>			-
<i>IV</i>	<i>Construction in progress</i>		5,492,736,000	
<i>V</i>	<i>Other non-current assets</i>			
1	Long-term pledges, mortgages, collaterals and deposits		15,000,000	
2	Long-term prepaid expenses		8,106,168,957	
3	Deferred income tax assets			-
4	Deposits in the Settlement Supporting Fund		10,774,400,248	
5	Other non-current assets			-
<i>VI</i>	<i>Provisions for impairment of non-current assets</i>			
	Assets which auditors qualify, express adverse opinion or disclaim to express opinion but not yet excluded according to Article No. 5			-
1C	Subtotal			39,755,852,004
D	Statutory deposits and collaterals			
1	Statutory deposits			
1.1	Statutory deposits in the Derivatives trading Settlement Fund			-
1.2	Statutory deposits for derivatives self-trading activities			-
1.3	Cash deposits and bank guarantee for issued covered warrants			-
2	Value of assets used as collaterals for liabilities due after 90 days			-
1D	Subtotal			-
LIQUID CAPITAL = 1A-1B-1C-1D				1,309,092,391,403

The notes on pages 14 to 28 are an integral part of this Report.

KB VIETNAM SECURITIES JOINT STOCK COMPANY

REPORT ON CAPITAL ADEQUACY RATIO
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II. RISK VALUE WORKING

A POSITION RISK VALUE

Subject items		Risk coefficient (%)	Risk exposure	Risk value (3)=(1) x (2)
		(1)		
I. Cash and cash equivalents, money market instruments				-
1	Cash (VND)	0	10,255,536,683	-
2	Cash equivalents	0	95,151,232,877	-
3	Valuable papers, money market instruments, certificates of deposits	0	532,005,479,452	-
II. Government bonds				-
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 like IBRD, ADB, IADB, AFDB, EIB and EBRD	3	-	-
III. Corporate bonds				140,000,000,000
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	-	-
	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	350,000,000,000	140,000,000,000
IV. Shares				175,115,182
8	Ordinary shares, preference shares of entities listed in the Ho Chi Minh Stock Exchange, open-ended fund certificates	10	924,999,620	92,499,962
9	Ordinary shares, preference shares of entities listed in the Hanoi Stock Exchange	15	202,690,800	30,403,620
10	Ordinary shares, preference shares of unlisted public companies, registered for trading through the UPCoM	20	261,058,000	52,211,600
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	-	-
V. Fund certificates				-
13	Public funds, including public securities investment companies	10	-	-
14	Member funds, private securities investment companies	30	-	-

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**REPORT ON CAPITAL ADEQUACY RATIO
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II. RISK VALUE WORKING (CONTINUED)

A POSITION RISK VALUE (CONTINUED)

Subject items		Risk coefficient (%)	Risk exposure	Risk value (3)=(1) x (2)
		(1)		
VI. Restricted securities				640,000
15	Suspended securities	40	-	-
16	Delisted securities, cancelled securities	50	1,280,000	640,000
VII. Derivatives				-
17	Share-index futures contracts	8	-	-
Formula: Risk value = (Closing trade value – value of stocks already purchased to fulfil the future contract obligation) x risk coefficient of future contracts – Value of statutory deposits associated with open positions. Closing trade value = Closing price x open quantity of contracts				
18	Government bond futures contracts	3	-	-
Formula: Risk value = (Closing trade value – value of stocks already purchased to fulfil the future contract obligation) x risk coefficient of future contracts – Value of statutory deposits associated with open positions. Closing trade value = Closing price x open quantity of contracts				
VIII. Other securities				717,900,800
19	Other shares, capital contributions and other securities	80	897,376,000	717,900,800
20	Listed shares on foreign stock exchanges with qualified indicies	25	-	-
21	Listed shares on foreign stock exchanges without qualified indicies	100	-	-
22	Coverred warrants listed on Ho Chi Minh City Stock Exchange	8	-	-
23	Coverred warrants listed on Hanoi Stock Exchange	10	-	-
24	Coverred warrants issued by the Company		-	-
Formula: Risk value = (P ₀ x Q ₀ x k - P ₁ x Q ₁) x R - MD				
25	Securities designated as hedges againts risk from issued covered warrants (when the covered warrants are out of the money)	N/A	-	-
26	The difference between the value of underlying securiries designated as hedges and the value of underlying securities designated as hedges for risk from issued covered warrants	N/A	-	-
IX. Risk value of large exposures (if any) (based on equity after required provisions are made)				42,000,000,000
	Items	Risk coefficient (%)	Risk exposure	Risk value
1	Vietnam Technological and Commercial Joint Stock Bank	30	140,000,000,000	42,000,000,000
TOTAL POSITION RISK VALUE (I+II+III+IV+V+VI+VII+VIII+IX)				182,893,655,982

The notes on pages 14 to 28 are an integral part of this Report.

KB VIETNAM SECURITIES JOINT STOCK COMPANY

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

II. RISK VALUE WORKING (CONTINUED)

B COUNTERPARTY RISK VALUE

**Risk value
VND**

Risk value of balances not yet due (Note B.1)	43,598,517,510
Risk value of overdue balances (Note B.2)	14,921,090,024
Risk value of large exposures (Note B.3)	1,140,000,000
Total counterparty risk value	59,659,607,534

1. Risk value of balances not yet due

No.	By category	Risk coefficient (%)	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 and unsecured loans and balances from securities trading activities and brokerage activities		-	753,748,588	-	-	38,641,362,303	4,203,406,619	43,598,517,510
2	Financial asset loans/ Agreements of common substance		-	-	-	-	-	-	-
3	Financial asset borrowings/ Agreements of common substance		-	-	-	-	-	-	-
4	Reverse repo contracts/ Agreements of common substance		-	-	-	-	-	-	-
5	Repo contracts/ Agreements of common substance		-	-	-	-	-	-	-
TOTAL RISK VALUE OF BALANCES NOT YET DUE									43,598,517,510

The notes on pages 14 to 28 are an integral part of this Report.

KB VIETNAM SECURITIES JOINT STOCK COMPANY

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

II. RISK VALUE WORKING (CONTINUED)

B COUNTERPARTY RISK VALUE (CONTINUED)

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

Counterparty risk coefficient by counterparty is determined as in table below:

No.	Counterparty	Counterparty risk coefficient
(1)	The Government, Government guarantee issuers, governments and central banks of countries in OECD; People's Committees of Municipalities	0%
(2)	Stock Exchanges, Securities Depository Centre	0.8%
(3)	Credit institutions, financial institutions, securities securities dealing institutions incorporated in OECD countries and with credit ratings qualifying certain internal requirements of the Company	3.2%
(4)	Credit institutions, financial institutions, securities dealing institutions incorporated outside OECD countries; or incorporated in OECD countries but not qualify certain 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 overdue balances

Overdue periods	Risk coefficient (%)	Risk exposure VND	Risk value VND
0 – 15 days since due date	16	-	-
16 – 30 days since due date	32	-	-
30 – 60 days since due date	48	-	-
More than 60 days since due date	100	14,921,090,024	14,921,090,024
TOTAL RISK VALUE OF OVERDUE BALANCES			14,921,090,024

Due date is determined as in table below:

Type of securities/transactions	Due date
Derivatives	According to prevailing regulations applicable for 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

No.	Counterparty name	Risk coefficient (%)	Risk exposure VND	Risk value VND
1	Vietnam Maritime Commercial Joint Stock Bank	10	11,400,000,000	1,140,000,000
TOTAL RISK VALUE OF LARGE EXPOSURE				1,140,000,000

The notes on pages 14 to 28 are an integral part of this Report.

KB VIETNAM SECURITIES JOINT STOCK COMPANY

REPORT ON CAPITAL ADEQUACY RATIO
AS AT 31 DECEMBER 2018

II. RISK VALUE WORKING (CONTINUED)

C OPERATIONAL RISK VALUE

No.	Items	Risk value VND
I	Total operating expenses incurred in recent twelves (12) months up to 31 December 2018	202,619,676,081
II	Adjustments to expenses (Note C)	5,515,573,028
III	Adjusted expenses (III = I - II)	197,104,103,053
IV	25% of adjusted expenses (IV = 25% x III)	49,276,025,763
V	20% of the Company's legal capital	60,000,000,000
OPERATIONAL RISK VALUE (Max {IV, V})		60,000,000,000

Note C – Adjustments to expenses

	Value VND
Depreciations and amortisations	4,484,382,456
Increase in revaluation losses of financial assets at FVTPL	1,173,396,267
Reversals of provisions for impairment of financial assets and mortgages	(142,205,695)
Total adjustments to expenses	5,515,573,028

III. CAPITAL ADEQUACY RATIO WORKING

No.	Items	Value VND
1	Total position risk value	182,893,655,982
2	Total counterparty risk value	59,659,607,534
3	Total operational risk value	60,000,000,000
4	Total risk value (4=1+2+3)	302,553,263,516
5	Liquid capital	1,309,092,391,403
6	Capital Adequacy Ratio (6=5/4)	433%



Nguyen Thanh Huyen
Chief Accountant



Pham Thi Bich Thuy
Head of Internal Control



Nguyen Duc Hoan
General Director

KB VIETNAM SECURITIES JOINT STOCK COMPANY

REPORT ON CAPITAL ADEQUACY RATIO AS AT 31 DECEMBER 2018

1 GENERAL INFORMATION

KB Vietnam Securities Joint Stock Company (“the Company”) is a joint stock company incorporated in Vietnam under the licence No. 77/UBCK-GPHDKD issued by the State Securities Commission (“SSC”) of Vietnam on 11 June 2008. The Establishment and Operation Licence was amended several times and the latest amendment No. 10/GPDC-UBCK was issued on 21 February 2019.

The principal activities of the Company are to provide securities brokerage service, securities investment consultancy service, financial consultancy service, underwriting, securities custodian services and other services allowed under Securities Law.

2 BASIS OF PREPARATION

2.1 Applicable regulations and interpretations

The report on capital adequacy ratio as at 31 December 2018 (“the Report”) of the Company 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 ratios and sanctions imposed on securities dealing institutions failing to meet the required capital adequacy ratio.

The Report is prepared based on the Company’s financial information as at 31 December 2018 and for the year ended 31 December 2018. This report should be read together with the financial statements.

2.2 Reporting currency

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

3 SUMMARY OF SIGNIFICANT PRINCIPLE REPORTING POLICIES

3.1 Capital adequacy ratio (“CAR”)

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

The Company’s capital adequacy ratio is determined according to the formula below:

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

In which: total risk value is the total of position risk value, counterparty risk value and operational risk value.

KB VIETNAM SECURITIES JOINT STOCK COMPANY

REPORT ON CAPITAL ADEQUACY RATIO AS AT 31 DECEMBER 2018

3 SUMMARY OF SIGNIFICANT PRINCIPLE REPORTING POLICIES (CONTINUED)

3.2 Liquid capital

According to Circular 87/2017/TT-BTC, liquid capital is total equity capital which can be converted into cash within 90 days, including the followings:

- a) Owners' capital, excluding redeemable preference shares (if any);
- b) Share premium, excluding premium of redeemable preference shares (if any);
- c) Equity component of convertible bonds (applicable to securities companies issuing convertible bonds);
- d) Owners' other capital
- e) Financial assets' revaluation reserve;
- f) Foreign currencies translation reserves;
- g) Supplementary capital reserve;
- h) Financial and operational risk reserve;
- i) Other equity's funds provided in according to prevailing regulations;
- j) Undistributed earnings;
- k) Provision for impairment of assets;
- l) Fifty percent (50%) of fixed assets' revaluation reserve (if written up) or full amount of fixed assets' revaluation reserve (if written down);
- m) Deductions as noted in Note 3.2.1;
- n) Additions as noted in Note 3.2.2;
- o) Other equity (if any).

3.2.1 Deductions

Liquid capital of the Company are deducted by the following items:

- a) Treasury shares (if any);
- b) Statutory deposits, including:
 - Deposits in cash and securities at the settlement fund of Vietnam Securities Depository;
 - Deposits in cash and securities for speculation activities, trades and market making activities of derivatives;
 - Deposits in cash and bank guarantee for covered warrants issued. If the Company has collaterals assets to obtain bank guarantee for covered warrants, the deduction amount is minimum of (i) bank guarantee amount and (ii) value of collateral assets defined in accordance with Circular 87/2017/TT-BTC;
- c) Value of assets used as collaterals for liabilities of other entities or individuals due after ninety (90) days. Value of assets is defined in accordance with Circular 87/2107/TT-BTC;
- d) Securities excluded from liquid capital comprise:
 - Securities issued buy entities related to the Company including: (i) its parent company, subsidiaries, associates and alliances and (ii) subsidiaries, associate and alliances of the its parent company;
 - Securities being suspended for transfer with remaining duration more than ninety (90) days since calculation date.

KB VIETNAM SECURITIES JOINT STOCK COMPANY

REPORT ON CAPITAL ADEQUACY RATIO AS AT 31 DECEMBER 2018

3 SUMMARY OF SIGNIFICANT PRINCIPLE REPORTING POLICIES (CONTINUED)

3.2 Liquid capital (continued)

3.2.1 Deductions (continued)

- e) Market valuation downside value of financial investments being carried at cost, except those excluded from liquid capital. The market value is determined in accordance with Circular 87/2017/TT-BTC;
- f) Current assets with remaining term of collection above ninety (90) days;
- g) Items which auditors qualify, express adverse opinion or disclaim to express opinion (if any) in audited/reviewed financial statements.

In determining deductions, the following reliefs are permitted:

- Relief on assets being collaterals for the Company's 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 obligation.
- 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

Liquid capital of the Company is increased by maximum 50% of equity, by addition of the following items:

- a) Market valuation upside value of financial investments being carried at cost, except those excluded from liquid capital as noted in Note 3.2.1. The market value is determined in accordance with Circular 87/2017/TT-BTC;
- b) Debts convertible into equity

Debts convertible into equity are comprise two groups below, and meet all conditions listed below:

- Convertible bonds (excluding equity component which is already 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 and in any case the holders are repaid only when the Company pays off its secured debts and unsecured debts;

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3 SUMMARY OF SIGNIFICANT PRINCIPLE REPORTING POLICIES (CONTINUED)

3.2 Liquid capital (continued)

3.2.2 Additions (continued)

b) Debts convertible into equity (continued)

Conditions to qualify debts convertible into equity include the followings:

- Not secured by the Company's assets;
- The Company only redeems before maturity upon request of holders or repurchase on secondary market after announcing to the State Securities Commission in accordance with Circular 87/2017/TT-BTC;
- The Company is able to pause interest payment and delay to following year if such interest payment resulting a loss;
- In case of liquididation, the holder is only repaid after the Company pays off its secured and unsecured debts;
- Interest increase revision, including revision of interest spread, is applied after five (5) years since issue date and only once during its duration before conversion into ordinary shares;
- The debt is registered for addition in accordance with Circular 87/2017/TT-BTC.

Addition by debts convertible into equity reduces over time following principle below:

- During the last five (5) years before maturity/conversion date, the Company reduces by 20% of initial value each year;
- During the last four (4) quarters before maturity/conversion date, the Company reduces by 25% of remaining value each quarter, after reduding by 20% of initial value each year above.

3.3 Position risk value

Position risk value associates with potential loss upon adverse change in market value of assets being owned or to be owned under underwriting commitment.

At the end of trading date, the Company shall determine position risk value on the following assets:

- Group 1: Assets exposed to market risk on net position value;
- Group 2: Securities under firm underwriting commitment not yet distributed and uncollected during the underwriting period;
- Group 3: The Company's covered warrants in issue;
- Group 4: Futures contracts.

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3 SUMMARY OF SIGNIFICANT PRINCIPLE REPORTING POLICIES (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 assets:

- Securities in the Company's own trading account, excluding covered warrants not yet issued (applicable to securities companies) or trading account at other firms (applicable to fund management companies, securities companies without trading function), securities under entrustments, and other securities investments. Such securities include those awaiting transfer from the sellers;
- Securities borrowed on the Company's or on other individuals/institutions' behalf;
- Securities received as collaterals then utilised/lent to third parties in accordance with the prevailing regulations;
- Cash and cash equivalents, transferable instruments, valuable papers that belong to the Company;
- Securities under firm underwriting commitment not yet distributed and collected after payment deadline to issuers.

This group does not include the following items:

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

b) Position risk value formula

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

In which:

- Net position of each security at a point of time is the quantity being held at reporting date, adjusted by:
 - Deducting securities lent and securities being hedged by put options and futures contracts;
 - Adding securities borrowed in accordance with prevailing regulations.
- Valuation principles is presented in Note 3.3.5.
- Market risk coefficient is determined for each specific asset items in accordance with Circular 87/2017/TT-BTC and presented in Note A of Risk Value Working in the Report.

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3 SUMMARY OF SIGNIFICANT PRINCIPLE REPORTING POLICIES (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

The market risk of each asset is increased when the Company has an overly large exposure to it, except for securities under firm underwriting commitment, Government bonds, Government guaranteed bonds. The position risk value of each asset is increased following the principle below:

- Increase by 10% in which the total exposure from investment in shares and bonds of an entity ranges from 10% to 15% of the Company's equity;
- Increase by 20% in which the total exposure from investment in shares and bonds of an entity ranges from 15% to 25% of the Company's equity; and
- Increase by 30% in which the total exposure from investment in shares and bonds of an entity exceeds 25% of the Company's equity.

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

3.3.2 Securities under firm underwriting commitment not yet distributed and uncollected during underwriting period

Position risk value of this group is determined following the formula below:

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

In which:

- Q_o is the quantity of Securities under firm underwriting commitment not yet distributed and 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. The underwriting risk coefficient is determined based on the remaining period until the distribution deadline according to contract, but not exceeding the distribution period permitted by laws, specifically presented as below:

	Underwriting risk coefficient
Remaining period until the distribution deadline	
Above sixty (60) days	20%
From thirty (30) days to sixty (60) days	40%
Within thirty (30) days	60%
During the period from the distribution deadline to payment deadline	80%

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3 SUMMARY OF SIGNIFICANT PRINCIPLE REPORTING POLICIES (CONTINUED)

3.3 Position risk value (continued)

3.3.2 *Securities under firm underwriting commitment not yet distributed and uncollected during underwriting period (continued)*

- r is the market risk coefficient, which is determined for each specific asset items in accordance with Circular 87/2017/TT-BTC and presented in Note A of Risk Value Working in the Report.
- P_1 is transacted price, determined on the same valuation methods presented in Note 3.3.5. In case of an initial public offering, including initial equitization auction, bond auction, the transacted price is book value per share of the issuer's most recent financial statements, or opening price (if book value is undetermined) or par value (applicable to bonds).

After payment deadline, the Company must determine position risk value of securities undistributed in accordance with requirements in Note 3.3.5.

3.3.3 *The Company's covered warrants in issue*

Position risk value of this group is determined following the formula below:

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

In which:

- P_0 is the settlement price of underlying securities at reporting date determined and announced by the Stock Exchange;
- Q_0 is the quantity of the Company's covered warrants in issue;
- k is the conversion rate;
- P_1 is the price of underlying securities determined in accordance with requirements set out at Note 3.3.5;
- Q_1 is the quantity of underlying securities held to secure the issued covered warrants;
- r is market risk coefficient, which is determined for each specific asset items in accordance with Circular 87/2017/TT-BTC and presented in Note A of Risk Value Working in the Report;
- MD is the statutory deposits for issued covered warrants.

The underlying securities per the formula above must meet all of the following conditions:

- Included in the issue plan or registered with the State Securities Commission regarding their purpose as a hedge against risks from covered warrants;
- Being the underlying securities to the covered warrants.

When the covered warrants 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, yet it must calculate market risk value on the underlying securities held as a hedge for risk from issued covered warrants.

The Company must calculate the position risk value on the difference in value of underlying securities held to hedge risk from issued covered warrants and the value of underlying securities needed to hedge risk from issued covered warrants. The value of necessary underlying securities must match value of hedges.

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3 SUMMARY OF SIGNIFICANT PRINCIPLE REPORTING POLICIES (CONTINUED)

3.3 Position risk value (continued)

3.3.4 Futures contracts

Position risk value of futures contracts is determined based on the formula below:

$$\text{Position risk value} = \left(\text{Closing value} - \text{Purchase value} \right) \times \text{Market risk coefficient of future contracts} - \text{Statutory deposits}$$

In which:

- Closing value = Closing price x Open Positions;
- Purchase value is the value of underlying securities the Company purchased to secure its obligation from future contracts;
- Statutory deposits are assets deposited for speculation activities, trades and market making activities of derivatives.

3.3.5 Asset valuation

Asset valuation is applied in accordance with Circular 87/2017/TT-BTC, specifically presented in table below:

No.	Asset type	Valuation base
Cash and cash equivalents, money market instruments		
1	Cash in VND	Carrying value at reporting date
2	Foreign currencies	Amount equivalent in VND at exchange rate of credit institutions permitted to trade foreign currencies
3	Term deposits	Deposit value plus accrued interest up to reporting date
4	Treasury bills, banker's acceptances, commercial papers, transferable certificates of deposit, bonds and other discountable money market instruments	Purchase value plus accrued interest up to reporting date

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3 SUMMARY OF SIGNIFICANT PRINCIPLE REPORTING POLICIES (CONTINUED)

3.3 Position risk value (continued)

3.3.5 Asset valuation (continued)

Asset valuation is applied in accordance with Circular 87/2017/TT-BTC, specifically presented in table below:

No.	Asset type	Valuation base
Bonds		
5	Listed bonds	<ul style="list-style-type: none"> - Quoted price of outright transactions on Stock Exchanges as at the latest trading date prior to the valuation date plus accrued interest (if quoted price is clean) - If not traded within the two (2) weeks prior to the reporting date, valuation base is the maximum of the followings: <ul style="list-style-type: none"> a) Purchase price plus accrued interest; b) Par value plus accrued interest; c) Internal valuation base, plus accrued interest. <p>In other words: Max {a,b,c}.</p>
6	Unlisted bonds	<p>Maximum of the followings:</p> <ul style="list-style-type: none"> d) Quoted price on selected bond quotation system (if any) plus accrued interest; e) Purchase price plus accrued interest; f) Par value plus accrued interest; g) Internal valuation base, plus accrued interest <p>In other words: Max {a,b,c,d}.</p>
Shares		
7	Shares listed on Ho Chi Minh City Stock Exchange	<ul style="list-style-type: none"> - Closing price of the latest trading date prior to the reporting date; - If not traded within the two (2) weeks prior to the reporting date, valuation base is the maximum of the followings: <ul style="list-style-type: none"> a) Book value; b) Purchase price; c) Internal valuation base. <p>In other words: Max {a,b,c}.</p>
8	Shares listed on Hanoi Stock Exchange	<ul style="list-style-type: none"> - Closing price of the latest trading date prior to the reporting date; - If not traded within the two (2) weeks prior to the reporting date, valuation base is the maximum of the followings: <ul style="list-style-type: none"> a) Book value; b) Purchase price; c) Internal valuation base. <p>In other words: Max {a,b,c}.</p>

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3 SUMMARY OF SIGNIFICANT PRINCIPLE REPORTING POLICIES (CONTINUED)

3.3 Position risk value (continued)

3.3.5 Asset valuation (continued)

No.	Asset type	Valuation base
Shares (continued)		
9	Shares of public companies registered for trading on UPCoM	<ul style="list-style-type: none"> - Closing price of the latest trading date prior to the reporting date; - If not traded within the two (2) weeks prior to the reporting date, valuation base is the maximum of the followings: <ul style="list-style-type: none"> a) Book value; b) Purchase price; c) Internal valuation base. <p>In other words: Max {a,b,c}.</p>
10	Shares unlisted, registered and unregistered for trading equities held in custody at Vietnam Securities Depository ("VSD")	<ul style="list-style-type: none"> - The average of transacted prices announced by the three (03) independent quoting entities at the latest trading date within one (01) month prior to the reporting date. - If 3 quotations are not sufficiently available, valuation base is the maximum of: <ul style="list-style-type: none"> a) Quoted prices; b) Most recently quoted prices; c) Book value; d) Purchase price; e) Internal valuation base. <p>In other words: Max {a,b,c,d,e}.</p>
11	Suspended equities, delisted equities or cancelled equities	<p>Valuation base is the maximum of:</p> <ul style="list-style-type: none"> a) Book value; b) Purchase price; c) Internal valuation base; <p>In other words: Max {a,b,c}.</p>
12	Equities of entities in the process of dissolution or bankruptcy	<p>80% of disposal value of these equities as at the latest preparation date of the statement of the financial position prior to the reporting date, or internal valuation base.</p>
13	Other equities, other investments	<p>Valuation base is the maximum of:</p> <ul style="list-style-type: none"> a) Book value; b) Purchase price; c) Internal valuation base. <p>In other words: Max {a,b,c}.</p>

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3 SUMMARY OF SIGNIFICANT PRINCIPLE REPORTING POLICIES (CONTINUED)

3.3 Position risk value (continued)

3.3.5 Asset valuation (continued)

No.	Asset type	Valuation base
Certificate/share of securities investment company		
14	Public Closed-end fund/ ETF	<ul style="list-style-type: none"> - Closing prices of last trading date prior to reporting date; - If not traded within two (2) weeks before reporting date: NAV per certificate as at the fund's last valuation date prior to reporting date of the Company
15	Private fund/Open-end fund/ Shares of private securities investment funds	Net asset value per unit as at the fund's last valuation date prior to reporting date of the Company
16	Other assets	Internal valuation base
Fixed assets		
17	Land use right	Amount reported by appointed independent valuing firm
18	Buildings including construction in progress	Amount reported by appointed independent valuing firm/cumulative cost of construction in progress
19	Equipments and motor vehicles	Carrying value
20	Other fixed assets	Amount reported by appointed independent valuing firm
Other securities		
21	Covered warrants issued by another securities dealing entities	<ul style="list-style-type: none"> - Closing price of the latest trading date prior to reporting date; - Purchase price (applicable to unlisted covered warrants).
22	Shares listed on foreign stock exchanges	<ul style="list-style-type: none"> - Price converted into VND at applicable exchange rate at reporting date; - Closing price of the latest trading date prior to the reporting date; - If not traded within the two (2) weeks prior to the reporting date, valuation base is the maximum of the followings: <ul style="list-style-type: none"> a) Book value; b) Purchase price; c) Internal valuation base. <p style="margin-left: 40px;">In other words: Max {a,b,c}.</p>

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REPORT ON CAPITAL ADEQUACY RATIO AS AT 31 DECEMBER 2018

3 SUMMARY OF SIGNIFICANT PRINCIPLE REPORTING POLICIES (CONTINUED)

3.4 Counterparty risk value

Counterparty risk value associates with potential loss from counterparty's failure to pay or transfer assets as timely as committed.

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

- Term deposits at credit institutions, loans to other institutions and individuals;
- Securities borrowing contracts in accordance with prevailing regulations;
- Repo contracts in accordance with prevailing regulations;
- Reverse repo contracts in accordance with prevailing regulations;
- Margin loans contracts in accordance with prevailing regulations;
- Balances from co-underwriting contracts with firm commitment in which the Company is the lead underwriter;
- Receivables not yet due, including those related to brokerage activities for sales transactions;
- Overdue receivables, including matured bonds, valuable papers, matured debt instruments but not yet collected;
- Assets past due but not transfer, including securities of the Company's own transactions and customer's transactions in brokerage service.

For term deposit at credit institutions; loans to other institutions or individuals; securities borrowing contracts in accordance with prevailing regulations; repo contracts in accordance with prevailing regulations; reverse repo contracts in accordance with prevailing regulations, margin loans contracts in accordance with prevailing regulations; receivables and other receivables and other assets exposed to counterparty risk, the counterparty risk is determined according to the following formula:

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

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

For overdue receivables, other receivables and other assets; assets past due but not transfer including securities, uncollected term deposits at credit institutions; overdue loans to other institutions and individuals, overdue securities borrowing contracts in accordance with prevailing regulations; overdue repo contracts in accordance with prevailing regulations; overdue reverse repo contracts in accordance with prevailing regulations, overdue margin loans contracts in accordance with prevailing regulations, the counterparty risk is determined according to the following formula:

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

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

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3 SUMMARY OF SIGNIFICANT PRINCIPLE REPORTING POLICIES (CONTINUED)

3.4 Counterparty risk value (continued)

3.4.1 Risk coefficient by counterparty

No.	Type of counterparty	Risk coefficient
1	The Government, Government guarantee issuers, governments and central banks of countries in OECD; People's Committees of Municipalities	0%
2	Stock Exchanges, Securities Depository Centre	0.8%
3	Credit institutions, financial institutions, securities dealing institutions incorporated in OECD countries and with credit ratings qualifying certain internal requirements of the Company	3.2%
4	Credit institutions, financial institutions, securities dealing institutions incorporated outside OECD countries; or incorporated in OECD countries but not qualify certain 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.	Overdue dates since deadlines of payments/ securities settlements	Risk coefficient
1	0 – 15 days since deadlines of payments, securities settlements	16%
2	16 – 30 days since deadlines of payments, securities settlements	32%
3	31 – 60 days since deadlines of payments, securities settlements	48%
4	Over 60 days since deadlines of payments, securities settlements	100%

3.4.3 Counterparty risk exposure

No.	Type of transactions	Counterparty risk exposure
1	Term deposits and unsecured loans and balances from securities trading activities and brokerage activities	Entire value of the loans
2	Financial asset loans/ Agreements of common substance	Max {(Market value of contracts - Value of collateral assets (if any)),0}
3	Financial asset borrowings/ Agreements of common substance	Max {(Value of collateral assets - Market value of contracts),0}
4	Reverse repo contracts/ Agreements of common substance	Max {(Value of contracts at purchase price - Market value of contracts x (1 - Market risk coefficient)),0}
5	Repo contracts/ Agreements of common substance	Max {(Market value of contracts x (1 - Market risk coefficient) - Value of contracts by selling price),0}
6	Margin lending contracts/ Agreements of common substance	Max {(Debt balance - Value of collateral assets),0}

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3 SUMMARY OF SIGNIFICANT PRINCIPLE REPORTING POLICIES (CONTINUED)

3.4 Counterparty risk value (continued)

3.4.4 Counterparty risk exposure relief

Counterparty risk exposure relief is applicable to contracts and transactions that meet all of the following conditions:

- Counterparty/customer has collateral assets to secure their obligations and collateral assets are cash and cash equivalents, valuable papers, transferable money market instruments, listed securities, securities registered for trading, Government bonds, bonds guaranteed by the Ministry of Finance;
- The Company reserves discretion to control, utilise or transfer the collateral assets in case the counterparty fails to meet their obligations sufficiently and timeline as committed in the contracts.

Value of assets backing the relief is determined as follows:

Value of collateral assets = Asst quantity x Asset price x (1 – Market risk coefficient)

3.4.5 Risk value of large exposures

Counterparty risk value is increased following the principles below:

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

3.4.6 Bilateral offsetting of counterparty risk exposure

Counterparty risk exposure can be bilateral offset if:

- Counterparty risks relates to the same counterparty;
- Risks arise on the same type of transactions;
- Bilateral offsetting has been agreed in written form.