CHALLENGES IN ADOPTING INTERNATIONAL REPORTING STANDARDS FOR BANKING SECTOR IN VIETNAM

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ABSTRACT

International Financial Reporting Standards (IFRS) has increasingly been required and adopted globally. Furthermore, the rapid growth of Vietnamese financial market and banking sector has led to the need for improving the current accounting system to harmonize with the globalization trend of the world economy.

This thesis aims at comparing IFRS and VAS in respect of presentation of financial statements and financial instruments, which is one of the major operations of credit institutions. Since Vietnamese market and accounting systems are still lacking in many aspects, advantages, disadvantages, and challenges of the adoption are identified based on the observation and interviews.

The study applied inductive, qualitative research method to conduct the research. Primary data was collected from the author's observation and interviews. Additionally, secondary data was acquired from accounting journals, books, government publications and newspapers.

The comparison shows key differences between IFRS and VAS regarding presentation of financial statements and financial instruments. Later, through the conducted interviews, various advantages of IFRS adoption were revealed. Besides that, disadvantages and challenges of the adoption were addressed, in which transitional cost is one of the main disadvantages and challenges.

Key words: IFRS, VAS, Credit institutions accounting regime, accounting standards, advantages, disadvantages, challenges.

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ABBREVIATIONS

ACCA	Association of Chartered Certified Accountants
ADB	Asian Development Bank
AFA	ASEAN Federation of Accountants
Agribank	Vietnam Bank for Agriculture and Rural Development
ANZ	Australia and New Zealand Bank
ASEAN	Association of Southeast Asian Nations
BIDV	JSC Bank for Investment and Development of Vietnam
BTA	Bilateral Trade Agreement
DRV	Democratic Republic of Vietnam
EC	European Commission
EY	Ernst & Young Limited
FASB	Financial Accounting Standards Board
FDI	Foreign Direct Investment
FSI	Financial Soundness Indicators
GAAP	Generally Accepted Accounting Principles
GDP	Gross Domestic Product
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee
IFAC	International Federation of Accountants

IFRS	International Finacial Reporting Standards
IMF	International Monetary Fund
IOSCO	International Organization of Securities Commissions
IPO	Initial Public Offering
IT	Information Technology
JSCB	Joint-stock Commercial Bank
M&A	Merger and Acquisitions
MHB	Mekong Housing Bank
MoF	Ministry of Finance
NPL	Non-Performing Loan
PM	Prime Minister
SBV	State Bank of Vietnam
SEC	Securities and Exchange Commission
SME	Small and Medium-sized Enterprise
SOCB	State-owned Commercial Bank
UFIRS	Uniform Financial Institution Rating System
VAS	Vietnamese Accounting Standards
Vietcombank	JSC Bank for Foreign Trade of Vietnam
Vietinbank	Vietnam JSC Bank for Industry and Trade
WTO	World Trade Organization
WB	World Bank

1 INTRODUCTION

1.1 Background

Since the launch of “Doi Moi” (Renewal) policy in 1986, the Vietnamese economy has noted significant changes. As a result, Vietnam has attracted a huge amount of foreign investment to open a new chapter for the national economy, which has transformed from a centrally planned to a market-based oriented one (World Bank, 2014). According to Figure 1, the Foreign Direct Investment (FDI) inflows to Vietnam have been continuously rising during nearly thirty years of growing rapidly. Especially, the normalization of relationships with the International Monetary Fund (IMF), the World Bank (WB), and the Asian Development Bank (ADB) increased the FDI inflows into Vietnam from only USD 40,000 in 1986 to nearly USD 930 million in 1993. Furthermore, from 2006 to 2008, there was a remarkable rise in the flow of FDI pouring into Vietnam as a result of the participation into World Trade Organization (WTO). Due to the global financial crisis in 2009, the FDI inflows have decreased credibly. However, the FDI inflows into Vietnam have reached nearly USD 8,4 billion in 2012, which indicated the return of the economy.

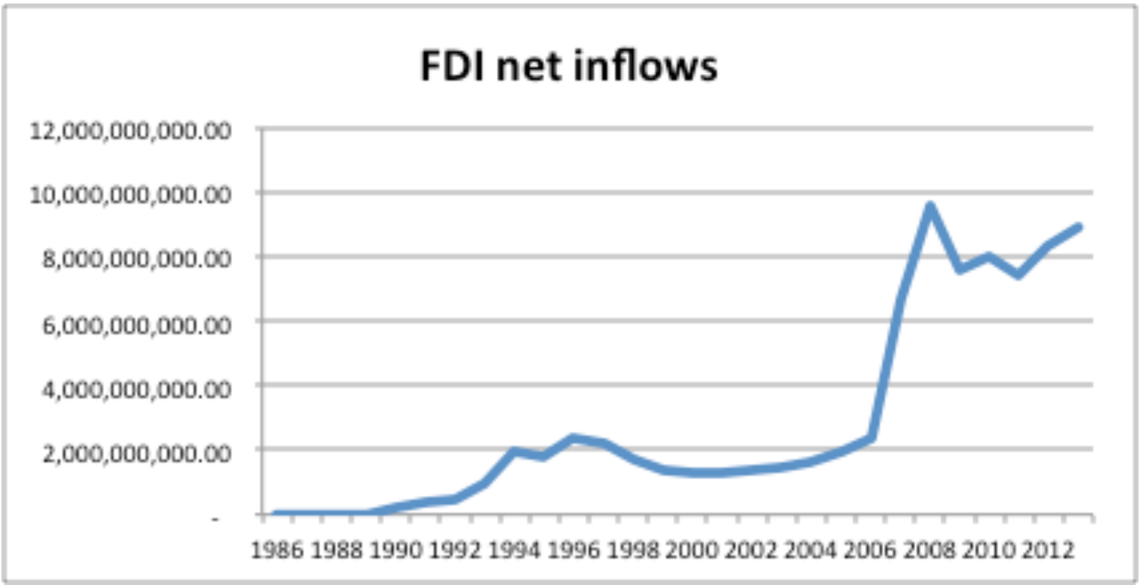

FIGURE 1. Vietnam net inflows Foreign direct investment (World Bank, 2014)

Indeed, the banking sector played an important role in the fast growth of the economy. Along with the development of the economy, the banking sector has implemented different changes to adopt. Before the economic reforms, Vietnam had a mono-tier banking system, which was controlled by the Government through the State Bank of Vietnam (SBV). However, in a market-based oriented economy, the banking system was split into a two-tier, in which the central bank, the SBV, governs 4 specialized state-owned commercial banks. Since the 1990s, the banking sector has made constant development. (Anwar & Nguyen, 2009.) As a member of WTO, Vietnam was obliged to remove trade barriers, which brought opportunities and challenges for government and domestic production. For the banking sector, under the bilateral trade agreement with the United States (US), Vietnam was bound to lift the trade embargo for wholly US-owned financial institutions in 2010 challenging the young banking sector of Vietnam. Until 2013, there were five State-owned Commercial Banks (SOCB), thirty-five Joint-stock Commercial Banks (JSCB), and fifty foreign banks' branches and five 100% foreign-owned banks operating in Vietnam (SBV 2014). Moreover, the forming of the State Securities Commission of Vietnam in 1996 was the opening for the establishment of the Vietnamese stock market in 2000.

Due to the three merger & acquisition (M&A) activities of seven banks and high Non-Performing Loan (NPL) rate in 2011, "Finance, banking, insurance" sector ranked 12/18 in attraction of FDI by sectors according to the Ministry of Planning and Investment in 2012 (Nguyen et.al 2013, 6). As a result, the investors' confidence and trust in Vietnamese banking sector decreased. During 2012, while Vietnam was evaluated as one of the fastest growing markets and top emerging markets for 2012-2017, there was only one new project registered with just USD 100,000 of capital (Global Intelligence Alliance 2012). On the other hand, Vietnamese stock market was fast growing. Although Vietnamese stock market was heavily affected by the world stock market crash and global financial crisis in 2008, it has slowly recovered and been promising to investors. There are only nine listed banks on the stock market; however, under the Prime Minister (PM) and SBV's requirement that all the banks shall be listed in 2015 to avoid cross-ownership. Eventhough banking sector shall have large proportion on the stock market, the poor performance has restrained the investors. (Thoi bao Kinh te

Saigon Online 2014.) Along with the liberalization and globalization of the economy, the risk and uncertainty has also increased. Therefore, according to Mr. Shetty, the Chief Economist of the WB's East Asia and Pacific Region, companies and banks are required to provide transparent report on its financial state to attract investors (World Bank 2014).

As international business increased in the trend of globalization, a common set of accounting standards, which provides high quality, comparable financial statements, is required. Furthermore, since Vietnamese banking market ranked third for the attractive banking markets of Association of South East Asian Nations (ASEAN), transparent and understandable financial statements are necessary (Hoang 2014). On the other hand, Internation Financial Reporting Standards (IFRS) is widely required or permitted in more than one hundred and twenty countries and currently being considered adopting by the United States, Japan, India, Russia, Malaysia and Colombia (Deloitte 2014). In Vietnam, many banks are preparing financial statements using both VAS and IFRS, which is time-consuming and expensive. Moreover, as more and more foreign banks open branches in Vietnam, the difference of General Accepted Accounting Principles (GAAP) is also an impediment in the operation. Thus, the MoF has considered whether fully adopting IFRS or converging Vietnamese Accounting Standards (VAS) and IFRS (IFRS Foundation 2014).

There have been limited previous studies concerning the challenges in adopting IFRS for Vietnamese banking sector. A study on the effect of adopting IFRS on Vietnamese banking sector was conducted (Pham 2012, 3). However, the research mainly presents general differences between VAS and IFRS and their effects. Meanwhile, credit activities and financial instruments are main operations of a bank that have not been studied deeply. Hence, the author decided to compare between IFRS and VAS, especially the accounting regime for credit institutions focusing on the accounting standards related to the credit and financial instruments' operations. Thereby, the author shall point out the advantages, disadvantages and challenges of IFRS adoption for Vietnamese banking sector. Therefore, the research shall help the MoF and credit institutions determine issues to get ready to adopt IFRS.

1.2 Thesis Objectives and Research Questions

The thesis ojective is to provide understanding of the differences between IFRS and VAS, especially the accounting system for credit institutions. Thereby, the study aims to point out challenges for Vietnamese banking sector in case IFRS is adopted.

The author defines the research question as: ***What are the advantages, disadvantages and challenges Vietnamese banking sector shall face in adopting IFRS?***

To achieve the goal and answer the research question, there are following sub questions:

- What is the current situation of the Vietnamese banking sector like?
- What are the VAS and accounting system for credit institution?
- What is the IFRS?
- What are the differences between VAS and IFRS and acconting regime for credit institutions?

1.3 Research Methodology, Data Collection and Limitations

There are 3 types of research approach: deduction, induction and combination. Inductive approach goes with the observation of empirical study to generalize a theory (Neuman 2003, 51). On the other hand, deductive approach bases on the theory to narrow down the hypotheses then use the experiment, observation to testify (Wilson 2013, 13). In this study, the author will apply the deductive approach to point out the main differences between IFRS and VAS. Later, inductive approach was used to point out the challenges in adopting IFRS.

Whilst qualitative research involves narrative data, quantitative research analyses numerical data (Wilson 2013, 15). In other words, qualitative method uses non-numerical data, and interprets the data to have deep understanding of a phenomenon (Saunders et. al 2012, 161-163). Hence, the author will use qualitative method to compare the differences between IFRS and VAS and identify the challenges in adopting IFRS for banking sector.

In order to conduct the research, the author will use two types of sources to collect data. Primary data is usually specifically acquired for the purpose of the study, while secondary data is the collected data in other studies (Saunders et.al 2012, 304). The author will use secondary data collected from academic books, accounting journals, articles, newspapers, research as well as the publication of IFRS, VAS and related documents for understanding the IFRS and VAS. Thereby, the author's own observation of IFRS and VAS publication as well as the annual financial statements of a Vietnamese bank shall be used to compare the differences between IFRS and VAS. Furthermore, the author shall conduct in-depth face-to-face interviews with an accountant officer, an IT officer, a former officer of the MoF and a senior auditor to identify the challenges as well as the attitude toward adopting IFRS for banking sector.

Nonetheless, the study has many limitations. Firstly, the thesis made comparison between IFRS and VAS only in regard to presentation of financial statements, and financial instruments. Furthermore, there are only one bank's financial statements to compare. Thus, the result may differ from a varying range of samples.

1.4 Thesis structure

The study contains five chapters as illustrated in the figure 2 below:

FIGURE 2. Thesis structure

The research starts with chapter 1 – Introduction. This chapter briefly presents background information on the Vietnamese banking sector, IFRS and previous studies. Furthermore, research objectives and questions as well as the research methodology of the study are addressed. However, each research has its own limitations that the author explained in detail.

Thereafter, the research consists of two parts: theoretical study in chapter 2 and chapter 3, and empirical study in chapter 4. Specifically, chapter 2 provided an overview of the Vietnamese banking sector and its current situation. Besides, this chapter presented overview and interpretation of the Vietnamese accounting development along with VAS and accounting regime for credit institutions. Later, chapter 3 demonstrated the IFRS development and framework. Thereby, the differences between IFRS and VAS, accounting regime for credit institutions were identified in this chapter. Chapter 4 testified the differences between two GAAPs in practice through the analysis of a Vietnamese bank's annual financial statements. Lastly, the author analysed the challenges and attitude toward adopting IFRS for banking sector through the conducted interviews.

Lastly, in chapter 5, the author provided a summary of the study and suggestions for further research.

2 VIETNAMESE BANKING SECTOR AND VIETNAMESE ACCOUNTING STANDARDS

In this chapter, the overview of the development and current situation of the Vietnamese banking sector will be presented. Later, the overview of the Vietnamese accounting development together with VAS and credit institutions accounting regime will be briefly discussed. Lastly, the chapter will study VAS and credit institutions accounting regime framework.

2.1 Overview of the Vietnamese banking sector

The banking sector plays a vital role in the economy, thus the development of the sector has enormous impact on the national economic growth. According to Mrs. Duong Nguyen, Partner of EY Hanoi, the Vietnamese economy heavily depends on the banking sector, which assures the steady growth of the economy (Nguyen 2014). Thus, the Vietnamese banking sector is highly controlled by the government to ensure a stable economy.

During the period between 1986 and 1992, the government implemented different reforms on the national economy. Since then, banking sector has also undergone various reforms. Before the first reform in 19 90, the SBV acted as a central bank as well as a commercial one. A decentralization of banking system was carried out resulting in a two-tier system. Thereby, the SBV has been only operating as a central bank, which regulates monetary policy, handles foreign exchange reserves, grants license and supervises credit institutions (Ho & Baxter 2011). Otherwise, banking services were appointed to newly founded SOCBs, which were four specialized departments of the SBV (Dao 2014, 17). BIDV was founded in 1957 as Bank for Construction of Vietnam, which originally was infrastructure department of the SBV. Then in 1963, Vietcombank was established from the Foreign Exchange Bureau. After implementing the banking reform, two more specialized SOCBs, Vietinbank and Agribank, were founded in 1988. Vietinbank formerly was the industrial and commercial lending department of the SBV, whilst Agribank was the agricultural department. Under the requirement of trade agreements and joining WTO, the government saw the need of strengthening the competitiveness for domestic banks. Thus, the PM promulgated Decision No.

112/2006/QD-TTg dated 24 May 2006 on developing banking sector. The government planed to equitize the SOCBs by reducing its ownership to 51% by 2010. Furthermore, as more foreign investors interested in the Vietnamese banking market, the government circulated Decree No. 69/2007/ND-CP that was superseded by Decree No. 01/2014/ND-CP dated 3 January 2014 on foreign ownership in Vietnamese banks. The government determined the maximum shareholding of different types of foreign investors. Firstly, the total amount of foreign investors' shareholdings must not exceed 30%. Secondly, the maximum shareholding of an individual foreign investor is 5%, whereas a foreign organization can hold maximum of 15%. On the other hand, a strategic foreign investor's maximum shareholding as well as the ownership of a foreign investor and related parties is 20%. In order to ensure the banking market's health and the investors' commitment, the government also regulated conditions for foreign investors of each curb. Foreign investors with ownership of 10% or above of chartered capital are required to have good reputation in global market with adequate financial capability. Furthermore, a foreign investor must hold shares at least 3 years and have the minimum total assets of USD 10 billion if the foreign investor is a foreign credit institution. Likewise, a strategic foreign investor is required to be a foreign credit institution with minimum total assets of USD 20 billion and has minimum 5 years of experience in international banking sector. Moreover, a strategic foregin investor is forbidden to have from 10% of other Vietnamese credit institutions' chartered capital. Lastly, a strategic foreign investor is obliged to hold its share for at least 5 years with its commitment of helping local banks to develop. (Decree on purchasing shares of Vietnamese credit institutions by foreign investors 01/2014/ND-CP, Section 1-2, Section 4, Chapter II.)

Despite all the government's efforts, only Vietcombank and Vietinbank sold their shares to the public in 2007 and 2008 respectively. In December 2007, Vietcombank became the first bank having an IPO by selling 6.5% stake. However, Vietcombank was unable to meet the requirement of selling stake to a strategic foreign investor. In September 2011, Vietcombank succeeded in selling 15% stake to its strategic foreign investor – Mizuho Corporate Bank. Ltd. On the other hand, Vietinbank held its IPO in December 2008 by selling 4% stake.

Furthermore, Vietinbank achieved selling 10% of its shares to its strategic foreign investor – International Finance Corporation in January 2011 and 20% of its shares to another strategic foreign investor – Bank of Tokyo – Mitsubishi UFJ in December 2012. Whilst the privatization of BIDV in 2008 was postponed twice due to the poor performance of the domestic stock market, the equitization plan of MHB was approved in April 2010. MHB intended to sell 15% stake to strategic investors and 14.34% stake to public, however, the bank only accomplished selling 9% stake to the public in July 2011. As for BIDV, the bank bidded only 3.68% stake in December that 40% of the issued shares were sold to BIDV's employees and BIDV's shares has been unlisting until January 2014. Whilst four other SOCBs has partially equitized, Agribank was approved to become a single-member limited liability company completely under the government ownership in February 2009. Although the government is currently holding major shares of the SOCBs, the government is showing commitment to the equitization plan of SOCBs by continuing to sell its shares of SOCBs in 2014 and 2015. (VPBank Securities 2014, 12.) Figure 3 presents the current government ownership of five SOCBs as following:

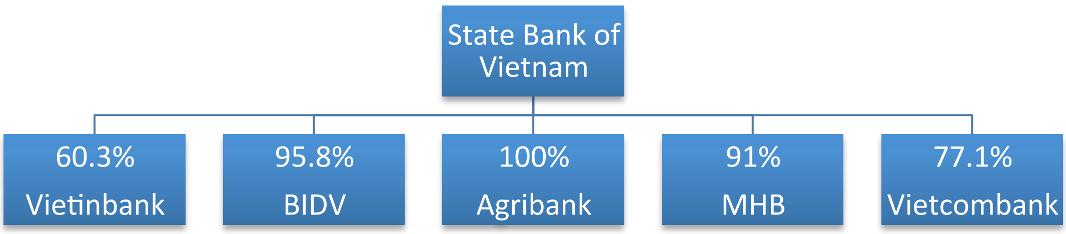

FIGURE 3. Current state's ownership in SOCBs (VPBank Securities 2014, 12)

In the 90s, the Vietnamese banking sector witnessed the establishment of many JSCBs. Currently, there are 35 JSCBs operating with total chartered capital of above VND 160,000 billion. Comparing to SOCBs, the total chartered capital of JSCBs is twice as of SOCBs'. However, the chartered capital of each JSCB is rather smaller than SOCBs'. (VPBank Securities 2014, 13.)

In 1996, the government issued Decision No. 67/QD-NH5 setting the minimum capital requirement to establish a JSCB based on the operating area as well as whether the bank has branches or not. Furthermore, the government issued Decree

No. 82/1998/ND-CP specified the minimum capital requirement based on the type and operating area of the bank. As the minimum capital requirement was rather low, many JSCBs were established during the time that operated poorly due to the lack of experience and control in an intense competitive market. Thus, many JSCBs were obliged to announce bankruptcy, or to be merged with stronger banks, which were mostly local banks. However, the rising number of foreign credit institutions in the market made strengthening bank capitalization an important task of the reform to improve the local banks' competitiveness. Therefore, the Government issued Decree No. 141/2006/ND-CP dated 22 November 2006 to raise the bar for capital requirement by 2010, which is shown in Table 2. According to the Decree, any commercial bank that could not meet the requirement by 31 December 2010 would be forced to merge, have its scope of operation reduced or have its banking licesne withdrawed (Decree on promulgating the list of legal capital levels of credit institutions 141/2006/ND-CP, Article 3).

TABLE 1. Credit institutions' minimum chartered capital required (VPBank Securities 2014, 17)

Types of credit institution	Statutory capital required	
	2008	2010
SOCBs	VND3.000 bn	VND3.000 bn
JSCBs	VND1.000 bn	VND3.000 bn
Joint venture banks	VND1.000 bn	VND3.000 bn
Foreign banks	VND1.000 bn	VND3.000 bn
Branches of foreign banks	USD15 mn	USD15 mn

However, only twenty banks met the requirement by 31 December 2010 as the domestic stock market performed poorly and many institutions increased issuing shares to raise capital. Thus, the government extended the deadline until 31 December 2011 for twenty-nine other commercial banks. By the deadline, there were only PG bank and Bao Viet bank could not meet the minimum capital requirement. (VPBank Securities 2014, 13-17.)

According to Ordinance 38-LCT/HDNN8 dated 24 May 1990 on Banks, Credit cooperative and Financial companies, foreign banks were allowed to open branches or set up joint ventures with local banks in Vietnam. While Cathay United Bank in Taiwan was the first bank to enter the Vietnamese banking market through a joint-venture bank, Indovina Bank, with Vietinbank in 1990, ANZ was the first bank gained approval to open a branch in 1992. However, only four joint ventures between SOCBs and foreign banks were established in the early 1990s. Until the government issued Decree No. 13/1999/ND-CP on organization and operation of foreign credit institutions and their representative offices in Vietnam in 1999, a remarkable number of foreign bank branches were established. Furthermore, under the BTA with the US, the government amended the Law on Credit institutions 1997 in 2004 allowing the US banks operate as wholly foreign-owned banks in Vietnam by 2010. This was the premise for the establishment of 100% foreign-owned banks in Vietnam under the requirement of joining WTO in 2007. In preparation for the entry of wholly foreign-owned banks, Decree No. 22/2006/ND-CP were promulgated to supersede Decree No. 13/1999/ND-CP stating the wholly foreign-owned bank must have a foreign bank owning over 50% of the chartered capital to apply for banking license. Moreover, the government also eased the restrictions by extending the license periods and opening the foreign bank branch transaction points. (Decree on organization and operation of foreign bank branches, joint-venture banks, banks with 100% foreign capital, and representative offices of foreign credit institutions in Vietnam 22/2006/ND-CP, Chapter I-Chaper IV.) Toward a fair market and in compliance with the WTO commitments, the government has granted the equal treatment as local banks to foreign banks since 2011. (Ho & Baxter 2011.)

2.2 Current situation of the Vietnamese banking sector

According to the IMF, analyzing a financial institution or financial system is based on different indicators, which are grouped into two categories: Indicators of Financial Structure and Development, and Indicators of Financial Soundness. In this part, Financial Soundness Indicators (FSI) were analysed to present the overview on current situation of the Vietnamese banking system. (International Bank for Reconstruction and Development 2005, 15.)

FSI were defined as the indicators representing current financial soundness of financial institutions, as well as of a financial system. FSI is then used in macroprudential analysis to assess and monitor the soundness of the financial system. FSI include a core set of indicators that can be grouped according to the CAMELS rating system. (Financial sector assessment: A handbook 2005, 22-23, 26.) CAMELS ratings are used under the Uniform Financial Institution Rating System (UFIRS) for regulators to assess financial institutions. CAMELS ratings include 6 components: Capital adequacy, Asset quality, Management soundness, Earnings & profitability, Liquidity, Sensitivity to market risk. (Buerger 2011.)

TABLE 2. Core set of FSIs (International Bank for Reconstruction and Development 2005, 23)

Indicator	Component
Regulatory capital to risk-weighted assets	Capital adequacy
Regulatory Tier I capital to risk-weighted assets	Capital adequacy
Non-performing loans net of provisions to capital	Capital adequacy
Non-performing loans to total gross loans	Asset quality
Sectoral distribution of loans to total loans	Asset quality
Return on assets and return of equity	Earnings & profitability
Interest margin to gross income	Earnings & profitability
Non-interest expenses to gross income	Earnings & profitability
Liquid assets to total assets and liquid assets to short-term liabilities	Liquidity

Capital Adequacy

Capital adequacy identifies the capital level of a financial institution in order to manage the risks from the insitution’s activities (Federal Deposit Insurance Corporation 2014). Thus, the Basel Committee set the minimum requirement CAR ratio at 8% while the SBV set the minimum requirement at 9%. According to National Financial Supervisory Commission of Vietnam (NFSC), the Capital Adequacy Ratio (CAR) of banking sector was 12.83% at 31 December 2013. Although this ratio was lower than the one at 31 Decemeber 2012, it was higher than the minimum requirement of the Basel Committee and the minimum requirement of the SBV. However, Vietnam NFSC also noted that this ratio did not consider the market and operational risks as well as the uncertain risk-weighted percentage for random assets. Thus, this ratio does not reflect adequate capability of credit institutions to absorb losses. (Vietnam NFSC 2014, 29.) The following figure illustrates the CAR and the ratio of Tier 1 Capital over Total risk-weighted assets of the Vietnamese banking sector:

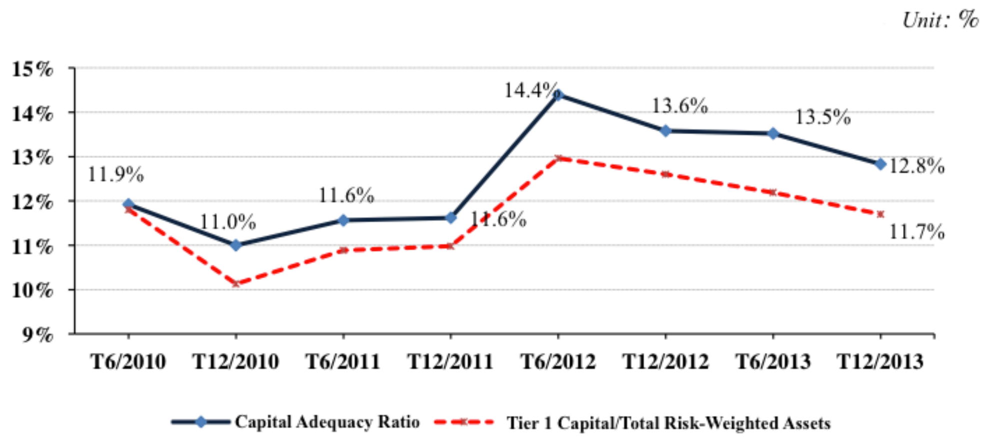

FIGURE 4. Capital Adequacy Ratio of banking sector from 2010 to 2013 (Vietnam NFSC 2014, 29)

Asset Quality

As the risks of a financial institution usually come from the impairment of assets, asset quality reveals the amount of existing and potential risks from the loans and investment portfolios, other real estate owned, and other assets as well as off-balance sheet transactions (Federal Deposit Insurance Corporation 2014). The ratio of Non-performing loans to total gross loans of Vietnam has decreased in

2013. The total amount of handled NPL was reportedly VND 105.9 trillion, in which Vietnam Assets Management Company (VAMC) bought VND 40 trillion of NPL from credit institutions. However, according to the Vietnam NFSC, the actual ratio is higher than the reported one. Furthermore, during the period between 2009 and 2012, the Vietnamese ratio of NPL had the trend of rising while other countries' ratios in the region decreased and maintained at 3% at the end of 2012, which is demonstrated in figure 5. (Vietnam NFSC 2014, 25-26.)

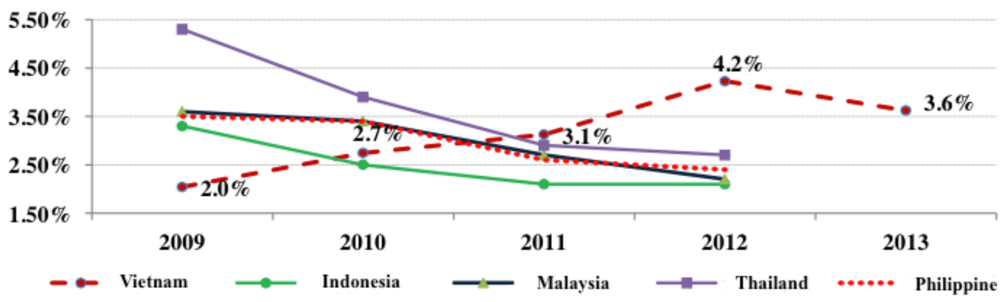

FIGURE 5. NPL ratio of some countries in the region (Vietnam NFSC 2014, 26)

While the ratio of Non-performing loans to total gross loans determines complications in the loan portfolios, the ratio of sectoral distribution of loans to total loans identifies the vulnerability in the financial system (IMF 2014). The distribution of loans has shifted between sectors that is shown in figure 6. The loans distributed to Agriculture, forestry and fishery sector; Industrial sector, and Construction sector concentratedly. On the other hand, loan rates of Commerce sector, Transportation and Telecommunications sector has decreased lightly. The shift in sectoral distribution of loans was because of the Resolution No. 01/NQ-CP dated 7 January 2013, which regulated policy on credit support for Agriculture, forestry and fishery sector. (Vietnam NFSC 2014, 23-24.)

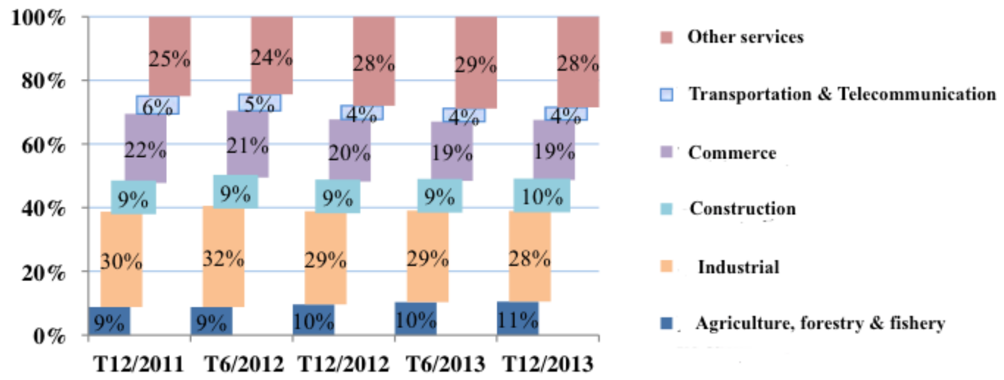

FIGURE 6. Sectoral loan portfolios from 2011 to 2013 (Vietnam NFSC 2014,24)

Earnings & Profitability

Earnings & profitability reflects the amount and trend of earnings, as well as the factors that affect the quality of earnings such as excessive risk taking, nonrecurring events, favorable tax effects,… (Federal Deposit Insurance Corporation 2014). The Return on Asset (ROA) and Return on Equity (ROE) ratios showed the efficiency of the banking system in using its assets and equity. According to Figure 7, the ROA and ROE ratios considerably decreased in 2012, and slightly increased in 2013. This trend has showned the improvement of banking system's management efficiency. (Vietnam NFSC 2014, 26-27.)

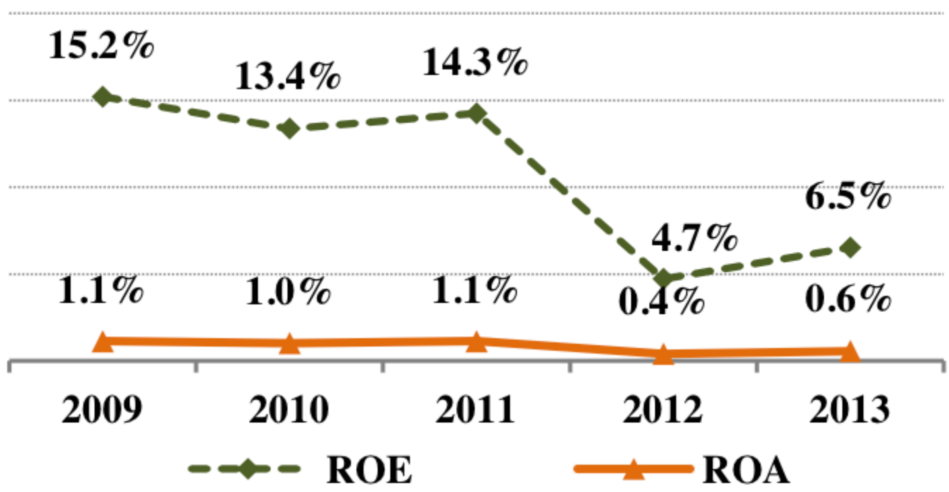

FIGURE 7. ROA, ROE ratio (Vietnam NFSC 2014, 27)

The ratio of interest margin to gross income present the relative share of net interest income within gross income (IMF 2014). This ratio of the Vietnamese banking sector averaged 90%. Furthermore, interest margin deacreased 5.47% in 2013 due to the change in interest rates. Meanwhile, the ratio of non-interest to gross income slightly reduced 0.3% in 2013. As the income declined, the management was forced to reduce the operational costs. (Vietnam NFSC 2014, 27-28.)

Liquidity

The liquidity component rates the fund management practices to ensure sufficient cash flow to handle financial obligations (Federal Deposit Insurance Corporation 2014). The ratio of liquid assets to total assets demonstrates the capacity to withstand shocks to balance sheet (IMF 2014). The average ratio of Vietnam banking sector significantly dropped to 15.73% in 2011. In 2012, the ratio just lightly increased from 13.3% in 2011 to 13.41%. (IMF 2014.) This decreasing trend indicates the vulnerability of Vietnam banking sector.

2.3 VAS and Accounting regime for credit institutions

The Vietnamese banking sector is in compliance with Accounting Law, VAS as well as the Business accounting regime and related decrees. Furthermore, the Vietnamese banking sector also adheres to the Credit institutions accounting regime and other decrees, decisions by the SBV.

2.3.1 Vietnamese Accounting Standards

Along with the history, the economic, political and other nations' accounting systems influenced the Vietnamese accounting system. The development of the Vietnamese accounting system has been influenced by the accounting systems of France, China and former Soviet Union, which can be devided into different periods: before 1945, 1945-1954, 1954-1975, 1975-1985, 1985-1996, 1996-Present (Bui 2011, 14).

2.3.1.1 Overview of the development of the Vietnamese accounting system

Before 1945, Vietnam was a French colony with a centrally controlled accounting system. During the period between 1945 and 1954, the Vietnamese government established MoF and the SBV as well as the issuance of Vietnamese bank note in 1951 after the declaration of independence. However, there were no record of significant development in terms of accounting until 1960s, the first initial industry-based accounting was established in the North of Vietnam. The system was initially based on the Chinese accounting model, and then changed to the Soviet Union accounting model, which is applied for centralized economy in the 1970s. On the other hand, the South of Vietnam built capitalist economy with the assistance of the US. After the union of the nation, the accounting system was unified following the Soviet Union accounting system during 1975 and 1985. The later period, from 1986 to 1996, marked significant development of Vietnam accounting system. During the period, the government issued the first highest legal document in terms of accounting, Orinance on Accounting and Statistics, which was replaced by The Charter for Organization of State Accounting in 1989. Remarkably, the MoF regulated new accounting system in harmony with IFRS in 1995. (Bui 2011, 90-181.)

Since 1996, the Vietnamese market has started to open up for foreign investment as well as started to form the stock market. Furthermore, Vietnamese Accounting Association (VAA) became a member of the IFAC and the AFA in 1996 and 1998 respectively. Especially, in preparation for joining into the WTO, the State improved its legal system to build a market-oriented economy and fair competititve environment. Regarding the accounting system, the Accounting Law superseded the Ordinance on Accounting and Statistics in 2003. Furthermore, the MoF has issued Vietnamese Accounting Standards in 2001, which were framed based on the IFRS. The MoF has issued 26 VAS through 5 periods since 2001. Since then, the MoF has promulgated different decisions, decrees and circulars amending the VAS. In addition, the MoF issued an Accounting regime for guidelines of major accounting principles. The MoF issued Decision No. 15/2006/QD-BTC dated 20 March 2006 on Business accounting aegime to replace the accounting system issued in Decision No. 1141-TC/QD/CDKT dated 1 November 1995. Decision No. 15/2006/QD-BTC stated that Business accounting regime is generally applied across different types of sectors, and fields starting from fiscal year 2006. Business accounting regime consists of four components: Chart of accounts, Regime of accounting vouchers, Financial reporting regime, and Regime of accounting books.

Furthermore, the MoF issued Decision No. 19/2006/QD-BTC dated 30 March 2006 on Administrative and non-business accounting regime to replace the previous issued in Decision No. 999-TC/QD/CDKT and related Circulars. Besides, the MoF also circulated accounting regimes for different fields such Insurance, Securities, SMEs. The SBV promulgated accounting regime for banking sector, which consists of SBV accounting regime and Credit institutions accounting regime.

2.3.1.2 Interpretation of Vietnamese Accounting Standards

Regarding the conformity with VAS of banking sector, the study only focused on the presentation of financial statements of credit institutions. Thus, VAS 21 and VAS 22 were briefly presented.

VAS 21 – Presentation of Financial Statements were issued in Decision No. 234/2003/QD-BTC dated 30 December 2003. This standard aimed to provide guidelines on general considerations and policies for the preparation and presentation of financial statements. VAS 21 set the purposes of financial statements as presenting the financial position, performance and cash flows of a firm to end users in making economic decisions. Thus, financial statements, which include balance sheet, income statement, cash flow statement and notes to the financial statements, aim to provide information about an enterprise's:

- Assets
- Liabilities
- Equity
- Revenue, other income, expenses, gains and losses
- Cash flows

The management of an enterprise is responsible for preparing and presenting financial statements, which give a true and fair view on the financial position, financial performance and cash flow. Furthermore, preparing and presenting financial statements are required to base on a set of seven features: going concern, accrual basis of accounting, consistency of presentation, materiality and aggregation, offsetting, comparative information, and frequency of reporting. Table 4 illustrates the basis of preparation as following:

TABLE 3. Features of financial statements (VAS 21, Section 15-32)

Going concern	The management evaluates the entity's ability to continue operating in the near future when preparing financial statements. If any material uncertainties that may cause substantial doubt of the entity's ability, the management is required to make relevant disclosures.
Accrual basis of accounting	All financial statements, expcept the cash flow statement, are prepared under accrual basis of accounting. Under the feature, transactions and events are recorded when they occur without regard to the time of receipt or payment.
Consistency of presentation	An enterprise is required to maintain its presentation and classification of items from one period to the next. Any changes in presentation or classification of items are obliged to reclassify comparative information and disclose appropriately.
Materiality & aggregation	Information influencing the users' decision is material that should be presented separately. Immaterial item should be aggregated with other items having similar nature or function and no need for separate presentation.
Offsetting	Under offsetting, items of assets and liabilities; revenue, other income and expenses should not be offset except another accounting standard requires or permits offsetting. Specifically, gains, losses and related expenses of the same or similar transactions and events that are not immaterial should be offset.

(To be continued)

Comparative information	For all numerical information, comparative information of the previous period must be disclosed. Furthermore, narrative and descriptive information should be included in aid of understanding the current period's financial statements. Furthermore, an enterprise is required to present general information of the enterprise in its financial statements.
Frequency of reporting	The enterprise is required to present its financial statements annually. In case of changing the end date of the fiscal period, the reason for change and the fact of uncompartive information should be disclosed.

VAS 22 – Disclosure in financial statements of banks and similar financial institutions was issued in Decision No. 12/2005/QD-BTC dated 15 February 2005. This accounting standard specifies and guides the disclosure in financial statements of banks and similar financial institutions (herein referred as banks). According to VAS 22, banks are required to disclose additional information on the principle types of income and expenses arising from the operations of a bank, off balance sheet contingencies and commitments, maturities of assets and liabilities, concentrations of assets, liabilities and off balance sheet items, loss on loans and advances, general provision, collateral, trust activities, and related party transactions. (VAS 22, Section 6-48.)

2.3.2 Credit institutions accounting regime

In 1997, the government issued the first Law on Credit Institutions to prescribe organization and operation of credit institutions. Later, the government circulated the Law on the amending and supplementing a number of articles of the Law on Credit Institutions in 2004. In 2010, the National assembly promulgated Law No. 47/2010/QH12, Law on Credit Institutions, which superseded two previous laws. Furthermore, because of special characteristics in credit institutions' operation, the government also promulgated financial and operating regimes for banking sectors. Meanwhile, the Vietnamese banking sector generally complies with Accounting Law, related decrees, VAS and other guidance or circulars in terms of accounting.

Based on the laws, decrees, VAS as well as regimes, the SBV issued different decisions on Credit institutions accounting regime.

Credit institutions accounting regime consists of chart of accounts for credit institutions, credit institutions financial reporting regime, and regime of banking accounting vouchers. On the other hand, the SBV issued supporting documents such as Decision No. 1498/2005/QD-NHNH dated 13 October 2005 on one-door transaction, and Decision No. 32/2006/QD-NHNN dated 19 July 2006 on computerized accounting.

Chart of accounts

The chart of accounts for credit institutions was issued in Decision No. 479/2004/QD-NHNN dated 29 April 2004. The SBV then issued different decisions to amend and supply Decision No. 479/2004/QD-NHNN on the chart of accounts for credit institutions. Due to the special charateristics in credit institutions' operation, structure of credit institutions 'chart of accounts is different from the general chart of accounts. Table 4 illustrated the comparison of structure between credit institutions' and general chart of accounts.

TABLE 4. Structure of credit institutions' and general chart of accounts

	Credit institutions' chart of accounts	General chart of accounts
Category 0	N/A	Off-balance sheet accounts
Category 1	Capital and investments	Current assets
Category 2	Credit operations	Fixed assets
Category 3	Fixed assets and other assets	Liabilities
Category 4	Liabilities	Owner's equity
Category 5	Payment services	Revenue

(To be continued)

Category 6	Owner's equity	Operating expenses
Category 7	Income	Other income
Category 8	Expenses	Other expenses
Category 9	Off-balance sheet accounts	Profit

Credit Institutions Financial Reporting Regime

Decision No. 16/2007/QD-NHNN dated 18 April 2007 is the latest Decision on promulgating credit institutions financial reporting regime, which was an initial stage to apply IFRS for banking operation. Decision No. 16/2007/QD-NHNN is in compliance with VAS 21- Presentation of financial statements, VAS 22- Disclosure in financial statements of banks and similar financial institutions, as well as VAS 24 – Cash flow statement. Remarkably, Decision No. 16/2007/QD-NHNN complies with IFRS 7.

Decision 16/2007/QD-NHNN required credit institutions disclose theirs characteristic financial risks. Specifically, credit institutions are required to disclose the degree, nature and management method of credit risk, interest rate risk, currency risk, liquidity risk and other market risks in the notes to financial statements. On the other hand, deffered tax, deffered tax assets, as well as income tax expenses are separately presented in balance sheet and income statement as required in VAS 17. Furthermore, the Decision also required credit institutions present material information about its operation, and financial state as well as issued guiding on the preparation and presentation of consolidated financial statements. Thus, the transparency of credit institutions' financial statements is improved to meet the requirement of investors and to ensure a fair competitive environment. (Decision on promulgating credit institutions financial reporting regime 16/2007/QD-NHNN, Section 4-9.)

Decisions on guiding accounting practices for banking sector

The SBV firstly issued Decision No. 493/2005/QD-NHNN dated 22 April 2005 on promulgating regulations of debts classification, provisions against credit risks in banking operation of credit institutions. On 25 April 2007, the SBV issued Decision No. 18/2007/QD-NHNN on amending and supplementing a number of articles of Decision No. 493/2005/QD-NHNN. According to these decisions, credit institutions shall classify debts and make risk provisons until the last day of the previous quarter (month) in the first 15 working days of the following month for each quarter at least. Especially, in the first fifteen working days of December, credit institutions classify debts and make provision until 30 November for the quarter IV.

Credit risks in banking operation of credit institutions were defined as potential losses that may arise in banking operation of credit institutions due to the failure of their customers to perform their contractual obligations. Meanwhile, risk provisions were defined as an amount, which is made available to provide for potential losses that may arise due to failure of credit institutions' customers to perform their commited obligations. Risk provision consists of specific provisions and general provisions. Specific provision means the amount to be made available for each particular debt. On the other hand, general provisions are the amount to be made available to provide against losses that have not yet been determined during debts classification process. According to Decision No. 493/2005/QD-NHNN, debts include loans, advances, overdrafts and financial leases; discounts, rediscounts of commercial papers and other valuable papers; factoring amounts; and other forms of credit facilities as well. Furthermore, the Decision also defined overdue debt as a debt that a part or the entire of its principal and/or interest has become overdue, while bad debts (NPL) are debts that have been classified to Group 3, 4 and 5. On the other hand, debts with restructured repayment term are debts where the capacity of customer to perfom its contractual obligations is deteriorated, however a credit institution assesses that the customer is capable to duly pay the principal and interest under the restructured repayment term. (Decision on promulgating regulations of debts classification, provisions against credit risks in banking operation of credit institutions 493/2005/QD-NHNN, Section 2.)

The Decision regulated two methods for debts classification: repayment basis, and qualitative method. For each method, debts are classified to five groups with corresponding criterias. Under the repayment basis method, debts are classified according to the following criterias:

Group 1 – Current debts:

- Debts not yet due that is assessed as duly recoverable principals and interests
- Debts, which are overdue less than 10 days and the credit institution assess that the customer is capable to fully recover the overdue principals and interests as well as duly repay principals and interests during the remaining time.
- Debts with restructured repayment term or overdue debts that customers have made full repayment of principals and interests under the restructured repayment term for at least 6 months in respect of medium and long-term debts, and for 3 months in respect of short-term debts.

Group 2 – Special mentioned debts:

- Debts, which are overdue for a period of between 10 days and 90 days
- Debts that have repayment terms restructured for the first time

Group 3 – Substandard debts:

- Debts that are overdue for a period of between 91 days and 180 days
- Debts, which have repayment terms restructured for the first time, excluding debts that are classified to Group 2.
- Debts, which have interest exempted or reduced since customers failed to fully repay interests as stated in the credit contracts.

Group 4 – Doubtful debts:

- Debts that are overdue for a period of between 181 days and 360 days
- Debts, which have repayment terms restructured for the first time, and are overdue less than 90 days under the first restructured repayment terms.
- Debts that have repayment terms restructured for the second time.

Group 5 – Bad debts:

- Debts that are overdue more than 360 days
- Debts, which have repayment terms restructured for the first time, and are overdue 90 dyas or more under the first restructured repayment terms.
- Debts that have repayment terms restructrured for the second time and are overdue under the second restructured repayment terms
- Debts, which have repayment terms restructured for the third time or more
- Frozen debts and debts awaiting to be dealt with

Furthermore, debts may be transferred to the debt group with higher level of risk, as the Decision requires a credit institution classify the total outstanding balance of a customer to the same debt group, and syndicated loans are classified by the co-ordinator credit instistution. (Decision on on amending and supplementing a number of articles of Decision No. 493/2005/QD-NHNN 18/2007/QD-NHNN, Section 6.)

Under the qualitative method, credit institutions are required to have an internal credit grading system, which is approved by the SBV. Internal credit grading system based on specific criterias that debts are classified as following:

Group 1: Debts, which are assessed as duly recoverable principals and interests

Group 2: Debts that are assessed as duly recoverable principals and interests, however, there are sign of deterioration in the customer payment capacity.

Group 3: Debts, which are assessed as duly recoverable principals and interests. On the other hand, the credit institution assesses part of principals and interests of these debts are likely to be impaired.

Group 4: Debts, which are assessed as highly impaired.

Group 5: Debts, which are assessed as irrecoverable and lost.

Thereby, the result of debts classification shall be used to calculate provisions against credit risks in banking operations. Accordingly, specific provisions are calculated under the following formula:

R = max {0, (A-C)} x r

Of which:	R:	Amount of specific provision to be made
	A:	Outstanding principal of a debt
	C:	Collateral value
	r :	Specific provision rate

Thus, specific provision rate were regulated as the following ratio:

- Group 1 – Current loans: 0%
- Group 2 – Special mention loans: 5%
- Group 3 – Substandard loans: 20%
- Group 4 – Doubtful loans: 50%
- Group 5 – Loss loans: 100%
- Frozen debts pending the settlement by the Government: specific provision is made depending on the credit institution financial capacity. (Decision on on amending and supplementing a number of articles of Decision No. 493/2005/QD-NHNN 18/2007/QD-NHNN, Section 7,8.)

For example, company X has a loan of VND 520,450,000 outstanding at the bank. The bank is holding company X's car as collateral at VND 200,000,000. At 31 December 2014, company X's loan outstanding was classified as substandard loan. Thus, the amount of specific provision for company X's loan is:

R = [VND 520,450,000 – (VND 200,000,000 x 30%)] x 20% = VND 92,090,000

Besides specific provision, credit institutions are required to make 0.75% of total outstanding balance of debts in Group 1 to Group 4 for general provision. Furthermore, Decision No. 493/2005/QD-NHNN also explained the usage of provision and bad debt written off. Bad debts (NPL) were defined as debts that have been classified to group 3, group 4 and group 5. In terms of bad debts written off, credit institutions shall dispose collaterals to recover the debts. In case collaterals are not sufficient to cover the debts, credit institutions are entitled to use general provision for settlement. After being written off, the debts are recorded under off-balance sheet items in 5 years. Specifically, the written off debts are not permitted to inform customers, as it is not a form of removing debts for customers. (Decision on promulgating regulations of debts classification, provisions against credit risks in banking operation of credit institutions 493/2005/QD-NHNN, Section 9-11.)

Currently, the SBV issued Circular No. 02/2013/TT-NHNN dated 21 January 2013 on providing on classification of assets, levels and method of setting up of risk provisions, and use of provision against credit risks in the banking activity of credit institutions, foreign bank branches. Furthermore, Circular No. 09/2014/TT-NHNN dated 18 March 2014, which was issued to amend and supplement a number of articles in Circular No. 02/2013/TT-NHNN. These circulars started to be effective on 30 June 2014, and superseded Decision No. 493/2005/QD-NHNN and Decision No. 18/2007/QD-NHNN. According to Circular No. 02/2013/TT-NHNN, debts definition was broadened to loans via credit cards; off-balance sheet items; investments in unlisted coporate bonds; trust investment; and deposits at other credit institutions. Furthermore, credit institutions are required to formulate a system to manage collected customers' information and data, internal credit grading system as well as risks. The internal credit grading system is set up based on financial and non-financial criterias, processes of assessing customers on the basis of financial qualitative and quantitative, business and administration situation, and prestige of customers. Hence, a credit institution classifies loans and off-balance sheet commitments based on both qualitative and quantitative standards. Moreover, Circular No. 02/2013/TT-NHNN also changed specific provision rate for certain collateral values. Circular No. 02/2013/TT-NHNN marked a closer step to the IFRS, which regulated stricter rules on debts classification that required higher provisions, especially for NPLs. (Circular on providing on classification of assets, levels and method of setting up of risk provisions, and use of provision against credit risks in the banking activity of credit institutions, foreign bank branches 02/2013/TT-NHNN, Section 1-13.)

Official Dispatch No. 7459/NHNN-KTTC dated 30 August 2006 by the SBV on guiding credit institutions implementing accounting of trading and investment securities. The Official Dispatch is applicable to debt securities, equity securities that were issued by domestic or foreign organizations, except for long-term investments. According to the Official Dispatch, debt securities and equity securities are categorized as Trading securities, Available-for-sale securities, and Held-to-maturity securities. Trading securities are debt securities, equity securities, and other securities acquired by a bank with the intention to sell them in a near future to benefit from price variance. On the other hand, available-for-sale securities include debt and equity securities, which are not classified as trading and held-to-maturity, and which are held for investment and available-for-sale purpose until an opportunity for profit is given. Furthermore, investor bank is not the founding shareholder, strategic partner, or does not have certain influence to participate in making the financial and operating policies of the investees. Otherwise, held-to-maturity securities are debt securities acquired for investment purpose to earn interest and the investor bank has intention as well as ability to hold the securities until maturity. The Official Dispatch defined cost of acquisition as including transaction cost and directly purchasing fee (if any), while carrying value of available-for-sale debt securities and held-to-maturity securities is defined as:

Carrying value = Face value + Accrued interest of securities incurred before the purchase/interest received in advance + Discount/premium.

Furthermore, the Official Dispatch also stated that the discount/premium is amortized on a straight-line basis to the income statement. On the other hand, interest payment is recognized based on the time of payment:

- Interest payment in arrears is recognized as accumulative interest income before the purchasing date is recognized as a decrease in value of securities, and accumulative interest income after the purchasing date is recognized using the accumulative method.
- Interest received in advance is amortized on a straight-line basis over the investment period. (Official Dispatch on guiding credit institutions implementing accounting of trading and investment securities 7459/NHNN-KTTC, Section 1-20.)

Accounting method for each type of security is illustrated in the following table:

TABLE 5. Accounting method for valuable papers (Official Dispatch on guiding credit institutions implementing accounting of trading and investment securities 7459/NHNN-KTTC, Chapter D-E)

	Trading securities	Available-for-sale securities	Held-to-maturity securities
Initial recognition	Trading securities are recognized at cost of purchasing	Available-for-sale securities are recognized at cost of acquisition.	Held-to-maturity securities are recognized at cost of acquisition.
Subsequent measurement	Trading securities are accounted at cost of purchasing.	- Equity securities are accounted at cost of purchasing. - Debt securities are accounted at carrying value.	Held-to-maturity securities are accounted at carrying value.
Profit/Loss recognition	- The difference between book value and market value is recognized in the income statement. - Interest and dividends are recognized on cash basis in the income statement.	- The difference between book value after amortization and market value is recognized in income statement.	- The difference between book value after amortization and market value is recognized in income statement.

(To be continued)

Impairment test	- Valuable papers are subject to impairment test. - Provision for impairment loss is made when there is diminution in value.
Reversal recognition	Provision for impairment is subject to reversal recognition

On 29 August 2006, the SBV issued the Official Dispatch No. 7404/NHNN-KTTC on guiding accounting practices of derivatives. Specificially, this Official Dispatch provided guidance on accounting practices of foreign currency forward, swap and option contracts. Concerning foreign currency forward and swap contracts, credit institutions must immediately record the difference between equivalent VND amounts of foreign currency commited to buy/sell using forward exchange rate and spot exchange rates at the effective date of the contract. The difference is subsequently amortised using the straight-line method over the term of the contract. However, commitments of foreign currency forward must periodically revaluate using the official inter-bank exchange rate announced by the SBV, while commitments of foreign currency swap are not required. The difference after evaluation then shall be recorded in the balance sheet account. Option transactions include put option and call option. Premium for buying options is recognized as an asset, whilst premium for selling options is recognized as a liability that is amortised using straight-line method over the term of the contract. Furthermore, interest arises from buying options that unrealized interest is revaluated periodically and recognized in balance sheet. On the other hand, unrealized loss arising from selling options is revaluated periodically based on market price, strike price, and amount of transactions as well as term of the contract. (Official Dispatch on guiding accounting practices of derivatives 7404/NHNN-KTTC, Chapter A.)

Vietcombank issued convertible debts in 2005, however, not until Saigon Bank issued convertible debts in 2006 that is considered as the first official issuance of convertible debts in Vietnam. As at the time, Vietcombank could not determine the convertible ratio and term of bonds that the issuance by Vietcombank did not get the recognition from financial professions. (Close look on the gap on accounting for issuance of convertible bonds 2011.) Although, many credit institutions have started issuing convertible bonds for a long time, the MoF and the SBV have not regulated corresponding VAS and guidance for convertible bonds. Therefore, credit institutions are issuing valuable papers in conformity with Decision No. 02/2005/QD-NHNN dated 4 January 2005 on promulgating regulation of issuance of valuable papers of credit institutions to raise capital. Thereby, issuance of valuable papers is accounted in accordance with VAS 16 “Borrowing costs” and Circular No. 105/2003/TT-BTC dated 4 November 2003 on guidance for 6 VASs regulated in Decision No. 165/2002/QD-BTC dated 31 December 2002 by the Minister of the MoF. Thus, the amount of money from the issuance of valuable papers at par value is recognized in a specific account. Consequently, interest is recorded as interest expenses and the specific accounts shall be written off on the expiration date of valuable papers. Issuing expenses shall be recorded using accrual basis. Furthermore, when bonds with discount/premium are issued, discount/premium shall be immediately recognized and subsequently amortised using straight-line method or effective interest rate method. However, effective interest rate method has not been used in practice.

Concerning the presentation and disclosure of financial instruments, the MoF stipulated Circular No. 2601/TT-BTC dated 6 November 2011 on guiding on application of IFRS about the presentation and disclosure of financial instruments. Regarding the presentation of financial instruments, the MoF requires to apply fully IAS 32. In respect of disclosure of financial instruments, besides the requirements of IFRS 07, credit institutions are required to disclose the fair value to compare with the book value of financial instruments.

3 INTERNATIONAL ACCOUNTING STANDARDS/INTERNATIONAL FINANCIAL REPORTING STANDARDS

This chapter shall discuss about the International Financial Reporting Standards. Firstly, a brief overview of the IFRS concerning its origin shall be presented. Later, the chapter shall present the interpretation of the IFRS, which only concentrates on IAS 1, IAS 32, IAS 39 and IFRS 07.

3.1 Overview of the International Financial Reporting Standards

IFRS has been prepared and developed by the International Accounting Standards Committee (IASC), which was formed in London in 1973 for uncertain purposes. Besides the need of a common set of accounting standards for the increasing international business, politic was another reason for the creation of the IASC. The IASC was formed during the changing stage in accounting regulations all over the world. Furthermore, the International Federation of Accountants was founded in 1977 that affected the future of the IASC. Although IASC remained functioning separately, all the IAFC members became members of the IASC and the IAFC gained the right to appoint membership of the standard-setting Board. However, the IASC was struggling to broaden the use of the IFRS as national GAAPs. Especially, the IASC marked a new stage of IFRS' s development as signing an agreement with the International Organization of Securities Commisisons (IOSCO) to create a common core set of standards for listing companies in 1987. Therefore, the IASC presented a set of standards from the "*Comparability and Improvements Project"* that were later rejected by the IOSCO. In 1995, the IASC cooperated with the IOSCO again to review and revise existing standards as well as to form new ones. Furthermore, under the pressure from the US SEC and the FASB on the development process of the IFRS, IASC reconsidered its future structure, which shall reflect level of responsibility. Thereafter, the IASC adopted new form of structure as IASB in 2001. (Mackenzie et.al 2013, 6-8.) The IASB currently has 14 members that were geographically appointed to develop and public the IFRS. The IASB is supervised by the IFRS Foundation Trustees as well as supported by the IFRS Interpretations Committee and the Accounting Standards Advisory Forum. As being a member of the IFRS

Foundation, the IASB is responsible for developing *"a single set of high quality, understandable, enforceable and globally accepted financial reporting standards based upon clearly articulated principles"*. (IFRS Foundation 2015.)

The IAS was evolved from two accounting models, and renamed as the IFRS in 2001. The earliest form was recorded in Europe in 1673, which first started in France. The form required annual fair value statement of individual company's financial position to protect the soundness of the economy. Remarkably, after the unification of Germany in 1870, the form was advanced as replacing the fair value by historical costs and depreciation. Afterward, the government used the form as a basis to assess taxation of companies in the early 20th century. Concisely, the model was a mean to restrain the relationship between the government and business entities, evaluate taxation as well as to secure the economy. (Mackenzie et.al 2013, 4-5.)

The second form of financial reporting was created in the 19th century as a result of the industrial revolution. Since then, the capital market had increasingly developed that created the need of a mean to inform a large business's activities to investors. Hence, the Anglo-Saxon financial reporting model was created aiming at the investor and not applicable to tax purposes. However, it is essential to note that both models are inappropriate for an agricultural economy or microbusiness one. (Epstein, Jermakowicz 2009, 5-8.)

IFRS were created based on the second model, which are capital market-oriented financial reporting standards. In June 2000, the EC announced the intention of adopting IFRS in 2005 as requirement for primary listing companies in all members. This event marked a stage of IFRS's development as global GAAPs. Furthermore, as more business operate worldwide and US is one of the biggest market, the FASB has been cooperating with the IASB to converge IFRS and allowed secondary listing entities to prepare its financial statements in comformity fully with IFRS in late 2007. (Mackenzie et.al 2013, 5.) Currently, IFRS are permitted in 26 jurisdictions and not permitted in 23 jurisdictions while are fully required in 94 jurisdictions and partly required in 11 jurisdictions (IFRS Foundation 2015). As can be seen, IFRS are getting accepted in more nations and become a global common set of accounting standards.

3.2 Interpretation of the International Financial Reporting Standards

IFRS currently consist of 69 accounting standards and interpretations. In this part, IAS 1, IAS 32, IAS 39 and IFRS 7 will be briefly presented about the content.

IAS 1, Presentation of Financial Statements, is created for profit-oriented companies and applicable to all financial statements prepared under IFRS. Financial statements are defined as a mean to communicate an entity's financial position, financial performance, and cash flows to end-users. Furthermore, financial statements also present the efficiency of resources management of the entity. Financial statements provide comparison with the previous period's financial statements and other companies'. Based on the financial statements, end users shall predict the entity's future performance and make their decisions. (Mackenzie et.al 2013, 44-50.)

According to IAS 1, complete financial statements are required to provide information about an entity's (Mackenzie et.al 2013, 51):

- Assets
- Liabilities
- Equity
- Income and Expenses
- Contribution by and distribution to owners
- Cash flows

As required in IAS 1, an entity shall present a fair view on its financial position, financial performance and cash flows. Fair presentation is defined as true record of the effects of transactions, other events and conditions as described in the Framework. Therefore, the entity is required to provide necessary disclosures as well as a statement of fully being in compliance with IFRS. Furthermore, IAS 1 required seven features in presenting financial statements, which include going concern, accrual basis, materiality & aggregation, offsetting, frequency of reporting, comparative information and presentation consistency. (Mackenzie et.al 2013, 48- 50.) These seven features are similar with the required feature in VAS 21 that shall not be described further. Lastly, IAS 1 stated a complete set of financial statements including:

TABLE 6. Set of financial statements under IFRS (Mackenzie et.al 2013, 51- 54)

Financial Statements	Content
Statement of financial position	The title replaced the old one, “balance sheet”. However, both titles can be used. The statement presents an entity’s assets, liabilities and equity at a specific time.
Statement of profit or loss & other comprehensive income	The replaced title was “Statement of comprehensive income”, which shall still be used. The statement shall present either as a single statement of comprehensive income or as a statement of profit and loss and a statement of comprehensive income seperately. The statement demonstrates the realized and unrealized income and expenses, which is information about the performance of the entity.
Statement of changes in equity	The statement reflects the movement of an entity’s net assets. Furthermore, changes of transactions with owners are required to be presented seperately from the one with noowners.
Statement of cash flows	The previous title was ”Cash flows statement”, which may still be utilized. The statement illustrates the operating cash receipts and cash payments as well as investing and financial activities of an entity.

(To be continued)

Notes	Notes include a statement of compliance with IFRS. Notes are summary of significant accounting policies and basis of preparing financial statements. Notes also include disclosure on required information under IFRS and relevant information, which is not presented elsewhere in financial statements.
Statement of financial position as at the beginning of the earliest comparative period	The statement shall be prepared only when: - Applying retrospective accounting policy - Making retrospective restatement of items Reclassifying items

IAS 32, Financial Instruments – Presentation, is applicable in conformity to the scope of IAS 39. IAS 32 was created to provide principles for distinguishing liabilities from equity, offsetting financial assets and financial liabilities as well as classifying financial instrument. According to IAS 32, Financial Instruments – Presentation, financial instruments were defined as:

"A financial instrument is any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity."

Furthermore, IAS 32 defined financial asset as any asset of the followings:

- Cash
- An equity instrument of another entity
- A contractual right as a right to obtain cash or another financial asset from or a right to exchange financial instruments with other entities

- A contract that will be settled in the reporting entity's own equity instruments.

On the other hand, the definition of financial liability is any liability that is:

- A contractual obligation
- A contract that will or may be settled in the entity's own equity instruments

Lastly, an equity instrument is any contract that carries an entity's assets' remaining interest after writing off all its liabilities.

The principle was stated that the issuer of a financial instrument must determine the financial instrument, or its component parts as a financial liability, or an equity instrument according to the substance of contractual aggreement under the provision of IAS 32. Furthermore, when a compound financial instrument is issued, the measurement of its components on initial recognition is seperating the asset and liability components first that the remaining amount is the equity component. Regarding reporting interest, dividends, losses and gains from financial instruments, IAS 32 determined that they shall be recognized as income or expense in profit or loss. Thus, the classification of a financial instrument as a financial liability or an equity instrument shall decide whether the recognition of interest, dividends, losses and gains relating to that instrument shall be income or expense. On the other hand, distributions to holders of an equity instrument shall be recorded in equity in the statement of changes in equity. Furthermore, transaction costs of an equity transaction shall be recorded as a reduction from equity. Under IAS 32, the disclosure requirements were removed in the revision in August 2005, which were established in IFRS 7. (Mackenzie et.al 2013, 806-821.)

IAS 39, Financial Instrument – Recognition and measurement, is applicable to all financial instruments except:

- Interest in subsidiaries, associates and joint ventures
- Rights and obligations under operating leases
- Employers' assets and liabilities under employee benefit plans and employee equity compensation plan.

- Rights and obligations under insurance contracts
- Equity instruments issued by the reporting entity.

IAS 39 was formed to set principles for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. According to IAS 39, derivative was defined as a financial instrument or other contract that its value changes accordingly with changes in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variables in case of a non-financial variable is not specific to a party to the contract. Furthermore, the financial instrument or other contract requires no initial net investment or an initial net investment smaller than would be required for other types of contracts, which would be expected to have similar response to changes in market factors. Lastly, the financial instrument or other contract shall be settled at a future date. In IAS 39, financial assets are classified into four categorises:

1. A financial asset or liability at fair value through profit or loss:
    a. It is classified as held for trading.
    b. Upon initial recognition, it is designated by the entity as at fair value through profit or loss.
2. Held-to-maturity investments are non-derivative financial assets, which have fixed or determinable payments and fixed maturity that an entity has the intention and ability to hold to maturity.
3. Loans and receivables are non-derivative finnacial assets, which have fixed or determinable payments that are not quoted in an active market.
4. Available-for-sale financial assets are non-derivative financial assets, which are not categorized as held-to-maturity investments, or loans and receivables, or financial assets at fair value through profit or loss. (International Accounting Standard 39 - Financial Instrument: Recognition and Measurement 2015, 1040-1045.)

Upon initial recognition, a financial asset or a financial liability is recorded in the statement of financial position when, and only when, an entity becomes a party of the contractual provisions of the instrument. Furthermore, a financial asset or a financial liability is initially measured at its fair value. In case of a financial asset or a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issuance of the financial asset or financial liability shall be accounted. Regarding derecognition of a financial asset, a financial asset is derecognised when, and only when the contractual rights to receive cash flows of the financial asset, or the financial asset is transferred and the transfer qualifies for derecognition. On the other hand, a financial liability is derecognised from the statement of financial position when, and only when the financial liability is erased. (International Accounting Standard 39 - Financial Instrument: Recognition and Measurement 2015, 1049-1056.)

After the initial recognition and measurement of a financial asset or a financial liability, a financial asset shall be measured at fair value without any reduction for transaction costs that may incur on sale or other disposal with exceptions. Loans and receivables, and held-to-maturity investments shall be measured at amortised cost using effective interest rate method, while equity instruments that do not have quoted price in an active market and whose unrealiable measured fair value shall be measured at cost. Furthermore, a financial liability shall be subsequently measured at amortised cost using effective interest method. On the other hand, a financial liability at fair value through profit or loss, which include derivatives shall be measured at fair value, whilst a derivative liability that is linked to and must be settled by delivery of an equity instruments that do not have quoted price shall be measured at cost. A financial liability, which arises when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, the financial liability shall be measured at amortised cost of the retained rights and obligations if the transferred asset is measured at amortised cost, or equal to the fair value of the retained rights and obligations if the transferred asset is measured at fair value. Moreover, financial guarantee contracts, and commitments to provide a loan at a below-market interest rate shall be measured at the higher of the determined amount of non-cash collateral and the initially recognised amount less cumulative amortisation recognition. (International Accounting Standard 39 - Financial Instrument: Recognition and Measurement 2015, 1057-1058.)

According to IAS 39, gains and losses from a change in the fair value of a financial asset or a financial liability that is not a part of hedge relationship shall be recognised as following:

- A gain or loss on a financial asset or financial liability at fair value through profit or loss shall be recognised in profit or loss in the statement of comprehensive income.
- A gain or loss on an available-for-sale financial asset shall be recognised in other comprehensive income, except for impairment loss and foreign exchange gains and losses, until the financial asset is derecognised. (International Accounting Standard 39 - Financial Instrument: Recognition and Measurement 2015, 1060-1061.)

According to IAS 39, a financial asset or a group of financial assets should be assessed at the end of each reporting period to identify impairments. The impairments were assessed as a result of one or more events, which occured after the initial recognition that affects the estimated future cash flows of the financial asset. Afterward, if there is evidence of impairment, impairment loss is measured as following:

TABLE 7. Impairment loss measurement

Financial assets carried at	Measurement of impairment loss
Amortised cost	Difference between the carrying amount and the present value of expected future cash flows, discounted using the instrument’s original discount rate
Fair value	Difference between the acquisition cost and current fair value, less any impairment loss previously recognized in profit or loss
Cost	Difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for similar financial asset

Especially, a loan with fixed interest rate payments exposes to interest rate risk that is hedged by the fair value hedge accounting. Therefore, the carrying amount of the loan consists of adjustment for fair value changes attributable to movements in interest rate. Hence, the impairment loss shall be calculated as the difference between the carrying amount after adjustment and the expected future cash flows discounted at the adjusted effective interest rate. Furthermore, recognized impairment loss for debt instrument in profit or loss may be reveresed in the occurance of events after the initial recognition of impairment loss. (Mackenzie et.al 2013, 861-867.)

There are three kinds of hedging relationships as following:

1. Fair value hedge is a hedge of the exposure to changes in fair value
2. Cash flow hedge is a hedge of the exposure to variability in cash flows
3. Hedge of a net investment in a foreign operation

In order to qualify for hedge accounting, a hedge relationship must need following conditions:

- At the beginning of the hedge, formal classification and documentation of the hedging relationship and the entity's risk management and stratergy for undertaking the hedge.
- The hedge is expected to be highly effective
- A forecast transaction of the hedge must be probable and presents an exposure to variations in cash flows.
- The effectiveness of the hedge can be reliably measured
- The hedge is assessed on an ongoing basis. (International Accounting Standard 39 - Financial Instrument: Recognition and Measurement 2015, 1067-1068.)

According to IFRS 7 – Financial Instruments: Disclosure, an entity is required to present about the significance of financial instruments for financial position and performance, as well as nature and extent of risks arising from financial instruments in both qualitative and quantitative disclosures.

4 COMPARISON BETWEEN IFRS AND VAS AND ADVANTAGES, DISADVANTAGES, CHALLENGES IN IFRS ADOPTION

4.1 Comparison between IFRS and VAS

In this sub-chapter, a general plan to answer the research question shall be described in details. Thereafter, the main differences between IFRS and VAS shall be explored.

4.1.1 Research design for comparison between IFRS and VAS

To compare between IFRS and VAS, the author chose one of the biggest joint-stock commercial banks in Vietnam for observation. Later, financial statements under VAS shall be collected from the bank’s website. On the other hand, financial statements under IFRS shall be collected, then be analysed and compared.

The observed bank is bank A, which is a state-owned joint-stock commercial bank established in 1963. By 2013, bank A is the second biggest joint-stock commercial bank with total assets of approximately VND 469,000 billion. The headquarter of bank A is based in Hanoi, Vietnam with eighty-nine branches and over three hundred and fifty transaction offices throughout Vietnam. Furthermore, bank A has 2 subsidiaries in Vietnam, 2 subsidiaries and 1 representative office in other countries, as well as 6 joint ventures and 1 Training Center with . The bank is currently networking with more than 1,800 correspondent banks in 155 countries and territories. During more than 50 operating years, the bank has significantly contributed to the steady growth of the national economy. Furthermore, bank A has gained numerous local and international achievements as well as awards, in which the bank was the only Vietnamese bank in the Top 1,000 World Banks 2013 voted by The Banker magazine. Bank A focuses on enhancing efficiency in the use of capital and management capacity as well as developing its network and strengthening the relationship with its customers in order to improve service quality. Bank A is currently in compliance with VAS, Vietnameses Accounting System for Credit institutions and with the statutory requirements stipulated by the SBV. However, bank A prepares financial statements under IFRS because of the reforming banking sector project funding by IMF.

To observe the bank, the 2013 financial statements under VAS and IFRS of bank A was collected, which shall be analyzed. Furthermore, to reduce the effects of tranlation errors as well as increase the comparability, the author used the English version of annual financial statements.

Afterward, the author analyzed and compared the annual financial statements of bank A between VAS and IFRS version. As there are many difference between IFRS and VAS, the author only compared four main standards discussed in the theoretical part regarding presentation of financial statements; presentation, recognization, measuring and disclosure of financial instruments. Hence, the key differences between IFRS and VAS shall be tested and concluded after the data collection and observation.

4.1.2 Differences between IFRS and VAS

In the financial statements under IFRS, the Board of Management of bank A stated that the consolidated financial statements of the bank and its subsidiaries were prepared in accordance with IFRS and relevant requirements (Bank A 2014, 3). Furthermore, in the IFRS financial statement version, bank A made disclosures relating to key accounting judgements, estimations and assumptions in Note 2. These judgements, estimations and assumptions based on varying degree of experiences and expectation of future events that shall affect the reported amount of assets, liabilities, income and expenses, as well as provisions. Lastly, the statement of changes in equity was presented as one of the major statements in the IFRS fiancial statements.

On the other hand, the Board of Management of bank A stated that the consolidated financial statements of the bank and its subsidiaries were prepared in accordance with VAS, Vietnamese Accounting System for credit institutions and with the statutory requirements stipulated by the SBV relevant to preparation and presentation of consolidated financial statement (Bank A 2014, 90). As not required by VAS, bank A did not state any key judgements, estimations and assumptions about the future. Moreover, the statement of changes in equity was disclosed as a note under Note 21-Capital and reserves in the VAS financial statements.

Regarding the debt classification process, under the VAS, bank A has formulated an internal credit grading system to classify loans and advances to customers which uses both qualititative and quantitative factors. Concerning the qualitative factors, bank A analyzes the client's capability of repayment, management and internal environment, relationship with the bank, as well as factors that affect the industry and operation of the client. On the other hand, the quantitative factors considers financial information as well as the auditor's opinion on the client. The following figure illustrates the loan portfolio by loan group under VAS:

	31/12/2013 VND million	31/12/2012 VND million (Restated)
Current	244,080,147	201,798,721
Special mentioned	22,758,702	33,572,647
Sub-standard	2,713,574	3,126,126
Doubtful	1,969,791	1,213,720
Loss	2,791,995	1,456,094
	274,314,209	241,167,308

FIGURE 8. Loan portfolio by loan group (Bank A 2014, 118)

According to Figure 8, loan portfolio by loan group under VAS consits of five groups including Current, Special mentioned, Sub-standard, Doubtful, and Loss group. Furthermore, loans and advances to customers were stated at the principal outstanding.

On the other hand, loans and advances to customers were initially recorded at fair value, then measured at amortized costs using effective interest rate method less allowance for impairment loss. At the end of each reporting period, loans and advances are assessed individually to identify Current loans – loans without impairment under IFRS. Afterwards, individual insignificant loans and advances were assessed collectively. Loans and advances were divided into groups with similar risk characteristics, which then be assessed based on loan portfolio and judgments on the effect of concentrations of risk and economic data. However, bank A claimed that their internal credit grading system under VAS was in conformity with IFRS. (Bank A 2014, 18.) Therefore, debt classification under IFRS was based on the result of the one under VAS. Though, loans and advances under IFRS are divided into Current and Bad debts. Furthermore, loan portfolio by loan group was not presented in the financial statements but loan portfolio by status of impairment was presented as in Figure 9:

	31/12/2013 VND million	31/12/2012 VND million (Restated)
Loans with impairment	3,698,349	4,320,829
Loans without impairment	271,542,436	236,846,479
	275,240,785	**241,167,308**

FIGURE 9. Loan portfolio by status of impairment (Bank A 2014, 49)

As can be seen from Figure 10, the total loan outstanding under IFRS is higher than the total loan outstanding under VAS. As accrued interests was recorded together with each loan outstanding under IFRS, while accrued interests was recorded under other assets on balance sheet under VAS. Thus, there is a difference between total loan outstanding under IFRS and under VAS.

Concerning the allowance for impairment loss, the provision under VAS consists of general and specific provisions. While general provisions are applicable at 0.75% for loans in Current, Special Mention, Sub-standard, and Doubtful group, specific provisions are applicable to each loan group at certain rate. The following figure shows the amount of general provisions and scpecific provisions, which were made in 2013:

	31/12/2013 VND million	31/12/2012 VND million (Restated)
General allowance	1,917,731	1,734,506
Specific allowance	4,533,074	3,543,742
	6,450,805	5,278,248

FIGURE 10. Allowance for loans and advances to customers (Bank A 2014, 120)

Meanwhile, Figure 11 shows the details of loan balance and allowance for credit loss. The allowance was calculated based on the original effective interest rate and the future cash flows.

	31/12/2013		31/12/2012	
	Loan balance VND million	Allowance VND million	Loan balance VND million	Allowance VND million
Loans with individual impairment allowance	3,698,349	986,961	4,320,829	633,377
Loans with collective impairment allowance	271,542,436	5,519,199	236,846,479	4,450,914
	275,240,785	**6,506,160**	**241,167,308**	**5,084,291**

FIGURE 11. Loan balance and allowance for credit loss (Bank A 2014, 50)

Moreover, there is a difference between the total allowance under VAS and IFRS. The allowance under VAS was lower than the allowance under IFRS as bank A applied certain discounted rate under VAS, while effective interest rate was applied under IFRS.

In respect of trading securities, the securities were initially recorded at cost of purchase, which is presented in more details in Figure 12.

	31/12/2013 VND million	31/12/2012 VND million
Equity securities	188,598	11,569
Listed	188,248	11,223
Unlisted	350	346
Debt securities issued by local credit institutions	7,560	509,670
Listed	-	509,670
Unlisted	7,560	-
	196,158	521,239
Allowance for diminution in value of trading securities	(888)	(363)
	195,270	520,876

FIGURE 12. Issuer types and listing status of trading securities (Bank A 2014, 117)

As can be seen from Figure 12, bank A made allowance for reduction of trading securities in accordance with Circular No. 13/2006/TT-BTC dated 27 February 2006, and Official Dispatch No. 2601/NHNN-TCKT dated 14 April 2009 on guiding on classifying and making allowance for diminution in value of financial investment. On the other hand, trading securities were initially recorded at fair value plus transaction costs under IFRS (Bank A 2014, 19). The following figure presents the listing of trading securities as held-for-trading financial assets under IFRS:

	31/12/2013 VND million	31/12/2012 VND million (Restated)
Equity securities	**265,794**	**50,452**
Listed	265,708	50,380
Unlisted	86	72
Debt securities issued by local credit institutions	**397,561**	**935,314**
Listed	-	536,357
Unlisted	397,561	398,957
	663,355	**985,766**

FIGURE 13. Issuer types and listing status of held-for-trading financial assets (Bank A 2014, 44)

In addition, value of trading securities was measured at the lower of the carrying value and the market value under VAS (Bank A 2014, 104). Meanwhile, fair value measurement was applied in recording value of trading securities under IFRS. Thus, there is a difference in the recorded value of trading securities under VAS and IFRS.

In terms of investment securities, there are available-for-sale securities and held-to-maturity securities. Under VAS, investment securities were initially recorded at cost of purchasing, and subsequently measured at the lower of the book value after amortization and the market value. Figure 14 and Figure 15 shows the accounted value of available-for-sale securities and held-to-maturity securities respectively.

	31/12/2013 VND million	31/12/2012 VND million
Debt securities		
Government bonds	18,475,968	15,722,521
Treasury bills	18,407,653	42,907,290
Securities issued by local credit institutions	9,410,742	13,927,565
Securities issued by local economic entities	660,000	1,158,380
Equity securities		
Securities issued by local credit institutions	43,571	87,945
Securities issued by local economic entities	129,275	141,494
	47,127,209	**73,945,195**
Allowance for diminution in value of available-for-sale securities	(23,417)	(261,204)
	47,103,792	**73,683,991**

FIGURE 14. Issuer types of available-for-sale securities (Bank A 2014, 121)

In accordance with Circular No. 13/2006/TT-BTC dated 27 February 2006, and Official Dispatch No. 2601/NHNN-TCKT dated 14 April 2009 on guiding on classifying and making allowance for diminution in value of financial investment, Bank A also made allowance for available-for-sale securities as well as held-to-maturity securities.

	31/12/2013 VND million	31/12/2012 VND million
Government bonds	12,589,023	3,823,990
Debt securities issued by local credit institutions	947,968	503,472
Investments trusted to local entities	569,168	515,711
Debt securities issued by local economic entities	3,254,674	-
	17,360,833	**4,843,173**
Allowance for diminution in value of investments trusted to local entities	(1,529)	(5,860)
	17,359,304	**4,837,313**

FIGURE 15. Issuer types of held-to-maturity securities (Bank A 2014, 122)

Under IFRS, financial investments were initially measured at fair value plus transaction costs. Furthermore, in IFRS financial statements, available-for-sale financial investments were presented in more detail than in VAS financial statements, which can be found at Appendix 10. The following figures illustrate the measurement of financial investments under IFRS:

	31/12/2013 VND million	31/12/2012 VND million (Restated)
Debt securities – Listed		
Government bonds	25,420,346	15,300,666
Bonds issued by the Vietnam Development Bank	5,979,025	9,523,040
Bonds issued by Vietnam Express Corporation	217,122	220,234
Bonds issued by Vietnam Bank For Social Policies	1,856,911	2,169,737
Debt securities – Non-listed		
Treasury bills	204,734	11,084,071
Government bonds	12,615,621	32,394,684
Municipal bonds	-	382,232
Securities issued by other local credit institutions	2,632,803	3,450,688
Securities issued by local economic entities	500,274	829,531
Equity securities – Listed		
Securities issued by other local credit institutions	2,636,335	2,813,299
Securities issued by local economic entities	118,611	278,904
Equity securities – Non-listed		
Securities issued by other local credit institutions	340,236	363,293
Securities issued by local economic entities	228,975	278,633
	52,750,993	**79,089,012**

FIGURE 16. Issuer types and listing status of available-for-sale financial investments (Bank A 2014, 45)

In IFRS financial statements, available-for-sale financial investments were also presented according to their listing status, which helps to enhance the clarity of measurement.

	31/12/2013 VND million	31/12/2012 VND million (Restated)
Special Government bonds	1,689,968	1,650,695
Government bonds	11,907,755	2,333,410
Bonds issued by other local credit institutions	74	80
Bonds issued by other local economic entities	2,392,293	-
	15,990,090	**3,984,185**

FIGURE 17. Held-to-maturity financial investments (Bank A 2014, 48)

About available-for-sale securities, fair value measurement was applied under IFRS that the total value under VAS is lower than the total value under IFRS. On the other hand, held-to-maturity securities were measure at amortized value using effective interest rate method under IFRS that the total value under VAS is higher than the total value under IFRS.

Concerning the derivatives, bank A operates foreign exchange forward and swap contracts. Under VAS, forward and swap contracts were recorded at nominal value at transaction date, and were subsequently revaluated at the exchange rate at the year end. The following figure illustrates the accounting of derivatives:

	31/12/2013		31/12/2012	
	Contract notional value VND million	Book value VND million	Contract notional value VND million	Book value VND million
Derivatives				
Currency swap contracts	9,302,023	58,983	11,506,397	30,749
Forward contracts	10,817,048	77,742	17,968,332	(36,210)
Other financial assets/liabilities	20,119,071	136,725	29,474,729	(5,461)

FIGURE 18. Derivatives and other financial assets/liabilities (Bank A 2014, 131)

On the other hand, derivatives were initially and subsequently recorded at fair value. Figure 19 presents the contractual principal amount and fair value of the derivatives as following:

As at 31 December 2013	**Contract/**	**Fair value**	
	Notional amount VND million	**Assets VND million**	**Liabilities VND million**
Derivatives held for trading			
Currency swaps	9,302,023	-	27,935
Currency forward	10,817,048	9,135	-
Interest rate swaps	1,386,272	-	60,757
	21,505,343	**9,135**	**88,692**

As at 31 December 2012	**Contract/**	**Fair value**	
	Notional amount VND million	**Assets VND million**	**Liabilities VND million**
Derivatives held for trading			
Currency swaps	11,506,397	-	16,121
Currency forward	17,968,332	7,543	-
Interest rate swaps	3,149,194	-	139,679
	32,623,923	**7,543**	**155,800**

FIGURE 19. Derivatives held-for-trading (Bank A 2014, 57)

Since derivatives were measured at fair value under IFRS, foreign currency forward and swap contracts are considered as financial assets or liabilities based on the market value of derivative contracts. Furthermore, fair value measurement led to the difference in revaluated amount under VAS and IFRS.

In regard of the disclosure of financial instruments, bank A was required to disclose fair value of financial instruments to compare with the book value (Bank A 2014, 114-115). Furthermore, in compliance with IFRS 07, bank A presented about credit risk, interest rate risk, currency risk and liquidity risk. The following figure shows the disclosure of fair value under VAS:

		Book value						
		Held for trading	Held-to maturity	Loans and receivables	Available-for-sale	Recognized at amortized cost	Total of book value (gross)	Fair value
		VND million	VND million	VND million	VND million	VND million	VND million	VND million
	Financial assets							
I	Cash on hand, gold, silver and gemstones	6,059,673	-	-	-	-	6,059,673	6,059,673
II	Balances with the State Bank of Vietnam	24,843,632	-	-	-	-	24,843,632	24,843,632
III	Balances with and loans to other credit institutions	-	-	91,803,073	-	-	91,803,073	92,003,854
IV	Trading securities	196,158	-	-	-	-	196,158	195,270
V	Derivatives and other financial assets	136,725	-	-	-	-	136,725	136,725
VI	Loans and advances to customers	-	-	274,314,209	-	-	274,314,209	(*)
VII	Investment securities	-	17,360,833	-	47,127,209	-	64,488,042	66,683,128
VIII	Long-term investments	-	-	-	2,356,016	-	2,356,016	2,319,727
XI	Other financial assets	-	-	5,033,927	-	-	5,033,927	(*)
		31,236,188	**17,360,833**	**371,151,209**	**49,483,225**	-	**469,231,455**	
	Financial liabilities							
I, II	Deposits and borrowings from the SBV and other credit institutions	-	-	-	-	76,666,700	76,666,700	76,916,446
III	Deposits from customers	-	-	-	-	332,245,598	332,245,598	(*)
VI	Valuable papers issued	-	-	-	-	2,013,597	2,013,597	(*)
VII	Other financial liabilities	-	-	-	-	11,722,264	11,722,264	(*)
		-	-	-	-	**422,648,159**	**422,648,159**	

(*) Due to having not enough information for using valuation techniques, fair value of the financial assets and liabilities that do not have quoted market prices are deemed to be not reliably measured and therefore not disclosed.

FIGURE 20. Book value and fair value of financial assets and liabilities (Bank A 2014, 150)

However, bank A claimed that fair value was not disclosed as not having enough information to valuate fair value of financial assets and liabilities, which do not have quoted market price. Therefore, valuating fair value is a challenge for the Vietnamese banking sector in case of adopting IFRS.

In conclusion, the following table shall present the difference between IFRS and VAS in terms of presentation of financial statements and financial instruments.

TABLE 8. Key differences between IFRS and VAS

IFRS	VAS	Key differences
IAS 1 – Presentation of financial statements	VAS 21 – Presentation of financial statements VAS 22 – Disclosure in financial statements of banks and similar financial institutions	A disclosure of management's key judgments, key assumptions about the future and other key sources of possible uncertainty is not required in VAS 21. Concerning statement of changes in equity, the statement is required as one of major statements under IAS 1. On the other hand, the statement is presented as a note under VAS 21. There is no specific standard of disclosure in financial statements of banks and credit institutions within IFRS.
IAS 32 – Financial Instruments: Presentation	Circular No. 210/2009/TT-BTC	There is no difference
IAS 39 – Financial Instruments: Recognition and Measurement	Loan classification: Decision No. 493/2005/QD-NHNN Decision No. 18/2007/QD-NHNN	IAS 39 requires assessment of each material financial asset or group of financial assets while only group of financial assets is assessed under Decision No. 493 and Decision No. 18. Loans are classified into only two groups under IAS 39. Meanwhile, under Decision No. 493 and Decision No. 18, loans are classified into five groups.

(To be continued)

		Accrued interest is separately presented on balance sheet as other assets under Decision No. 493 and Decision No. 18. On the other hand, accrued interest is included in each loan outstanding. Under Decision No. 493 and Decision No. 18, specific allowance was made at certain rate. On the other hand, IAS 39 measures impairment loss based on fair value. Lastly, the general provision is duplication of loans in group 2 to group 4 since specific provisions were made. Furthermore, IAS 39 does not require general provision.
IAS 39 – Financial Instruments: Recognition and Measurement	Valuable papers: Official Dispatch No. 7459/NHNN-KTTC	Valuable papers under Official Dispatch No. 7459 are recognized at cost of acquisition, while financial assets or financial liabilities are recognized at fair value plus transaction costs under IFRS. Under VAS, trading securities are measured at the lower of carrying value and market value, while available-for-sale and held-to-maturity securities are measured at the lower of book value after amortization and market value. Under IFRS, trading securities as well as available-for-sale securities are measured at fair value, and held-to-maturity securities are measured at amortized value using effective interest rate method.

(To be continued)

	Derivatives: Official Dispatch No. 7404/NHNN-KTTC	Under Official Dispatch No. 7404, gains or losses from foreign currency forward and swap contracts are recorded on balance sheet account during the period, while under IAS 39, a gain or loss from change in fair value is recorded in profit or loss.
	Convertible bonds: No effective VAS and guidance	Under IAS 39, convertible debt instruments are recognized both asset and liability component as well as equity component. On the other hand, convertible bonds are recognized as liability by Vietnamese credit institutions.
IFRS 07 – Financial Instruments: Disclosure	Circular No. 210/2009/TT-BTC	Under VAS, fair value is only required to disclose in financial instruments note to compare with book value.

Although the SBV regulated different circulars, decisions to enhance accounting practice of credit institutions, there are many disadvantages as well as challenges that the SBV and the MoF should resolve to adopt IFRS.

4.2 Advantages, disadvantages, and challenges of IFRS adoption

4.2.1 Collecting data

In order to identify advantages, disadvantages and challenges that the Vietnamese banking sector may face in adopting IFRS, the author conducted interviews for data acquisition.

In respect of interviews, depending on the level of formality and structure that interviews are categorized as:

- Structured interviews
- Semi-structured interviews
- Un-structured or in-depth interviews (Saunders et.al 2012, 374).

Concerning structured interviews, structured interviews are formed based on an identical set of questions or intervies-administered questionnaires that they are referred as quantitative research interview. Furthermore, to conduct a structure interview, the interviewer should read out the question exactly as written and in the same tone of voice to prevent any bias. On the other hand, semi-structured and in-depth interviews are referred as qualitative research interviews, which do not have standardized questions. About semi-structured interviews, a list of themes and possible key questions shall be prepared by the interviewer. The researcher may discard or add more questions as well as change the order of questions depending on the flow of the interview. Lastly, in-depth interviews require no prepared questions that interviewee can talk freely related to the topic area. However, the interviewer should have clear idea about the topic to explore. (Saunders et.al 2012, 374-375.)

Based on the nature of the study and the interview categories, the author conducted semi-structured and in-depth face-to-face interviews with an accounting officer and an IT officer of a foreign bank's branch operating in Vietnam, a senior auditor of Enrst & Young Vietnam, as well as a former MoF officer. However, upon the request of interviewees, the author shall not mention their name in the study. As for data acquisition, the author took note of the answers during the interviews.

The findings of the conducted interview shall be analysed and discussed in the next sub-chapter. Furthermore, the author's own observation shall also be applied in the discussion.

4.2.2 Data analysis

After obtaining all the necessary data from the interviews, the author shall interpret and study the acquired information and discuss the advantages, disadvantages and challanges in adopting IFRS.

4.2.2.1 Advantages

Firstly, the accountant officer has mentioned that adopting IFRS enhances the compatibility and comparability of financial statements. Since IFRS is required and adopted in many countries all over the world, financial statements under IFRS will be easier to understand as well as more accurately compared for foreign investors. Specifically, the bank's accountant officer also emphasized on the standardization of IFRS, which helps foreign banks reduce cost in adjusting financial statements under VAS for headquarter. Furthermore, as IFRS focuses on investors, financial statements under IFRS shall provide more useful information and easier to understand for investors. Thus, more foreign investors shall pay attention to the Vietnamese market and more opportunities are open to the Vietnamese banking sector.

Secondly, IFRS was established on the demand of developed financial markets, IFRS requires higher quality measurement. According to the MoF's former officer, IFRS applies fair value and recognizes loss immediately, in which investors and stakeholder shall have a true and fair view on the bank's financial situation and position. Moreover, IFRS also requires more disclosures, and only allows the desired accounting method. Thereby, the imbalance of information between organizations and managerial discretion are reduced. In other word, the accounting quality is enhanced which provides more accurate, timely and comprehensive information.

Lastly, as IFRS increases the transparency of financial statements, Vietnamese banks and companies mays gain higher trust and reputation from foreign investors. Thus, they have better access to the foreign capital markets and investments.

4.2.2.2 Disadvantages

Besides the advantages of IFRS, applicational costs are the major disadvantages in case of adopting IFRS. As IFRS is quite complex, the changing cost of internal systems is rather high. Adopting IFRS, the IT officer emphazised on the need for upgrading software and systems to be compatable with the new accounting standards. Furthermore, credit institutions shall bear the staff training costs to get familiar with IFRS. Since the staffs are unfamiliar with IFRS, credit institutions need advice on technical and taxation matters. Moreover, as IFRS requires more information on clients as well as the economy, credit institutions shall need extra costs for obtaining external data. In addition, IFRS applies fair value that may cause fluctuations in recorded assets as well as the performance of credit institutions. However, the actual transitional costs may vary depending on the sizes of credit instituions. Lastly, although credit institutions encounter huge transitional costs, the benefit of consistency of financial statements under IFRS shall need sufficient time.

Additionally, language is another disadvantage. Since Vietnamese is the official language in Vietnam, the transalation of the IFRS shall take a long time to be done. Besides, the average English level of the Vietnamese accountants is not really well that may cause challenges in applying IFRS.

4.2.2.3 Challenges

According to the MoF's former officer, the difference between the focus of VAS and IFRS is one of the most important challenges. As the Vietnamese banking sector is highly controlled by the government, VAS and Vietnamese credit institutions accounting regime and statustory requirements aim at the government. Although many credit institutions establish financial statements publicly, financial information is primarily intended for the government. On the other hand, IFRS intends to provide information for the investors. Thus, in order to adopt IFRS, the MoF should identify prioritised users first. In addition, VAS and tax regime are tightly linked while IFRS is not intended for taxation that another issue the MoF needs to consider in adoption of IFRS.

Moreover, the MoF's fomer officer as well as the senior auditor stressed on the lack of personnel in accounting and auditing that is familiar with IFRS. Although Big Four companies have required their employees to improve accounting knowledge by achieving ACCA certificate or Chartered Financial Analyst (CFA) certificate, the amount of qualified accountants is still limited. Furthermore, most of accountants at credit institutions are familiar with VAS while unfamiliar with

IFRS, which has made the adoption of IFRS time-consuming and costly. In addition, IFRS is not included in the compulsory program at universitiesonly an optional course in universities, which needs to be compulsory in the curriculum.

As IFRS requires the application of fair value, active market is another major challenges for the government. For example, the senior auditor specified that there is no active market to evaluate the fair value of Government bonds. Furthermore, Mrs.V also stated the challenges in management of credit institutions. As IFRS is new and complex, credit institutions do not have the basis to formulate compatible management system. Lastly, as the official language in Vietnam is Vietnamese, it is time-consuming for translation.

Accordingly, the MoF's former officer suggested a partly convergence of IFRS in the next five years. Respectively, the MoF should observe the accounting practice of credit institutions to have precise adjustments.

4.3 Conclusion

After thoroughly studying the framework of IFRS, VAS and Credit institutions accounting regime as well as completing an emperical research, the author has found the answers for the research quesions.

The first question was to have an overview of the current situation of the Vietnamese banking sector. As the Vietnamese banking sector plays an important role in the growth of the national economy, the sector is highly controlled by the government. The market is dominated by five SOCBs, which have high-chartered capital. On the other hand, JSCBs have marked its development with the competition in market share. Although there are currently thirty-five JSCBs operating in the market, many of them do not keep stable and perfom badly. Furthermore, the participation of foreign banks' branches as well as wholly foreign-owned banks brings benefit to customers in varied services. However, the FSI indicates that the Vietnamese banking sector is vulnerable with high NPL ratio and needs improvement in management efficiency.

The second and third question study the framework of VAS, credit institutions accounting regime and IFRS leading to the findings of the fourth research question. Concerning the fourth research question, the difference between VAS and IFRS and credit instituitions accounting regime in terms of presentation of financial statements and financial instruments was explored. Regarding the presentation of financial statements, IFRS requires a disclosure of future assumption and statement of change in equity as a major statement, while VAS does not require. Concerning the financial instruments, there is no difference in the presentation as IAS 32 was applied. However, there is a major difference in recognition and measurement of financial instruments under IFRS and VAS.

Under IFRS, all financial instruments are initially recorded at fair value plus transaction costs. Subsequently, trading and available-for-sale securities are measured at fair value while held-to-maturity securities are measured at amortized value. On the other hand, trading securities and financial investments are initially recorded at cost of acquitsition under VAS. Later, trading securities are measured at the lower between book value and market value, whilst financial investments are measured at the lower between carrying value after amortization and market value. Furthermore, during the accounting period, any gain or loss from the derivatives contracts are accounted on balance sheet under VAS. On the other hand, any change in fair value of forward and swap contracts shall be accounted in profit/loss. Lastly, convertible bonds are regarded as financial liability under VAS while they consist of both liability and equity components under IFRS.

Lastly, the in-depth and semi-structured interviews were conducted to answer the fifth question of the challenges of IFRS adoption. The interviewees pointed out the advantages contribute to the accounting system. In case of IFRS adoption, IFRS enhances the accounting quality as well as the comparability and compatability, which helps to increase the transparency of financial statements. Thus, credit institutions may have better reputation and better access to global financial market. However, time-consumption and cost are the main disadvantaes of IFRS adoption leading to major challenges that the Vietnamese banking sector may face in IFRS adoption. Firstly, the difference in primary users between VAS and IFRS is a task for the government. Secondly, the accounting, auditing and IT upgrade process is an issue for credit institutions. Since Vietnamese accountants, auditors and specialists are familiar with VAS that leading to the lack of specialists on IFRS. Thus, the demand in training the preparation and presentation of financial statements in comformity with IFRS is great. Lastly, the government as well as credit institution are required to build up an active market for evaluating fair value, which is one of the most difficult tasks. Thus, the IFRS adoption is time-consuming and costly.

4.4 Reliability and validity

Concerning the reliability, the author believes that the result of this research is trustworthy. The annual reports/financial statements were collected from the observed credit institution's website as well as from the bank's officer. Additionally, the author collected secondary data from accounting journals, governmen publications, as well as newspapers. Furthermore, the author conducted interviews with an accountant, an IT officer, a senior auditor, and a formal MoF officer. Specifically, the formal MoF officer was responsible for preparing the VAS. Otherwise, the interviewees are the specialists in their fields that their opinions are regarded with high reliability.

In terms of validity, IFRS adoption has been one of the most concerning matters in Vietnam. Furthermore, the rapid development of the Vietnamese financial market as well as banking sector has raised the need for a stricter set of accounting standards. The author compared the differences between IFRS and VAS in terms of presentation of the financial statements and financial instruments. The comparison was made based on the annual report 2013, which is the latest. Thus, the author believes the result of this thesis shall be valid over the next few years.

However, the reliability is still ensured as the comparison was mirrored with the IFRS and VAS framework.

4.5 Recommendations for future research

The first recommendation is to compare IFRS and VAS in terms of other standards besides the comparison in the study. Together with the outcome of this study, a more thorough understanding of the differences between IFRS and VAS shall help the MoF and credit institution to analyse whether to converge or adopt IFRS to Vietnamese accounting standards.

Another recommendation is to conduct research with a varying range of sample. As this thesis has just conducted an observation of a SOCB, the author recommends conducting observation on JSCBs as well as wholly foreign-owned banks to have a thorough understanding of the differences between IFRS and VAS. Furthermore, the resulting advantages, disadvantages and challenges shall be more generalizable.

5 SUMMARY

As the Vietnamese economy is on the globalizational process and banking sector is the core of the economy, an international accounting standards system is needed. Thus, the main goal of the thesis was to identify the difference between the IFRS and VAS, as well as the challenges for banking sector in IFRS adoption.

The study was carried with deductive research method and qualitative approach. Specifically, secondary data was collected from realiable books, accounting journals, Internet, and other sources. On the other hand, the primary data was collected through the author's observation over the IFRS and VAS publications, a Vietnamese bank's annual report, and in-depth face-to-face interviews with specialists. The interviews were conducted to identify the advantages, disadvantages, and challenges in adopting IFRS.

The research began with a brief introduction of the current situation of the Vietnamese banking sector. Although the Vietnamese banking sector is highly controlled by the government, the sector is showing the sign of vulnerability and need for reformation. Thus, IFRS adoption is in consideration for higher quality and reputation in terms of accounting information.

Later, the study was carried on with the overview and interpretation of VAS and IFRS. However, the research only focused on standards related to presentation of financial statements and financial instruments. Thereby, the differences concerning those standards were concluded. In regard of presentation of financial statements, the main difference is that the Statement of changes in equity is required as a major statement under IFRS. In terms of financial instruments, the main difference is that the instruments shall be recorded at fair value under the IFRS.

Regarding the interviews, they contributed to the findings of advantages, disadvantages, and challenges in IFRS adoption. Adopting IFRS shall help the bank increase the compatability, comparability and the quality of financial statements. Thus, the bank's trust and reputation is increased in the global market. Concerning the disadvantages of adopting IFRS, transitional costs are one of the biggest disadvantages. Additionally, time-consuming result and language are other disavantages that were identified. Lastly, the bank shall encounter with the lack of personnel, which is familiar with the IFRS and the evaluation of fair value, which are the two biggest challenges.

In conclusion, the research has managed to answer all the research questions with high validity and reliability that reached its objectives. However, the two biggest limitations of the study was the narrow focused comparing standards and short of examples. Hence, the author suggested a broader research on the differences between IFRS and VAS, as well as a broader scale of sample for further study. As a result, the research shall provide a more thorough inside of the differences as well as the advantages, disadvantages, and challenges of IFRS adoption.

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APPENDICES

APPENDIX 1. IFRS Framework (Mackenzie et.al 2013, 59-60)

Accounting standards	Accounting interpretations
IAS 1	Presentation of Financial Statements
IAS 2	Inventories
IAS 7	Statement of Cash Flows
IAS 8	Accounting Policies, Changes in Accounting Estimated and Errors
IAS 10	Events After the Reporting Period
IAS 11	Construction Contracts
IAS 12	Income Taxes
IAS 16	Property, plant and equipment
IAS 17	Accounting for Leases
IAS 18	Revenue
IAS 19	Employee Benefits
IAS 20	Accounting for Government Grants and Disclosure of Government Assistance
IAS 21	The Effects of Changes in Foreign Exchange Rates
IAS 23	Borrowing Costs
IAS 24	Related-Party Disclosure

(To be continued)

IAS 26	Accounting and Reporting by Retirement Benefit Plans
IAS 27	Separate Financial Statements (Consolidation part replaced by IFRS 10, Consolidated Financial Statements, effective 2013)
IAS 28	Investments in Associates and Joint Ventures (Joint ventures included effective 2013)
IAS 29	Financial Reporting in Hyperinflationary Economies
IAS 31	Financial Reporting of Interests in Joint Ventures (replaced by IFRS 11 and IAS 28, effective 2013)
IAS 32	Financial Instruments: Presentation
IAS 33	Earnings Per Share
IAS 34	Interim Financial Reporting
IAS 36	Impairments of Assets
IAS 37	Provision, Contingent Liabilities, and Contingent Assets
IAS 38	Intangible Assets
IAS 39	Financial Instruments: Recognition and Measurement
IAS 40	Investment Property
IAS 41	Agriculture
IFRS 1	First-Time Adoption of IFRS
IFRS 2	Share-Based Payment
IFRS 3	Business Combinations

(To be continued)

IFRS 4	Insurance Contracts
IFRS 5	Noncurrent Assets Held for Sale and Discontinued Operations
IFRS 6	Exploration for and Evaluation of Mineral Resources
IFRS 7	Financial Instruments: Disclosures
IFRS 8	Operating Segments
IFRS 9	Financial Instruments
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interest in Other Entities
IFRS 13	Fair Value Measurement
SIC 7	Introduction of the Euro
SIC 10	Government Assistance – No Specific Relati on to Operating Activities
SIC 12	Consolidation – Special-Purpose Entities (replaced by IFRS 10, effective 2013)
SIC 13	Jointly Controlled Entities – Nonmonetary Contributions by Ventures (replaced by IAS 28, effective 2013)
SIC 15	Operating Leases – Incentives
SIC 25	Income Taxes – Changes in the Tax Status of an Enterprise or Its Shareholders
SIC 27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease

(To be continued)

SIC 29	Disclosure – Service Concession Arrangements
SIC 31	Revenue – Barter Transactions Involving Advertising Services
SIC 32	Intangible Assets – Web Site Costs
IFRIC 1	Change in Existing Decommissioning, Restoration and Similar Liabilities
IFRIC 2	Member's Shares in Cooperative Entities and Similar Instruments
IFRIC 4	Determining Whether an Arrangement Contains a Lease
IFRIC 5	Right to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IFRIC 6	Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
IFRIC 7	Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies
IFRIC 10	Interim Financial Reporting and Impairment
IFRIC 11	IFRS 2: Group and Treasury Share Transactions
IFRIC 12	Service Concession Arrangements
IFRIC 13	Customer Loyalty Programs
IFRIC 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements, and Their Interaction
IFRIC 15	Arrangements for the Construction of Real Estate
IFRIC 16	Hedges of a Net Investment in a Foreign Operation
IFRIC 17	Distributions of Noncash Assets to Owners

(To be continued)

IFRIC 18	Transfer of Assets from Customers
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments
IFRIC 20	Stripping Cost in the Production Phase of a Surface Mine

APPENDIX 2. VAS Framework (Russell Bedford 2014)

Accounting Standards	Accounting interpretations
VAS 01	Framework
VAS 02	Inventories
VAS 03	Tangible assets
VAS 04	Intangible assets
VAS 05	Investment property
VAS 06	Leases
VAS 07	Accounting for Investments in Associates
VAS 08	Financial Reporting of Interests in Joint Ventures
VAS 10	The Effects of Changes in Foreign Exchange Rates
VAS 11	Business Combination
VAS 14	Revenues and other Incomes
VAS 15	Construction Contracts
VAS 16	Borrowing Costs
VAS 17	Income Taxes
VAS 18	Provision, Contingent Assets, Contingent Liabilities
VAS 19	Insurance Contract
VAS 21	Presentation of Financial Statements
VAS 22	Disclosures in the Financial Statements of Banks and Similar Financial Institutions
VAS 23	Events After the Balance Sheet Date
VAS 24	Cash Flows Statements
VAS 25	Consolidated financial statements and accounting for investments in subsidiaries
VAS 26	Related Parties Disclosures
VAS 27	Interim Financial Reporting
VAS 28	Segment Reporting
VAS 29	Changes in Accounting Policies, Accounting Estimates and Errors
VAS 30	Earning per share

APPENDIX 3. STATEMENT OF CHANGE IN EQUITY – VAS

21. Capital and reserves

(a) Statement of changes in equity

	Chartered capital	Share premium	Other capital	Reserves: Supplement capital	Reserves: Financial risk	Reserves: Investment and development fund	Reserves: Total	Asset revaluation difference	Foreign exchange difference	Retained profits	Total
	VND million	VND million	VND million	VND million	VND million	VND million	VND million	VND million	VND million	VND million	VND million
Balance as at 1/1/2013 (Restated)	**23,174,171**	**9,201,397**	**45,160**	**895,598**	**1,830,233**	**68,049**	**2,793,880**	**121,228**	**72,800**	**6,138,214**	**41,546,850**
Net profit for the year	-	-	-	-	-	-	-	-	-	4,358,052	4,358,052
Reserves additionally appropriated for 2012 under General Shareholders Meeting's resolution	-	-	-	6,074	13,892	2,612	22,578	-	-	(40,982)	(18,404)
Reserved temporarily appropriated from retained profit of 2013	-	-	-	219,100	434,653	-	653,753	-	-	(1,346,228)	(692,475)
Exchange rate difference	-	-	-	-	-	-	-	2,738	-	-	2,738
Audit adjustment of joint-ventures and associates for the year 2012	-	-	-	-	-	-	-	-	-	3,263	3,263
Gain from asset revaluation	-	-	-	-	-	-	-	-	9,506	-	9,506
Utilization during the year	-	-	-	-	(1,659)	-	(1,659)	-	-	-	(1,659)
Dividends paid during the year	-	-	-	-	-	-	-	-	-	(2,780,901)	(2,780,901)
Adjustment of the State Audit for the year 2012 on consolidation of financial statements	-	-	-	-	-	-	-	-	-	(38,076)	(38,076)
Other decreases	-	-	-	-	-	-	-	(113)	-	(2,716)	(2,829)
Balance as at 31/12/2013	**23,174,171**	**9,201,397**	**45,160**	**1,120,772**	**2,277,119**	**70,661**	**3,468,552**	**123,853**	**82,306**	**6,290,626**	**42,386,065**

APPENDIX 4. CONSOLIDATED STATEMENT OF CHANGE IN EQUITY – IFRS

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2013

	Chartered capital	Share premium	Other capital	Reserves				Available-for-sale financial assets revaluation reserve	Exchange differences on translation of foreign operations	Retained profits	Total
				Supplement capital	Financial risk	Investment and development fund	Total				
	VND million	VND million	VND million	VND million	VND million	VND million	VND million	VND million	VND million	VND million	VND million
Balance as at 1/1/2013 (Restated)	**23,174,171**	**9,201,397**	**45,160**	**895,598**	**1,830,233**	**68,049**	**2,793,880**	**1,629,881**	**121,228**	**5,863,476**	**42,829,193**
Net profit for the year										3,356,549	3,356,549
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	-	2,738	-	2,738
Net gain on available-for-sale financial assets	-	-	-	-	-	-	-	148,881	-	-	148,881
Deductible corporate income tax relating to Net gain on available-for-sale financial assets	-	-	-	-	-	-	-	(32,754)	-	-	(32,754)
Reserves additionally appropriated for 2012 under General Shareholders Meeting's resolution	-	-	-	6,074	13,892	2,612	22,578	-	-	(40,982)	(18,404)
Reserves appropriated from retained profit of 2013	-	-	-	219,100	434,653	-	653,753	-	-	(653,753)	-
Audit adjustment in retained profit of the previous years	-	-	-	-	-	-	-	-	-	3,263	3,263
Utilization during the year	-	-	-	-	(1,659)	-	(1,659)	-	-	-	(1,659)
Dividends of 2012 paid in cash during the year	-	-	-	-	-	-	-	-	-	(2,780,901)	(2,780,901)
Adjustment of the State Audit for the year 2012 on consolidation of financial statements	-	-	-	-	-	-	-	-	-	(38,076)	(38,076)
Others	-	-	-	-	-	-	-	-	(113)	(2,716)	(2,829)
Balance as at 31/12/2013	**23,174,171**	**9,201,397**	**45,160**	**1,120,772**	**2,277,119**	**70,661**	**3,468,552**	**1,746,008**	**123,853**	**5,706,860**	**43,466,001**

APPENDIX 5. NOTE 8 – LOANS AND ADVANCES TO CUSTOMERS – VAS (Bank A 2014, 118-119)

8. Loans and advances to customers

	31/12/2013 VND million	31/12/2012 VND million (Restated)
Loans to local corporations and individuals	271,051,595	237,674,037
Discounted bills and valuable papers	1,580,513	1,957,783
Finance leases	1,612,200	1,346,346
Loans given to make payments on behalf of customers	52,624	17,822
Loans to foreign individuals and enterprises	17,277	43,224
Frozen loans	-	128,096
	274,314,209	241,167,308

Loan portfolio by loan group was as follows:

	31/12/2013 VND million	31/12/2012 VND million (Restated)
Current	244,080,147	201,798,721
Special mentioned	22,758,702	33,572,647
Sub-standard	2,713,574	3,126,126
Doubtful	1,969,791	1,213,720
Loss	2,791,995	1,456,094
	274,314,209	241,167,308

(To be continued)

Loan portfolio by term was as follows:

	31/12/2013 VND million	31/12/2012 VND million (Restated)
Short-term	175,256,677	149,536,983
Medium-term	29,940,648	25,093,195
Long-term	69,116,884	66,537,130
	274,314,209	**241,167,308**

Loan portfolio by type of borrowers was as follows:

	31/12/2013 VND million	31/12/2012 VND million (Restated)
State-owned enterprises	77,642,359	58,557,802
Limited companies	60,459,488	48,660,496
Foreign invested enterprises	13,889,596	13,290,205
Co-operative and private companies	5,477,764	5,356,926
Individuals	37,258,614	28,783,709
Others	79,586,388	86,518,170
	274,314,209	**241,167,308**

Loan portfolio by industry sectors was as follows:

	31/12/2013 VND million	31/12/2012 VND million (Restated)
Construction	15,392,873	14,083,060
Electricity, gas, water processing and supplying	17,178,394	20,371,596
Processing and manufacturing	93,963,131	85,210,848
Mining	17,966,150	14,759,335
Agriculture, forestry and aquaculture	6,172,905	4,765,988
Transportation, logistics and communication	10,217,873	12,396,866
Trading and services	80,800,074	53,528,805
Hospitality	7,139,014	6,025,950
Others	25,483,795	30,024,860
	274,314,209	**241,167,308**

APPENDIX 6. NOTE 17 – LOANS AND ADVANCES TO CUSTOMERS AFTER ALLOWANCE FOR CREDIT LOSS – IFRS (Bank A 2014, 48-50)

17. Loans and advances to customers after allowance for credit losses

	31/12/2013 VND million	31/12/2012 VND million (Restated)
Loans to local corporations and individuals	271,051,595	237,674,037
Discounted bills and valuable papers	1,580,513	1,957,783
Financial leases	1,612,200	1,346,346
Loans given to make payments on behalf of customers	52,624	17,822
Loans to foreign individuals and enterprises	17,277	43,224
Frozen loans	-	128,096
Bad debts sold to VAMC (*)	926,576	-
	275,240,785	**241,167,308**
Accrued interest	1,084,948	1,019,070
Allowance for credit losses	(6,506,160)	(5,084,291)
	269,819,573	**237,102,087**

(*) During the year, Vietcombank sold bad debts to VAMC with total loan balance of VND million 1,180,988 and utilized VND million 254,412 of allowance for writing off those bad debts.

Loan portfolio by term as at 31 December was as follows:

	31/12/2013 VND million	31/12/2012 VND million (Restated)
Short-term	175,256,677	149,536,983
Medium-term	30,867,224	25,093,195
Long-term	69,116,884	66,537,130
	275,240,785	**241,167,308**

Loan portfolio by industry sectors as at 31 December was as follows:

	31/12/2013		31/12/2012	
	VND million	%	VND million	%
Construction	15,392,873	5.59	14,083,060	5.84
Electricity, gas, water processing and supplying	17,178,394	6.24	20,371,596	8.45
Processing and manufacturing	94,355,304	34.28	85,210,848	35.33
Mining	17,966,150	6.53	14,759,335	6.12
Agriculture, forestry and aquaculture	6,207,091	2.26	4,765,988	1.98
Transportation, logistics and communication	10,217,873	3.71	12,396,866	5.14
Trading and services	81,036,323	29.44	53,528,805	22.20
Hospitality	7,139,014	2.60	6,025,950	2.50
Others	25,747,763	9.35	30,024,860	12.44
	275,240,785	**100**	**241,167,308**	**100**

(To be continued)

Loan portfolio by ownership as at 31 December was as follows:

	31/12/2013		31/12/2012	
	VND million	**%**	**VND million**	**%**
State-owned enterprises	77,642,359	28.21	58,557,802	24.28
Limited companies	60,600,456	22.02	48,660,496	20.18
Foreign invested enterprises	14,107,053	5.13	13,290,205	5.51
Co-operative and private companies	5,548,571	2.02	5,356,926	2.22
Individuals	37,258,614	13.54	28,783,709	11.94
Others	80,083,732	29.10	86,518,170	35.87
	275,240,785	**100**	**241,167,308**	**100**

Loan portfolio by status of impairment as at 31 December was as follows:

	31/12/2013 VND million	31/12/2012 VND million (Restated)
Loans with impairment	3,698,349	4,320,829
Loans without impairment	271,542,436	236,846,479
	275,240,785	**241,167,308**

Details of the loan balance and allowance for credit losses as at 31 December were as follows:

	31/12/2013		31/12/2012	
	Loan balance VND million	**Allowance VND million**	**Loan balance VND million**	**Allowance VND million**
Loans with individual impairment allowance	3,698,349	986,961	4,320,829	633,377
Loans with collective impairment allowance	271,542,436	5,519,199	236,846,479	4,450,914
	275,240,785	**6,506,160**	**241,167,308**	**5,084,291**

APPENDIX 7. NOTE 9 – ALLOWANCE FOR LOANS AND ADVANCES TO CUSTOMERS – VAS (Bank A 2014, 120)

9. Allowance for loans and advances to customers

	31/12/2013 VND million	31/12/2012 VND million (Restated)
General allowance	1,917,731	1,734,506
Specific allowance	4,533,074	3,543,742
	6,450,805	**5,278,248**

Movements in general allowance for loans and advances to customers were as follows:

	Year ended 31/12/2013 VND million	Year ended 31/12/2012 VND million (Restated)
Opening balance	1,734,506	1,464,435
Allowance made during the year (see Note 30)	181,406	270,071
Foreign exchange difference	1,819	-
Closing balance	**1,917,731**	**1,734,506**

Movements in specific allowance for loans and advances to customers were as follows:

	Year ended 31/12/2013 VND million	Year ended 31/12/2012 VND million (Restated)
Opening balance	3,543,742	3,863,719
Allowance made during the year (see Note 30)	3,271,688	3,258,449
Allowance utilized for writing off bad debt	(2,126,304)	(3,578,426)
Allowance utilized for bad debts sold to VAMC	(254,412)	-
Adjustment of the State Audit for the year 2012	98,076	-
Foreign exchange difference	284	-
Closing balance	**4,533,074**	**3,543,742**

APPENDIX 8. NOTE 17 – LOANS AND ADVANCES TO CUSTOMERS AFTER ALLOWANCE FOR CREDIT LOSS – IFRS (Bank A 2014, 50)

Movements in allowance for credit losses during the year were as follows:

	Year ended 31/12/2013 VND million	**Year ended 31/12/2012 VND million (Restated)**
Balance as at 1 January	5,084,291	5,231,457
Allowance made during the year	3,702,406	3,431,260
Allowance utilized for writing off bad debt	(2,126,304)	(3,578,426)
Allowance utilized for bad debts sold to VAMC	(254,412)	-
Adjustment of the State Audit for the year 2012	98,076	-
Foreign exchange difference	2,103	-
Balance as at 31 December	**6,506,160**	**5,084,291**

Details of the credit loss expenses charged to the consolidated income statement were as follows:

	Year ended 31/12/2013 VND million	**Year ended 31/12/2012 VND million (Restated)**
Credit loss expenses during the year under VAS	3,453,094	3,528,520
Allowance made/(reversed) during the year under IFRS	249,312	(97,260)
Credit loss expenses during the period under IFRS	**3,702,406**	**3,431,260**

APPENDIX 9. NOTE 7 – TRADING SECURITIES – VAS (Bank A 2014, 117-118)

7. Trading securities

Issuer types and listing status of trading securities were as follows:

	31/12/2013 VND million	31/12/2012 VND million
Equity securities	**188,598**	**11,569**
Listed	188,248	11,223
Unlisted	350	346
Debt securities issued by local credit institutions	**7,560**	**509,670**
Listed	-	509,670
Unlisted	7,560	-
	196,158	**521,239**
Allowance for diminution in value of trading securities	(888)	(363)
	195,270	**520,876**

7. Trading securities (continued)

Movements in allowance for diminution in value of trading securities were as follows:

	Year ended 31/12/2013 VND million	Year ended 31/12/2012 VND million
Opening balance	363	7,741
Allowance made/(reversed) during the year	525	(7,378)
Closing balance	**888**	**363**

APPENDIX 10. NOTE 15 – HELD-FOR-TRADING – IFRS (Bank A 2014, 44)

15. Financial assets – Held-for-trading

Issuer types and listing status of held-for-trading financial assets are as follows:

	31/12/2013 VND million	31/12/2012 VND million (Restated)
Equity securities	**265,794**	**50,452**
Listed	265,708	50,380
Unlisted	86	72
Debt securities issued by local credit institutions	**397,561**	**935,314**
Listed	-	536,357
Unlisted	397,561	398,957
	663,355	**985,766**

APPENDIX 11. NOTE 10 – INVESTMENT SECURITIES – VAS (Bank A 2014, 121-122)

10. Investment securities

(a) Available-for-sale securities

	31/12/2013 VND million	31/12/2012 VND million
Debt securities		
Government bonds	18,475,968	15,722,521
Treasury bills	18,407,653	42,907,290
Securities issued by local credit institutions	9,410,742	13,927,565
Securities issued by local economic entities	660,000	1,158,380
Equity securities		
Securities issued by local credit institutions	43,571	87,945
Securities issued by local economic entities	129,275	141,494
	47,127,209	**73,945,195**
Allowance for diminution in value of available-for-sale securities	(23,417)	(261,204)
	47,103,792	**73,683,991**

Movements in allowance for diminution in value of available-for-sale securities were as follows:

	Year ended 31/12/2013 VND million	Year ended 31/12/2012 VND million
Opening balance	261,204	305,911
Allowance reversed during the year (see Note 26)	(37,787)	(44,707)
Allowance utilized during the year	(200,000)	-
Closing balance	**23,417**	**261,204**

(To be continued)

10. Investment securities (continued)

(b) Held-to-maturity securities

	31/12/2013 VND million	31/12/2012 VND million
Government bonds	12,589,023	3,823,990
Debt securities issued by local credit institutions	947,968	503,472
Investments trusted to local entities	569,168	515,711
Debt securities issued by local economic entities	3,254,674	-
	17,360,833	**4,843,173**
Allowance for diminution in value of investments trusted to local entities	(1,529)	(5,860)
	17,359,304	**4,837,313**

Movements in allowance for diminution in value of held-to-maturity securities were as follows:

	Year ended 31/12/2013 VND million	Year ended 31/12/2012 VND million
Opening balance	5,860	15,231
Allowance reversed during the year (see Note 26)	(4,331)	(9,371)
Closing balance	**1,529**	**5,860**

APPENDIX 12. NOTE 16 – FINANCIAL INVESTMENT – IFRS (Bank A 2014, 44-48)

16. Financial investments

	31/12/2013 VND million	31/12/2012 VND million (Restated)
Financial investments – available-for-sale (a)	52,750,993	79,089,012
Financial investments – held-to-maturity (b)	15,990,090	3,984,185
	68,741,083	**83,073,197**

(a) Financial investments – available-for-sale

Issuer types of available-for-sale financial investment were as follows:

	31/12/2013 VND million	31/12/2012 VND million (Restated)
Debt securities – Listed		
Government bonds	25,420,346	15,300,666
Bonds issued by the Vietnam Development Bank	5,979,025	9,523,040
Bonds issued by Vietnam Express Corporation	217,122	220,234
Bonds issued by Vietnam Bank For Social Policies	1,856,911	2,169,737
Debt securities – Non-listed		
Treasury bills	204,734	11,084,071
Government bonds	12,615,621	32,394,684
Municipal bonds	-	382,232
Securities issued by other local credit institutions	2,632,803	3,450,688
Securities issued by local economic entities	500,274	829,531
Equity securities – Listed		
Securities issued by other local credit institutions	2,636,335	2,813,299
Securities issued by local economic entities	118,611	278,904
Equity securities – Non-listed		
Securities issued by other local credit institutions	340,236	363,293
Securities issued by local economic entities	228,975	278,633
	52,750,993	**79,089,012**

(To be continued)

Details of available-for-sale financial investments were as follows:

As at 31 December 2013

	Business sector	At cost VND million	Fair value VND million
Investments in other local financial institutions			
Vietnam Export - Import Commercial Joint Stock Bank	Bank	582,065	1,265,564
Saigon Bank for Industry and Trade	Bank	123,452	100,951
Military Commercial Joint Stock Bank	Bank	1,242,989	1,370,771
Orient Commercial Joint Stock Bank	Bank	144,802	134,422
Ocean Commercial Joint Stock Bank	Bank	43,571	30,478
Cement Financial JSC	Financial services	70,950	70,950
Small & Medium Enterprises Credit Guarantee Fund	Credit services	1,864	1,864
SWIFT, MASTER and VISA	Card & settlement services	1,571	1,571
		2,211,264	**2,976,571**
Investment in other entities			
Petrolimex Insurance JSC	Insurance	67,900	70,520
PV Drilling JSC	Drilling	5,497	35,551
Gentraco JSC	Food services	4,024	4,024
Nha Rong Insurance Company	Insurance	12,540	12,540
PCB Investment Company	Credit information services	7,962	4,556
Vietnam Infrastructure Development and Finance Investment JSC	Highway investment	75,000	75,000
Viet Real Estate JSC	Real estate	11,000	11,000
Smartlink Card	Card services	4,400	4,400
Saigon Postel Corporation JSC	Post and telecommunication	23,195	23,195
PvTrans Pacific JSC	Transportation	106,080	106,800
		317,598	**347,586**
		2,528,862	**3,324,157**

(To be continued)

As at 31 December 2012

	Business sector	At cost VND million	Fair value VND million
Investments in other local financial institutions			
Vietnam Export - Import Commercial Joint Stock Bank	Bank	582,065	1,589,549
Saigon Bank for Industry and Trade	Bank	123,452	100,713
Military Commercial Joint Stock Bank	Bank	1,142,643	1,223,750
Orient Commercial Joint Stock Bank	Bank	144,802	134,095
Phuong Nam Commercial Joint Stock Bank	Bank	44,374	18,623
Ocean Commercial Joint Stock Bank	Bank	43,571	30,477
Cement Financial JSC	Financial services	70,950	70,950
Central People's Credit Fund	Credit Fund	5,000	5,000
Small & Medium Enterprises Credit Guarantee	Credit services	1,864	1,864
SWIFT, MASTER and VISA	Card & settlement services	1,571	1,571
		2,160,292	**3,176,592**
Investment in other entities			
Petrolimex Insurance JSC	Insurance	67,900	64,109
PV Drilling JSC	Drilling	39,945	202,255
Gentraco JSC	Food services	4,024	4,024
Ho Chi Minh City Infrastructure Investment JSC	Construction	13,676	46,789
Nha Rong Insurance Company	Insurance	12,540	12,540
PCB Investment Company	Credit information services	7,962	7,962
Vietnam Infrastructure Development and Finance Investment JSC	Highway investment	75,000	75,000
Viet Real Estate JSC	Real estate	11,000	11,000
Smartlink Card	Card services	4,400	4,400
Saigon Postel Corporation JSC	Post and telecommunication	23,195	23,195
PvTrans Pacific JSC	Transportation	106,080	106,080
Vietnam Petroleum Transportation JSC	Transportation	11,320	-
Others		898	183
		377,940	**557,537**
		2.538.232	**3.734.129**

(b) Financial investments – held-to-maturity

	31/12/2013 VND million	31/12/2012 VND million (Restated)
Special Government bonds	1,689,968	1,650,695
Government bonds	11,907,755	2,333,410
Bonds issued by other local credit institutions	74	80
Bonds issued by other local economic entities	2,392,293	-
	15,990,090	**3,984,185**

APPENDIX 13. NOTE 18 – DERIVATIVES AND OTHER FINANCIAL ASSETS/LIABILITIES – VAS (Bank A 2014, 131)

18. Derivatives and other financial assets/liabilities

	31/12/2013		31/12/2012	
	Contract notional value VND million	Book value VND million	Contract notional value VND million	Book value VND million
Derivatives				
Currency swap contracts	9,302,023	58,983	11,506,397	30,749
Forward contracts	10,817,048	77,742	17,968,332	(36,210)
Other financial assets/liabilities	**20,119,071**	**136,725**	**29,474,729**	**(5,461)**

APPENDIX 14. NOTE 25 – DERIVATIVE FINANCIAL INSTRUMENTS AND OTHER FINANCIAL ASSETS/LIABILITIES (Bank A 2014, 57)

25. Derivative financial instruments and other financial assets/liabilities

The derivative financial instruments shown in the following table are recognized as held-for-trading assets. The contractual or underlying principal amounts of these derivative financial instruments and their corresponding gross positive (derivative receivables) and negative (derivative payables) fair value at the reporting date are analyzed below.

The negative and positive fair values are market value of derivative contracts. The notional amount is the amount of principal underlying the contract at the reporting date.

As at 31 December 2013	**Contract/ Notional amount VND million**	**Fair value Assets VND million**	**Fair value Liabilities VND million**
Derivatives held for trading			
Currency swaps	9,302,023	-	27,935
Currency forward	10,817,048	9,135	-
Interest rate swaps	1,386,272	-	60,757
	21,505,343	**9,135**	**88,692**

As at 31 December 2012	**Contract/ Notional amount VND million**	**Fair value Assets VND million**	**Fair value Liabilities VND million**
Derivatives held for trading			
Currency swaps	11,506,397	-	16,121
Currency forward	17,968,332	7,543	-
Interest rate swaps	3,149,194	-	139,679
	32,623,923	**7,543**	**155,800**

APPENDIX 15. NOTE 38 – DISCLOSURE OF FINANCIAL INSTRUMENTS – VAS (Bank A 2014, 150-163)

38. Disclosure of financial instruments

(a) Disclosure of collaterals

Vietcombank does not hold collaterals which it is permitted to sell or re-pledge in the absence of default by the owner of the collaterals.

(b) Disclosure of fair value

Circular No. 210/2009/TT-BTC requires Vietcombank to disclose the measurement method and related information of fair value of financial assets and financial liabilities for the purpose of comparing their book value and fair value.

Vietcombank uses the following method and assumption to estimate fair value: fair value of cash and cash equivalents is equivalent to the book value of these items since these instruments have short term.

The following table presents book value and fair value of Vietcombank's financial assets and liabilities as at 31 December 2013:

		Book value						
		Held for trading	Held-to maturity	Loans and receivables	Available-for-sale	Recognized at amortized cost	Total of book value (gross)	Fair value
		VND million	VND million	VND million	VND million	VND million	VND million	VND million
	Financial assets							
I	Cash on hand, gold, silver and gemstones	6,059,673	-	-	-	-	6,059,673	6,059,673
II	Balances with the State Bank of Vietnam	24,843,632	-	-	-	-	24,843,632	24,843,632
III	Balances with and loans to other credit institutions	-	-	91,803,073	-	-	91,803,073	92,003,854
IV	Trading securities	196,158	-	-	-	-	196,158	195,270
V	Derivatives and other financial assets	136,725	-	-	-	-	136,725	136,725
VI	Loans and advances to customers	-	-	274,314,209	-	-	274,314,209	(*)
VII	Investment securities	-	17,360,833	-	47,127,209	-	64,488,042	66,683,128
VIII	Long-term investments	-	-	-	2,356,016	-	2,356,016	2,319,727
XI	Other financial assets	-	-	5,033,927	-	-	5,033,927	(*)
		31,236,188	**17,360,833**	**371,151,209**	**49,483,225**	**-**	**469,231,455**	
	Financial liabilities							
I, II	Deposits and borrowings from the SBV and other credit institutions	-	-	-	-	76,666,700	76,666,700	76,916,446
III	Deposits from customers	-	-	-	-	332,245,598	332,245,598	(*)
VI	Valuable papers issued	-	-	-	-	2,013,597	2,013,597	(*)
VII	Other financial liabilities	-	-	-	-	11,722,264	11,722,264	(*)
		-	**-**	**-**	**-**	**422,648,159**	**422,648,159**	

(*) Due to having not enough information for using valuation techniques, fair value of the financial assets and liabilities that do not have quoted market prices are deemed to be not reliably measured and therefore not disclosed.

(To be continued)

38. Disclosure of financial instruments (continued)

(c) Risk management policy for financial instruments

The Board of Directors has highest right and responsibility for Vietcombank's overall financial risk management framework to facilitate its business activities to thrive safely and sustainably.

Having taken that responsibility, the Board of Directors appropriately promulgates risk management policies and strategies for each period, establishes secured business limit, directly approves high-value business transactions in accordance with both legal and internal requirements for each period, and determines organizational structure and key personnel positions.

Risk management strategies and policies are adhered to Vietcombank's charter and General Shareholders' Meeting resolution for each period.

The Risk Management Committee was established by the Board of Directors to assist the Board of Directors in managing all risks that may arise from Vietcombank's day-to-day business operations.

The Asset and Liability Credit and Operational Risk Committee (ALCO) was established and chaired by Chief Executive Officer. ALCO members are key personnel of Vietcombank being in-charge of risk management.

ALCO is responsible for comprehensively monitoring and managing assets and liabilities in the separate and consolidated balance sheet of Vietcombank in order to maximize profit while minimizing losses arising from negative market trends, manage liquidity risk and appropriately direct interest and foreign exchange rate schemes.

In its authorized segregation, ALCO has the right to make decisions regarding risk management.

(i) *Credit risk*

Vietcombank is under exposure to credit risk, where a counterparty's default on its obligations will cause a financial loss for Vietcombank by failing to fulfill an obligation on time. Credit exposures arise mainly in lending activities relating to loans and advances to customers and investments in debt securities. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. The credit risk management and control are performed through issuance of related policies and procedures, including credit risk management policies, and operation of Credit Risk Management Committee and Credit Committee.

Vietcombank classifies loans and advances to customers and other credit institutions in accordance with Decision 493 and Decision 18 (see Note 2(g)) and regularly assesses credit risks of non-performing loans in order to have appropriate resolutions.

In order to manage credit risks, Vietcombank has established policies and procedures relating to credit management; established credit manuals; performed credit risk assessment; set up internal credit rating systems and loan classification and decentralized authorization in credit activities.

(To be continued)

Vietcombank's maximum exposure amounts to credit risk as at 31 December 2013, excluding collaterals and credit risk mitigations as follows:

	Neither past due nor impaired	Past due but not impaired	Impaired and fully made allowance	Total
	VND million	VND million	VND million	VND million
Balances with and loans to other credit institutions – gross	**90,601,753**	**-**	**1,201,320**	**91,803,073**
Balances with other credit institutions	83,810,806	-	-	83,810,806
Loans to other credit institutions	6,790,947	-	1,201,320	7,992,267
Loans and advances to customers – gross	**242,817,229**	**1,262,918**	**30,234,062**	**274,314,209**
Investment securities – gross	**64,291,529**	**-**	**196,513**	**64,488,042**
Available-for-sale securities	46,930,696	-	196,513	47,127,209
Held-to-maturity securities	17,360,833	-	-	17,360,833
Other assets	**6,567,707**	**-**	**-**	**6,567,707**
	404,278,218	**1,262,918**	**31,631,895**	**437,173,031**

Description and book value of collateral assets held by Vietcombank as at 31 December 2013 are as follows:

	VND million
Deposits	23,286,006
Valuable papers issued	5,385,537
Real estates	283,332,853
Others	114,466,483
	426,470,879

(To be continued)

38. Disclosure of financial instruments (continued)

(c) Risk management policy for financial instruments (continued)

(ii) *Interest rate risk*

Interest rate risk is the risk that the future cash flows of a financial instrument will unexpectedly fluctuate due to changes in market interest rates.

The real interest rate adjustment term is the remaining time starting from the date of the financial statements to the latest interest rate adjustment term of the items in the consolidated balance sheet.

The following assumptions and conditions have been adopted in the analysis of real interest rate adjustment term of Vietcombank's items in the consolidated balance sheet:

- Cash, gold, silver and gemstones, long-term investments, and other assets (including fixed assets, investment properties and other assets) are classified as non-interest bearing items.
- The real interest rate adjustment term of trading securities and investments securities shall be subject to issuer's terms and conditions on interest rate of each security.
- The real interest adjustment term of balances with and loans to other credit institutions, loans to customers, amounts due to the Government and the State Bank of Vietnam, deposits and borrowings from other credit institutions and deposits from customers are identified as follows:
  - Items with fixed interest rate during the contractual term: the real interest adjustment term is based on the contractual maturity date subsequent to the consolidated balance sheet date.
  - Items with floating interest rate: the real interest adjustment term is based on the latest adjustment term subsequent to the consolidated balance sheet date.
- The real interest adjustment term of valuable papers issued is based on valuable papers' maturities and the Bank's interest rate for each issuance.
- The real interest adjustment term of other borrowed funds is from one to five years.
- The real interest adjustment term for other liabilities is from one to three months. In fact, these items shall have different interest adjustment terms.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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38. Disclosure of financial instruments (continued)

(c) Risk management policy for financial instruments (continued)

(ii) *Interest rate risk* (continued)

The following table presents the interest rate adjustment terms of Vietcombank's assets and liabilities as at 31 December 2013:

		Overdue	Free of interest	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years	Total
		VND million	VND million	VND million	VND million	VND million	VND million	VND million	VND million	VND million
	Assets									
I	Cash on hand, gold, silver and gemstones	-	6,059,673	-	-	-	-	-	-	6,059,673
II	Balances with the State Bank of Vietnam	-	-	24,843,632	-	-	-	-	-	24,843,632
III	Balances with and loans to other credit institutions – gross	-	-	84,002,624	1,475,552	6,107,897	33,000	184,000	-	91,803,073
IV	Trading securities – gross	-	-	196,158	-	-	-	-	-	196,158
V	Derivatives and other financial assets	-	136,725	-	-	-	-	-	-	136,725
VI	Loans and advances to customers – gross	10,692,333	-	90,281,653	101,146,360	58,983,498	11,062,222	1,931,462	216,681	274,314,209
VII	Investment securities – gross	-	172,846	14,711,433	4,411,904	4,717,984	6,474,741	29,064,107	4,935,027	64,488,042
VIII	Long-term investment – gross	-	3,078,080	-	-	-	-	-	-	3,078,080
IX	Fixed assets	-	4,085,686	-	-	-	-	-	-	4,085,686
XI	Other assets – gross	-	6,567,707	-	-	-	-	-	-	6,567,707
	Total assets	**10,692,333**	**20,100,717**	**214,035,500**	**107,033,816**	**69,809,379**	**17,569,963**	**31,179,569**	**5,151,708**	**475,572,985**
	Liabilities									
I, II	Deposits and borrowings from the SBV and other credit institutions	-	-	68,939,257	2,808,148	4,803,743	115,293	259	-	76,666,700
III	Deposits from customers	-	14,136	187,049,366	82,572,671	32,218,243	24,488,383	5,901,442	1,357	332,245,598
VI	Valuable papers issued	-	-	3,806	240	-	9,551	-	2,000,000	2,013,597
VII	Other liabilities	-	9,532,445	-	2,500,000	3,500,000	-	-	-	15,532,445
	Total liabilities	**-**	**9,546,581**	**255,992,429**	**87,881,059**	**40,521,986**	**24,613,227**	**5,901,701**	**2,001,357**	**426,458,340**
	Interest sensitivity gap	**10,692,333**	**10,554,136**	**(41,956,929)**	**19,152,757**	**29,287,393**	**(7,043,264)**	**25,277,868**	**3,150,351**	**49,114,645**
	Cumulative interest sensitivity gap	**10,692,333**	**21,246,469**	**(20,710,460)**	**(1,557,703)**	**27,729,690**	**20,686,426**	**45,964,294**	**49,114,645**	

38. Disclosure of financial instruments (continued)

(c) Risk management policy for financial instruments (continued)

(iii) *Currency risk*

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank was incorporated and operates in Vietnam, with VND as its reporting currency. The Bank's two overseas subsidiaries have their local currencies as their repoting currencies. However, the value of these companies' assets is not significant to Vietcombank's total asset value. The major currency in which the Bank transacts is VND. Vietcombank's loans and advances to customers are mainly denominated in VND, USD and EUR. Some of Vietcombank's other assets are in currencies other than VND, USD and EUR. Vietcombank has set limits on positions by currency basing on its internal risk management system and relevant statutory requirements stipulated by the SBV. Currency positions are monitored on a daily basis and hedging strategies used to ensure positions are maintained within established limits.

The following table presents Vietcombank's assets and liabilities denominated in foreign currencies that were translated into VND as at 31 December 2013:

		VND	USD	EUR	Other currencies	Total
		VND million	VND million	VND million	VND million	VND million
	Assets					
I	Cash on hand, gold, silver and gemstones	4,568,695	1,098,187	198,159	194,632	6,059,673
II	Balances with the State Bank of Vietnam	5,393,551	19,450,081	-	-	24,843,632
III	Balances with and loans to other credit institutions – gross	15,729,643	66,073,083	3,877,304	6,123,043	91,803,073
IV	Trading securities – gross	196,158	-	-	-	196,158
V	Derivatives and other financial assets	8,059,909	(16,911,139)	(90,665)	9,078,620	136,725
VI	Loans and advances to customers – gross	210,103,528	63,407,998	785,407	17,276	274,314,209
VII	Investment securities – gross	64,448,486	39,556	-	-	64,488,042
VIII	Long-term investments – gross	3,078,080	-	-	-	3,078,080
IX	Fixed assets	4,082,712	1,964	-	1,010	4,085,686
XI	Other assets – gross	14,005,011	216,283	(8,748)	(7,644,839)	6,567,707
	Total assets	**329,665,773**	**133,376,013**	**4,761,457**	**7,769,742**	**475,572,985**
	Liabilities					
I, II	Deposits and borrowings from the SBV and other credit institutions	10,575,960	58,300,927	2,307,214	5,482,599	76,666,700
III	Deposits from customers	246,318,614	73,842,454	2,545,672	9,538,858	332,245,598
VI	Valuable papers issued	2,002,379	11,037	181	-	2,013,597
VII	Other liabilities	24,546,266	(9,317,621)	24,351	279,449	15,532,445
	Total liabilities	**283,443,219**	**122,836,797**	**4,877,418**	**15,300,906**	**426,458,340**
	FX position on-balance sheet	**46,222,554**	**10,539,216**	**(115,961)**	**(7,531,164)**	**49,114,645**

(To be continued)

38. Disclosure of financial instruments (continued)

(c) Risk management policy for financial instruments (continued)

(iv) *Liquidity risk*

Liquidity risk occurs when Vietcombank fails to fulfill its financial commitments with customers or counterparties due to unavailability of funds or liquidity.

The maturity of assets and liabilities represent the remaining terms of these assets and liabilities from the balance sheet date to the maturity date according to the underlying contractual agreements or term of issuance.

The following assumptions and conditions have been adopted in the preparation of Vietcombank's maturity analysis:

- Balances with the SBV are considered as current accounts including the compulsory deposits;
- The maturity of investment securities is based on redemption dates of each securities established by the issuers of these financial instruments;
- The maturities of amounts due from other banks and loans and advances to customers are based on the contractual maturity date. The actual maturity sometimes varies from the original contractual term when the contract is extended;
- The maturity of equity investments is considered to be over 5 years as equity investments have no stated maturity; and
- Amounts due to other banks and deposits from customers are determined based on either the nature of the amount or their contractual agreements. For example, Vostro accounts and current accounts paid upon customers' demand are considered to be current, the maturity of term deposits and borrowings is based on the contractual maturity date. In practice, such items may be rolled over and maintained for longer period.

38. Disclosure of financial instruments (continued)

(c) Risk management policy for financial instruments (continued)

(iv) *Liquidity risk (continued)*

The following table analyzes the remaining terms to maturity of Vietcombank's assets and liabilities as at 31 December 2013:

		Overdue over 3 months	Overdue up to 3 months	Not overdue: Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
		VND million	VND million	VND million	VND million	VND million	VND million	VND million	VND million
	Assets								
I	Cash on hand, gold, silver and gemstones	-	-	6,059,673	-	-	-	-	6,059,673
II	Balances with the State Bank of Vietnam	-	-	24,843,632	-	-	-	-	24,843,632
III	Balances with and loans to other credit institutions – gross	-	-	83,470,611	3,499,537	368,314	4,337,611	127,000	91,803,073
IV	Trading securities – gross	-	-	196,158	-	-	-	-	196,158
V	Derivatives and other financial assets	-	-	-	136,725	-	-	-	136,725
VI	Loans and advances to customers – gross	8,224,523	2,467,811	19,500,348	59,747,986	108,572,349	54,742,410	21,058,782	274,314,209
VII	Investment securities – gross	-	-	14,658,447	4,411,904	11,192,724	29,289,941	4,935,026	64,488,042
VIII	Long-term investments – gross	-	-	-	-	-	-	3,078,080	3,078,080
IX	Fixed assets	-	-	-	-	-	-	4,085,686	4,085,686
XI	Other assets – gross	-	-	14,752	6,552,955	-	-	-	6,567,707
	Total assets	**8,224,523**	**2,467,811**	**148,743,621**	**74,349,107**	**120,133,387**	**88,369,962**	**33,284,574**	**475,572,985**
	Liabilities								
I, II	Deposits and borrowings from the SBV and other credit institutions	-	-	68,728,695	2,015,000	242,122	5,587,644	93,239	76,666,700
III	Deposits from customers	-	-	119,723,831	105,003,957	83,625,133	14,918,977	8,973,700	332,245,598
VI	Valuable papers issued	-	-	3,806	240	9,551	-	2,000,000	2,013,597
VII	Other liabilities	-	-	34,506	11,997,939	3,500,000	-	-	15,532,445
	Total liabilities	**-**	**-**	**188,490,838**	**119,017,136**	**87,376,806**	**20,506,621**	**11,066,939**	**426,458,340**
	Net liquidity gap	**8,224,523**	**2,467,811**	**(39,747,217)**	**(44,668,029)**	**32,756,581**	**67,863,341**	**22,217,635**	**49,114,645**

APPENDIX 16. NOTE 34 – RISK MANAGEMENT POLICY – IFRS (Bank A 2014, 66)

34. Risk management policy

The Bank's orientation is to become a multi-functional financial group. Therefore, the use of financial instruments, including receiving deposits from customers and investing in high quality financial assets, has become a key activity of the Bank in order to achieve the necessary interest rate margin. From the aspect of risk management, it requires the Bank to balance off-balance sheet commitments (such as guarantees and letters of credit) and loans (in VND and foreign currencies) to individuals and entities of different creditworthiness. In addition, the Bank has also invested a proportion of its working capital in loans to other credit institutions. To prevent the foreign exchange risk and interest rate risk, the Bank involves in the transactions with opposite positions and uses derivatives such as currency swaps, interest rate swaps. Also, the Bank performs foreign exchange risk and interest rate risk management through the establishment of and compliance with limits, such as foreign currency position limits, limits on interest rate sensitive assets gap and other relevant limits. By holding various high quality financial instruments, the structure of the Bank and its subsidiaries' consolidated statement of the financial position can help prevent material risks in business activities and ensure the liquidity.

In the process of credit risk management, the Bank has effectively issued and implemented internal credit policies and procedures to standardize the Bank's credit activities and minimize credit risks. Liquidity risk is limited by holding a large amount of cash and cash equivalents as Nostro accounts, term deposits at the State Bank of Vietnam and other credit institutions and valuable papers. Moreover, the Bank also implemented the liquidity risk management by its strict compliance with regulations issued by the SBV on ensuring safety in the operation as well as the internal regulations of Vietcombank. The Bank usually evaluates the interest rate differences, compares between the local market and international market for timely adjustments. In addition, the application of internal risk management procedures is more effective by using the Centralized Capital Management System and Centralized Payment System under which all capital and payment transactions of the Bank are implemented by the Head Office. It allows the Bank to control more effectively changes in capital and reduce errors as well as unnecessary complicated procedures.

APPENDIX 17. NOTE 35 – INTEREST RATE RISK – IFRS (Bank A 2014, 67-68)

35. Interest rate risk

The real interest rate adjustment term is the remaining time starting from the date of the consolidated financial statement to the latest interest rate adjustment term of assets and liabilities.

The following assumptions and conditions have been adopted in the analysis of real interest rate adjustment term of the Bank's assets and liabilities:

- Cash, gold, silver and gemstones; long-term investments; fixed assets; other assets; and other liabilities are classified as non-interest bearing items;
- Placements with the State Bank of Vietnam are classified as current accounts. Therefore, the real interest rate adjustment term is classified up to one month;
- The real interest rate adjustment term of investment securities and trading securities are identified as follows:
  - Items with fixed interest rate during the contractual term: The real interest rate adjustment term is based on the contractual maturity date subsequent to the consolidated statement of financial position date;
  - Items with floating interest rate: The real interest rate adjustment term is based on the latest adjustment term subsequent to the consolidated statement of financial position date.
- The real interest rate adjustment term of balances with and loans to other credit institutions; loans to customers; amounts due to the Government and the State Bank of Vietnam, deposits and borrowings from other credit institutions and deposits from customers are identified as follows:

- Items with fixed interest rate during the contractual term: the real interest rate adjustment term is based on the contractual maturity date subsequent to the consolidated statement of financial position date;
- Items with floating interest rate: the real interest rate adjustment term is based on the latest adjustment term subsequent to the consolidated statement of financial position date;
- Trusted loans, which the Bank receives only fees, are classified as insensitive to interest rate.

- The real interest rate adjustment term of valuable papers issued is based on valuable papers' maturities and the Bank's interest rate for each issuance;
- The real interest rate adjustment term of trusted loans which the Bank bears risks is determined as follows:
  - Trusted loans, which the Bank receives only the fees are classified as non-interest bearing items;
  - Items with floating interest rate (EIB, AFD) and the Bank has authority to determine lending interest rate: The real interest rate adjustment term is based on the latest adjustment term subsequent to the consolidated statement of financial position date.

The Bank also participates in various hedging transactions relating to derivative instruments such as currency swap and interest rate swap commitments for the purpose of interest rate risk and exchange rate risk management.

(To be continued)

An analysis of interest rate risk as at 31 December 2013 is as folows:

		Overdue VND million	Free of interest VND million	Up to 1 month VND million	From 1 to 3 months VND million	From 3 to 6 months VND million	From 6 to 12 months VND million	From 1 to 5 years VND million	Over 5 years VND million	Total VND million
	Assets									
I	Cash, gold, silver and gemstones	-	6,059,673	-	-	-	-	-	-	6,059,673
II	Balances with the SBV	-	-	24,843,632	-	-	-	-	-	24,843,632
III	Placements with and loans to other credit institutions – gross	-	266,804	84,004,040	1,475,552	6,107,897	170,183	184,000	-	92,208,476
IV	Financial assets – held-for-trading – gross	-	-	663,355	-	-	-	-	-	663,355
V	Derivative financial instruments and other financial assets	-	9,135	-	-	-	-	-	-	9,135
VI	Loans and advances to customers after allowance for credit losses - gross	10,692,333	2,011,524	90,281,653	101,146,360	58,983,498	11,062,222	1,931,462	216,681	276,325,733
VII	Financial investments – gross	-	137,380	19,093,529	4,420,293	4,728,468	6,488,576	29,227,942	4,644,895	68,741,083
VIII	Investments in joint-ventures, associates – gross	-	722,064	-	-	-	-	-	-	722,064
IX	Tangible assets	-	3,392,320	-	-	-	-	-	-	3,392,320
X	Other assets – gross	-	3,534,983	-	-	-	-	-	-	3,534,983
	Total assets	**10,692,333**	**16,133,883**	**218,886,209**	**107,042,205**	**69,819,863**	**17,720,981**	**31,343,404**	**4,861,576**	**476,500,454**
	Liabilities									
I	Deposits and borrowings from SBV and other credit institutions	-	249,746	68,939,257	2,808,148	4,803,743	115,293	259	-	76,916,446
II	Customer deposits and other amounts due to customers	-	4,107,699	187,049,366	82,572,671	32,218,243	24,488,383	5,856,538	1,357	336,294,257
III	Derivative financial instruments and other financial liabilities	-	88,692	-	-	-	-	-	-	88,692
V	Valuable papers issued	-	2,630	3,806	240	-	9,551	-	2,000,000	2,016,227
VI	Other liabilities	-	4,074,925	-	2,500,000	3,500,000	-	-	-	10,074,925
	Total liabilities	**-**	**8,523,692**	**255,992,429**	**87,881,059**	**40,521,986**	**24,613,227**	**5,856,797**	**2,001,357**	**425,390,547**
	Interest rate sensitivity gap	**10,692,333**	**7,610,191**	**(37,106,220)**	**19,161,146**	**29,297,877**	**(6,892,246)**	**25,486,607**	**2,860,219**	**51,109,907**
	Cumulative interest sensitivity gap	**10,692,333**	**18,302,524**	**(18,803,696)**	**357,450**	**29,655,327**	**22,763,081**	**48,249,688**	**51,109,907**	

APPENDIX 18. NOTE 36 –CURRENCY – IFRS (Bank A 2014, 69-70)

36. Currency

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank was incorporated and operates in Vietnam, with VND as its reporting currency. The major currency in which the Bank transacts is also VND. The Bank's loans and advances are mainly denominated in VND and USD. Some of the Bank's other assets are denominated in currencies other than VND and USD. The Bank's management has set limits on positions by currency based on the Bank's internal risk assessment system and the SBV's policies. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limit.

A breakdown of assets and liabilities by currency translated into VND as at 31 December 2013 is as follows:

		VND VND million	USD VND million	EUR VND million	Other currencies VND million	Total VND million
	Assets					
I	Cash, gold, silver and gemstones	4,568,695	1,098,187	198,159	194,632	6,059,673
II	Balances with the SBV	5,393,551	19,450,081	-	-	24,843,632
III	Balances with and loans to other credit institutions – gross	16,135,046	66,073,083	3,877,304	6,123,043	92,208,476
IV	Financial assets – held-for-trading – gross	663,355	-	-	-	663,355
V	Derivative financial instruments and other financial assets	1,713,678	(9,694,120)	10,192	7,979,385	9,135
VI	Loans and advances to customers after allowance for credit losses – gross	212,115,052	63,407,998	785,407	17,276	276,325,733
VII	Financial investments – gross	68,701,377	39,706	-	-	68,741,083
VII	Investment in associates – gross	722,064	-	-	-	722,064
IX	Tangible assets	3,389,346	1,964	-	1,010	3,392,320
X	Other assets – gross	10,972,288	216,282	(8,748)	(7,644,839)	3,534,983
	Total assets	**324,374,452**	**140,593,181**	**4,862,314**	**6,670,507**	**476,500,454**
	Liabilities					
I	Deposits and borrowings from SBV and other credit institutions	10,825,706	58,300,927	2,307,214	5,482,599	76,916,446
II	Customer deposits and other amounts due to customers	250,367,273	73,842,454	2,545,672	9,538,858	336,294,257
III	Derivative financial instruments and other financial liabilities	(6,129,950)	7,217,018	100,858	(1,099,234)	88,692
V	Valuable papers issued	2,005,009	11,037	181	-	2,016,227
VI	Other liabilities	19,088,746	(9,317,621)	24,351	279,449	10,074,925
	Total liabilities	**276,156,784**	**130,053,815**	**4,978,276**	**14,201,672**	**425,390,547**
	FX position	**48,217,668**	**10,539,366**	**(115,962)**	**(7,531,165)**	**51,109,907**

APPENDIX 19. INTERVIEW QUESTIONS

1. How would you describe the current accounting system for credit institutions in Vietnam?
2. In your opinion, what are the key differences between VAS and IFRS in accounting system for credit institutions?
3. What kind of contribution that IFRS would make to VAS if adopting IFRS?
4. What are the disadvantages of IFRS adopting?
5. What are the main challenges for credit institutions in Vietnam in case of adopting IFRS?
6. Please suggest a roadmap for IFRS adoption.