Vietnam Technological and Commercial Joint Stock Bank

Consolidated financial statements under International Financial Reporting Standards

31 December 2021

Building a better working world

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THE BANK

Vietnam Technological and Commercial Joint Stock Bank ("the Bank") is a commercial joint stock bank registered and incorporated in the Socialist Republic of Vietnam.

The Bank was incorporated pursuant to Business License No. 0038/GP-NHNN issued by the Governor of the State Bank of Vietnam ("the SBV") on 6 March 2018 to replace Business License No. 0040/NH-GP on 6 August 1993 and Business Registration Certificate No. 0100230800 issued by the Hanoi Department of Planning and Investment on 16 December 2021. The operating duration is 99 years since 6 August 1993.

The principal activities of the Bank are mobilizing and receiving short, medium and long-term deposit funds from organizations and individuals; lending on short, medium and long-term basis up to the nature and ability of the Bank's capital resources; conducting settlement and cash services and other banking services as approved by the SBV; conducting investments in subsidiaries, associates, joint-ventures and other companies; conducting investments in bonds and dealing in foreign exchange in accordance with applicable regulations.

BOARD OF DIRECTORS

Members of the Board of Directors of the Bank for the year ended 31 December 2021 and until the date of these consolidated financial statements are as follows:

Name	*Position*
Mr. Ho Hung Anh	Chairman
Mr. Nguyen Dang Quang	The first Vice Chairman
Mr. Nguyen Thieu Quang	Vice Chairman
Mr. Nguyen Canh Son	Vice Chairman
Mr. Do Tuan Anh	Vice Chairman (*until 23 April 2022*)
Mr. Ho Anh Ngoc	Vice Chairman *(from 24 April 2021)*
Mr. Lee Boon Huat	Member
Mr. Saurabh Narayan Agarwal	Member
Mr. Nguyen Nhan Nghia	Independent Member

BOARD OF SUPERVISION

Members of the Board of Supervision of the Bank for the year ended 31 December 2021 and until the date of these consolidated financial statements are as follows:

Name	*Position*
Mr. Hoang Huy Trung	Head of the Board of Supervision cum Member in charge
Ms. Bui Thi Hong Mai	Member in charge
Mr. Mag Rec Soc Oec Romauch Hannes	Member

THE EXECUTIVE TEAM

Members of the Executive Team of the Bank for the year ended 31 December 2021 and until the date of these consolidated financial statements are as follows:

Name	***Position***
Mr. Jens Lottner	Chief Executive Officer
Mr. Phung Quang Hung	Standing Deputy Chief Executive Officer cum Chief Business Banking Officer *(from 11 January 2022)*
Mr. Pham Quang Thang	Deputy Chief Executive Officer cum Chief Corporate Affairs Officer
Mr. Phan Thanh Son	Deputy Chief Executive Officer cum Chief Global Transaction Service Officer
Mr. Kalyanaraman Sivaramakrishnan	Deputy Chief Executive Officer *(from 10 January 2021)* cum Chief Risk Officer
Mr. Alexandre Charles Emmanuel Macaire	Group Chief Finance Officer *(from 11 January 2022)*
Mr. Trinh Bang	Group Chief Finance Officer *(until 10 January 2022)* cum Chief Strategy and Development Officer *(until 21 January 2022)*
Ms. Phan Thi Thanh Binh	Chief Wholesale Banking Officer
Mr. Darren Buckley	Chief Retail Banking Officer *(from 8 August 2021)*
Mr. Vishal Shah	Chief Business Banking Officer *(until 10 January 2022)*
Ms. Dang My Quyen	Chief Human Resources Officer
Mr. Nguyen Anh Tuan	Chief Information Officer
Mr. Chu Hong Ngoc	Chief Operations Officer
Ms. Thai Minh Diem Tu	Chief Marketing Officer
Mr. Santhosh Mahendiran	Chief Data and Analytics Officer
Mr. Kyle Timothy Justin	Chief Transformation Officer
Mr. Pranav Seth	Chief Digital Officer *(from 13 January 2021)*

LEGAL REPRESENTATIVE

The legal representative of the Bank for the year ended 31 December 2021 and until the date of these consolidated financial statements is Mr. Ho Hung Anh, the Chairman.

Mr. Jens Lottner is authorized to sign off reports and documents relating to operations management which comprise the accompanying consolidated financial statements for the year ended 31 December 2021 in accordance with Decision No. 0058/2020/UQ-CT HDQT dated 6 February 2020.

AUDITOR

The auditor of the Bank is Ernst & Young Vietnam Limited.

Vietnam Technological and Commercial Joint Stock Bank

REPORT OF THE EXECUTIVE TEAM

The Executive Team of Vietnam Technological and Commercial Joint Stock Bank ("the Bank") is pleased to present its report and the consolidated financial statements of the Bank and its subsidiaries for the year ended 31 December 2021.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Executive Team of the Bank is responsible for the consolidated financial statements of each financial year which give a true and fair view of the consolidated financial position of the Bank and its subsidiaries and of the consolidated results of their operations, their consolidated changes in equity and their consolidated cash flows for the year. In preparing those consolidated financial statements, the Executive Team of the Bank is required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- prepare the consolidated financial statements on the going concern basis unless it is inappropriate to presume that the Bank and its subsidiaries will continue its business.

The Executive Team of the Bank is responsible for ensuring that proper accounting records are kept which disclose, with reasonable accuracy at any time, the consolidated financial position of the Bank and its subsidiaries and ensuring that the accounting records comply with the applied accounting system. It is also responsible for safeguarding the assets of the Bank and its subsidiaries and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Executive Team of the Bank confirmed that it has complied with the above requirements in preparing the accompanying consolidated financial statements.

STATEMENT BY THE EXECUTIVE TEAM

The Executive Team does hereby state that, in its opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Bank and its subsidiaries as at 31 December 2021 and of the consolidated results of their operations, their consolidated changes in equity and their consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards.

M.S.D.N: 0100230800 - C.T.C.P
NGÂN HÀNG THƯƠNG MẠI CỔ PHẦN KỸ THƯƠNG VIỆT NAM
Q. HAI BÀ TRƯNG - TP. HÀ NỘI

For and on behalf of the Executive Team:

Mr. Jens Lottner
Chief Executive Officer

Hanoi, Vietnam

27 -07- 2022

Building a better working world

Ernst & Young Vietnam Limited
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Hanoi, S.R. of Vietnam

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Reference: 60899747/22649348-IFRS

INDEPENDENT AUDITORS' REPORT

To: The Shareholders of
Vietnam Technological and Commercial Joint Stock Bank

Opinion

We have audited the consolidated financial statements of Vietnam Technological and Commercial Joint Stock Bank (the "Bank") and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2021 and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Bank and its subsidiaries as at 31 December 2021, their consolidated financial performance, their consolidated changes in equity and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Bank and its subsidiaries in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Vietnam, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled our responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Areas of focus	*How our audit addressed the risk factors*
Expected credit losses of loans and advances to customers and debt instruments not carried at fair value through profit or loss. As at 31 December 2021, loans and advances to customers and debts instruments not carried at fair value through profit and loss contributed approximately 80.27% of the Bank and its subsidiaries' total assets. The Bank's loan portfolio consists of large wholesale loans, smaller loans and consumer loans, while debt instruments not carried at fair value through profit and loss mostly comprises corporate bonds. The measurement of expected credit loss ("ECL") requires the application of significant judgement and increased complexity which includes the identification of on-balance sheet and off-balance sheet credit exposures with significant deterioration in credit quality, assumptions used in the ECL models (for exposures assessed individually or collectively) such as the expected future cash flows, forward-looking macroeconomic factors and probability-weighted multiple scenarios. *Refer to summary of significant accounting policies in Note 7.9, significant accounting judgements, estimates and assumptions in Notes 8.2 and the disclosures of loans and advances to customers and debt instruments not carried at fair value through profit or loss in Notes 25.1, 25.3, 26 to the financial statements.*	Our audit procedures included understanding and testing of the design and operating effectiveness of the key controls over the following: ▸ loan origination, approval and credit monitoring; ▸ ongoing internal credit quality assessments; ▸ identification of significant increase in credit risk, impairment measurement methodologies, governance for model development, maintenance and validation of ECL models, inputs, basis and assumptions used by the Bank and its subsidiaries in staging the credit exposures and calculating the ECL. We performed the following substantive procedures for impairment allowances of loans and advances to customers and debt instruments not carried at fair value through profit or loss in response to the identified risk: ▸ For staging and identification of credit exposures with significant increase in credit risk, we assessed and tested the appropriateness of the transfer criteria applied by the Bank and its subsidiaries for different types of credit exposures. We evaluated if the transfer criteria were consistent with the Bank and its subsidiaries' credit risk management practices. ▸ For the measurement of ECL, we assessed and tested the reasonableness of the Bank and its subsidiaries' ECL models, including model input, model design and model performance for significant portfolios. We challenged whether historic experience is representative of current circumstances and of the recent loss experience incurred in the portfolios and assessed the reasonableness of forward-looking adjustments, macroeconomic factor analysis and probability-weighted multiple scenarios. ▸ We evaluated if changes in modelling approaches, parameters and assumptions were needed and if any changes made were appropriate. We also assessed, tested and monitored the sensitivity of the expected credit loss provisions to changes in modelling assumptions. ▸ We reconciled the ECL model input data back to the source system and tested a sample of input data to ensure the ECL model data are accurately transferred from the source system.

Areas of focus	*How our audit addressed the risk factors*
	▶ With respect to individually assessed ECL which are mainly in relation to the impaired financial assets in Stage 3, we reviewed and tested a sample of loans, advances and debt investments to evaluate the timely identification by the Bank and its subsidiaries of exposures with significant deterioration in credit quality or which have been impaired. For cases where impairment has been identified, we assessed the Bank and its subsidiaries' assumptions on the expected future cash flows, including the value of realizable collaterals based on available market information and the multiple scenarios considered. We also challenged the assumptions and compared estimates to external evidence where available. ▶ We also assessed whether the financial statement disclosures are adequate and appropriately reflect the Bank and its subsidiaries' exposures to credit risk. ▶ We involved our credit modelling specialists and IT specialists in the performance of these procedures where their specific expertise was required. We also re-computed management's calculation to assess the completeness and accuracy of the Bank and its subsidiaries' impairment allowances.
Valuation of financial assets classified as fair value through profit or loss ("FVTPL") and fair value through other comprehensive income ("FVOCI") with a higher degree of estimation uncertainty The valuation of the Bank and its subsidiaries' financial instruments at FVTPL and FVOCI was a key area of focus of our audit due to the degree of complexity involved in valuing certain instruments and the significance of the judgments and estimates made by management. In particular, the determination of Level 3 valuations requires a higher degree of management judgement as a result of the use of significant unobservable inputs. At 31 December 2021, 15.78% (VND90,547 billion) of the Bank and its subsidiaries' total financial assets that were carried at fair value were classified as Level 3. The Level 3 instruments mainly comprised unlisted corporate bonds and a small number of unlisted equity investments. *Refer to Note 24, 25.1, 25.2 and 38a of the consolidated financial statements for financial assets at FVTPL and FVOCI.*	We evaluated the design of and tested the operating effectiveness of the key controls over the Bank and its subsidiaries' purchase, selling and recognition process of financial assets at FVTPL and FVOCI. For those financial assets at FVTPL and FVOCI with significant unobservable valuation inputs, we critically assessed the valuation assumptions by comparison to pricing information from similar transactions which were observable and inputs used by management, and performed an independent valuation on a sample basis. In addition, we performed a variation analysis for significant or unexpected fair value movements over the period. We also challenged the management classification of financial instruments to levels in the fair value hierarchy, sensitivity analysis presented in the financial statements and assessment of other disclosures to ensure the classification, analysis and disclosures are reasonable and appropriate.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Bank and its subsidiaries' ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank and its subsidiaries or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank and its subsidiaries' financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatements, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control of the Bank and its subsidiaries.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank and its subsidiaries' ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank and its subsidiaries to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the Bank and its subsidiaries to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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We communicate with those charged with governance regarding, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Matter

The consolidated financial statements of the Bank its subsidiaries for the year ended 31 December 2020 were audited by another audit firm who expressed unqualified opinion on those financial statements on 6 May 2021.

Ernst & Young Vietnam Limited

M.S.C.N: 0300811802-001 - C.T.N.H.H
CÔNG TY TNHH ERNST & YOUNG VIỆT NAM CHI NHÁNH HÀ NỘI
Q. HOÀN KIẾM - T.P HÀ NỘI

Dang Phuong Ha
Deputy General Director
Audit Practising Registration
Certificate No. 2400-2018-004-1

Hanoi, Vietnam

27 July 2022

Vietnam Technological and Commercial Joint Stock Bank

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
for the year ended 31 December 2021

	Notes	2021 VND million	2020 VND million (Reclassified)
Interest and similar income	10	35,036,327	28,540,168
Interest and similar expenses	11	(8,864,911)	(10,318,194)
Net interest income		**26,171,416**	**18,221,974**
Fee and commission income		8,595,513	6,365,192
Fee and commission expenses		(1,857,254)	(1,523,503)
Net fee and commission income	**12**	**6,738,259**	**4,841,689**
Net trading income	13	635,604	1,983,695
Other operating income	14	3,650,203	3,126,478
Total operating income		**37,195,482**	**28,173,836**
Credit loss expense on financial assets	15	(3,079,173)	(3,237,608)
Net operating income		**34,116,309**	**24,936,228**
Personnel expenses	16	(6,765,135)	(5,354,003)
Depreciation of property and equipment	28	(443,075)	(268,084)
Depreciation of right-of-use assets	29	(451,244)	(427,356)
Amortization of intangible assets	30	(165,074)	(118,679)
Other operating expenses	17	(4,166,716)	(3,162,163)
Total operating expenses		**(11,991,244)**	**(9,330,285)**
Profit before tax		**22,125,065**	**15,605,943**
Current income tax expense	18	(4,840,371)	(3,217,829)
Deferred tax expense	19	172,257	6,127
Net profit for the year		**17,456,951**	**12,394,241**
Attributable to:			
Equity holders of the Bank		17,090,646	12,136,443
Non-controlling interest		366,305	257,798
		17,456,951	**12,394,241**
Earnings per share			
Basic earnings per share *(VND)*	20	4,874	3,467
Diluted earnings per share *(VND)*	20	4,873	3,467

Prepared by:	Approved by:	Approved by:
Ms. Bui Thi Khanh Van Chief Accountant	Ms. Thai Ha Linh Director of Accounting, Financial Policy and Tax Finance and Planning Division	Mr. Jens Lottner Chief Executive Officer

M.S.D.N: 0100230800 - C.T.C.P
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CỔ PHẦN KỸ THƯƠNG VIỆT NAM
Q. HAI BÀ TRƯNG - TP. HÀ NỘI

Hanoi, Vietnam

27 -07- 2022

Vietnam Technological and Commercial Joint Stock Bank

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2021

	2021 VND million	*2020 VND million*
Net profit for the year	**17,456,951**	**12,394,241**
Other comprehensive income:		
Items that will not be reclassified to the consolidated statement of profit or loss		
Equity instruments at fair value through other comprehensive income		
Revaluation gain/(loss) on equity instruments at fair value through other comprehensive income	85,927	(49,882)
Income tax related to the above	(15,717)	9,975
Total items that will not be reclassified to the consolidated statement of profit or loss	*70,210*	*(39,907)*
Items that will be reclassified to the consolidated statement of profit or loss		
Debt instruments at fair value through other comprehensive income		
Net change in fair value	(342,243)	495,558
Reclassification to the statement of profit or loss	(381,601)	(45,850)
Changes in allowance for expected credit losses	1,382,795	468,718
Income tax related to the above	(131,790)	(183,685)
Total items that will be reclassified to the consolidated statement of profit or loss	*527,161*	*734,741*
Other comprehensive income for the year, net of income tax	**597,371**	**694,834**
Total comprehensive income for the year, net of income tax	**18,054,322**	**13,089,075**
Attributable to:		
Equity holders of the Bank	17,676,299	12,836,273
Non-controlling interest	378,023	252,802
	18,054,322	**13,089,075**

Prepared by:

Ms. Bui Thi Khanh Van
Chief Accountant

Approved by:

Ms. Thai Ha Linh
Director of Accounting,
Financial Policy and Tax
Finance and Planning Division

Approved by:

M.S.D.N: 0100230800 - C.T.C.P
NGÂN HÀNG THƯƠNG MẠI CỔ PHẦN KỸ THƯƠNG VIỆT NAM
Q. HAI BÀ TRƯNG - TP. HÀ NỘI

Mr. Jens Lottner
Chief Executive Officer

Hanoi, Vietnam

27 -07- 2022

Vietnam Technological and Commercial Joint Stock Bank

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2021

	Notes	31 December 2021 VND million	31 December 2020 VND million
ASSETS			
Cash and cash equivalents	21	47,614,857	35,604,523
Due from other banks	22	31,613,295	8,098,909
Derivative financial assets	23	1,911,837	2,732,511
Financial assets at fair value through profit or loss ("FVTPL")	24	13,893,361	9,613,018
Debt instruments at fair value through other comprehensive income ("FVOCI")	25.1	97,213,711	83,949,534
Equity instruments at FVOCI	25.2	752,155	472,058
Loans and advances to customers	26	359,869,066	286,356,047
Debt instruments at amortized cost	25.3	3,403,243	3,416,230
Other assets	27	5,370,613	3,881,476
Property and equipment	28	8,800,107	7,626,252
Right-of-use assets	29	1,344,749	1,547,128
Intangible assets	30	1,575,059	1,002,955
Deferred tax assets	19	291,149	211,552
TOTAL ASSETS		**573,653,202**	**444,512,193**
LIABILITIES			
Due to the Government and the SBV		842	-
Due to other banks	31	112,213,909	46,955,619
Derivative financial liabilities	23	1,027,482	1,617,229
Deposits from customers	32	316,546,602	279,624,755
Other borrowed funds	33	413,151	601,083
Debt instruments issued	34	34,198,041	28,360,295
Current tax liabilities	35	1,373,333	1,287,627
Other liabilities	36	12,597,219	9,252,398
Deferred tax liabilities	19	732,621	677,774
TOTAL LIABILITIES		**479,103,200**	**368,376,780**
SHAREHOLDERS' EQUITY			
Share capital		35,109,148	35,049,062
Share premium	37.1	2,047,316	1,729,532
Treasury shares	37.1	(6,880)	(30,338)
Retained earnings		44,986,750	30,273,106
Statutory reserves	37.2	9,155,896	6,789,643
Fair value reserve		2,370,062	1,784,409
Other reserves		23,378	53,690
Total equity attributable to the Bank		93,685,670	75,649,104
Total equity attributable to Non-controlling interest		864,332	486,309
TOTAL SHAREHOLDERS' EQUITY		**94,550,002**	**76,135,413**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**573,653,202**	**444,512,193**

Prepared by:

Approved by:

Approved by:

M.S.D.N: 0100230800 NGÂN HÀNG THƯƠNG MẠI CỔ PHẦN KỸ THƯƠNG VIỆT NAM T.C.P Q. HAI BÀ TRƯNG - TP. HÀ NỘI

Ms. Bui Thi Khanh Van
Chief Accountant

Ms. Thai Ha Linh
Director of Accounting, Financial Policy and Tax
Finance and Planning Division

Mr. Jens Lottner
Chief Executive Officer

Hanoi, Vietnam

27 -03- 2022

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2021

For the year ended 31 December 2021

	Share capital VND million	*Share premium VND million*	*Treasury shares VND million*	*Retained earnings VND million*	*Statutory reserves VND million*	*Fair value reserve VND million*	*Other reserves VND million*	*Total equity attributable to the Bank VND million*	*Non-controlling interest VND million*	*Total VND million*
As at 1 January 2021	**35,049,062**	**1,729,532**	**(30,338)**	**30,273,106**	**6,789,643**	**1,784,409**	**53,690**	**75,649,104**	**486,309**	**76,135,413**
Comprehensive income for the year:										
Profit for the year	-	-	-	17,090,646	-	-	-	17,090,646	366,305	17,456,951
Other comprehensive income, net of tax:										
Net change in fair value of debt instruments at FVOCI	-	-	-	-	-	(346,961)	-	(346,961)	4,718	(342,243)
Net amount reclassified to the statement of profit or loss on sale of debt instruments at FVOCI	-	-	-	-	-	(381,628)	-	(381,628)	27	(381,601)
Net change in allowance for expected credit losses of debt instruments at FVOCI	-	-	-	-	-	1,381,377	-	1,381,377	1,418	1,382,795
Net change in fair value of equity instruments at FVOCI	-	-	-	-	-	78,187	-	78,187	7,740	85,927
Tax on other comprehensive income	-	-	-	-	-	(145,322)	-	(145,322)	(2,185)	(147,507)
Total comprehensive income	**-**	**-**	**-**	**17,090,646**	**-**	**585,653**	**-**	**17,676,299**	**378,023**	**18,054,322**
Transactions with shareholders										
Capital increase	60,086	(33)	-	-	-	-	-	60,053	-	60,053
Equity-settled share-based payment	-	317,817	23,458	-	-	-	(30,312)	310,963	-	310,963
Total contribution by and distribution to shareholders	**60,086**	**317,784**	**23,458**	**-**	**-**	**-**	**(30,312)**	**371,016**	**-**	**371,016**
Movements in reserves and others										
Transfer to reserves	-	-	-	(2,377,002)	2,377,002	-	-	-	-	-
Utilization of reserves	-	-	-	-	(10,749)	-	-	(10,749)	-	(10,749)
Total movements in reserves and others	**-**	**-**	**-**	**(2,377,002)**	**2,366,253**	**-**	**-**	**(10,749)**	**-**	**(10,749)**
As at 31 December 2021	**35,109,148**	**2,047,316**	**(6,880)**	**44,986,750**	**9,155,896**	**2,370,062**	**23,378**	**93,685,670**	**864,332**	**94,550,002**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)
for the year ended 31 December 2021

For the year ended 31 December 2020

	Share capital VND million	*Share premium VND million*	*Treasury shares VND million*	*Retained earnings VND million*	*Statutory reserves VND million*	*Fair value reserve VND million*	*Other reserves VND million*	*Total equity attributable to the Bank VND million*	*Non-controlling interest VND million*	*Total VND million*
As at 1 January 2020	**35,001,400**	**1,636,167**	**(45,068)**	**19,754,237**	**5,172,684**	**1,084,579**	**60,882**	**62,664,881**	**297,942**	**62,962,823**
Comprehensive income for the year:										
Profit for the year	-	-	-	12,136,443	-	-	-	12,136,443	257,798	12,394,241
Other comprehensive income, net of tax:										
Net change in fair value of debt instruments at FVOCI	-	-	-	-	-	496,286	-	496,286	(728)	495,558
Net amount reclassified to the statement of profit or loss on sale of debt instruments at FVOCI	-	-	-	-	-	(44,772)	-	(44,772)	(1,078)	(45,850)
Net change in allowance for expected credit losses of debt instruments at FVOCI	-	-	-	-	-	467,300	-	467,300	1,418	468,718
Net change in fair value of equity instruments at FVOCI	-	-	-	-	-	(44,025)	-	(44,025)	(5,857)	(49,882)
Tax on other comprehensive income	-	-	-	-	-	(174,959)	-	(174,959)	1,249	(173,710)
Total comprehensive income	**-**	**-**	**-**	**12,136,443**	**-**	**699,830**	**-**	**12,836,273**	**252,802**	**13,089,075**
Transactions with shareholders										
Capital increase	47,662	(60)	-	-	-	-	-	47,602	651	48,253
Dividend paid	-	-	-	-	-	-	-	-	(65,086)	(65,086)
Equity-settled share-based payment	-	93,425	14,730	-	-	-	(7,192)	100,963	-	100,963
Total contribution by and distribution to shareholders	**47,662**	**93,365**	**14,730**	**-**	**-**	**-**	**(7,192)**	**148,565**	**(64,435)**	**84,130**
Movements in reserves and others										
Transfer to reserves	-	-	-	(1,617,574)	1,617,574	-	-	-	-	-
Utilization of reserves	-	-	-	-	(615)		-	(615)	-	(615)
Total movements in reserves and others	**-**	**-**	**-**	**(1,617,574)**	**1,616,959**		**-**	**(615)**	**-**	**(615)**
As at 31 December 2020	**35,049,062**	**1,729,532**	**(30,338)**	**30,273,106**	**6,789,643**	**1,784,409**	**53,690**	**75,649,104**	**486,309**	**76,135,413**

Prepared by:

Ms. Bui Thi Khanh Van
Chief Accountant

Approved by:

Ms. Thai Ha Linh
Director of Accounting, Financial Policy and Tax
Finance and Planning Division

Approved by:

M.S.D.N: 0100230800 - C.T.C.P
NGÂN HÀNG THƯƠNG MẠI CỔ PHẦN KỸ THƯƠNG VIỆT NAM
Q. HAI BÀ TRƯNG - TP. HÀ NỘI

Mr. Jens Lottner
Chief Executive Officer

Hanoi, Vietnam

27 -07- 2022

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2021

	Notes	2021 VND million	2020 VND million (Reclassified)
OPERATING ACTIVITIES			
Profit before tax		**22,125,065**	**15,605,943**
Adjustments for:			
Depreciation and amortization expenses		1,059,393	814,119
Credit loss expense on financial assets		3,079,173	3,237,608
Equity-settled share-based payment		300,963	95,963
Net cash flows from operating activities before changes in operating assets and liabilities		**26,564,594**	**19,753,633**
Change in due from other banks		(23,507,070)	1,461,363
Change in derivative financial assets		820,674	(1,661,749)
Change in financial assets at FVTPL		(4,280,343)	2,859,993
Change in loans and advances to customers		(75,105,105)	(53,745,857)
Change in debt instruments at FVOCI		(13,520,493)	(18,820,492)
Change in equity instruments at FVOCI		(278,600)	199,993
Change in debt instruments at amortized cost		54,818	246,413
Change in other assets		(3,174,669)	(2,564,706)
Change in due to the Government and the SBV		842	-
Change in due to other banks		65,258,290	(13,614,375)
Change in derivative financial liabilities		(589,747)	1,046,544
Change in deposits from customers		36,921,847	45,964,290
Change in other borrowed funds		(187,932)	(219,575)
Change in debt instruments issued		5,837,746	10,865,949
Change in other liabilities		2,846,514	1,004,424
Net change in operating assets and liabilities		**(8,903,228)**	**(26,977,785)**
Income tax paid for the year	18	(4,829,911)	(2,881,901)
Net cash flows from/(used in) operating activities		**12,831,455**	**(10,106,053)**

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)
for the year ended 31 December 2021

	Notes	*2021 VND million*	*2020 VND million (Reclassified)*
INVESTING ACTIVITIES			
Acquisitions of fixed assets		(939,995)	(665,860)
Payments for investments in other entities		(1,497)	-
Dividends received and profit shared from long-term investments		4,043	4,191
Proceeds from disposals of property and equipment		57,506	6,278
Net cash flows used in investing activities		**(879,943)**	**(655,391)**
FINANCING ACTIVITIES			
Proceeds from issuance of shares		60,053	47,602
Payments for settlement of long-term valuable papers eligible for recognition as owners' equity and other long-term loans		-	(157,713)
Dividends payment for Non-controlling interest		-	(65,086)
Proceeds from capital contribution of non-controlling shareholders		-	651
Net cash flows from/(used in) financing activities		**60,053**	**(174,546)**
Net cash flows for the year		**12,011,565**	**(10,935,990)**
Cash and cash equivalents at the beginning of the year		**35,611,095**	**46,547,085**
Cash and cash equivalents at the end of the year		**47,622,660**	**35,611,095**

Prepared by:	Approved by:	Approved by:
Ms. Bui Thi Khanh Van Chief Accountant	Ms. Thai Ha Linh Director of Accounting, Financial Policy and Tax, Finance and Planning Division	Mr. Jens Lottner Chief Executive Officer

M.S.D.N: 0100230800 - C.T.C.P
NGÂN HÀNG THƯƠNG MẠI CỔ PHẦN KỸ THƯƠNG VIỆT NAM
Q. HAI BÀ TRƯNG - TP. HÀ NỘI

Hanoi, Vietnam

27-07-2022

1. GENERAL INFORMATION

Vietnam Technological and Commercial Joint Stock Bank ("the Bank") is a commercial joint stock bank registered and incorporated in the Socialist Republic of Vietnam.

Establishment and Operations

The Bank was incorporated pursuant to Business License No. 0038/GP-NHNN issued by the Governor of the State Bank of Vietnam ("the SBV") on 6 March 2018 to replace Business License No. 0040/NH-GP on 6 August 1993 and Business Registration Certificate No. 0100230800 issued by the Hanoi Department of Planning and Investment on 16 December 2021. The operating duration is 99 years since 6 August 1993.

The principal activities of the Bank are mobilizing and receiving short, medium and long-term deposit funds from organizations and individuals; lending on short, medium and long-term basis up to the nature and ability of the Bank's capital resources; conducting settlement and cash services and other banking services as approved by the SBV; conducting investments in subsidiaries, associates, joint-ventures and other companies; conducting investments in bonds and dealing in foreign exchange in accordance with applicable regulations.

Charter capital

As at 31 December 2021, the charter capital of the Bank is VND 35,109,147,980,000 (31 December 2020: VND 35,049,062,300,000).

Network

The Bank's Head Office is located at 191 Ba Trieu, Hai Ba Trung District, Hanoi. As at 31 December 2021, the Bank has one (1) Head Office, two (2) representative offices, three hundred and seven (307) transaction offices nationwide and three (3) subsidiaries.

Subsidiaries

As at 31 December 2021, the Bank has three (3) subsidiaries as follows:

No.	*Name*	*Business License No.*	*Industry*	*% owned by the Bank*
1	Techcom Securities Joint Stock Company	72/GPDC-UBCK dated 4 November 2020 granted by the State Securities Commission	Securities activities	88.94843%
2	Vietnam Technological and Commercial Joint Stock Bank - Asset Management Company Limited	0102786255 dated 18 June 2008 granted by the Hanoi Department of Planning and Investment which was amended for the 23rd time on 19 October 2021	Debt and asset management	100%
3	Techcom Capital Management Joint Stock Company	57/GP-UBCK dated 30 January 2019 and adjusted by License No. 33/GPDC-UBCK dated 5 June 2019 granted by the State Securities Commission	Fund management	88.99956%

Employees

As at 31 December 2021, the Bank and its subsidiaries have 12,506 employees (31 December 2020: 11,802 employees).

2. BASIS FOR PREPARATION

The consolidated financial statements of the Bank and its subsidiaries have been prepared on a historical cost basis, except for financial assets at FVTPL, debt and equity instruments at FVOCI and derivative financial instruments which have been measured at fair value.

3. STATEMENT OF COMPLIANCE

The consolidated financial statements of the Bank and its subsidiaries have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

4. PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The Bank and its subsidiaries present their consolidated statement of financial position in order of liquidity.

Financial assets and financial liabilities are generally reported gross in the consolidated statement of financial position. They are only offset and reported net when, in addition to having an unconditional legally enforceable right to offset the recognized amounts without being contingent on a future event, the parties also intend to settle on a net basis in all of the following circumstances:

- The normal course of business;
- The event of default; or
- The event of insolvency or bankruptcy of the Bank and its subsidiaries and/or its counterparties.

5. BASIS FOR CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at 31 December 2021. The Bank consolidates a subsidiary from the date of control of subsidiary and continues to be consolidated until the date that such control ceases. Control is achieved when the Bank is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. In case the Bank divests its equity interest in a subsidiary resulting in loss of control over the subsidiary, the Bank only consolidates the financial result of the subsidiary from the beginning of the period up to the date of the divestment without consolidating the net assets of the subsidiary. Furthermore, the Bank makes adjustments of indirect impact of the divestment transactions on the consolidated cash flow statement.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Bank's accounting policies. All intra-group assets, liabilities, equity, income, expenses and cash flows are eliminated in full on consolidation.

The Bank and its subsidiaries act as the fund manager to a number of investment funds. Determining whether the Bank and its subsidiaries control such an investment fund usually focuses on the assessment of the aggregate economic interests of the Bank and its subsidiaries in the fund (comprising any carried interests and expected management fees) and the investors' rights to remove the fund manager. For all funds managed by the Bank and its subsidiaries, the investors are able to vote by simple majority to remove the Bank and its subsidiaries as fund manager without cause, and the Bank and its subsidiaries' aggregate economic interest in each case is less than 15%. As a result, the Bank and its subsidiaries have concluded that they act as agent for the investors in all cases, and therefore have not consolidated these funds.

6. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Bank and its subsidiaries' annual consolidated financial statements for the year ended 31 December 2020 and consolidated for the year ended 31 December 2020. The Bank and its subsidiaries have not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Several amendments apply for the first time in 2021, but do not have an impact on the consolidated financial statements of the Bank and its subsidiaries.

Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR).

The amendments include the following practical expedients:

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest, equivalent to a movement in a market rate of interest;
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued;
- Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

These amendments had no impact on the consolidated financial statements of the Bank and its subsidiaries. The Bank and its subsidiaries intend to use the practical expedients in future periods if they become applicable.

7. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

7.1. Foreign currency translation

7.1.1. Functional and presentational currency

Currency used in accounting of the Bank and its subsidiaries is Vietnam dong ("VND") and is rounded to the nearest VND million for presentation of consolidated financial statements. For each entity in the group, the Bank and its subsidiaries determine the functional currency and items included in the financial statements of each entity are measured using that functional currency. The Bank and its subsidiaries use the direct method of consolidation.

7.1.2. Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency at the spot rate of exchange ruling at the date of the transaction.

All transactions are recorded in original currencies. Monetary assets and liabilities denominated in foreign currencies are translated into functional currency using exchange rates ruling at the reporting date (Note 44). Non-monetary assets and liabilities denominated in foreign currencies are translated into functional currency using exchange rates ruling at the transaction dates.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the spot exchange rates as at the date of recognition.

7.2. Financial instruments – Initial recognition

7.2.1. Date of recognition

Financial assets and liabilities, with the exception of loans and advances to customers and balances due to customers, are initially recognized on the trade date, i.e. the date that the Bank and its subsidiaries become a party to the contractual provisions of the instrument. This includes regular-way trades, purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace. Loans and advances to customers are recognized when funds are transferred to the customers' account. The Bank and its subsidiaries recognize due to customer balances when funds are transferred to the Bank and its subsidiaries.

7.2.2. Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments, as described in Notes 7.3.1.1 and 7.3.1.2. Financial instruments are initially measured at their fair value, except in the case of financial assets and financial liabilities recorded at FVTPL, transaction costs are added to, or subtracted from, this amount. Financial receivables are measured at the transaction price.

When the fair value of financial instruments at initial recognition differs from the transaction price, the Bank and its subsidiaries account for the Day 1 profit or loss, as described below.

7. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

7.2. Financial instruments – Initial recognition (continued)

7.2.3. Day 1 profit or loss

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Bank and its subsidiaries recognize the difference between the transaction price and fair value in net trading income. In those cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognized in profit or loss when the inputs become observable, or when the instrument is derecognized.

During the year, the Bank and its subsidiaries recognized Day 1 loss for preference loans to its employees which have interest rate significantly lower than market rate in "*Personnel expenses*". The difference between the fair value of the loans (using discounted cash flow method) and their principal is amortized along their committed working time or the life of the relevant loans.

7.2.4. Measurement categories of financial assets and liabilities

The Bank and its subsidiaries classify all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortized cost, as explained in Note 7.3.1;
- FVOCI, as explained in Notes 7.3.4 and 7.3.5;
- FVTPL, as explained in Notes 7.3.2 and 7.3.3.

The Bank and its subsidiaries classify and measure its derivative and trading portfolio at FVTPL as explained in Notes 7.3.2 and 7.3.3. The Bank and its subsidiaries may designate financial instruments at FVTPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies.

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortized cost or at FVTPL when they are held-for-trading and derivative instruments.

7.3. Financial assets and liabilities

7.3.1. Due from banks, loans and advances to customers and other financial investments at amortized cost

The Bank and its subsidiaries only measure due from banks, loans and advances to customers and other financial investments at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows;
- The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

The details of these conditions are outlined below.

7. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

7.3. Financial assets and liabilities (continued)

7.3.1. Due from banks, loans and advances to customers and other financial investments at amortized cost (continued)

7.3.1.1. The SPPI test

The Bank and its subsidiaries assess the contractual terms of financial assets to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank and its subsidiaries apply judgment and consider relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

7.3.1.2. Business model assessment

The Bank and its subsidiaries determine its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Bank and its subsidiaries' business model are not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- Business strategy for the portfolios;
- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- The expected frequency, value and timing of sales are also important aspects of the Bank and its subsidiaries' assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Bank and its subsidiaries' original expectations, the Bank and its subsidiaries do not change the classification of the remaining financial assets held in that business model, but incorporate such information when assessing newly originated or newly purchased financial assets going forward.

7. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

7.3. Financial assets and liabilities (continued)

7.3.2. Derivatives recorded at fair value through profit or loss

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change 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 variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract (i.e. the 'underlying');
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts expected to have a similar response to changes in market factors;
- It is settled at a future date.

The Bank and its subsidiaries enter into derivative transactions with various counterparties. These include interest rate swaps, cross-currency swaps, cross-currency interest rate swap, forward foreign exchange contracts and options on interest rates and foreign currencies. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative.

7.3.2.1. Embedded derivatives

An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract. A derivative that is attached to a financial instrument, but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument.

The Bank and its subsidiaries account in this way for derivatives embedded in financial liabilities and non-financial host contracts. Financial assets are classified based on the business model and SPPI assessments as outlined in Notes 7.3.1.1 and 7.3.1.2.

7.3.3. Financial assets and financial liabilities at FVTPL

The Bank and its subsidiaries classify financial assets or financial liabilities as held-for-trading when they have been purchased or issued primarily for short-term profit making through trading activities or form part of a portfolio of financial instruments that are managed together, for which there is evidence of a recent pattern of short-term profit taking. Held-for-trading assets and liabilities are recorded and measured in the statement of financial position at fair value. Changes in fair value are recognized in *"Net trading income"*. Interest and dividend income or expense is recorded in *"Net trading income"* according to the terms of the contract, or when the right to payment has been established.

Included in this classification are debt securities and equities that have been acquired principally for the purpose of selling or repurchasing in the near term and loans to customers are mandatorily required to be measured at fair value under IFRS 9.

7. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

7.3. Financial assets and liabilities (continued)

7.3.4. Debt instruments at FVOCI

The Bank and its subsidiaries apply the category of debt instruments measured at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets;
- The contractual terms of the financial asset meet the SPPI test.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognized in other comprehensive income ("OCI"). Interest income is recognized in profit or loss as *"Net interest income"*. The expected credit loss ("ECL") calculation for debt instruments at FVOCI is explained in Note 7.9.3 and recognized in "*Credit loss expense on financial assets*". On derecognition, cumulative gains or losses previously recognized in OCI are reclassified from OCI to profit or loss.

7.3.5. Equity instruments at FVOCI

Upon initial recognition, the Bank and its subsidiaries can elect to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of Equity under IAS 32 - Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never recycled to profit or loss. Dividends are recognized in profit or loss as "*Other operating income"* when the right of the payment has been established, except when the Bank and its subsidiaries benefit from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment.

7.3.6. Debt instruments issued and other borrowed funds

Financial instruments issued by the Bank and its subsidiaries that are not held-for-trading or designated at fair value through profit or loss, are classified as liabilities under debt instruments issued and other borrowed funds, where the substance of the contractual arrangement results in the Bank and its subsidiaries having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

After initial measurement, debt instruments issued, and other borrowed funds are subsequently measured at amortized cost using the effective interest rate ("EIR"). Amortized cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR.

A compound financial instrument which contains both a liability and an equity component is separated at the issue date.

7. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

7.3. Financial assets and liabilities (continued)

7.3.6. Debt instruments issued and other borrowed funds (continued)

The Bank issued a number of financial instruments with equity conversion. When establishing the accounting treatment of these non-derivative instruments the Bank first establishes whether the instrument is a compound instrument and classifies such instruments or components separately as financial liabilities, financial assets, or equity instruments. The Bank separately recognizes the components of a financial instrument that: (a) creates a financial liability for the Bank; and (b) grants an option to the holder of the instrument to convert it into an equity instrument of the entity. Classification of the liability and equity components of a convertible instrument is not revised as a result of a change in the likelihood that a conversion option will be exercised, even when exercise of the option may appear to have become economically advantageous to some holders. When allocating the initial carrying amount of a compound financial instrument to its equity and liability components, the equity component is assigned the residual amount after deducting from the entire fair value of the instrument, the amount separately determined for the liability component. Once the Bank has determined the split between equity and liability, it further evaluates if the liability component has embedded derivatives which would require separation. The Bank only separates the embedded derivatives from the host contract and accounts for them as a derivative when:

- The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
- A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative of a derivative; or
- The hybrid (combined) instrument is not measured at fair value with changes in fair value recognized in profit or loss (i.e. a derivative that is embedded in a financial asset or financial liability at FVTPL is not separated).

7.3.7. Financial guarantees, letters of credit and undrawn loan commitments

The Bank issues financial guarantees, letters of credit and loan commitments.

Financial guarantees are initially recognized in the consolidated financial statements (within "*Other liabilities*") at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognized less cumulative amortization recognized in the consolidated statement of profit or loss, and an ECL provision as set out in Note 36.1.1.

The premium received is recognized in the consolidated statement of profit or loss in "*Net fee and commission income*" on a straight-line basis over the life of the guarantee.

Undrawn loan commitments and letters of credit are commitments under which, over the duration of the commitments, the Bank is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, these contracts are in the scope of the ECL requirements.

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded on in the consolidated statement of financial position. The nominal values of these instruments together with the corresponding ECLs are disclosed in Note 36.1.

7. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

7.4. Reclassification of financial assets and liabilities

The Bank and its subsidiaries do not reclassify its financial assets subsequent to their initial recognition apart from the exceptional circumstances in which the Bank acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified.

7.5. Derecognition of financial assets and financial liabilities

7.5.1. Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when the rights to receive cash flows from the asset have expired. The Bank and its subsidiaries also derecognize the assets if they have both transferred the asset, and the transfer qualifies for derecognition.

The Bank and its subsidiaries have transferred the asset if, and only if, either:

- The Bank and its subsidiaries have transferred its contractual rights to receive cash flows from the asset; or
- It retains the rights to the cash flows but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a “pass-through” arrangement.

Pass-through arrangements are transactions when the Bank and its subsidiaries retain the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met:

- The Bank and its subsidiaries have no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances by the entity with the right of full recovery of the amount lent plus accrued interest at market rates;
- The Bank and its subsidiaries cannot sell or pledge the original asset other than as security to the eventual recipients for the obligation to pay them cash flows; and
- The Bank and its subsidiaries have to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Bank and its subsidiaries are not entitled to reinvest such cash flows, except for investments in cash or cash equivalents during the short settlement period from the collection date to the date of required remittance to the eventual recipients, and interest earned on such investments is passed to the eventual recipients.

A transfer only qualifies for derecognition if either:

- The Bank and its subsidiaries have transferred substantially all the risks and rewards of the asset; or
- The Bank and its subsidiaries have neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

In relation to the above, the Bank and its subsidiaries consider the control to be transferred if, and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer.

7. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

7.5. Derecognition of financial assets and financial liabilities (continued)

7.5.1. Financial assets (continued)

When the Bank and its subsidiaries have transferred their rights to receive cash flows from an asset or have entered into a pass-through arrangement, and have neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Bank and its subsidiaries' continuing involvement in it. In that case, the Bank and its subsidiaries also recognize an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank and its subsidiaries have retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank and its subsidiaries could be required to repay.

If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the Bank and its subsidiaries' continuing involvement is the amount of the transferred asset that the Bank and its subsidiaries may repurchase. However, in the case of a written put option on an asset that is measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

The Bank and its subsidiaries also derecognize a financial asset, in particular, a loan to customer when the terms and conditions have been renegotiated to the extent that it substantially became a new loan, with the difference recognized as an impairment in the consolidated statement of profit or loss.

7.5.2. Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognized in the consolidated statement of profit or loss.

7.6. Offsetting of financial instruments

Financial assets and financial liabilities are generally reported gross in the consolidated statement of financial position. They are only offset and reported net when, in addition to having an unconditional legally enforceable right to offset the recognized amounts without being contingent on a future event, the parties also intend to settle on a net basis in all of the following circumstances:

- The normal course of business;
- The event of default;
- The event of insolvency or bankruptcy of the Bank and/or its counterparties.

As at 31 December 2021, the Bank and its subsidiaries have no financial assets and liabilities that are offset and recognized in net value in the consolidated financial statements.

7. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

7.7. Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase at a specific date in the future ("repo") are still recognized on the consolidated financial statements as the Bank and its subsidiaries retain substantially all of risk and rewards of ownership. The corresponding cash received from these agreements and corresponding payment responsibility of the cash received, including accrued interest payables, are recognized on the consolidated statement of financial position as a liability in *"Due to other banks"* for purpose of reflecting economic nature of these transactions as a borrowing to the Bank and its subsidiaries. The difference between the sale price and repurchase price is interest expense and accrued during the effective duration of the contract using the effective interest rate method. When the counter party has a right to sell or mortgage bonds, subject to cases that the Bank and its subsidiaries reclassify these bonds in the consolidated financial position report in held-for-trading financial assets mortgaged as collateral or available-for-sale financial investments mortgaged as collaterals.

Conversely, securities purchased under agreements to resell at a specific date in the future ("reverse repo") are not recognized in the consolidated financial statements. The corresponding cash paid under these agreements, including accrued interest receivables is recognized in the consolidated statement of financial position as an asset in *"Due from other banks"* for purpose of reflecting the economic nature of these transactions as a loan to the Bank and its subsidiaries. The difference between the purchase price and resale price is recorded in *"Net interest income"* and is accrued over the life of the agreement using the EIR.

If securities purchased under an agreement to resell are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale within financial liabilities at fair value through profit or loss and measured at fair value with any gains or losses included in *"Net trading income"*.

7.8. Determination of fair value

In order to show how fair values have been derived, financial instruments are classified based on a hierarchy of valuation techniques, as summarized below:

- Level 1 financial instruments − Those where the inputs used in the valuation are unadjusted quoted prices from active markets for identical assets or liabilities that the Bank and its subsidiaries access to at the measurement date. The Bank and its subsidiaries consider markets as active only if there are sufficient trading activities with regards to the volume and liquidity of the identical assets or liabilities and when there are binding and exercisable price quotes available at the reporting date.
- Level 2 financial instruments − Those where the inputs that are used for valuation and are significant, are derived from directly or indirectly observable market data available over the entire period of the instrument's life. Such inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical instruments in inactive markets and observable inputs other than quoted prices such as interest rates and yield curves, implied volatilities, and credit spreads. In addition, adjustments may be required for the condition or location of the asset or the extent to which it relates to items that are comparable to the valued instrument. However, if such adjustments are based on unobservable inputs which are significant to the entire measurement, the Bank and its subsidiaries will classify the instruments as Level 3.
- Level 3 financial instruments − Those that include one or more unobservable input that is significant to the measurement as whole.

7. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

7.8. Determination of fair value (continued)

The Bank and its subsidiaries periodically review its valuation techniques including the adopted methodologies and model calibrations. However, the base models may not fully capture all factors relevant to the valuation of the Bank and its subsidiaries' financial instruments such as credit risk ("CVA"), own credit ("DVA") and/or funding costs ("FVA"). Therefore, the Bank and its subsidiaries apply various techniques to estimate the credit risk associated with its financial instruments measured at fair value, which include a portfolio-based approach that estimates the expected net exposure per counterparty over the full lifetime of the individual assets, in order to reflect the credit risk of the individual counterparties for non-collateralized financial instruments. The Bank and its subsidiaries estimate the value of their own credit from market observable data, such as secondary prices for their traded debt and the credit spread on credit default swaps and traded debts by itself.

The Bank and its subsidiaries evaluate the levelling at each reporting period on an instrument-by-instrument basis and reclassify instruments when necessary based on the facts at the end of the reporting period.

7.9. Impairment of financial assets

7.9.1. Overview of the ECL principles

The Bank and its subsidiaries have been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts, in this section all referred to as 'financial instruments'. Equity instruments are not subject to impairment under IFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12-month expected credit loss as outlined in Note 7.9.2. The Bank's policies for determining if there has been a significant increase in credit risk are set out in Note 40.2.4.5.

The 12-month ECL is the portion of lifetime ECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both lifetime ECLs and 12-month ECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments. The Bank's policy for grouping financial assets measured on a collective basis is explained in Note 40.2.4.6.

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. This is further explained in Note 40.2.4.5

7. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

7.9. Impairment of financial assets (continued)

7.9.1. Overview of the ECL principles (continued)

Based on the above process, the Bank groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

- Stage 1 — When loans are first recognized, the Bank and its subsidiaries recognize an allowance based on 12-month ECLs. Stage 1 loans also include facilities where the credit risk has improved, and the loan has been reclassified from Stage 2.
- Stage 2 — When a loan has shown a significant increase in credit risk since origination, the Bank and its subsidiaries record an allowance for the lifetime ECLs. Stage 2 loans also include facilities, where the credit risk has improved, and the loan has been reclassified from Stage 3.
- Stage 3 — Loans considered credit-impaired (as outlined in Note 40.2.4.1). The Bank and its subsidiaries record an allowance for the lifetime ECLs.
- POCI — Purchased or originated credit impaired ("POCI") assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognized based on a credit adjusted EIR. ECLs are only recognized or released to the extent that there is a subsequent change in the expected credit losses.

For financial asset for which the Bank and its subsidiaries have no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

7. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

7.9. Impairment of financial assets (continued)

7.9.2. The calculation of ECLs

The Bank and its subsidiaries calculate ECLs based on three probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the Bank and its subsidiaries expect to receive. The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

- Probability of Default ("PD") — The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognized and is still in the portfolio. The concept of PDs is further explained in Note 40.2.4.2
- Exposure at Default ("EAD") — The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments. The concept of PDs is further explained in Note 40.2.4.2
- Loss Given Default ("LGD") — The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD. The concept of PDs is further explained in Note 40.2.4.2

When estimating the ECLs, the Bank and its subsidiaries consider three scenarios (base case, upper, and downside). Each of these is associated with different PDs, EADs and LGDs. When relevant, the assessment of multiple scenarios also incorporates how individually significant loans are expected to be recovered, including the probability that the loans will make repayment timely and the value of collateral or the amount that might be received for selling the asset.

The maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Bank and its subsidiaries have the legal right to call it earlier. For mortgage portfolio, however, the Bank and its subsidiaries account for the observed payment behaviour of their customers into their calculation of the lifetime ECL by adjusting their assessment of EAD accordingly. Behavioural lifetime is stated in the table below:

Product	Tenor	Behavioural lifetime
Mortgage (including Project Mortgage)	0 – 5 years	Contractual life
	5 – 10 years	5.5 years
	10 – 20 years	6.5 years
	20 – 99 years	7.5 years

Impairment losses and releases are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset's gross carrying amount.

Allowances for ECLs for undrawn loan commitments are assessed.

The mechanics of the ECL method are summarized below:

7. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

7.9. Impairment of financial assets (continued)

7.9.2. The calculation of ECLs (continued)

- Stage 1 — The 12-month ECL is calculated as the portion of lifetime ECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Bank and its subsidiaries calculate the 12-month ECL allowances based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR. This calculation is made for each of the three scenarios, as explained above.
- Stage 2 — When a loan has shown a significant increase in credit risk since origination, the Bank and its subsidiaries record an allowance for the lifetime ECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.
- Stage 3 — For loans considered credit-impaired, the Bank and its subsidiaries recognize the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.
- POCI — POCI assets are financial assets that are credit impaired on initial recognition. The Bank and its subsidiaries only recognize the cumulative changes in lifetime ECLs since initial recognition, based on a probability-weighting of the three scenarios, discounted by the credit adjusted EIR.
- Loan commitments and letters of credit — When estimating lifetime ECLs for undrawn loan commitments, the Bank and its subsidiaries estimate the expected portion of the loan commitments that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down, based on a probability-weighting of the three scenarios. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan.

  For loan commitments and letters of credit, the ECL is recognized within "*Impairment losses on off-balance sheet commitments*" under "*Other liabilities*".
- Financial guarantee contracts — The Bank's liability under each guarantee is measured at the higher of the amount initially recognized less cumulative amortization recognized in the consolidated statement of profit or loss, and the ECL allowances. For this purpose, the Bank and its subsidiaries estimate ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The calculation is made using a probability-weighting of the three scenarios. The ECLs related to financial guarantee contracts are recognized within "*Impairment losses on off-balance sheet commitments*" under "*Other liabilities*".

7.9.3. Debt instruments measured at FVOCI

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the consolidated statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortized cost is recognized in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognized in OCI is recycled to the profit and loss upon derecognition of the assets.

7. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

7.9. Impairment of financial assets (continued)

7.9.4. Purchased or originated credit impaired financial assets (POCI)

For POCI financial assets, the Bank and its subsidiaries only recognize the cumulative changes in lifetime ECL since initial recognition in the loss allowances.

7.9.5. Forward-looking information

In its ECL models, the Bank and its subsidiaries rely on a broad range of forward-looking information as economic inputs, such as:

- GDP growth;
- Unemployment rates;
- Inflation;
- House price indices.

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the consolidated financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

7.10. Leasing - the Bank and its subsidiaries as lessees

7.10.1. Right-of-use assets

At inception of a contract, the Bank and its subsidiaries assess whether a contract is, or contains, a lease arrangement based on whether the contract that conveys to the user (the lessee) the right to control the use of an identified asset for a period of time in exchange for consideration. If a contract contains more than one lease component, or a combination of leasing and services transactions, the consideration is allocated to each of these lease and non-lease components on conclusion and on each subsequent re-measurement of the contract on the basis of their relative stand-alone selling prices. The Bank and its subsidiaries combine lease and non-lease components, in cases where splitting the non-lease component is not possible.

The Bank and its subsidiaries recognize right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The lease term includes periods covered by an option to extend if the Group is reasonably certain to exercise that option. Unless the Bank and its subsidiaries are reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the lease term. Right-of-use assets are subject to impairment assessment.

7. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

7.10. Leasing – The Bank and its subsidiaries as lessees (continued)

7.10.2. Lease liabilities

At the commencement date of the lease, the Bank and its subsidiaries recognize lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and its subsidiaries and payments of penalties for terminating a lease, if the lease term reflects the Bank and its subsidiaries exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Bank and its subsidiaries use the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

7.10.3. Short-term leases and leases of low-value assets

The Bank and its subsidiaries apply the short-term lease recognition exemption to its short-term leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the lease of low-value assets recognition exemption to leases of assets that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

7.10.4. Significant judgement in determining the lease term of contracts with renewal options

The Bank and its subsidiaries determine the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Bank and its subsidiaries have the option, under some of its leases to lease the assets for additional terms. The Bank and its subsidiaries apply judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Bank and its subsidiaries reassess the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

7. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

7.11. Recognition of income and expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and its subsidiaries and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized.

7.11.1. The effective interest rate method

Interest income is recorded using the effective interest rate ("EIR") method for all financial instruments measured at amortized cost, financial instruments designated at FVTPL. Interest income on interest bearing financial assets measured at FVOCI are also recorded by using the EIR method. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

The EIR (and therefore, the amortized cost of the asset) is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of the EIR. The Bank and its subsidiaries recognize interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, it recognizes the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

If expectations regarding the cash flows on the financial asset are revised for reasons other than credit risk, the adjustment is booked as a positive or negative adjustment to the carrying amount of the asset in the balance sheet with an increase or reduction in interest income. The adjustment is subsequently amortized through "*Interest and similar income*" in the consolidated statement of profit or loss.

7.11.2. Interest and similar income and expenses

The Bank and its subsidiaries calculate interest income by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets. The amortized cost of the financial asset or financial liability is adjusted if the Bank and its subsidiaries revise their estimates of payments or receipts. The adjusted amortized cost is calculated based on the original or latest re-estimated EIR and the change is recorded as "*Interest and similar income*" for financial assets and "*Interest and similar expenses*" for financial liabilities.

When a financial asset becomes credit-impaired (as set out in Note 7.9.1) and is, therefore, regarded as "Stage 3", the Bank and its subsidiaries calculate interest income by applying the effective interest rate to the net amortized cost (amortized cost net of expected credit loss) of the financial asset. If the financial asset cures and is no longer credit-impaired, the Bank and its subsidiaries revert to calculating interest income on a gross basis.

For purchased or originated credit-impaired ("POCI") financial assets (as set out in Note 7.9.4), the Bank and its subsidiaries calculate interest income by calculating the credit-adjusted EIR and applying that rate to the amortized cost of the asset. The credit adjusted EIR is the interest rate that, at original recognition, discounts the estimated future cash flows (including credit losses) to the amortized cost of the POCI assets.

Interest income on all trading assets and financial assets mandatorily required to be measured at FVTPL is recognized using the contractual interest rate in "*Net trading income*".

7. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

7.11.3. Fee and commission income

The Bank and its subsidiaries earn fee income from a diverse range of services they provide to their customers as follows:

- *Fee income earned on the execution of a significant act*

  Income earned on the execution of a significant act is recognized as revenue when the act is completed (for example, fees arising from negotiating, or participating in the negotiation of, a transaction for a third party, such as an arrangement for the acquisition of shares or other securities).

- *Fee income earned from provision of services*

  Income earned from the provision of services is recognized as revenue over the period in which the services are provided (for example, asset management, portfolio and other management advisory and service fees).

- *Fee income that forms an integral part of the effective interest rate of a financial instrument*

  Income that forms an integral part of the effective interest rate of a financial instrument is recognized as an adjustment to the effective interest rate (for example, certain loan commitment fees) and recorded as part of "interest income" in the consolidated statement of profit or loss.

Fee income can be divided into the following categories:

- *Commission*

  Income earned in respect of sales or distribution of banking, investments and insurance products. Commission earned from banking is on trade and bancassurance.

- *Service charges and fees*

  Income earned on the services provided to retail and corporate customers, including account management and various transaction-based services, such as interchange foreign currency transactions, money order processing and insufficient funds/overdraft transactions.

- *Underwriting fees*

  Income earned for the placement of a customer's debt or equity securities.

- *Brokerage income*

  Brokerage income includes fees earned from transaction-based services that are performed as parts of investment management services.

- *Fees on loans, advances and financing*

  Income earned in respect of loans, advances and financing such as loan commitments, financial guarantees and standby letters of credit.

- *Dividend income*

  Dividend income is recognized when the Bank's right to receive the payment is established. This is the ex-dividend date for listed equity securities, and usually the date when shareholders have approved the dividend for unlisted equity securities.

- *Customer loyalty programmes*

  Award credits under the customer loyalty programmes are accounted for as a separately identifiable component of the transaction in which they are granted. The fair value of the consideration received in respect of the initial sale is allocated between the cost of award credits and the other components of the sale. The consideration allocated to award credits is recognized in the consolidated statement of profit or loss under the caption of *"Other operating income"* when award credits are redeemed

7. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

7.11.4. Dividend income

Revenue is recognized when the Bank and its subsidiaries' right to receive the payment is established, which is generally when the issuers' shareholders approve the dividend.

7.11.5. Net trading income

Results arising from trading activities include all gains and losses from changes in fair value and interest income of financial assets and financial liabilities at FVTPL.

7.12. Cash and cash equivalents

Cash and cash equivalents as referred to in the consolidated statement of cash flows comprise of cash and gold, balances with the SBV, Government promissory notes and other debt instruments, which are eligible for discount, balances with other banks with original terms to maturity not exceeding three months from the transaction date.

7.13. Property and equipment

Property and equipment are stated at cost excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Changes in the expected useful life are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

Depreciation is calculated using the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful lives. Land is not depreciated. The estimated useful lives are as follows:

Buildings	8 - 50 years
Office equipment	3 - 10 years
Means of transportation	6 - 10 years
Other fixed assets	4 - 10 years

Property and equipment is derecognized on disposal or when no future economic benefits are expected from their use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in *"Other operating income"* in the consolidated statement of profit or loss in the period the asset is derecognized.

Definite land use rights are amortized over the lease term.

7.14. Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life, or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and they are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is presented as a separate line item in the consolidated statement of profit or loss.

Computer software	4 - 8 years
Others	4 - 8 years

7. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

7.15. Impairment of non-financial assets

The Bank and its subsidiaries, at each reporting date, assess whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank and its subsidiaries estimate the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's ("CGU") fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

For assets (excluding goodwill), an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Bank and its subsidiaries estimate the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior periods. Such reversal is recognized in the consolidated statement of profit or loss.

Impairment losses relating to goodwill are not reversed in future periods. The Bank and its subsidiaries have assessed and concluded that the non-financial assets are not impaired in the reported periods.

7.16. Employee benefits

7.16.1. Defined contribution plans

Post-employment benefits

Post-employment benefits are paid to retired employees of the Bank by the Social Insurance Agency which belongs to the Ministry of Labor, Invalids and Social Affairs. The Bank is required to contribute to these post-employment benefits by paying social insurance premium to the Social Insurance Agency at the rate of 17.5% of employees' basic salary plus other allowances. The Bank has no further obligation.

Unemployment allowance

According to Article 57 of Law of Employment No. 38/2013/QH13 effective from 1 January 2015 and Decree No. 28/2015/ND-CP dated 12 March 2015 of the Government on guidelines for the Law on Employment in term of unemployment insurance, the Bank is required to contribute to the unemployment insurance at the rate of 1% of salary and wage fund of unemployment insurance joiners and deduct 1% of monthly salary and wage of each employee to contribute to the unemployment insurance. Under Decision No. 28/2021/QD-TTg of Prime Minister, from 1 October 2021, the Bank is entitled to reduce the unemployment allowance contribution rate from 1% to 0% within 12 months.

7. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

7.16.2. Voluntary resignation benefits

The Bank has the obligation, under Article 46 of the Vietnam Labor Code No. 45/2019/QH14 effective from 1 January 2021, to pay allowance arising from voluntary resignation of employees, equal to a half of monthly salary for each year of employment up to 31 December 2008 plus salary allowances (if any). From 1 January 2009, the average monthly salary used in this calculation is the average monthly salary of the latest year up to the resignation date. Accordingly, the working time at the Bank to calculate the severance payment is the total actual working time at the Bank minus the time employees participating in the unemployment insurance in accordance with the law on unemployment insurance and the working time for which severance allowances have been paid by the employer.

7.17. Provision

Provision is recognized when the Bank and its subsidiaries have a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the effect of the time value of money is material, the Bank and its subsidiaries determine the level of provision by discounting the expected cash flows at a pre-tax rate reflecting the current rates specific to the liability. The expense relating to any provision is presented in the consolidated statement of profit or loss, net of any reimbursement.

7.18. Corporate income tax

7.18.1. Current taxes

Current tax assets and liabilities for the current and prior year are measured at the amount expected to be paid to (or recovered from) the taxation authorities. The tax rates and tax laws are applied and enacted at the reporting date.

Current income tax is charged or credited to the consolidated statement of profit or loss except when it relates to items recognized directly to equity the current income tax is also dealt with in equity.

Current tax assets and liabilities of the Bank and its subsidiaries are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and the Bank and its subsidiaries intend to settle their current tax assets and liabilities on a net basis.

The Bank and its subsidiaries' tax returns are subject to examination by the tax authorities. Because the applicability of tax laws and regulations on many types of transactions and susceptible to various interpretation, amounts reported in the consolidated financial statements could be changed at a later date upon final determination by the tax authorities.

7.18.2. Deferred tax

Deferred tax is provided on temporary differences between the tax base of assets and liabilities and their carrying amount for financial reporting purpose at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction which at the time of the transaction affects neither the accounting profit nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

7. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

7.18.2. Deferred tax (continued)

Deferred tax assets are recognized for all deductible temporary differences, carried forward unused tax credit and unused tax losses, to the extent that it is probable that taxable profit will be available against which deductible temporary differences, carried forward unused tax credit and unused tax losses can be utilized, except:

- Where the deferred tax asset arises from the initial recognition of an asset or liability in a transaction which at the time of the transaction affects neither the accounting profit nor taxable profit or loss;
- All deductible temporary differences from investments in subsidiaries, affiliates and joint ventures that are definitely temporary differences will be reversed in forecastable future and taxable profit is used for those temporary differences.

The carrying amount of deferred income tax assets is reviewed at reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Unrecognized deferred income tax assets are reassessed at the reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset realized, or the liability is settled based on tax rates and tax laws that have been enacted at the reporting date.

Current and deferred taxes are recognized as income tax benefits or expenses in the consolidated statement of profit or loss except for tax related to the fair value remeasurement of available-for-sale assets or FVOCI assets, foreign exchange differences, which are charged or credited to OCI. These exceptions are subsequently reclassified from OCI to the consolidated statement of profit or loss together with the respective deferred loss or gain. The Bank and its subsidiaries also recognize the tax consequences of payments and issuing costs, related to financial instruments that are classified as equity, directly in equity.

The Bank and its subsidiaries only offset deferred tax assets against liabilities when there is both a legal right to offset and it is the Bank and its subsidiaries' intention to settle on a net basis.

7.19. Treasury shares

Owner equity instruments of the Bank which are acquired by it or by any of its subsidiaries (treasury shares) are deducted from equity. Consideration paid or received on the purchase, sale, issuance or cancellation of the Bank's own equity instruments is recognized directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issuance or cancellation of own equity instruments.

Contracts on own shares that require physical settlement of a fixed number of own shares for a fixed consideration are classified as equity and added to or deducted from equity. Contracts on own shares that require net cash settlement or provide a choice of settlement are classified as trading instruments and changes in the fair value are reported in the consolidated statement of profit or loss in *"Net trading income"*.

7. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

7.20. Fiduciary assets

The Bank and its subsidiaries provide trust and other fiduciary services that result in the holding or investing in assets. Assets held in a fiduciary capacity are not recognized in the consolidated financial statements as they are not assets of the Bank and its subsidiaries.

7.21. Share-based payments

Employees of the Bank receive remuneration in the form of share-based payments transactions, whereby employees render services as consideration for equity instruments (equity-settled transactions).

The cost of equity-settle transactions is recognized, together with a corresponding increase in equity, over the period in which the service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting date). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the Bank's best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge for a period is recorded in *"Personnel expenses"* and represents the movement in cumulative expense recognized as at the beginning and end of that period and the corresponding amount is represented in share capital.

7.22. Equity reserves

The reserves recorded in equity on the Bank and its subsidiaries' consolidated financial statements include:

- Fair value reserve, which comprises changes in fair value of available-for-sale investments or FVOCI assets;
- Reserve for shares to be issued, which includes the portion of compound financial liabilities that qualify for treatment as equity.

7.23. Statutory reserves

7.23.1. Reserves and funds of the Bank

The Bank is required to make the following allocations before distribution of profits:

	Basis for calculation	*Maximum level*
Charter capital supplementary reserve	5% of profit after tax under Vietnam Accounting Standards ("VAS")	100% charter capital
Financial reserve	10% of profit after tax under VAS	Not regulated

Other funds are appropriated from profit after tax. The appropriation from profit after tax and the utilization of other equity funds are approved by the General Meeting of Shareholders. These funds are not required by law and are fully distributable.

7. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

7.23. Statutory reserves (continued)

7.23.2. Reserves and funds of subsidiaries

Vietnam Technological and Commercial Joint Stock Bank - Asset Management Company Limited:

According to Circular No. 27/2002/TT-BTC dated 22 March 2002 issued by the Ministry of Finance, the appropriation to reserves is made in a similar way to the Bank.

Techcom Securities Company Joint Stock Company and Techcom Capital Management Joint Stock Company:

According to Circular No. 146/TT/2014/TT-BTC issued by the Ministry of Finance issued on 6 October 2014 guiding the financial regime for securities, fund management companies, realized profit of the Company shall be distributed as follows:

	Basis for calculation	*Maximum level*
Charter capital supplementary reserve	5% profit after tax under VAS	10% charter capital
Financial reserve	5% profit after tax under VAS	10% charter capital

Financial reserve is used to compensate the damages incurred in business activities. These statutory reserves are made at year-end, non-distributable and considered as equity of the Bank.

8. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Bank and its subsidiaries' consolidated financial statements requires the Executive Team of the Bank to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in the future periods.

In the process of applying the Bank and its subsidiaries' accounting policies, management has made the following judgments and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Existing circumstances and assumptions about future developments may change due to circumstances beyond the Bank and its subsidiaries' control and are reflected in the assumptions if and when they occur. Items with the most significant effect on the amounts recognized in the consolidated financial statements with substantial management judgement and/or estimates are collated below with respect to judgements/estimates involved.

8. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

8.1. Fair value of financial instruments

The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. When the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are taken from observable market data where possible, but where this is not feasible, estimation is required in establishing fair values. Judgments and estimations include considerations of liquidity and model inputs related to items such as credit risk (both own and counterparty) and funding value adjustments.

8.2. Impairment losses on financial assets

The measurement of impairment losses across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Bank's internal credit grading model, which assigns PDs to the individual grades;
- The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime ECL basis and the qualitative assessment;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various formulas and the choice of inputs;
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs;
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

It has been the Bank's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

8.3. Deferred tax asset

Deferred tax assets are recognized in respect of tax losses to the extent that it is probable that future taxable profit will be available against which the losses can be utilized. Judgement is required to determine the amount of deferred tax assets that can be recognized, based on the likely timing and level of future taxable profits, together with future tax planning strategies.

8. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

8.4. Provision and other contingent liabilities

The Bank and its subsidiaries operate in a regulatory and legal environment that, by nature, has a heightened element of litigation risk inherent to its operations. As a result, it is involved in various litigation, arbitration and regulatory investigations and proceedings, arising in the ordinary course of the Bank and its subsidiaries' business. When the Bank and its subsidiaries can reliably measure the outflow of economic benefits in relation to a specific case and considers such outflows to be probable, the Bank and its subsidiaries record a provision against the case. Where the probability of outflow is considered to be remote, or probable, but a reliable estimate cannot be made, a contingent liability is disclosed. However, when the Bank and its subsidiaries are of the opinion that disclosing these estimates on a case-by-case basis would prejudice their outcome, then the Bank and its subsidiaries does not include detailed, case-specific disclosures in the consolidated financial statements. Given the subjectivity and uncertainty of determining the probability and amount of losses, the Bank and its subsidiaries take into account a number of factors including legal advice, the stage of the matter and historical evidence from similar incidents. Significant judgement is required to conclude on these estimates.

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