VAS – IFRS Reconciliation

Consolidated financial statement for the year ended 31.12.2018

Key differences between IFRS-VAS

A. Financial instruments

<table>
<tr><th colspan="4">VAS and IFRS have differences in all criteria including:
Classification, Measurement, Impairment, Income/expense recognitions</th></tr>
<tr><th></th><th colspan="2">VAS</th><th>IFRS</th></tr>
<tr><td rowspan="2">Classification</td><td colspan="2">The classification of VAS is similar to IAS 39</td><td rowspan="2">Financial asset:
▪ Amortized cost
▪ Fair value through other comprehensive income FVOCI (with recycling)
▪ Fair value through other comprehensive income FVOCI (without recycling)
▪ Fair value through profit or loss (FVTPL)</td></tr>
<tr><td><u>Financial asset:</u>
• Held for trading
• Available for sale
• Held to maturity
• Loan and receivables</td><td><u>Financial liabilities</u>
▪ Deposits/ certificates of deposits</td></tr>
<tr><td rowspan="2">Measurement</td><td colspan="3">The measurement in VAS is not similar to IAS 39—they follow specific guidance of SBV and MOF and are mostly based on Cost basis rather than Fair value basis</td></tr>
<tr><td><u>Financial assets:</u>
▪ Held for trading: Recognized at cost less provision
▪ Available for sale:
- Equity: Recognized at cost less provision
- Debt: Recognized at amortized cost (using nominal interest rate and allocation of premium or discount) less provision
▪ Held to maturity
Recognized at amortized cost (using nominal interest rate and allocation of premium or discount) less provision
▪ Loans and receivables
Recognized at amortized cost (using nominal interest rate) less provision</td><td><u>Financial liabilities:</u>

Recognized at Amortized cost using nominal intest rate</td><td><u>Financial asset and financial liabilities:</u>
Financial instruments are initially recognized when an entity becomes a party to the contractual provisions of the instrument, and are classified into various categories depending upon the type of instrument, which then determines the subsequent measurement of the instrument. Accordingly, financial assets and liabilities are recognized at:
▪ amortized cost using effective rate, or
▪ fair value</td></tr>
</table>

Key differences between IFRS-VAS

VAS

Different specific policies are applied for different types of financial assets

Loans, unlisted corporate bonds, and interbank deposit (except for Nostro balance):

Classified into 5 Groups based on:
1. No of days past due (DPD)
2. Reschedule and restructure (R&R)
3. CIC results
4. Other special conditions
5. Interest exception and reduction
6. Force lending's/ Lending to forbidden client/ purpose

- Cir 02/2013/TT-NHNN & 09/2014/TT-NHNN
- Cir 10/2015/TT-NHNN
- Cir 228/2009/TT-BTC amended by Cir 89/2013/TT-BTC
- Cir 19/2013/TT-NHNN

Total provision = General provision + Specific provision

General provision = 0.75% * Loan principal outstanding

Specific provision = Specific provision rate * Loan exposure
Exposure= Loan Principle – Collateral value with Haircut
Group 1 - Current: 0%
Group 2 - Special mention: 5% of exposure
Group 3 - Sub-Standard: 20% of exposure
Group 4 - Doubtful: 50% of exposure
Group 5 - Loss: 100% of exposure

VAMC Bonds: Provide provision for the bond period (ie: 20%/year for 5 years bond) (after minus collected value) → VAMCE balance should include in bad debt balance

Loans to agriculture sector: are allowed to restructure without changing in loan group

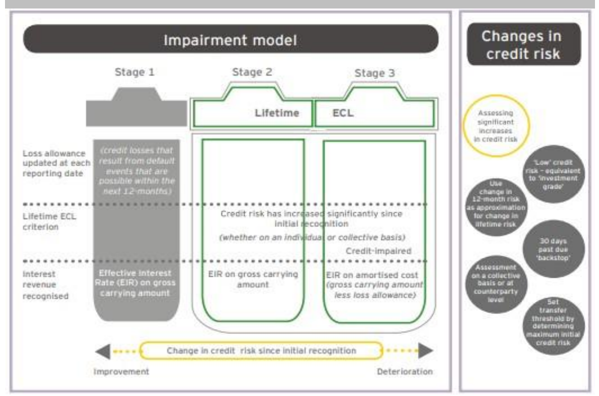
Investment:
- **Listed/ trading on Upcom/ OTC**: difference between market price and CV
- **Non Listed**: Unlisted corporate bonds: same treatment as loan
- **Equity**:
- Short-term: no need to make provision if price can not be determined reliably
- Long-term: use equity method

IFRS

Single Expected credit loss (ECL) approach applied to all assets/liabilities portfolio
The ECL model is calculate based on:

Expected loss = PD*LGD*EAD

Of which:
- Probability of default (**PD**), Loss given default (**LGD**) and Exposure at Default (**EAD**) must take into account Macro economic factors (**MEF**) and probability weighting
- 12 months and lifetime base on stages of credit risk (Default definition and significant increase in credit risk (**SICR**))
- Allow simplified approach for trade receivable assets



Impairments

TECHCC

Key differences between IFRS-VAS

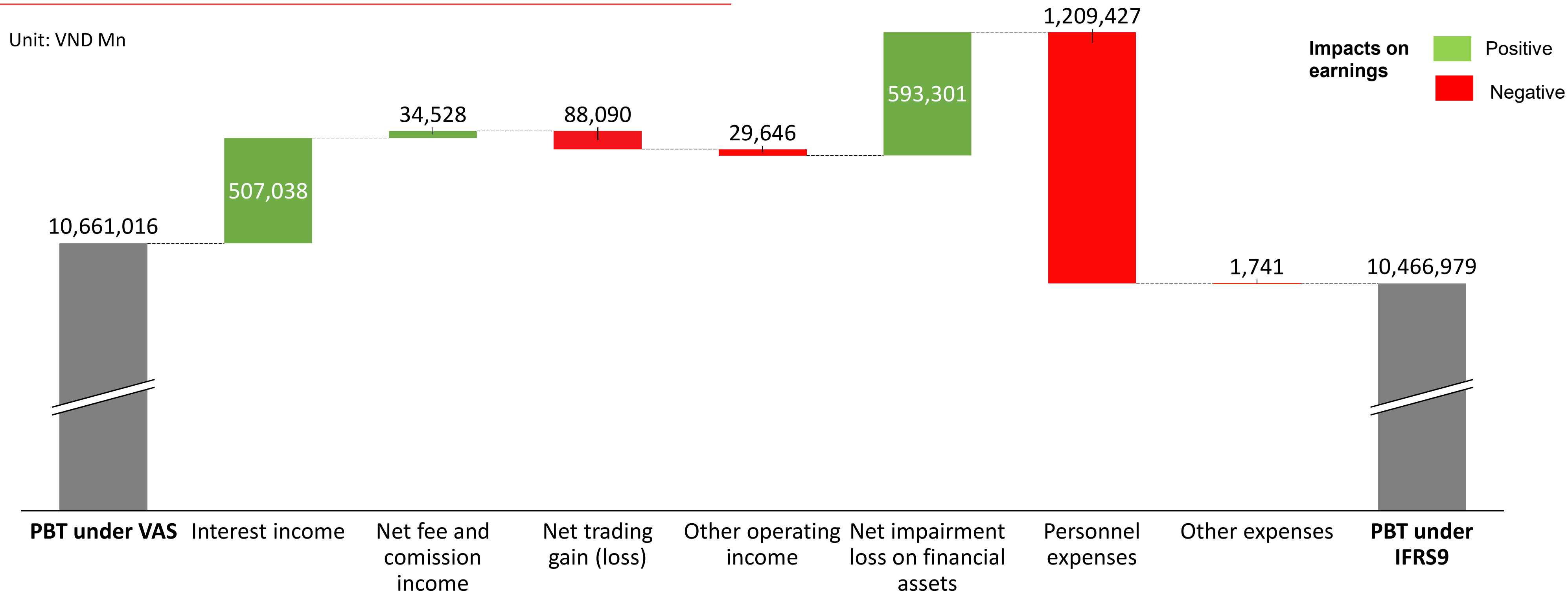
	VAS	IFRS
Income/ expense recognition	**Other comprehensive income (OCI) and Fair value** are not introduced	**Other comprehensive income (OCI)** is introduced to recognize: ▪ Change in Fair value of FVOCI ▪ Change in Fair value of financial instruments designated at FVTPL due to change in company own credit risk
	Interest income ▪ Interest income/expense is calculated based on principal outstanding using coupon rate (or nominal contract rate) and straight-line method ▪ Loans belonging to Group 2 and above are not allowed to accrue interest	**Interest income/expense:** ▪ Interest income/expense is calculated based on carrying value using effective interest method ▪ For instrument at stage 3, Interest income is calculate based on net carrying value
	▪ **Transaction costs** related to the arrangment and creation of loans are recognized into P/L and separate from the recognition and measurement of loans and receivables	▪ **Transaction costs** related to the arrangement and creation of loans will be amortized throughout the term of a loan in the form of an adjustment to the yield of the loan

B. Non-Financial instruments

There is not much differences for non-financial instruments between IFRS and VAS except for Fixed assets and Goodwill

	VAS	IFRS
Fixed assets	▪ VAS only accepts cost model and does not allow revaluation model ▪ VAS also provides some Cap on minimum value of FA and time for amortization) (Cir 45/2013/TT-BTC) ▪ There is no specific requirement for impairments of FA	▪ IFRS accepts two accounting models: cost model and revaluation model ▪ Provision for impairment is made for the difference between carrying value and recoverable amount of FA
Good will	▪ VAS requires amortization for goowill during a period with maximum of 10 years	▪ IFRS requires impairment review for goodwill periodically

TCB PBT reconciliation between VAS and IFRS reporting



IFRS PBT is 194,037 Mn lower than VAS

TECHCOMBANK

TCB TOI reconciliation between VAS and IFRS reporting

Unit: VND Mn

TECHCOMBANK

IFRS TOI is 866,446 Mn higher than VAS

BE GREATER