

INTERNATIONAL FINANCIAL REPORTING STANDARDS EFFECTS ON BANKS IN VIETNAM

Trang Pham

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JYVÄSKYLÄN AMMATTIKORKEAKOULU
JAMK UNIVERSITY OF APPLIED SCIENCES

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<p data-bbox="185 685 288 707">Abstract</p> <p data-bbox="185 741 1302 898">The thesis discusses the Impact of International Financial Reporting Standards (IFRS) on Banks operating in Viet Nam. The goal is to investigate how the adoption of IFRS would change financial practices in Vietnamese Banking Industry and what Bank managers should be prepared for. The thesis use case study method to gain in-depth knowledge about the issue. The case study consisted analysis of Financial Reports from three well-known Banks in Viet Nam.</p> <p data-bbox="185 931 1302 1350">The thesis first introduce about Banking history in Viet Nam then the current status of Banking Industry. After that, the study continue to look into differences in Financial Reports between a typical company and a Bank before analyzing the differences between Vietnamese Accounting Standards (VAS) and IFRS. Furthermore, the thesis includes an important section, discussing the effects of IFRS in Bank's accounting practice in Viet Nam if it is to be implemented. These effects derived from differences between VAS and IAS because changes in Accounting and Operation of Banks would need to be made in order to meet the requirements of IFRS, which are, in general, stricter than those of VAS. Last but not least is the case study of three major Banks in Viet Nam: EXIM Bank, Vietin Bank and ACB. Each bank represent a certain type of Banks in Viet Nam, ranging from state-owned, industrial oriented bank to commercial bank whose portfolio centers in daily household financial services. How each bank implemented IFRS in their financial reports is carefully studied to gain an insight about reality of IFRS implementation in Viet Nam in Banking industry.</p> <p data-bbox="185 1384 1302 1675">From the over view, it can be seen that IFRS has not been made mandatory in Viet Nam, hence it remains optional for Banks to decide whether to follow some or any of the standards when preparing their financial reports. However, the pressure for applying IFRS is increasing, owing to highly competitive environment in the industry and the growing demands for transparency from shareholders. The research has found that banks have begun to include few part of IFRS in the annual reports , though not required in VAS, for example: exchange rate policies, risk management, disclosure to related party, employee benefit and so on. However, this is still far from a complete IFRS implementation and for all cases, all the IAS regulation practiced is only on surface, lacking details information.</p>		
Keywords: IFRS, VAS; adoption, accounting, finance, banks, management		
Miscellaneous		

Declaration of originality

I, Trang Pham, am aware and fully understand of Jyväskylä University of Applied Sciences' policy on plagiarism. I certify that thesis is my own work, except where indicated by referencing, and that I have followed the good academic practices as required.

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1 THESIS INTRODUCTION

The thesis “International Financial Reporting Standards effects on Banks in Vietnam” looks into the implementation of IFRS in Vietnam and the issue rising from the application if IFRS is to be made mandatory for Banks operating in Vietnam.

The thesis serves my future financial- related career in Banks. After conducting studies and in-depth research for the thesis, I have gained significant knowledge about Banking Systems, financial and accounting subjects from an international perspective. Moreover, by comparing the global issue with cases in Vietnam, I have earned priceless experience about Vietnamese financial and banking industry, having access to local business practice and network. The thesis sets advantages for me in future job market owing to the knowledge of IFRS – a hot issue in future of Vietnamese banking industry, which can be combine with my accounting and financial managing skills to deal with tasks of an accountant or financial analysis.

Avoiding another crisis, strengthening the economy - Vietnam can find a solution to these issues through IFRS. The year 2008 witnessed a gloomy time when the world was shaken by the collapse of large Financial Institutions all around the world (Anup Shah, December 11, 2010. Global Financial Crisis. Global Issue). Initially, the crisis started when big names in the Industry in the United States such as Fannie Mae, Freddie Mac, Lehman Brothers, AIG announced bankruptcy, left negative impacts on the worldwide financial market, leading to the breakdown of Banks in UK (Northern Rock), Ireland, Denmark (Roskilde Bank) and more to the list (The Wall Street Journal, 2008). The crisis has cost Governments, businessmen and household billions of Dollars, making people lose their houses, struggle with unemployment and requiring years of the economy to recover (2008-2009 Financial Crisis causes and effects,2010, Cash Money Life magazine)

Regretfully, many scientists and financial consultants announced that the crisis was predictable and could be prevented by stricter regulation systems for Banks in the US. As known, the root of the trouble was: The United States housing bubble which peaked in approximately 2005–2006 which involved subprime adjustable rate mortgages and

mortgage-backed securities (As augured in "Egg Cracks Differ In Housing, Finance Shells". Retrieved July 13, 2008. The Wall Street Journal.). James F. Davis, author of "The cause of 2008 financial crisis" on Accuracy in Media, October 14, 2008 put the blame on "sub-prime" loans, criticizing that Banks like Fannie Mae Corp had taken too much risk on customer properties without disclosure of such risky investments to the related parties. Meanwhile, credit default, high secrecy and lack of disclosing, are reasons which Shah Gilani explained in his article "The real reason for global financial crisis", 2008 on The Money Morning magazine. The authors- Davis and Gilani both agreed that greedy banks managers when realized holes in accounting systems and losing control in the financing market, have used customers properties, monetary to invest in extremely risky hedge fund activities without reporting to account owners. As a result, the risks exploded and the whole world has paid a price for some individuals' selfish actions. If only law makers had been stricter about transparency in the Banking Industry, banning on secret operation and cash flows as well as making regulation on disclosures to related parties, such risky financing activities could have been stopped in an early stage, saving the world from a financial disaster (Phillip Swagel, 2009 The Cost of Financial Crisis, PEW trust Economic policies group)

This is when Government in many countries become aware of IFRS. The International Accounting Standards Board is confident that IFRS contains clear guidance, comprehensive regulations on various perspectives, created and revised annually by a group of Accounting and Financial Officers from various nations with a careful observation system to supervise the implementation in the member countries. Consequently, IFRS may provide a fair regulation system for all companies, regardless of origins and type of Business (Why do countries adopt International Reporting Standards, Harvard Business School, 2009) These are advantages of IFRS which would be beneficial in preventing another Financial Crisis

The International Financial Reporting Standards (IFRS) has been long in use in many developed countries around the world, including all the EU countries, Singapore, and recently applied in India and America (Use around the world, IFRS foundation website , 2012). Appendix 1 illustrates the adoption of IFRS worldwide with current status of each country toward IFRS.

Noticeably, in the Knowledge for Market magazine, April 5th, 2010, Salman Khursid, Union Minister for Cooperate Affair of India showed absolute favor for IFRS, pointing out that “Internationally, in so far as cross border investments are concerned, a non IFRS compliant country is perceived as an additional risk factor”. India is an Asian country, has the same developing economics as Vietnam and also has some similarities in the financial industry and policies, it is now applying IFRS for the first time. India’s move toward IFRS raised the question of the future of IFRS in Vietnam, especially in the Banking Industry. Hence the thesis focus on the Impact of IFRS on Banks in Vietnam to find the answers to the following questions:

1. What are the differences between IFRS and VAS?
2. In recent years, how have Vietnamese Banks coordinated IFRS in their financial reports?
3. What are the implications to bank managers of IFRS being adopted in Vietnam?

Until now, VAS is used as the official accounting standards for all the banks operating in Vietnam. However, few banks such as EXIM, Vietin and ACB prepared their annual report of 2009 and 2010 with modification according to IFRS. The financial statements of these banks are, later, studied in the thesis to get an insight view into how the banking industry in Vietnam reacts to IFRS and how IFRS has affected the industry so far.

2 HISTORY OF VIETNAMESE BANKING INDUSTRY

Vietnamese banking industry has gone through various stages of development, owing to the national revolution and construction. The French colonized Indochina region, forcing their colonialists rule for banking industry. They founded and Indo Bank which acted as

the central bank for Indochina region, including Vietnam, Lao and Cambodia and a commercial bank as well. However, when Vietnamese Communist won the war, a new banking system was set up. In February, 1951, President Ho Chi Minh signed Decision 15/SL on the establishment of the Vietnam National Bank – Bank of the first people’s democratic state in Southeast Asia to accomplish five urgent missions: issuing banknotes, managing treasury, carrying out credit policy in order to facilitate production and coordinating with the trade authorities for monetary management and struggling against the enemy” (The State Bank of Vietnam, History, 2011). Later, the Vietnam National Bank was renamed State Bank of Vietnam (SBV) on January 21st, 1960 and remains the same until now.

In order to limit inflation through the bank's ability to coordinate the extension of credit, the Government established “the first solely commercial bank in Ho Chi Minh City in July 1987 to handle personal savings and to extend loans to enterprises and individuals” (Banking in Vietnam, 2011). 1987 was a significant year in Vietnamese Banking industry. It was the start of the globalization era of Banks in Vietnam with the opening of an account by the Foreign Trade Bank. The bank serves overseas Vietnamese who would want remittances of foreign currencies to their relatives at home. It also deals with various currencies and the establishment of a finance company in Tokyo in partnership with a Japanese bank- the first joint venture between two countries.

According to the statistic of Soo - Nam – Oh, in Financial Deepening in the Banking Sector – Viet Nam: the banking sector has a wide diversification in terms of type, size and ownership . As of the end of June 1998, the industry consisted of 24 branches of foreign banks, four joint-venture banks, 62 representative offices of foreign banks, 68 credit cooperatives, two finance companies, almost 1,000 people’s credit funds, and one Government-owned insurance company. (More details information on types and financial institutions are provided in Appendix 1). From the supervision, Ministry of Finance (MoF) is in charge of all insurance companies while SBV supervises all the operations of banks and nonbank financial institutions (NBFIs), including off-site and on-site inspection, prudential regulations on lending as well as stipulating minimum capital requirements.

Surprisingly, in a relatively short time, Vietnam's banking sector has transitioned from purely state-owned commercial banks and restricted foreign participation industry to the one with a more diversified set of market participants, including both state-owned banks, partially privatized banks, joint ventures and foreign institutions. (Asian Focus, Federal Reserve Bank of San Francisco, June 2011)

Unfortunately, Banking industry's history has been shadowed with scandals and corruption. According to the article "Viet Nam central bank governor" posted in Internal Herald Tribune, 2007, the new bank notes known as "Polymer Dong" received public criticism for bad printing quality and governor Le Duc Thuy was accused of abusing his power to purchase a state house for the price 10 times less than market value in the same year, 2007.

3 CURRENT SITUATION OF VIETNAMESE BANKING INDUSTRY

From the early years, Vietnam's banks have had a negative reputation for low public confidence, regulatory and managerial weakness, high levels of non-performing loans (NPL), non-compliance with the Basel capital standards, and the absence of

international auditing. Due to the failure of numerous State-owned enterprises (SOEs), in September 2005 Vietnam decided to equities all five state-owned banks—instead of the previous plan to equities only two of them. Despite the effort to undertake the structural changes in the Vietnamese banking sector, the country remains “under banked” with limited financial mobilization and allocation.

However, the sector has expanded significantly and the trend is continuing in future. The Federal Reserve of San Francisco estimated in their Country Analysis, June 2011 that “During the 3 years period of 2007 to 2010, total domestic assets in the system had grown double from VND 1,097 trillion (USD 52.4 billion) to VND 2,690 trillion (USD 128.7 billion). It is expected to reach the peak of VND 3,667 (USD 175.4 billion) by the end of 2012” . Along with the rapid growing economy is the rise in household incomes and demand for retail banking services. Hence, the number of cards issued has reached 28.5 million in 2010 and ATM machines have been more and more popular, from 1,800 in 2005 to 11,000 as of December 2010, appearing in almost every street corner in big cities. Vietnamese market offers precious opportunities for banking service providers.

Currently, there are controversies and debates about the enormous reforming stage of Banking Sector. In the article- Asian Focus, June 2011, The Federal Reserve Bank of San Francisco predicted that “Competition for capital among banks will increase because of the approaching deadline for the new minimum capitalization, which is in December 2011. Moreover, SBVs recently announcement of new limitations on foreign investment in SOCBs could delay the process privatization as well as limit the number of investors. Unsurprisingly , the changes in regulations and management in Banking have brought hope for the ending of era of secrecy in the industry, however, such reformation has raised worries. Both investors and shareholders are confused at the future of the sector, hence, reluctant to invest. In the effort to control the information, clear rumors, keeping the financial market stable, Vietnamese Government has released up-to-date publication on movements of the SBV and regulatory bodies. One of the best government approved online journal sources would be “Cafef” - The official information website for Financial market industry of Vietnam (Link can be found in the resource list

4 DIFFERENCES IN THE BANK FINANCIAL STATEMENTS

Financial Statements are critical parts of a financial report, giving essential information about the financial situation of the firm. The U.S Securities and Exchange Commission explained simply in their brochures, 2007, that a financial statement (FS) simply shows you the money a company is making or loosing. The brochures added that “FS show you where a company’s money came from, where it went, and where it is now”. The three main financial statements are: Balance sheet (BS), Income statement (IS) and Cash flow statement (CS). Below is summaries of each statement functions and how the banks’ version differs from that of a typical company.

4.1 Balance sheet

Balance sheets (BS) show what a company owns – the assets – and what it owes – the liabilities, shareholder equities – at a fixed point in time. Banks’ BS differ greatly from those of a typical company, especially, manufacturer.

Generally, “Assets are tangible property, such as plants, trucks, equipment and inventory. It can also be intangible such as trademarks and patents” (The U.S Securities and Exchange Commission, 2007) However, it can be seen easily in banks’ BS that such items as named previously are replaced by many cash – related, investment and loans figures. The difference originates from the nature of banking business, which concerns monetary, currency and investment trading.” Banks assume financial risk by making loans at interest rates that differ from rates paid on deposits. Hence, deposits often mature faster than loans and adjust to current market rates faster than loans. The result is a mismatch in balance sheet between assets (loans) and liabilities (deposits)”, quoted from Hans Wagner articles on Investopedia, 2007. While a normal firm has factories, materials for production, machines, etc... under the assets category, bank lists cash, gold, due and loans, trading, investment securities, investment, lease and so on under theirs. Similarly, the liabilities of banks are : borrowing, deposits, funds, etc...A demonstration of a standard Bank BS is provided in Appendix 2.

4.2 Income Statement

Income statements (IS) show a company's revenue over a specific time period and the company's net earnings or losses are showed the "bottom line". Normally, the net earnings (losses) are calculated by deducting all the expenses (ex: cost of goods sold (COGs), operating expenses) from revenue. Additionally, the Earning per share (EPS) indicates "the amount of money shareholders would receive if the company decided to distribute all of the net earnings for the period"(The U.S Securities and Exchange Commission, 2007).

Notably, there is no COGs in banks' IS because the bank is not producing any tangible product. Hans Wagner explained, in *Analyzing a Banks' financial statements*, the mechanism of banking business that "Banks take deposits from savers, paying interest on some of these accounts. Borrowers then receive these fund and pay interest on the loans to the banks. The banks make profits from the derivation of the spread between the rate they pay for funds and the interest rate paid by borrowers". So by being the intermediary of interest paid and interest received and taking on the risks of offering credit the banks earn their profit. Interest earned or expensed as well as deposits and loans are presented in the line items in IS of banks.

Importantly, when analyzing a bank IS, there are two factors, affecting the profitability of the financial institution, needed paying attention: Interest rate risk and Credit risk. The management of the spread between interest paid on deposits and received on loans over time are called Interest rate risk management. Mean while, the likelihood that a borrower will default on its loan or lease, causing the bank to lose any potential interest earned as well as the principal that was loaned to the borrower is Credit risk (Investopedia, 2007) . Appendix 3 shows a basic banks' IS.

4.3 Cash flow Statement

Cash flow statements (CS) shows the inflow and outflow of cash in the firm. If the IS show how profitable the business, CS show whether they generate cash. For investors, CS is vital in evaluation to examine the bank financial situation. As the bank business is to manage the flow of funds, it is essential that the cash flow is healthy, meaning that the inflow and outflow should be balanced, with enough cash on hand when needed but not too much which may be a sign of poor investment plan. Unlike firms in other industry, banks' outflows are not for purchased of materials, machines but for interest payments, increase in due or loans, trading securities, etc... Likewise, the inflows are from borrowings, valuable papers issued, for instance. Obviously, all the investment and cash management can be seen on the CS. During the crisis time, a strong financial situation means the bank has enough cash inflow to support the liabilities and investment without having inflow from borrowing or loans from other sources.

5 VIETNAMESE ACCOUNTING STANDARDS IN COMPARISON TO IFRS

5.1 Vietnamese Accounting Standards

On 1st November 1995, MoF issued a standard Vietnamese Accounting System Chart of Accounts. Since then, the system has been complemented with various Circulars. Later,

on 31 December 2001, the first Vietnamese Accounting Standards (VAS) were issued. They are based on the IASs that were issued during 2003, though some modifications were made to reflect local accounting regulations and environments. Nevertheless, none of the IASB's amendments to IASs or new IFRSs have been adopted (IAS plus, Financial Reporting framework in Vietnam, September 2009), and VAS does not have an accounting interpretation equivalent to any of the SIC interpretation or IFRIC Interpretations. As of 30 September 2008, there are 26 Accounting Standards issued. All domestic companies, listed and unlisted, are currently required to use the Vietnamese Accounting Standards (VAS). A list of VAS enforced since 2006 is shown in Appendix 4.

In more detail, the VAS requirement of the accounting records includes: the use of Vietnamese language; the use of Vietnamese dong as the accounting currency; compliance with the Vietnam chart of accounts; producing numerous reports as specified by the VAS regulations, printing all reports on a monthly basis and having them signed by the General Director and affixed with the company seal (for more information, refer to Appendix 5) It is advisable for companies to carefully check their accounting systems to spot any VAS non-compliant issues since the tax authorities penalize for non-compliance through the disallowance of input VAT credits: the withdrawal of corporate income tax incentives and the change to the method for application of corporate income tax. As for bank managers, any scandal relates to tax penalties and/or accounting systems would cause great damage to their reputation, badly affecting shareholders' trust, especially during the a financial crisis.

However, not all accountants and auditors are satisfied with the accounting systems in Vietnam. VAS has been criticized for its complexity and time consuming reporting process. Joyce Roque argued in the article "Complying with Vietnam Accounting Standard, 2010) on Vietnam Briefing magazine that: "Fulfilling VAS requirements is a challenging task" and has found that in a recently report, weakness in VAS offered opportunity for corruption "provincial tax authorities use VAS non-compliance as a reason to collect additional tax and even recover previously paid VAT refunds"

Nowadays, there have been more and more firms deciding to voluntarily follow the IFRS standards, making way for IFRS being adopted in Vietnam in the future. Moreover, many foreign companies or joint ventures have chosen to manage two accounting records – one

that is based on the VAS and another compiled according to IFRS, especially for the English language Financial Report version for international purposes.

A. International Financial Reporting and International Accounting Standards

International Financial Reporting Standards (IFRS) are principles-based standards, interpretations and the framework (1989) adopted by the International Accounting Standards Board (IASB). Part of IFRS are formed by the IAS (International Accounting Standards), which was issued during 1973 – 2001 and has been revised and modified from time to time since then.

IFRS are considered a "principles based" set of standards in that they establish broad rules as well as dictating specific treatments.

International Financial Reporting Standards comprise:

- *International Financial Reporting Standards (IFRS)*—standards issued after 2001
- *International Accounting Standards (IAS)*—standards issued before 2001
- *Interpretations originated from the International Financial Reporting Interpretations Committee (IFRIC)*—issued after 2001
- *Standing Interpretations Committee (SIC)*—issued before 2001
- *Framework for the Preparation and Presentation of Financial Statements (1989)*

B. Organizations in charge of IFRS and changes in 2010

These are main organizations responsible for creating and supervising the IFRS. In 2010-2011, there have been changes in the operation.

IASB: The international Accounting Standards Board (IASB), based in London, began operations in 2001. The IASB is committed to developing, in the public interest, a single set of high quality, global accounting standards that require transparent and comparable information in general purpose financial statements.

Trustees: Twenty two Trustees provide oversight of the operations of the IFRS Foundation and the IASB. The responsibilities of the Trustees include the appointment of the members of the IASB, the IFRS Advisory Council and the IFRS Interpretations Committee: overseeing and monitoring the IASB's effectiveness and the adherence to its

due process and consultation procedures. The Trustees comprise individuals that as a group provide an appropriate balance of professional backgrounds, including auditors, preparers, users, academics and other officials serving the public interest. Under the Constitution of the IFRS Foundation as revised in 2010, the Trustees are appointed so that there are six from the Asia/Oceania region, six from Europe, six from North America, one from South America, and two others from any area, as long as geographical balance is maintained

IFRS Foundation's Constitution: The IFRS Foundation's Constitution requires the Trustees to review the constitutional arrangements every five years.

IFRS Interpretations Committee: The IFRS Interpretations Committee is appointed by the Trustees to assist the IASB in establishing and improving standards of financial accounting and reporting for the benefit of users, preparers and auditors of financial statements. The Committee (IFRIC) was established by The Trustees in March 2002, to replace the previous interpretation committee, the Standing Interpretations Committee (SIC). It provides timely guidance on newly identified financial reporting issues not specifically addressed or seem likely to develop. After each Committee meeting, a summary of decisions will be updated on IFRS website

IASB technical staff: a staff based in London, headed by the Chairman of the IASB, supports the IASB. The staff consisted multi-national members from all over the world, namely, Australia, Bosnia-Herzegovina, Canada, China, France, Germany, Ghana, Iceland, Italy, Japan, Republic of Korea, Malaysia, Mexico, The Netherlands, New Zealand, South Africa, Spain, the United Kingdom and the United States. (IFRS, 1 October 2010 the technical staff)

Source: all information on structure and function of IFRS has been exacted from IFRS official guidance site and material.

C. VAS compares to IFRS (IAS):

Initially, it should be noted that the thesis focus on analyzing IFRS from the accounting view of the banks. Consequently, VAS would be compared to IAS, part of IFRS.

The table below shows a brief comparison between VAS and IAS/IFRS. The data is based on PricewaterhouseCoopers International Limited analysis “Similarities and Differences A Comparison of IFRS and Vietnamese GAAP” as of 2008.

TABLE 1: VAS in comparison to IAS/IFRS. 2008. Adopted from “Similarities and Differences a comparison of IFRS and Vietnamese GAAP”. PwC analysis document

IAS/IFRS and VAS	Current Status	Key Differences
IAS 1: Presentation of Financial Statement VAS 21: Presentation of Financial Statement	VAS 21 is based on the previous version of IAS 1 (revised 2003)	VAS 21: managements key judgments, key assumptions concerning the future as well as other key sources of estimation uncertainty are not disclosed VAS 21: though an analysis of changes in equity is required but it is not considered as a primary statement.

<p>IAS 19 Employee Benefits</p> <p>No Effective VAS</p>	<p>No effective VAS</p>	<p>No existing VAS which is equivalent to IAS 19</p>
<p>IAS 20 Accounting for Government Grants and Disclosure of Government Assistance</p> <p>No Effective VAS</p>	<p>No effective VAS</p>	<p>No existing VAS which is equivalent to IAS 20.</p>
<p>IAS 21 The Effects of Changes in foreign Exchange Rates</p> <p>VAS 10 The Effects of Changes in Foreign Exchange Rates</p>	<p>VAS 10 is based on the previous version of IAS 21 (1993)</p>	<p>_ VAS 10: no requirement for “functional currency”</p> <p>_ All changes in new version of IAS 21 are not yet implemented in VAS 10</p>
<p>IAS 29 Financial Reporting in Hyperinflationary Economic</p> <p>No Effective VAS</p>	<p>No effective VAS</p>	<p>No existing VAS which is equivalent to IAS 29.</p>
<p>IAS 32 Financial Instruments : Presentation</p> <p>No Effective VAS</p>	<p>No effective VAS</p>	<p>No existing VAS which is equivalent to IAS 32.</p>

6 DISCUSSION ON HOW IFRS AFFECTS BANKS IN VIETNAM

Until now, According to “Circular No. 210/2009/TT-BTC” of the MoF, IFRS has not been in force in Viet Nam. It is left to companies to decide whether they want to voluntarily follow IFRS or traditionally report to VAS. The following analysis will look into the pros and cons the banks are facing if IFRS is to be adopted in Viet Nam. Based on the above table of differences between IFRS and VAS, the most important factors will be analyzed in depth

6.1 Presentation of a Financial Statement

Generally, VAS has been criticized for being descriptive and inflexible (stated by So-Nam- Oh in “Financial Deepening in the Banking Sector”, also mentioned in article “Doing Business in Vietnam”, 2011 by UHY audit and advisory service. Thus, an FS prepared under VAS contains various classification and presentational differences compared to those following IFRS.

According to VAS 21, the disclosure of a management decision, future assumptions and so on, are not required. Consequently, transparency is not achieved. IFRS has stricter regulation on disclosure within FS, which will result in more transparency and in a better presentation of the systems (Nguyen Huy Phuong professor, 2011, “VAS vs. IFRS comparison”, studying material, Vietnam National University of Economics) In the banking industry, such a disclosure is important as it provides information on the future plans of banks and explanations to certain moves made by the managers. Hans Wagner advised in his article “Analyzing a bank’s financial statement”, 2007 that for shareholders, the more disclosure reported in FS, the better management they have over their interests. With VAS, FS has not delivered all the vital information to shareholders because the public neither know about the decisions on investments made by the Board of Managers nor about the risks of investing the firms’ resources in the future. On the other hand, IFRS requires managers to be more descriptive about their plans explaining to

investors about how risky their action would be in future, reducing secrecy in the banking sector (First time adoption of IFRS, management requirements, section 2)

Many accountants and professors in financial field, such as Professor Nguyen Huy Cuong, and members of Vietnam Association of certified public accountants believe if IFRS is to be implemented in Viet Nam, this would make major changes to FS preparation process and managers should plan carefully details given to public. This is a good change to Vietnamese accounting systems bringing benefit to shareholders. However, some banks may be reluctant to change because it reduces the misleading and corruption, which are popular in Viet Nam until now. Moreover, KPMG expressed the concern in their document “Impact of IFRS: Banking” that knowing the risks of investment may discourage certain investors to contribute money or approve some decisions, negatively affects the power of banks managers and operation Nevertheless, the advantage out numbers the disadvantage in this case and IFRS is better than VAS on Presentation rules.

6.2 Accounting for Government Grants and Disclosure of Government Assistance

While IFRS has specific guidance – IAS 20 – for Government related support, VAS does not despite that this is an essential item which should be mentioned and accounted in the FS. During the financial crisis, financial institutions rely heavily on Government support in form of Grants, for example to inject the cash inflow, support the loans and interest. The amount of assistance can be large, amounting up to billions (“Importance of grants- The Goodness of Government aid”, 2009, Mary Dawn Tingal). Hence, it is vital that all the numbers are included in Balance sheet and Cash flow statements, so that public can follow how the resource is used, making sure no bad will or corruption involved. Moreover, it reflects the real financial status of banks, showing whether the cash inflow and resources available truly belongs to the institutions or they are only borrowed.

Highly known for weak resources management disclosure which is the root of corrupting, Viet Nam would go through tremendous change in financial industry if IAS 20 is made mandatory to Banks. Obviously, there would be two sides, one strongly support the changes, aiming at a better accounting standards to create fairness in the sector while the other side is strongly against the change which would put an end to illegal action.

6.3 The Effects of Changes in Foreign Exchange Rates

Entities with foreign operation such as a parent or subsidiary or branch are required under IAS 21 to measure results and financial position under “functional currency”. In contrast, VAS does not include such requirement, giving firms freedom to choose currency to report. However, with the growing number of joint-venture, foreign owned subsidiaries and foreign joint-venture banks, this issue has become more and more alarming.

Generally, Vietnam Dong (VND - official Vietnamese currency) is weaker than most of other currency, especially, strong ones like USD, Euro, Pound, Japanese Yen, etc... and currency exchange rate fluctuate frequently. Likely, banks may take advantage of the differences in currency to prepare financial report which is beneficial for them with misleading information. In banking industry, financial situation is one of the priorities which investors based on when making the investment decision. By choosing a stronger currency to prepare FS, once translated into VND will make the Income Statement look brighter, with high revenue and the FS seems more potential with lot of cash. Last but not least, with the instable exchange rate, it is difficult to choose an estimation method in accounting standards, resulting in un-reliable information in FS as well as making the process more confusing to Account

Applying IFRS in Vietnam proves to be a good opportunity for more accurate information from banks to public and simplify accountants' job when preparing FS. However, IAS 21 may meet disagreement from Banks which are benefiting from exchange rate differences.

6.4 Borrowing Costs

Apparently, IAS 23 regulation on expensing off borrowing costs which are directly attributable to qualifying assets is more flexible than VAS 16. Obviously, all borrowings would be more visible in FS under VAS rules as they are required to be capitalized. It is not easy to justify which accounting standard is better in this case because IAS makes it easier for Banking Institutions but borrowing items may not be as clear to shareholders in FS as they are in FS prepared under VAS. However, IAS gives also option of capitalization if firms prefer. During crisis time, expense off and written off is a good solution for preventing nervousness in investors, resulting in withdrawal of funds, hence, give banks which are not doing their best a chance to recover in the next period. If IFRS is introduced, Vietnamese Auditors should be aware of bad will accounting reports, trying to hide large amount of borrowings, resulting in false financial situation.

6.5 Financial Reporting in Hyperinflationary Economies

Interestingly, there is no existing VAS related to the issue though Vietnam has an extremely high percentage of inflation, with Consumer Price Index swing around 18 percent in 2011 as reported by the National Financial Supervisory Committee, 3rd September 2011. According to IAS 29, prepared in 2009, “The application of certain procedures as well as judgment are required if company wish to restate financial statements in accordance with this Standard. It is more important to apply these procedures and judgments consistently from period to period than to making precise accuracy of the resulting amounts included in the restated financial statements. The restatement of financial statements in accordance with this Standard requires that banks use a general price index that reflects changes in general purchasing power”. From Bank industry perspective, this is an essential IAS, having great impact on the FS as Banks mainly deal with currency and other inflation – sensitive items. Changes in value of monetary affecting BS and IS items are, certainly, important to not only Banks managers but shareholders as well. That is why, for a fair FS, IAS 29 should be applied, so that

true, up – to – date FS, reflecting the real financial status of institutions are delivered to public.

6.6 Interest in Joint Venture

Firstly, it is important to note that there is a specific references named “Business Co-operation Contracts” in VAS 8 and all Joint Venture need to follow the rule, which bears differences than that practiced in other countries, resulting in variation in accounting report (Legal Document section Viet Nam association of certified public accountants, updated 2011). Secondly, there are numbers of different methods allowed in each regulation. For instance, VAS 8 does not allow Proportionate consolidation method but agree that companies can prepare separate FS account for their investment in joint ventures at cost. Meanwhile, IAS 31 allow a venture accounts for its interest at cost and only Equity method is allowed regardless of whether consolidated FS are prepared (Viet Nam Accounting Standards, Viet Nam association of public accountants, legal document section). Because of these differences, switching from VAS to IFRS would require changes inside companies operation and accounting recording methods. It may take years until Banks accounting systems get used to the new standards. Along with the globalization there have been more and more joint ventured Banks opened in Vietnam. The changes in financial reporting systems would affect the Balance Sheet presentation strongly, showing the joint – relationship more clearly in Equity section – stated by professor Nguyen Huu Cuong in his teaching material “The possibilities of adopting IFRS/IAS in Vietnam”, 2011, Da Nang University of Economics

6.7 Financial Instruments: Recognition and Measurement

Basically, Financial Instruments are not considered under VAS. IAS 39 defines Financial Instruments as follows: “Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity is considered as a financial

instrument”. However, there are assets and liabilities which are not contractual, hence, not considered Financial Instrument, such as the obligation to pay taxes for example. In banking, financial instruments is a common term since most of the revenues comes from such contracts. Thus, including recognition, measurements and presentation of Financial Instruments in accounting report standards to all financial institutions helps improve the transparency in banking operations, eliminating secrecy in the sector. Once applied in Vietnam, this will cause major changes to the FS in banking and affect the FS analysis.

6.8 Share Based Payment

Surprisingly, VAS lacks regulations on considerably important issues such as based payment. According to Financial Reporting Council, April 2004, “The term ‘share-based payments’ means all types of executive share options and share purchase plans as well as employee share options and share purchase schemes, this refers to the Save-As-You-Earn (SAYE) plans and similar arrangements as well. This concerns also arrangements such as share appreciation rights, where a cash payment is made, the amount of payments depends on the share price”. Moreover, IFRS 2 applies to “ transactions to suppliers of goods or non-employee services which involve share-based payments are made in exchange for these goods or services” (Financial Reporting Council, April, 2004).

Surely, banks issue numerous shares to gain capital and cash for investments. Hence, clear, fair regulations which provides guidance on share based payment to all related parties should be included in the Accounting Standards System. Once introduced in Vietnam, IFRS would affect the profit distribution to the shareholders because it demands more disclosure in the banking operations and the financial reporting process, resulting in more benefits for public and Government, reducing corruption and bad wills activities (IFRS Overview, New York State society of CPAs). With IFRS 2, the shareowners are more aware of their rights and duties and the payment terms for their investments.

7 ANALYSIS OF BANKS' FINANCIAL REPORT IN VIETNAM

7.1 Vietin Bank

A. Bank Overview

Vietnam Joint Stock Commercial Bank for Industry and Trade, the so called “Vietin Bank” used to be part of the state Bank of Vietnam until 1988. According to Vietin Bank official document, the bank is ranked as one of the four largest state-owned commercial banks of Vietnam, it assets over 20 percent of the market share of the whole Vietnamese banking system with an impressive operations network comprising of one Transaction Centers, 149 branches, 527 transaction offices, 166 savings offices, two Representative offices, four Subsidiaries, three administrative units and 1042 Automatic Telling Machines (ATMs). Moreover, in their annual report 2010, the bank announced that it has actively expanded its international network with 850 banks, financial institutions in 90 countries and territories all over the world as of 2009. Last but not least, this is the founder of the first financial leasing company in Vietnam known as Vietnam International Leasing Company – VILC as well as the first bank in Vietnam to apply modern technology and e-commerce in its banking operations.

B. Financial Reporting Systems

In 2010, Vietin Bank voluntarily prepared both FS for Annual Report and Interim Financial Report, though, according to VAS, an Interim report is not compulsory. By looking into both reports, we will now analyze how financial statements under VAS differ from those under IFRS.

Annual Report 2010

First of all, we examine the 2010, annual report and its FS. Over all, the report structure appears confusing and complicated with much information presented but none deeply analyzed.

Furthermore, FS and notes to FS have a layout as IFRS requirements but mostly they are not completed and lack in details. For example, IAS 1, presentation of Financial Statements: requires a management opinion and decision on future plan, certain risks and past investments. However, as Vietin Banks FS are prepared under VAS, with less strict

and detailed regulation, the Management Review is short and only in general, with no specific figures, explanation or list of future activities.

Similarly, a Government Grant is categorized as borrowing from State Banks and presented in FS but in the Notes to FS, these loans usages are not specified. Hence, it is not yet clear to the stake holders how the loans were managed if the flow of a significant amount of cash has gone un-noticed. This does not meet the IFRS requirements.

However, there was no consideration for the inflation rate, though the Vietnamese inflation is at an alarming level. For example, “ Both tangible fixed assets and intangible assets have depreciation and amortization rate calculated on a straight-line basis over the estimated useful life of the assets” (Significant Accounting Policies, Depreciation and Amortization, page 67). Obviously, this method is not suitable for such a highly inflated country as Vietnam since it over-estimates the real value of assets which may mislead the financial status and reduce accuracy in accounting. This reflects a draw-back of VAS compared to IFRS.

Interim Financial Report - June 2011

Initially, it should be noted that Interim Financial Report are unaudited and for a less than 1 year period, more accurately, this report is for the first half year of 2011.

In general, this report provides with more detailed information and accounting policies explanation than the annual report, making it more valuable to investors and shareholders. Unlike in annual report, Interim report includes foreign exchange transaction policies, grants usage, inflation measurement and most importantly, Risk Management methods. These are all crucial factor in Banking Industry and we would go in more detail one by one.

a) Investments:

In section 2.16 and 2.17, on page 20, there are short summaries of investment decision and policies. The bank gave details on the investment to its Joint Venture: “ The investment to Indovina Joint Venture Bank was made in USD, which is also the reporting currency of Indovina Joint Venture Bank” and explained that this investment appeared in FS in Vietnam Dong (VND) due to the accounting policies. Similarly, for long term

investment, the note highlighted important policies and legal process. Though there is no future investment plan mentioned and rather short explanation on investment, this can be seen as an effort to move toward IFRS.

b) Employee benefits:

Section 2.28, page 25 contains a full and comprehensive Employee benefit plan, including: post employment benefits, voluntary resignation and retrenchment benefits, and unemployment fund. Though Employee benefits is not required under VAS, the Bank has prepared a carefully plan report on this issue. This is similar to FS of Banks following IFRS.

c) Foreign currency transaction:

Notably, the Foreign currency (FX) transaction, section 2.29, page 26 marks a significant improvements in preparing a transparent FS. Under VAS, there is no obligation in reporting FX transaction policies, in contrast, IFRS makes it mandatory that Banks provide such information in Financial Report. All important information can be found under the section, namely:

- _ How transactions are recorded: all recorded in original currency
- _ Exchange rate at balance sheet date is used when FX assets and Liabilities are translated into VND
- _ Exchange rate at date of transaction is applied to FX incomes and expenses translation
- _ For Indovina Joint Venture: Spot exchange rate on the balance sheet date for Joint Venture investment, exchange rate on the recipe date of capital for equity accounts conversion, yearly average exchange rate for consolidated income statement, etc...

Clearly, this gives shareholders a better understanding of how the bank works, reducing secrecy in operation.

d) Borrowing from the SBV and FoM:

Though there is Government Grants mentioned in the Financial Report, section 15 page 49 is devoted to Borrowing from SBV and FoM. The section includes borrowing terms

and explanation on how the borrowings were made. Interestingly, some of the borrowings which are non – interest are referred to as grant from SBV.

e) Risk management:

Last but not least, a large proportion of the report, from section 39 to section 41 is used to explained different type of risk managements. This can be considered the most important part of a Bank Financial report since the nature of Banking industry is taking the risk in financial market. This is part of the IFRS requirement on management review which is not strictly regulated under VAS.

The two main risks a Bank faces during operation are: credit risk and market risk. However, the system is more complicated and risky then it may look. Under market risk, there are other risks to be managed, for example: Interest rate risks, currency risks and liquidity risks. Each of these needs specific inspection and monitoring regulation so that each action made is considered thoroughly and to ensure that managers fully understand all the risks a waiting and difficulties arise as well as to make a careful plan for emergencies when unexpected issue strikes.

From the public perspective, risk management policies reflect how the operation of a Bank works and how their investments are secured. Hence, a good Risk management presentation in Financial report scored the trust of investors and other stake holders, winning more investments for the Bank. That is why managers need to review all the information presented in this section and acknowledge the important role it plays. In Vietin Bank case, the risk management section is detailed, informative and has exceeded the basic regulation of VAS.

C. Overall Review

In conclusion, Vietin Banks financial reports are divided into 2 forms: the annual report and Interim Financial report. Though the Interim Financial report contains helpful information and reflects the Bank effort to comply with IFRS, the drawback is that this report is not audited and only for a 6 month period. Mean while, the official annual report is less comprehensive, lacks of crucial facts and explanation, thus, is far from meeting the requirement of IFRS. This raises the question to bank manager for the differences in two reports and possibility of implementing IFRS in future.

For the full reports and figures, refer to Appendix 8 and resources.

7.2 ACB Vietnam

A. Bank overview

Asian Commercial Bank, so called ACB is the Joint Stock Bank, started operation since June, 1993. As stated in the firm's slogan "The people's bank", it focuses on private customers business and so far, has thrived to satisfy the needs of household patients with innovative services such as Electricity bill collection, Credit cards services, etc... In 2009, the institution was awarded Best Bank of the year by Global Finance.

B. The Financial report

Unlike Vietin Bank, ACB has not released Interim Report but included all financial information in the Annual Report. In comparison to Vietin Bank's annual report 2010, ACB report of 2009 is more informative. However, it can be noticed that owing to differences in operation and target customers, the two bank's annual reports emphasized different issues. The following sections were not mentioned or only in brief in Vietin Bank report but received considerable attention in ACBs

a) Credit commitments :

Being the first bank in Vietnam to publish Credit cards, ACB has taken serious measurement to manage the credit operation, showing through how they define the types of commitments and later, types of customer loans and deposits. This is a good move increasing the transparency in business. There are five groups of commitments:

Group 1: Current

- Undue commitments which, according to the Bank's assessment, could be fully settled when they fall due.

Group 2: Special mentioned

- Undue commitments which, according to the Bank's assessment, could not be fully settled when they fall due.

Group 3: Sub-standard

- Undue commitments which, according to the Bank's assessment, could not be fully settled when they fall due;
- Commitments which are overdue for less than 30 days.

Group 4: Doubtful

- Undue commitments which, according to the Bank's assessment, could not be fully settled when they fall due;
- Commitments and contingencies which are overdue from 30 days to 90 days.

Group 5: Bad

- Undue commitments which, according to the Bank's assessment, could not be fully settled when they fall due;
- Commitments which are overdue for more than 90 days.

Moreover, provisions for each group are also provided in the report.

Source: Section 2.9 Credit commitments, page 65, ACB annual report 2009.

b) Gold:

This is the different section which is not included in Vietin Bank report as well as EXIM bank (analyzed later on). ACB customers include households and private customers, hence the gold trading may be more frequent than other industry – oriented banks. Therefore, further explanation on such activities is encouraged in order to give more understanding to shareholders. The mechanism of gold trading is as follow: “Gold is revalued at each month end. Unrealized gains or losses are recorded in foreign exchange revaluation reserve on consolidated balance sheet at each month end and transferred to the consolidated income statement at the end of the year”.

Interestingly, the bank emphasized the gold trading heavily in this report. They establish a Gold Trading center, discussed under section 32 and section 31 is for margin in gold trading discussion.

Though not required by VAS, ACB voluntarily expanded the report systems, reducing secrecy in operation which is also the aim of IFRS.

c) Derivative financial instruments:

IAS 32 set regulations on the financial instruments presentation but in VAS, there is comparative regulation. However, Section 2.15 page 69 mentioned the accounting and recording method for derivative financial instruments. Moreover, under table 7: Derivatives and other financial assets, there is a list of financial instruments, the sections show efforts made to comply with IFRS of ACB.

d) Government grants:

Under section 19, a table of funds received from government and international and other institutions is presented. The types of funds and interest rates, lending conditions are all explained. Nevertheless, they do not mention how the funds have been used and the plan to pay off these funds and interests. This does not meet the requirement on Grants disclosure of IFRS.

e) Employee benefit:

In contrast to Vietin and EXIM bank, ACB did not include Employee benefit in their annual report 2009. Though this still complies with VAS, it missed an important part of IFRS. Especially, nowadays when employees can hold the shares and public has paid more attention to the mortal reputation of an institution, employee benefit should have been considered more seriously.

f) Risk management:

Risks are divided into groups and each group required specific actions to minimize the exposure to failures.

For credit risk, the bank used the following method: “The Group places limits on exposures in relation to one borrower, or groups of borrowers according to regulations of the State Bank of Vietnam in order to manage credit risk. Moreover, credit risk is managed through regular review on the acceptable classes of collaterals and analyze the ability of borrowers and potential borrowers to ensure they meet interest and capital repayment obligations” (Risk management, credit risk page 103)

Interest rate risks are managed by “monitoring the level of mismatch of interest rate by terms on a monthly basis” (Annual report 2009, page 104). A table of Group’s exposure to interest rate risks is shown in the same page.

Currency risks are unavoidable in Banking business on a daily basic. To manage the risk “ The Management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily”. Assets and Liabilities carried at different currencies are presented in the table on page 107 under the same section.

C. Overall review

Among the three banks used as case study, ACB differs from their operation base. ACB positions itself as a household commercial bank, providing individual services and trading in gold. Hence its annual report varies compared to others. From the IFRS presentation perspective, their annual report has some parts in compliance with IFRS systems but does not completely meet all requirements. Especially, some important items such as Depreciation, Inflation, Future analysis and planning, etc...are ignored despite the crucial roles they play in eliminating secrecy in banking and helping investors, shareholders to be in control of the operation and future management.

7.3 EXIM Bank

A. Bank overview

EXIM bank stands for Viet Nam Export and Import bank, which was established on May 24, 1989. This is one of the first joint stock commercial banks of Vietnam (History of the Bank, annual report 2010). Impressively, with the charter capital of VND10,560 billion and the owner’s equity of VND13,627 billion, it is also one of the largest banks in terms

of owner's equity among the commercial joint stock banks in Vietnam. Obviously, the banks has numerous branches and complex network world wide "As of December 31, 2010, Vietnam Export Import Commercial Joint Stock Bank has developed a nationwide business. The Head Office locates in Ho Chi Minh City with 183 branches. Each city in Vietnam has at least one transaction offices, the offices scatter from the capital Ha Noi, to southern cities such as Ho Chi Minh City, Long An, An Giang, Tien Giang, Can Tho and Bac Lieu. The bank has banking relationship with over 852 banks and branches in more than 80 countries in the world", according to information provided by EXIM bank's marketing department's staff, Ha Noi branch, 2011.

The bank products and portfolio (presented in the Annual Report, 2010) are:

- Savings deposits and demand deposits mobilization from individuals and entities in VND, foreign currencies, and gold.
- Different types of loans such as: short, medium and long term loans; overdrafts; consuming loans; credit limits in VND, foreign currencies, and gold. All services are with favorable conditions and simple procedures.
- Various foreign currency trading like Spot, Swap, Forward, and Currency Option.
- Settlement services and financing for export-import activities, documentary discounting, and SWIFT-based transfer under several forms.
- The issue and settle domestic and international credit cards, for example: EXIMBANK MasterCard, EXIMBANK Visa, EXIMBANK Card; acquiring VISA, MasterCard, JCB, customers can also make online payments by cards
- Cash services, payroll, collection, on-site collection and payment, foreign exchange, overseas remittance payment, domestic and overseas remittances.
- Domestic and overseas guarantee issuance (payment guarantee, tax payment guarantee, performance guarantee, bid guarantee, price quotation guarantee, warranty bond, advance payment bond, etc.).

- They also offer financial services package for overseas studies; advisory services for monetary-financial investments.

- Banking services are Home-Banking, Mobile-Banking, Internet Banking.

B. Financial report

In 2010, the bank received an award for “ Best Annual Report”. They did not prepare a separate Financial Report but included all the financial information in the annual report. From the information perspective, the EXIM annual report is a combination of Vietin Bank Interim and ACB. Hence it is more trustable, as all figures are audited. However, in terms of comprehensiveness, it is difficult to determine if this could be considered most informative because the information provided in the reports of each bank varied vastly, depending on the target customers, services and portfolio.

a) Investments:

Investments are divided into: those in securities, associates and other long term investments. Overly, all investment policies are explained and calculations for provisions are also included. This gives a deep insight for readers who are interested in investigating the investment process, possibly making them comply with IFRS requirements. However, it should be kept in mind that according to SBV legal document, the EXIM bank, as well as most of the other banks operating in Vietnam prepare their financial statements in accordance with VAS. Thus, the regulations on provisions, and other policies may differ from those in the latest IFRS. Therefore the comparison, focus on the FS presentation rather than detailed rules.

b) Depreciation and Amortization:

Similar to other banks, EXIM used the straight line method to calculate the depreciation rate. Unfortunately, this is one of the biggest drawback in VAS compared to IFRS, due to the high inflation in Vietnam, making the straight line method less accurate.

c) Foreign currency transaction:

All transactions are recorded as original currency and translated in Vietnam Dong with following rates :

- _ FX rate ruling at the balance sheet date for Monetary assets and Liabilities.
- _ Rate on transaction date applied to income as expenses arising from FX transactions

d) Derivatives:

Notably, items under the Derivatives sections are different than those in other Banks report. Some of these were not mentioned in other reports. It can be seen easily from EXIM portfolio that their business contents many activities in SWAP, SPOT, etc... That is why they listed carefully the following transaction business related items to give more comprehensive explanation to interest parties

- _ Foreign and SWAP foreign currency contracts
- _ Option foreign currency contracts.
- _ Offsetting
- _ Use of estimation

e) Employee benefit:

Again, this shows the trend forward IFRS of the bank, when they pay attention to Employee benefit though not required by VAS. Like Vietin Interim Report, EXIM made a full and clear plan for employees covering issues of: Post employment benefits, voluntary resignation and retrenchment benefits as well as unemployment benefits.

f) Borrowing from the SBV:

There is no item such as Grant from the Government, hence, it is unknown if the Bank received any non-interest loan or financial support under other terms during the year. However, they stated clearly the borrowings from SBV, including the due date 3 April, 2016 interest rate of “6 month LIBOR plus 1.70% per annual” (Section 14 page 139)

g) Risk Management:

Last but not least are types of managements used for controlling risks arising from financial activities. In general, the risk management policies are not different than those of other banks, all need to comply with VAS and MoF regulations. However, in practice,

the actions made by Board of Management may differ from bank to bank and from situation to situation. Unfortunately, such information are considered confidential and hardly be discussed in annual report in Vietnam

The risks in banking industry are classified into: credit risk and market risk with interest rate risks, currency risks and liquid risks. Basically, this report does not carry extra information than the previous two reports of other banks. The policies to manage risks are summarized as follow:

Risk management policies, page 166 stated that “ The use of financial instruments, including receivables from customers and investing these funds in high-quality assets to achieve sufficient margins, is the core activities of the bank” Hence the bank’s primary aims are to maintain loans to commercial while retain borrowers, guarantees and letter of credits. Activities exposure the bank to various foreign currencies and the rates fluctuate daily or even hourly. This is how the risks are born.

Plan to control the credit risk includes a clearly defined credit policies in term of lending procedures and implementation instruction to reduce the chance of misuse and legal-related issues between the bank and credit owners.

Mean while,“ Foreign exchange and interest rate exposures are managed through the use of position limits, avoiding undue concentrations and entering into counterbalancing positions in order to offset exposures” (Page 166, Accounting polices)

On the other hand, to cope with liquidity risk, the bank has always hold a high proportion of assets as primary quality financial instruments, a large base of cash and near-cash in the form of Nostro account, balance with the SBV and due from other banks. The bank use risk – weighted ratios to measure liquidity risk.

C. Overall review

Generally, EXIM Banks annual report 2010 is the most completed and closet to IFRS requirements of financial report for banks. However, though the content of report has sections to provide readers with deeper understanding of the operation and business, reducing secrecy, it does not fully comply with IFRS, leaving several important issues unanswered. For instance, management decisions, future prediction and plans are not

mentioned, despite the need for clear action plan for today's volatile economic situation. Similarly, though operating in a highly inflated country like Vietnam, the monetary and assets value change dramatically in short time, the bank currency using rigid depreciation rate method and no notes about how inflation affect the financial situation is made. This issue urges managers and governors to consider the implementation of IAS 29 Financial Reporting in Hyperinflationary Economic

8 METHODOLOGY

The researching method used in the thesis is Case study researching method. By analyzing three banks of different business portfolios, the thesis looks for a conclusion on how IFRS is practiced in Vietnam, how it differs from VAS as well as the future of IFRS in Vietnam. Firstly, a short description about the method and reasons why it was used in the thesis are explained below:

Case studies have been recorded since the ancient time. Much of what is known about the empirical world has been produced by case study research. Case study has also been used in psychology, sociology, anthropology, history, education, economics, political science, management, geography, biology, and medical science. There are many definitions on " Case study", for instance, G. Thomas.2011. "A typology for the case study", p 45 – 47, defined case study as analyses of persons, events, decisions, periods, projects, or other systems that are studied holistically by one or more methods. It is the subject of the inquiry of a class of phenomena that provides an analytical frame — an object — within which the study is conducted so that the case can illuminates and explicates". Mean while, in his book , Bent Flyvbjerg. 2011. "Case Study", p 300 , stated that case study is an intensive analysis of an individual unit (a person, group, or event) stressing developmental factors in relation to context. The method is common in both social and life sciences. They may be descriptive or explanatory" (pp 301-316)

Case study method use samples to examine limited numbers of variable while still involves an in-depth, examination of a single instance or event: a case (Gary Thomas. 2011. *How to do your case study*. Thousand Oaks, Sage, p 301 - 316). They provide the way of looking at events, collecting data, analyzing information, and reporting the results so that the researcher gain understanding of the nature of events and what might become important to look at more extensively in future research, highlighted by Robert E. Stake. 1995. "The Art of Case Study Research", p 250. Those are the advantage that Case study method has over other method, which suit perfectly for the purpose of the thesis, gaining a deep insight of IFRS position in Vietnam. Furthermore , the cases in thesis are descriptive, showing how IFRS is used in contrast to VAS in financial reporting systems of banks. Specifically, the method of choosing cases for analyzing is the combination of "Outlier case" and "Local Knowledge case". In more detail, Outlier cases are examples which are extreme, deviant or atypical and Local knowledge cases are used if researchers have in-depth local knowledge; and are able to offer reasoned lines of explanation based on this rich knowledge of setting and circumstances (Norman K. Denzin and Yvona S. Lincoln. 2008. *Handbook of qualitative research*, pp 310). In the thesis, EXIM Bank is the outlier case, being the extreme reports which were awarded for best Annual Report 2010, closet to IFRS format. Other cases (Vietin and ACB) were chosen based on writer knowledge about the Banking Industry in Vietnam in generally and the specific operation of the Banks in addition.

Normally, generalization is the purpose of the researching method. By choosing spectacular cases, researchers try to generalize the result as an overall view of the whole objects. However, due to the modest amount of cases, comparing to the whole industry numbers of firms (3 banks studied over app 80 banks) and the diversity of financial reports standards in the industry, no concrete generalization is stated. Though it can be said with confidence that IFRS is not completely applied in Vietnam, it cannot be stated for sure if all Banks prepare their annual report and other financial documents in the same way as the 3 case study banks did, especially in long term.

Additionally, despite many advantages, the method has some drawback as well. Flyvbjerg.2006.*Qualitative Inquiry*. Thousand Oak Sage, pp 219- 245, identified five common misunderstandings about case-study research:

1. Concrete, practical knowledge is less valuable than general, theoretical knowledge
2. It is not accurate to generalize on the basis of an individual case, therefore, the case study cannot be used in scientific development.
3. The case study is most useful for generating hypotheses, but for hypotheses testing and theory building it is preferable to use other methods
4. The case study tends to have a bias toward verification, i.e., making the result affected by the researcher's preconceived notions.
5. Relying only on the basis of specific case studies is not enough to summarize and develop general propositions and theories.

These statements express the cautious view on the method and can be related to “Expert knowledge” paradox. For researchers and readers, it is worth keeping these reviews in mind and try to avoid the misunderstandings from affecting the analysis and result of the research. This is reason why generalization is not drawn from the thesis, as the writer does not want to attach results conveyed from few cases into the whole industry view.

9 Result

The case study clearly shows that IFRS still has long a way to go until it can be completely applied in the Vietnamese Banking Industry. Though in both the three cases, the financial reports exceeded the basic requirements of VAS, they still lacked many essential IFRS rules such as: management review, future plan, inflation estimation, disclosure of grants, etc... There are several possible explanations for the abundance of these crucial factors in the banks reports. Surely, the banks can either defend that they are not required to prepare IFRS complied financial reports, thus, possibly excluding sections which are considered unnecessary or that they are testing the new reporting standards in order to introduce new elements one by one in which cases those factors would be included last. However, from the skepticism perspective, this could be a sign of reluctance to fully eliminate discretion in the industry. In comparison to VAS, IFRS is

more detailed, contains more specific guidance and regulations to encourage disclosure among banks managers, shareholders, stakeholders and other parties. While public will greatly benefit from such open information, bank owners and managers face many issues. In a highly competitive market, revealing confidential information such as future plans, specific cash flow operations and most importantly, true financial situations may put banks in an awkward position, making them more vulnerable to their competitors. Consequently, the IFRS adoption in Vietnam is not an easy process and obstacles are to be expected. Nevertheless, during these years, the financial industry has witnessed a growing trends of switching to IFRS in many countries all over the world. The most recent cases are IFRS adoption in India and, a high possibility of GAAP to be replaced by IFRS in the United States. Undoubtedly, this trend would affect the implementation of IFRS in Vietnam, urging the Government to consider adopting new standards and/or making amendments in the contemporary VAS according to IFRS.

If IFRS is to be used in Vietnam, bank managers should consider various issues, namely, the management strategies, operation process and administration policies within the firms so that the adoption would be smooth in order to avoid the confusion during the transition. In other words, the Board of Directors should clearly define what information will be presented in the reports, news, plans to be disclosed to the readers of the annual reports. This requires smart, carefully planned actions in order to guarantee the level of disclosure required in IFRS but still keep the competitive position in the financial market, protecting the crucial confidential business strategies. Moreover, it is recommended that employees of the enterprise should be trained and get used to IFRS as early as from this moment. The previous analysis pointed out numerous differences between VAS and IFRS, hence for accountants who have been familiar with VAS for years, it can be confusing and challenging the early stage of adoption to understand and apply IFRS. Moreover, to gather all the figures and facts for an annual report under IAS, the coordination of all departments and branches within the corporation is essential. Hence, top managers need to assure that all personnel fully understand IFRS and their own role in preparing good financial reports in accordance with the newly adopted regulations. Interestingly, surveys have shown that first users of IFRS - Banks in the EU area-(Finland, France, Germany...) are in favor of the new standards. They said that it is easier

for accountants to prepare the financial statements, raise public trust for institutions and increase transparency in industry, creating fairer competition to Banks. However, managers of these banks warned that it took considerable time until IFRS is fully understood and smoothly used in practice and the process required not only time but human resources and finance.

Unfortunately, these three case studies are not sufficient to draw conclusions applicable to the whole view of IFRS implementation of all Banks in Vietnam. Nowadays, there are more than 80 Banks of all types operating in Vietnam, however, VAS has no guidance for certain accounting regulations, leaving it for the Banks to decide how they want to present these items in their reports. As a consequence, structure and content of annual reports considerably vary from Bank to Bank and from year to year. A Further study can be conducted to examine the situation deeper and in a larger scale. In the future, more thesis topics can be drawn from this early research of how IFRS is adopted in Vietnam. Later studies can be expanded to specific decisions made by bank managers in order to prepare for the adoption, what plans have been prepared and put into practice including the results of such implementation so far on the Vietnamese Banking Industry

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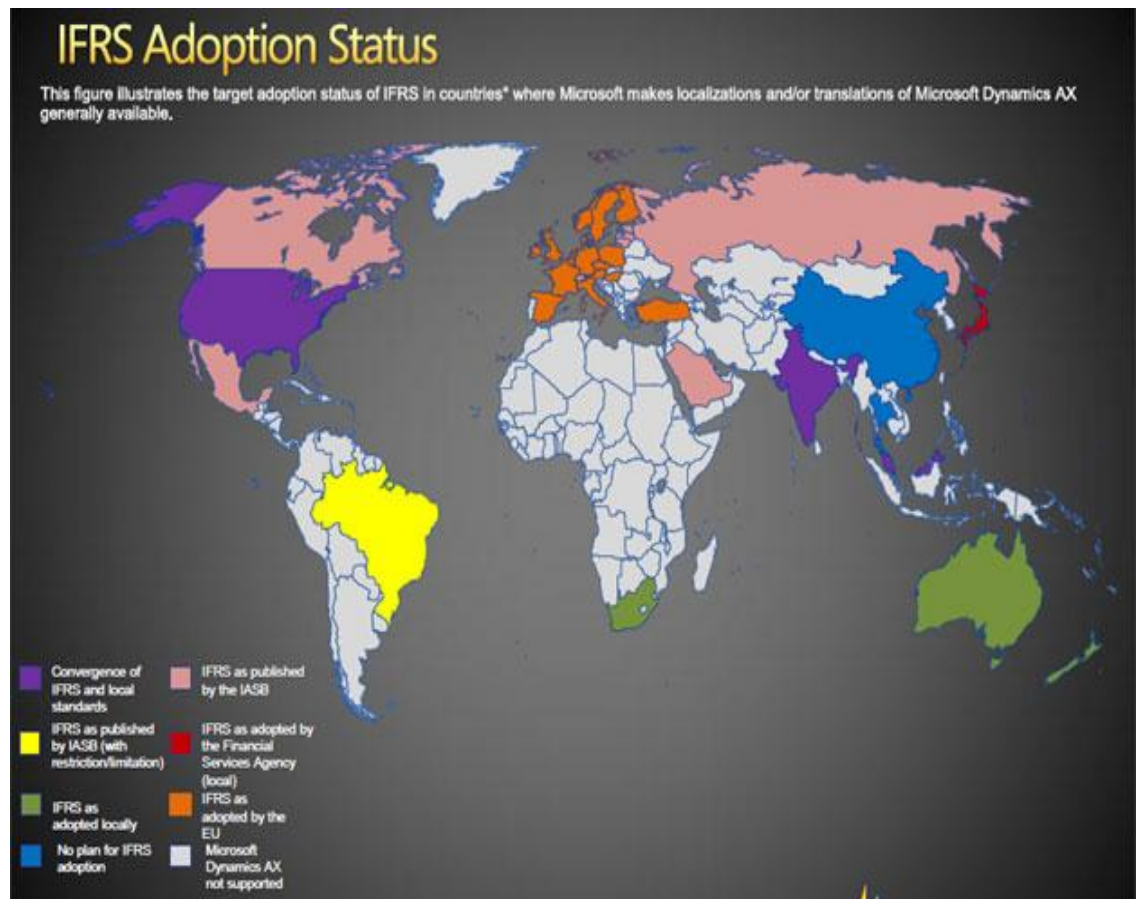
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Appendix

Appendix 1: IFRS adoption worldwide



Source: Ignify website, April 2010

Appendix 2: The Balance Sheet

Balance Sheet		
(Dollars in Millions)	Current Period	Prior Period
Assets		
Federal Funds sold and securities purchased under agreements to resell	\$176,922	\$157,274
Residential mortgage	\$178,359	\$188,846
Credit card	\$98,022	\$92,207
Direct/Indirect consumer	\$119,920	\$105,048
Commercial	\$110,163	\$101,097
Total loans and leases	\$683,386	\$644,472
Other earning assets	\$39,112	\$37,924
Total earning assets	\$722,498	\$682,396
Cash and cash equivalents	\$32,575	\$30,558
Allowance for loan and lease losses	\$79,854	\$80,837
Total assets	\$834,927	\$793,791
Liabilities		
Domestic interest-bearing deposits		
Savings	\$39,056	\$37,275
Now and money market deposit accounts	\$236,564	\$223,376
CDs and time deposits	\$134,799	\$121,456
Total interest-bearing deposits	\$410,420	\$382,107
Federal funds purchased, securities sold under agreements to repurchase and other short-term borrowings	\$128,171	\$116,002
Long-term debt	\$76,037	\$76,934
Total interest-bearing liabilities	\$614,628	\$575,043
Non-interest-bearing liabilities	\$148,101	\$144,901
Shareholder's equity	\$72,198	\$73,847
Total liabilities and shareholders equity	\$834,927	\$793,791

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Appendix 3: Income Statement

Income Statement		
(Dollars in Millions)	Current Period	Prior Period
	Interest Income/ Expense	Interest Income/ Expense
Revenue		
Interest income	\$9,807	\$9,131
Interest expense	\$4,519	\$3,216
Net Interest Income	\$5,288	\$5,915
Non interest income	\$4,658	\$4,157
Total Revenue	\$9,946	\$10,072
Expense		
Provision for loan losses	\$1,003	\$985
Non-interest expense	\$4,849	\$4,479
Total Expense	\$5,852	\$5,464
Income before income taxes	\$4,094	\$4,608
Income tax expense	\$1,339	\$1,507
Net Income	\$2,755	\$3,101

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Appendix 4: VASs in force at August 2006

Vietnamese Accounting Standards - August 2006
VAS 01 Framework
VAS 02 Inventories
VAS 03 Tangible fixed assets
VAS 04 Intangible fixed assets
VAS 05 Investment property
VAS 06 Leases
VAS 07 Accounting for investments in associates
VAS 08 Financial reporting of interest in joint ventures
VAS 10 The effects of changes in foreign exchange rates
VAS 11 Business Combinations
VAS 14 Revenues and other incomes
VAS 15 Construction contracts
VAS 16 Borrowing costs
VAS 17 Income taxes
VAS 18 Provisions, Contingent Liabilities and Contingent Assets
VAS 19 Insurance Contracts
VAS 21 Presentation of financial statements
VAS 22 Disclosures in the financial statements of banks and similar financial institutions
VAS 23 Events after the balance sheet date
VAS 24 Cash flow statements
VAS 25 Consolidated financial statements and accounting for investments in subsidiaries
VAS 26 Related party disclosures
VAS 27 Interim financial reporting
VAS 28 Segment reporting
VAS 29 Changes in accounting policies, accounting estimates and errors
VAS 30 Earnings per Share

Appendix 5: Financial Reporting Requirements of the VAS

Under the VAS, the following financial statements are legally required to be submitted:

- Balance sheet;
- Table of “Off-Balance Sheet” items (includes loan or hire of equipment)
- Profit and Loss statement;
- A table entitled “Obligation to Government” – this is a table detailing all taxes and other duties payable to the State;
- Notes to the financial statements, which include details such as:
 - Summary of operations (structure, activities, number of employees);
 - Accounting policies applied during the period;
 - Details of certain accounts balances such as:
 - Details of operating expenses and cost of sales.
 - Fixed assets movements during the period;
 - Details of the compensation paid to employees. This disclosure should include the “budgeted” salary costs;
 - Movement in equity; and
 - Details of current receivables and current payables.
 - Comments on the business results for the period (report of management);
 - Financial ratios (section 4 refers); and
 - Future business prospects (report of management);

The cash flow statement is optional for inclusion in the annual statutory financial statements. Additional disclosures internally required in the annual financial statements of foreign investment enterprises can be inserted without the permission of the Ministry of Finance.

The Minister of Finance has responsibility for the following reports: Annual State Budget Draft, State Budget Accounts and Compensation Fund for Overspending that is approved by the National Assemble

List of abbreviation

IFRS: International Financial Reporting Standards

IAS: International Accounting Standards

VAS: Vietnamese Accounting Standards

SBV: State Bank of Vietnam

MoF: Ministry of Finance

FS: Financial statements

Vietin Bank: Vietnam Industry Bank

ACB: Asia Commercial Bank

EXIM Bank: Export and Import Bank

BS: balance sheet

IS: income statement

CS: cash flow statement

EPS: earning per share