

CAPITAL FORMATION OF JOINT STOCK COMMERCIAL BANK FOR INVESTMENT AND DEVELOPMENT OF VIETNAM - CURRENT SITUATION AND RECOMMENDATIONS

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Abstract: This study aims to evaluate the capital formation situation of Joint Stock Commercial Bank for Investment and Development of Vietnam (BIDV) during the period 2019-2023. The author employs both qualitative and quantitative research methods, including statistical and comparative analysis, data analysis methods using information collected from the Reports and Websites of the State Bank of Vietnam (SBV), Consolidated Financial Statements of a number of Commercial Banks (CBs), field research at BIDV and related domestic and foreign studies. Based on the research results regarding capital formation (equity, charter capital and mobilized capital) of BIDV, the author proposes several solutions and recommendations to enhance BIDV's capital formation capacity in the coming time.

• Keywords: capital formation, equity, charter capital, mobilized capital.

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1. Introduction

In the business operations of banks, capital plays a crucial role in directly influencing operational efficiency, ensuring safety, and reinforcing customer trust. Therefore, capital formation for commercial banks' business activities has consistently attracted the attention of banking administrators and the banking industry. Compared to other countries in the region, the capital size of commercial banks in Vietnam, including BIDV, remains relatively modest. Enhancing BIDV's business operations and competitiveness requires implementing effective solutions to strengthen its capital formation capabilities. This is a vital factor for BIDV to maintain sustainable business operations and to compete effectively with other commercial banks in the region and globally in the era of integration.

2. Research Methodology

2.1. Data collection method

The study utilizes secondary data collected from SBV reports and websites, consolidated financial statements of commercial banks, on-site studies at BIDV during the 2019-2023 period, and related domestic and international research on capital formation in commercial banks.

2.2. Data analysis methods

The research employs qualitative and quantitative research methods, including statistical and comparative analysis, to evaluate BIDV's capital formation activities. Based on the collected results, the authors

provide assessments and propose solutions and recommendations to enhance BIDV's capital formation capacity in the future.

3. Research results

3.1. Equity and charter capital

Table 1: BIDV's equity and charter capital for the period 2019-2023 (Billion VND)

Items	2019	2020	2021	2022	2023
- Equity	72,636	74,235	81,018	96,781	115,171
Growth over last year	46.48%	2.20%	9.14%	19.46%	19.00%
- Charter capital	40,220	40,220	50,585	50,585	57,004
Growth over last year	17.65%	0%	25.77%	0%	12.69%

Source: BIDV's consolidated financial statements over the years

During the 2019-2023 period, BIDV's equity demonstrated a consistent upward trajectory. In 2020, amidst the initial year of the COVID-19 pandemic, BIDV's equity was recorded at 74,235 billion VND, reflecting a modest growth rate of 2.20% (equivalent to 1,599 billion VND) compared to 2019. Post-pandemic, BIDV significantly strengthened its internal equity foundation, enhancing its financial position. Notably, in 2022, BIDV's equity expanded to 96,781 billion VND, achieving a substantial growth rate of 19.46% (equivalent to 15,853 billion VND) relative to 2021. By 2023, this upward momentum continued, with equity reaching 115,171 billion VND, corresponding to a growth rate of 19.0% (equivalent to 18,390 billion VND) over the previous year.

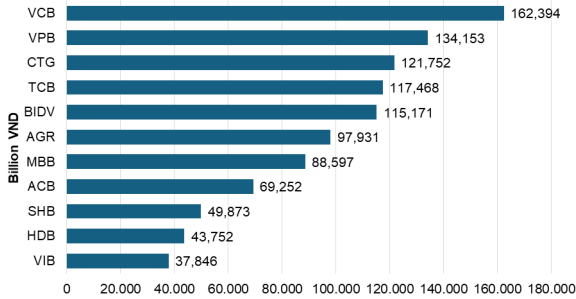
As of December 31, 2023, the Vietnam Joint-Stock Commercial Bank for Foreign Trade (VCB) held the

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top position in equity size among the 11 commercial banks with the highest equity within Vietnam’s banking system. The Vietnam Joint-Stock Commercial Bank for Industry and Trade (CTG) ranked second, while BIDV was positioned fifth.

Figure 1: Equity size of some commercial banks in 2023

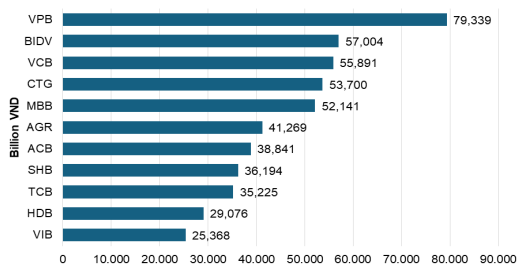


Source: Consolidated financial statements of commercial banks in 2023

BIDV’s charter capital showed an upward trend during the 2019-2023 period. In 2019, its charter capital stood at 40,220 billion VND. By 2021, this figure had increased to 50,585 billion VND, reflecting a growth rate of 25.77% (equivalent to 10,365 billion VND). By the end of 2023, BIDV issued 641.9 million common shares with a par value of 10,000 VND per share, equivalent to 1.69% of the outstanding shares. As a result, BIDV’s charter capital reached 57,004 billion VND, representing a growth of 41.73% (equivalent to 16,784 billion VND) compared to 2019 and 12.69% (equivalent to 6,419 billion VND) compared to 2022. The additional charter capital was fully allocated to enhance business operations, distributed across various areas of BIDV’s activities with a rational structure, ensuring the efficient utilization of capital.

As of December 31, 2023, BIDV’s charter capital reached 57,004 billion VND, ranking second among Vietnamese commercial banks. The top position was held by Vietnam Prosperity Joint-Stock Commercial Bank (VPB), with a charter capital of 79,339 billion VND, following its agreement to sell 15% of its shares to Sumitomo Mitsui Banking Corporation (SMBC) through a private share issuance in 2022.

Figure 2: Charter capital size of some commercial banks in 2023



Source: Consolidated financial statements of commercial banks in 2023

3.2. Mobilized capital

Each bank establishes its own capital mobilization policies based on its specific needs and business objectives. To secure substantial capital, commercial banks must implement appropriate mobilization strategies that effectively attract the necessary funds from the economy, supporting their business activities and overall development.

Table 2: BIDV’s capital mobilization scale and growth in the period 2019-2023 (Billion VND)

Target	2019	2020	2021	2022	2023
- Scale	1,167,639	1,274,554	1,489,119	1,619,683	1,887,311
Growth over last year	12.67%	9.16%	16.83%	8.77%	16.52%

Source: BIDV’s consolidated financial statements over the years

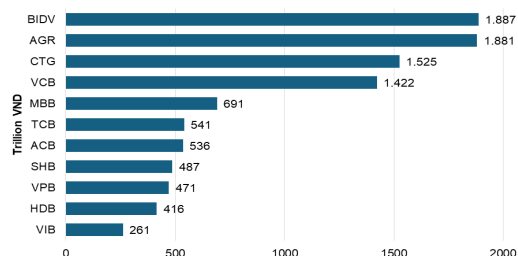
BIDV’s mobilized capital exhibited a consistent upward trend during the 2019-2023 period. In 2020, the bank’s mobilized capital reached 1,274,554 billion VND, reflecting an increase of 106,915 billion VND and a growth rate of 9.16% compared to 2019. By 2023, BIDV’s mobilized capital had risen to 1,887,311 billion VND, marking an increase of 719,672 billion VND and a growth rate of 61.63% compared to 2019, as well as a growth of 16.52% (equivalent to 267,628 billion VND) compared to 2022.

During the 2019-2023 period, BIDV consistently ranked among the leading commercial banks in Vietnam in terms of mobilized capital. In 2023, despite challenging economic conditions, BIDV demonstrated exceptional performance. The year was characterized by the State Bank of Vietnam’s cautious tightening of monetary policy, reduced credit demand, and significant fluctuations in domestic and international gold prices, which adversely affected investor confidence. While several banks faced difficulties as customers withdrew savings to invest in gold or real estate due to declining interest rates, BIDV successfully secured the top position among the 11 largest commercial banks in Vietnam. Its mobilized capital reached 1,887 trillion VND, surpassing the Vietnam Bank for Agriculture and Rural Development (AGR) in second place with 1,878 trillion VND, the Vietnam Joint-Stock Commercial Bank for Industry and Trade (CTG) in third place with 1,525 trillion VND, and the Vietnam Joint-Stock Commercial Bank for Foreign Trade (VCB) in fourth place with 1,422 trillion VND.

Although the capital mobilization growth rate of Big4 banks in 2023 compared to 2022 is lower than that of other joint stock commercial banks, it still has a positive growth rate. Within this group, BIDV recorded the highest growth rate in mobilized capital at 16.52%, ranking seventh among the 11 banks analyzed. CTG followed with a growth rate of 13.89%, ranking 8th. VCB came next with a growth rate of 12.09%, placing 10th, while AGR had the lowest growth rate in the

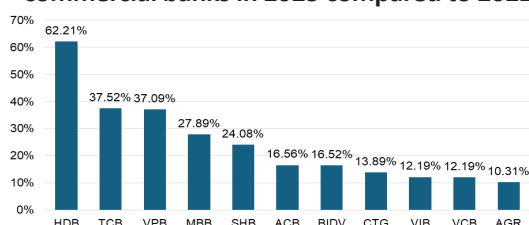
group at 10.31%, ranking last among the 11 banks in the comparison.

Figure 3: Capital mobilization scale of some commercial banks in 2023



Source: Consolidated financial statements of commercial banks in 2023

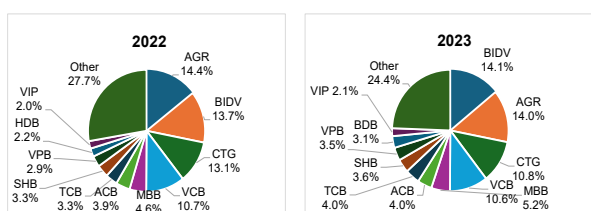
Figure 4: Capital mobilization growth rate of some commercial banks in 2023 compared to 2022



Source: Consolidated financial statements of commercial banks in 2022 and 2023

As of December 31, 2023, BIDV held the largest market share in mobilized capital at 14.1%, an increase of 0.4 percentage points compared to 13.7% in 2022. Among the 11 banks analyzed, 8 banks experienced an increase in market share for mobilized capital in 2023 compared to 2022, including VPB, MBB, HDB, BIDV, TCB, CTG, SHB, and ACB. Within the Big4 group, CTG recorded a market share increase of 0.1 percentage points, while the other two banks, VCB and AGR, saw declines of 0.1 and 0.4 percentage points, respectively.

Figure 5: Capital mobilization market share of some commercial banks in 2022 and 2023



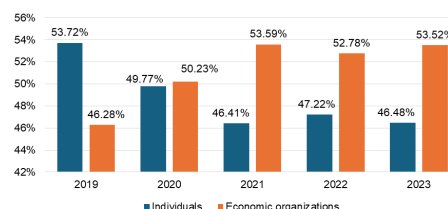
Source: Consolidated financial statements of some commercial banks in 2022 and 2023

*** BIDV's capital mobilization structure according to customer segment**

During the 2019-2023 period, BIDV's mobilized capital structure by customer segment underwent significant changes. In 2019, the proportions of mobilized capital from individuals and economic organizations were 53.72% and 46.28%, respectively.

By 2020, this structure became more balanced, at 49.77% and 50.23%. However, by 2021, a notable shift occurred, with the share of capital from individuals decreasing to 46.41%, while that from economic organizations rose to 53.59%. By 2023, the structure was 46.48% from individuals and 53.52% from economic organizations. Although capital mobilized from economic organizations increased rapidly over the years, it is inherently less stable, as it can be withdrawn at any time to support production and business activities. This poses challenges for BIDV in managing the maturity balance of capital and ensuring effective capital utilization, potentially impacting the bank's financial stability.

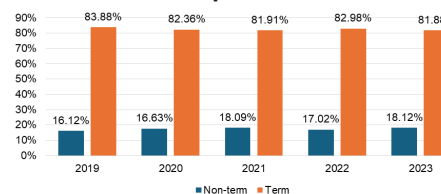
Figure 6: Capital mobilization structure according to BIDV's customer segment for the period 2019-2023



Source: BIDV's consolidated financial statements for the period 2019-2023

*** BIDV's capital mobilization structure by term**

Figure 7: BIDV's capital mobilization structure by term in the period 2019-2023



Source: BIDV's consolidated financial statements for the period 2019-2023

During the 2019-2023 period, BIDV's capital mobilization structure by term underwent notable changes, with an increasing proportion of non-term capital and a corresponding decrease in term capital. Despite this shift, BIDV consistently maintained the proportion of term capital at above 80%, ensuring a stable funding base. This stability enabled the bank to meet regulatory requirements regarding operational limits and safety ratios set by the State Bank of Vietnam (SBV), particularly compliance with the ratio of short-term capital used for medium- and long-term lending.

4. Recommendations and Solutions

Based on the analysis, the author proposes several solutions and recommendations to enhance BIDV's capital formation capacity in the future:

Firstly, increasing equity capital must align with BIDV's business strategy for each specific period, closely adhering to the State Bank of Vietnam (SBV)'s

requirements on risk management and minimum capital adequacy ratios. This approach should aim to meet higher risk management and capital safety standards, such as advanced risk measurement and internal capital calculation methods under Basel II and the regulations of Basel III. By doing so, BIDV can strengthen its risk management capabilities, enhance its resilience to potential risks, improve its market credit rating, and ensure business continuity. Furthermore, optimizing capital utilization requires determining a rational capital structure that is consistent with BIDV's scale, operational circumstances, and customer segments. This ensures that additional equity capital and charter capital not only offset unforeseen losses caused by potential risks but also maintain safety ratios in operations. Ultimately, these measures contribute to improving BIDV's competitiveness against joint-venture and foreign banks operating in Vietnam, while solidifying its leading role in the financial market and delivering high-quality products and services.

Secondly, alongside the annual business growth plans, increasing charter capital is essential for BIDV to strengthen its financial capacity. This includes scaling up operations, enhancing competitiveness, and meeting plans for expanding its transaction network. Additionally, increased charter capital supports continued investment in technological systems to modernize operations, facilitate the development of new products, and improve customer service experiences. However, the implementation of the Credit Institutions Law No. 32/2024/QH15, effective from July 1, 2024, will significantly affect the process of increasing charter capital for banks. The new law introduces requirements and regulations regarding minimum capital, risk management, and the organization of credit institutions, presenting both opportunities and challenges. BIDV must ensure compliance with these regulations to maintain lawful operations while also improving management quality and enhancing its financial capacity.

Thirdly, to effectively carry out capital mobilization in the current competitive environment, BIDV should focus on the following measures:

- BIDV's capital mobilization strategies should exhibit a high degree of flexibility and adaptability to align with socio-economic trends, available financial resources, and the bank's operational requirements at different points throughout the year such as the beginning, middle, or end of the fiscal year or to address the seasonal dynamics of lending activities across various sectors. Moreover, BIDV should prioritize enhancing its financial advisory and support services, providing customers with expert guidance on banking and financial matters. Crucially, BIDV

should assist clients in constructing well-rounded investment portfolios and selecting from its diverse range of services. This not only meets customer needs comprehensively but also reinforces the bank's relationships with its clients, fostering trust and promoting sustained customer engagement over the long term.

- BIDV should place strategic emphasis on expanding its pool of term capital to address the medium- and long-term financial requirements of economic entities, particularly as the economy transitions into a recovery phase. Although the scale and proportion of non-term capital increased steadily between 2019 and 2023, providing BIDV with a substantial source of low-cost funding and enhancing profitability through significant interest rate spreads, insufficient focus on mobilizing medium- and long-term capital could significantly hinder the bank's ability to support medium- and long-term financing for key economic stakeholders. To mitigate this risk, BIDV must prioritize attracting term capital, particularly medium-term resources, to ensure a stable and sustainable funding base. This is especially critical as the demand for financial resources to support production and business expansion over medium- and long-term horizons is expected to rise in tandem with economic stabilization and growth. Strengthening the mobilization of term capital will enable BIDV to maintain a robust financial structure, effectively supporting its credit operations and aligning with market demands.

Conclusion: Based on the analysis and evaluation of BIDV's capital formation activities during the 2019-2023 period, the author has proposed several solutions and recommendations to enhance BIDV's capital formation capacity in the future. Achieving the targeted capital goals will provide BIDV with favorable conditions to implement its business plans effectively, ensuring compliance with capital adequacy ratios not only as required by the State Bank of Vietnam but also in alignment with international standards. Furthermore, these measures will gradually enhance BIDV's competitiveness both in the domestic market and on the global stage.

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