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Mobilization of Equity Capital of Commercial Banks in Vietnam Meets Basel II Standards

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Abstract
In recent years, the joint stock commercial banking sector has made spectacular progress, playing a significant role in the overall development of the banking industry and the country's economy. However, when the door of integration is "knocking" on the door of each enterprise and its roadmap is increasingly shortening in time, commercial banks in general and joint stock commercial banks in particular are having to face certain challenges. Challenges in financial potential, technology, capacity, management experience, quality of products and services. This is a current issue, always of great concern and close direction to the State, the State Bank. Vietnam has introduced many measures to implement the State's policies and directions to help commercial banks expand their scale of operations, business efficiency, improve competitiveness and integrate well with the economy. Regional and world economy. One of the solutions to improve the competitiveness of Vietnamese joint stock commercial banks in the coming time is to increase equity capital. However, in recent times, the mobilization of equity capital by commercial banks in Vietnam has not really met Basel II standards.
Based on the analysis and assessment of the current status of the process of mobilizing equity capital of commercial banks in recent times, the article offers a number of solutions for mobilizing equity capital in Vietnam to meet Basel standards. II in the coming period.

Keywords: Equity Capital, Basel II Standards, Commercial Banks

1. Introduction

Equity capital (or equity) is one of the most important criteria to evaluate the safety level of a bank's business operations according to international practice. In Vietnam, bank capital growth always receives special attention from bank administrators in their goals, strategies, and implementation plans.
Equity capital plays a role in creating legal status, providing initial resources for the bank to maintain operations when the bank is newly established and providing resources for growth and development.
Equity capital plays a role in protecting depositors and is the basis for creating trust for customers to transact with the bank. Banking business often faces many risks that put banks at risk of failure.
Besides, equity capital also plays a role as a means of adjusting operations and regulating the growth of commercial banks. To ensure the safety of commercial bank operations, there are many regulations on operations that are directly and closely related to equity. These are limits on: the size of deposits allowed to be mobilized, the maximum loan size with one or a group of customers, holding shares of another company, establishing a subsidiary.
Ensuring capital adequacy in the commercial banking system is one of three important pillars in risk management according to Basel II standards. However, this task is not easy for the Vietnamese banking system because mobilizing equity capital in each commercial bank faces many difficulties.

2. Theoretical Basis for Equity Capital and Basel II Standards

2.1 Theoretical Basis for Equity Capital

According to Clause 10, Article 4 of the Law on Credit Institutions 2010 [2], equity capital is defined as the actual value of the charter capital of the credit institution or the allocated capital of foreign bank branches and reserve funds. Reserves, some other debt assets according to regulations of the State Bank of Vietnam.

Equity capital, or equity, is the type of capital mentioned in the capital structure of commercial banks. This is a source of capital created by commercial banks. This capital source accounts for a very small proportion of the bank's total operating capital but is decisive in the formation and survival of the bank. This capital source is highly stable.

Sources of equity formation include: charter capital; Differences due to revaluation of assets and exchange rate differences according to the provisions of law; surplus equity; reserve funds to supplement charter capital, investment funds for professional development, financial reserve funds; Undistributed profits and other capital are legally owned by commercial banks.

Equity capital is also formed during the bank's operations in many different ways depending on specific conditions such as: differences due to asset revaluation, exchange rate differences according to legal regulations. The law; Share surplus: undistributed profits.

Equity capital is formed from funds owned by the bank. Reserve fund to supplement charter capital: is a fund used for the purpose of increasing initial equity capital. The maximum level of this fund does not exceed the charter capital of a commercial bank.

2.2 Theoretical Basis for Basel II Standards

Up to now, the Basel Capital Accord is considered the most effective regulation in supervising the operations of banks and is a good tool to bring stability to the banking system. It helps managers detect and measure risks, help eliminate or minimize the impact of risks and build a process for monitoring risk management activities for their organization.

The Basel II Capital Accord has been built on a solid foundation of three pillars. Pillar I is capital regulations that incorporate operational risk into the minimum capital calculation formula. Methods for measuring types of risks are developed and detailed instructions are provided.

Basel II requires commercial banks to maintain a large enough amount of capital to cover their bank's risks, including credit risk, operational risk and market risk. Similar to Basel I, Basel II still stipulates a minimum capital adequacy level of 8%.

3. Research Methods

The article uses qualitative research methods including two basic methods: data collection, synthesis and analysis and evaluation. Based on the synthesis of data related to the equity capital of commercial banks in Vietnam that meet Basel II standards, the article analyzes the main contents to highlight some shortcomings in Using the equity capital of commercial banks in Vietnam to meet current Basel II standards, thereby proposing a number of solutions to mobilize equity capital of commercial banks in Vietnam to meet the standards. Basel II standards in the near future.

4. Current Status of Equity Capital at Commercial Banks in Vietnam Recently

The total equity capital of the private commercial bank group (removing credit institutions with negative equity capital) by the end of August 2019 reached VND 357,833 billion, an increase of 5.81% compared to the beginning of the year, equivalent to increased by more than 21,400 billion VND; while this figure in the group of state-owned commercial banks is 285,735 billion VND, an increase of 6.38%, equivalent to an increase of more than 17,100 billion VND.

According to statistics from the State Bank [3], total assets of the Vietnamese banking system as of August 31, 2019 reached over 11.8 million billion VND, an increase of 6.77% compared to the beginning of the year. The group of state-owned commercial banks (including Agribank, Vietcombank, VietinBank, BIDV, GPBank, CBBank and OceanBank) continues to hold the largest proportion with 43%, equivalent to total assets of nearly 5.12 million billion VND, an increase of 5,000 billion VND. 35% compared to the beginning of the year. Meanwhile, the total assets of the private commercial bank group are nearly 4.92 million billion VND, an increase of 7.97% and accounting for over 42% of the total system assets. The joint venture and foreign banking group recorded total assets of 1.22 million billion VND, an increase of 7.43%; The group of financial and leasing companies recorded 185,788 billion VND in total assets, an increase of 10.71%. Along with that, the total assets of the cooperative banking group are 33,038 billion VND, an increase of 1.88%; People's credit fund group is 122,928 billion VND, an increase of 8.62%.

Regarding equity capital, as of August 31, 2019, the equity capital of the entire banking system reached 866,116 billion VND, an increase of 7.44%, equivalent to an increase of over 54,900 billion VND after 8 months. Unlike the total asset structure, the balance of equity capital is still tilted towards the private commercial banking group. The total equity capital of the private commercial bank group (removing credit institutions with negative equity capital) was recorded at 357,833 billion VND, an increase of 5.81%, equivalent to an increase of more than 21,400 billion VND; while this figure in the group of state-owned commercial banks is 285,735 billion VND, an increase of 6.38%, equivalent to an increase of more than 17,100 billion VND. The joint venture and foreign banking group recorded 183,392 billion VND of equity capital, an increase of 12.6%; The remaining is the group of financial companies, financial leasing with 35,214 billion VND, the group of cooperative banks with 3,942 billion VND.

The latest updated data of the State Bank [3] by the end of October 2022 shows that the total equity capital of state-owned commercial banks applying Circular 41[1] is 422,786 billion VND, an increase of 15.23 billion VND. % compared to the beginning of the year. CAR is at 9.04%. Meanwhile, the total equity capital of joint stock commercial banks that have applied Circular 41 is 722,854 billion VND, an increase of 18.52% compared to the beginning of the year. The capital adequacy ratio is much higher than that of state-owned commercial banks, reaching 12.29%.

According to a recent update from the State Bank, the total equity capital of state-owned commercial banks applying Circular 41 is more than 400,000 billion VND, an increase of 15.23% compared to the beginning of 2022. Capital adequacy ratio (CAR) at 9.04%.

Besides, recently, especially at the end of 2022, the market witnessed many commercial banks continuously announcing plans to increase capital. Specifically, VietinBank announced a plan to mobilize VND 9,000 billion through the bond channel to increase tier 2 capital. Agribank also announced the issuance of VND 10,000 billion in bonds to the public to increase tier 2 capital to create additional long-term capital to meet the demand. Meet the loan needs of individual and institutional customers, as well as ensure operational safety ratios according to regulations of the State Bank of Vietnam.

Previously, the market recorded many joint stock commercial banks successfully increasing capital. As SHB has successfully issued more than 400 million shares to pay dividends in 2021 at a rate of 15%; thereby increasing charter capital to VND 30,674 billion. Or LienVietPostBank has just had its charter capital recorded in its operating license increased to 17,291 billion VND; At the same time, announced the public offering of 1,950 billion VND in bonds for the first phase of 2022 to increase the scale of operating capital and carry out loans to customers in the first quarter of 2023.

Currently, the CAR coefficient is calculated according to Circular 41 of 2016 [1] approaching Basel 2 international standards, set at a minimum of 8%. According to the latest update of the State Bank of Vietnam by the end of October 2022, the total equity capital of state-owned commercial banks applying Circular 41 is VND 422,786 billion, an increase of 15.23% compared to the beginning of the year. Meanwhile, the total equity capital of joint stock commercial banks that have applied Circular 41 is VND 722,854 billion, an increase of 18.52% compared to the beginning of the year.

However, according to the Project "Restructuring the system of credit institutions associated with handling bad debts in the period 2021-2025", by 2025, it continues to require the pilot implementation of Basel 2 in the Advanced methods at banks that have completed applying Basel 2 according to standard methods; Strive to reach at least 10-11% CAR ratio of commercial banks by 2023; By 2025, it will reach at least 11-12%. This goal also poses a huge challenge for banks to continuously increase equity capital, as well as effectively manage asset quality.

5. Solutions for Mobilizing Equity Capital of Commercial Banks in Vietnam Meet Basel II Standards

5.1 Issuing Shares

* Issuing common shares:

- Advantages: No need to repay stock buyers, dividends on common stocks are not a financial burden for banks in years of loss. This method increases capital size, so it also increases the bank's ability to borrow in the future.
- Disadvantages: High costs and can dilute bank ownership, reduce dividends per share, and reduce the financial leverage ratio that the bank can take advantage of.

* Issuing permanent preference shares:

- Advantages: Does not have to repay capital and does not disperse bank control, increasing the bank's ability to borrow in the future.
- Disadvantages: Dividends payable to shareholders are a financial burden in years when the bank suffers losses, high issuance costs, and reduced dividends per share.

In addition, banks can also implement measures to increase capital from other external sources such as selling assets and leasing them back, converting debt securities into stocks...

5.2 Increase Retained Profits

The measure to increase internal capital is mainly due to increasing retained profits. This is the profit the bank achieved during the year, but did not distribute it to shareholders but retained it to increase capital.

- Advantages: No cost, no dilution of bank control and no repayment required. This method helps banks not depend on the capital market, so they avoid capital mobilization costs.
- Disadvantages: Only applicable to large banks, making continuous and regular profits. This form cannot be applied regularly because it affects the rights of shareholders.

This method depends on:

a) Bank dividend policy: This policy indicates how much income the bank needs to retain to increase capital for business expansion and how much income will be distributed to shareholders.

A retained earnings ratio that is too low will slow down bank capital growth, leading to a reduced ability to expand profitable assets and increase the risk of bankruptcy. On the contrary, if the retained earnings ratio is too large, it will reduce shareholder income, leading to a decrease in the bank's stock market price.

b) Capital growth rate from internal sources: An ideal capital growth rate from internal sources must meet both requirements: First, the bank can grow its assets (especially loans). Second, do not excessively reduce the bank's capital/asset ratio.

5.3 Choose Strategic Shareholders who are Foreign Banking Corporations and Diversify the Portfolio of Strategic Partners

The fact that commercial banks choose strategic shareholders as foreign banking corporations needs to be paid attention to. Because:

Firstly, associating with foreign banking groups not only allows the commercial bank itself to increase its financial, administrative and technological potential, but also allows the commercial bank to have can learn and receive additional support and experience in technology application and banking management.

Second, help commercial banks accumulate experience in meeting service needs, especially international payments, foreign currency purchases, money transfers, remittances, investments, for client.

5.4 Small Commercial Banks Should Cooperate with Each Other to Create Synergy

In the coming time, the race to increase equity capital of commercial banks will continue. This is one of the factors that continue to create attractiveness for banking stocks, an attraction that is gradually stabilizing and classified according to financial and credit class. Thus, it is necessary to be aware that the merger of small commercial banks to create banks strong enough in financial potential and able to compete with foreign banks is an inevitable trend in the future current integration context.

5.5 Improve the Quality and Form of Loan Mobilization

In the current context of fierce competition, commercial banks need to improve the quality and form of loan mobilization in the financial market such as: deploying mobilization of certificates of deposit, treasury bills, and bonds in the financial market. Many places, many different commercial banks; Implement an easy transfer mechanism for certificates of deposit, bonds, promissory notes; develop modern services such as E-banking, Internet Banking, Home Banking, Phone Banking; Build a modern civilized style.

In addition to modernizing banking technology, commercial banks must strengthen training and retraining in professional skills, foreign language and technical skills for their employees, thereby enhancing Promote the capacity and working ability of specialized staff so that business, payment, and transactions are always safe and highly effective.

6. Conclusion

Solutions for mobilizing equity capital that meet the standards prescribed in Basel II will help the operations of commercial banks in Vietnam become increasingly healthier, and the competitiveness of banks will be increasingly enhanced. Higher and operational safety is also increasingly guaranteed. Therefore, in the coming time, implementing the above solutions is a necessary issue for the Vietnamese banking system.

7. References

1. State Bank, Circular No. 41/2016/TT-NHNN dated December 30, 2016 regulating capital adequacy ratios for banks and foreign bank branches, 2016.
2. National Assembly, Law No. 47/2010/QH12 dated June 16, 2010, 2010.
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