

# Asset Management at Military Commercial Joint Stock Bank

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## Abstract

This paper is conducted for examining the framework for asset management at the Military Commercial Joint Stock Bank. Data were collected from annual reports for the period from 2018 to 2023 of the Military Commercial Joint Stock Bank. The results show that the bank's portfolio structure is not reasonable, the proportion of items is not commensurate with the role of each item. The loan item is still focused on the real estate sector. The investment item has not brought the expected results despite the increase in proportion over the years. The study suggest some solutions for Military Bank to improve the efficiency of asset management, emphasizing the role of human resource quality, asset management model and the specific mechanism for restructuring bank assets. The results of this research is a reference for Vietnamese commercial banks in identifying, controlling and responding various risks in asset management in the context of Vietnam.

**Keywords:** Asset management, Asset structure, MB

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## 1. Introduction

The history of the US subprime crisis that occurred in August 2007 engulfed the entire US economy as well as the global financial system. The Basel Committee on Banking Supervision (BCBS 2004) pointed out that one of the root causes of the crisis was liquidity problems - due to poor asset management. The crisis showed that banks that relied heavily on short-term money markets to finance their long-term or high-risk assets tended to suffer from severe liquidity problems.

As a core activity of the bank, asset structure management is becoming increasingly important in the bank's operations. However, like other banks, asset structure management activities of the Military Bank always face many risks. The reasons may be due to lack of practical experience, not much time participating in the international market, low professional qualifications, poor management experience... Asset structure management activities of commercial banks play an important role in risk management and bring high efficiency to the bank's operations.

## 2. Theoretical Framework

The process of forming an asset portfolio is essentially the process by which commercial banks convert capital obtained through bank mobilization and borrowing into specific assets such as: loans; securities; cash, deposits at credit institutions; various types of fixed assets... to achieve the bank's business plan.

- Objective: the asset management objective of commercial banks is also part of the general management objective of the bank, which is to maximize the benefits of the owner.

+ Ensuring safety: the asset portfolio must both comply with the regulations of the management agencies and ensure safety for the bank. Each commercial bank needs to develop policies and management regulations to ensure safety for the system.

+ Increasing profitability: asset management requires banks to find a portfolio that generates revenue to both cover costs and have net income. Traditional criteria for measuring the profitability of banks such as net income after tax, ROA, ROE, dividend yield.

- Management content:

Treasury item: this is the item with the highest liquidity but the lowest profitability. Therefore, the content of treasury management is the calculation and maintenance of items such as: cash, deposits at the State Bank or

other credit institutions at an appropriate level to ensure liquidity and have resources for items with higher profitability.

Securities item: considered as the primary reserve of commercial banks because they both achieve liquidity and have good profitability. Securities management requires putting safety first, selecting and classifying securities that satisfy each bank's risk appetite.

Loans item: this is the item with the highest proportion in total assets, bringing in the largest income but also the highest potential risk. The content of credit management requires commercial banks to search for high-quality borrowers, research and find measures to improve credit analysis steps, and control the lending process well.

### 3. Research methods

*Data:* The writing mainly uses secondary data collected from annual reports of MB from 2018 to 2023.

*Methodology:* To achieve the content and purpose of research, this paper applied dialectical materialist and historical materialism method. Research methods: Statistical methods, comparative methods...

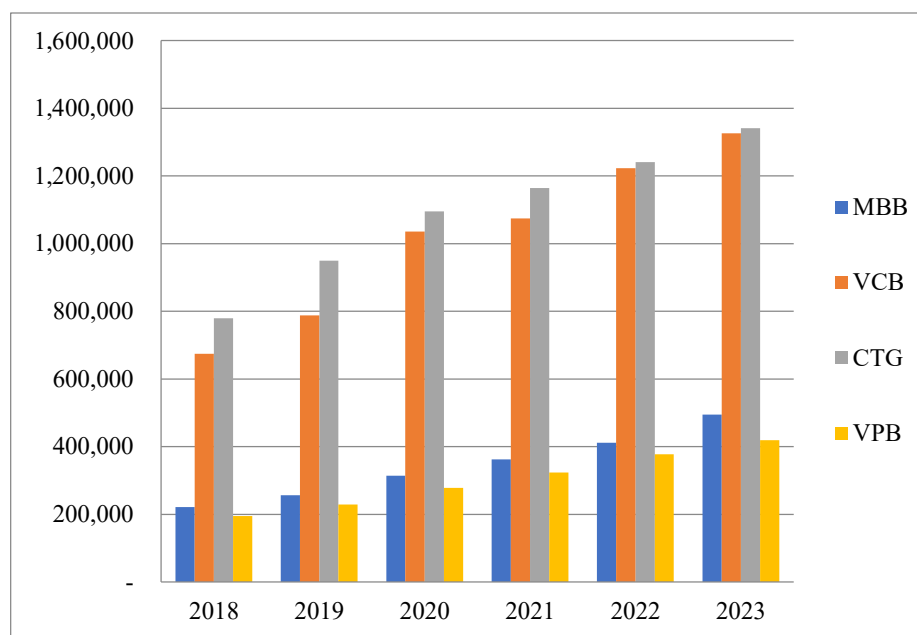
### 4. Results and Discussion

The asset portfolio of commercial banks shows the size and structure of assets. Analysis of the structure and size of assets shows the level of profitability, the characteristics of the diversification or concentration of the asset portfolio as well as the potential risks from this asset portfolio.

Firstly, the size of MB's assets

**Figure 1. Total asset size of MB, VCB, CTG, VPB**

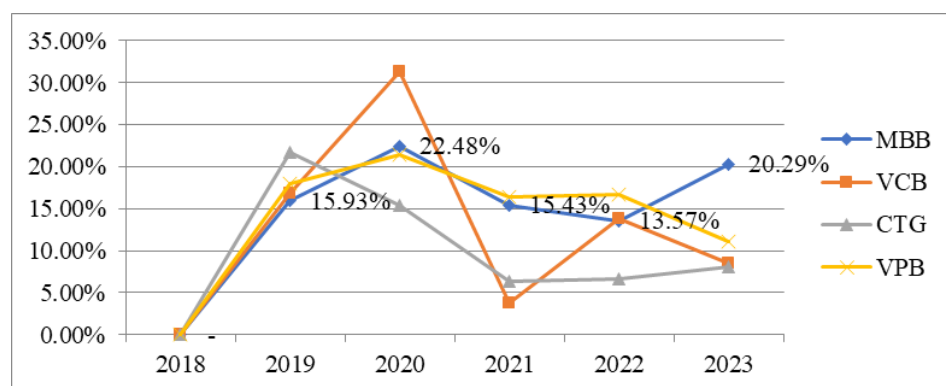
Unit: VND billion



(Source: MB, VCB, CTG, VPB annual reports 2018 - 2023)

**Figure 2. Asset growth rate of MB, VCB, CTG, VPB**

Unit: %



(Source: MB, VCB, CTG, VPB annual reports 2018 - 2023)

Looking at the figure 1, it can be seen that the commercial banks compared in terms of total assets with MB include two state-owned commercial banks, Vietcombank and Vietinbank, and one joint-stock commercial bank, VPBank. It can be seen that there is a clear difference between these commercial banks. State-owned commercial banks show superiority in total assets compared to private commercial banks. In 2023, Vietinbank's total assets were VND 1,341,437 billion, nearly 3 times higher than MB's total assets in the same year of 2023, which was VND 494,482 billion. Compared to private commercial banks such as VPbank, MB has equivalent total assets and is always in the group of joint-stock commercial banks with the largest scale. Regarding the growth potential of the asset portfolio in the figure 2, it can be seen that the growth rate of the studied commercial banks in general and MB in particular peaked in 2020. This is understandable because the Vietnamese economy had a strong recovery cycle after the 2007-2008 period and reached its growth peak in 2020 and began to slow down due to the Covid 19 pandemic. The slowing growth of outstanding loans in 2021 and 2022 is the reason why MB's total asset size slowed down in 2021 and 2022.

Secondly, MB's asset structure

**Table 1. MB's asset structure**

Unit: VND billion

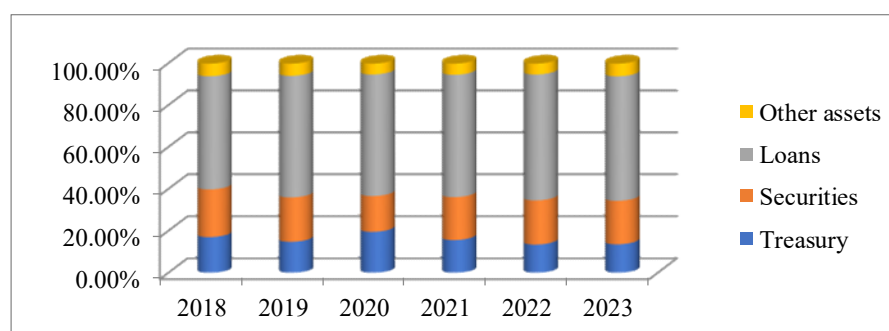
	2018	2019	2020	2021	2022	2023
Treasury	38,077	38,475	62,023	57,347	56,282	68,293
Proportion of Treasury / Total assets (%)	17.23	15.01	19.76	15.83	13.68	13.8
Securities	50,325	54,265	53,604	74,309	86,812	102,836
Proportion of Securities / Securities (%)	22.77	21.18	17.08	20.50	21.10	20.78
Loans	119,372	148,687	182,062	211,475	247,130	293,493
Proportion of loans/ Securities (%)	54	58.02	58.00	58.37	60.05	59.38
Other assets	13,268	14,832	16,189	19,194	21,264	29,910
Proportion of other assets/ Securities (%)	6	5.79	5.16	5.30	5.17	6.04
Total assets	221,042	256,259	313,878	362,325	411,488	494,982

(Source: MB, VCB, CTG, VPB annual reports 2018 - 2023)

MB's asset structure typically represents the asset structure of a commercial bank in Vietnam with the loan item accounting for the majority of MB's total assets. The loans item in 2018 was at 54% of total assets but increased sharply to 59.38% in 2023. MB's treasury item accounts for a larger proportion than other commercial banks, which shows healthy financial strength, demonstrating the bank's ability to meet payment needs. MB's securities item (secondary reserves) did not have a major change in proportion during the 2018 - 2023 period when it always maintained a proportion of about 20% in the asset portfolio.

**Figure 3. Proportion of MB's assets**

Unit: %



(Source: MB annual report 2018 - 2023)

**Table 2. MB's treasury structure**

Unit: VND billion

	2018	2019	2020	2021	2022	2023
Cash	1,236	1,520	1,842	1,737	2,244	3,109
Proportion of Cash/Total assets (%)	0.56	0.59	0.59	0.48	0.55	0.63
Deposits at the State Bank	8,182	10,002	6,684	10,548	14,347	17,296
Proportion of deposits at the State Bank/Total assets (%)	3.70	3.90	2.13	2.91	3.49	3.49
Deposits and loans to credit institutions	28,659	26,953	53,497	45,062	39,691	47,888
Proportion of deposits and loans to credit institutions/Total assets (%)	12.97	10.52	17.04	12.44	9.64	9.67
Total treasury	38,077	38,475	62,023	57,347	56,282	68,293
Proportion of Total treasury/Total assets (%)	17.23	15.01	19.76	15.83	13.68	13.8
Total assets	221,042	256,259	313,878	362,325	411,488	494,982

(Source: MB annual report 2018 - 2023)

As can be seen from Table 2, deposits and loans to other credit institutions account for the largest proportion, with 2020 accounting for the highest proportion from 2018 to 2023 at 17.04%. 2020 is the year with a very high GDP growth rate in the past decade, but MB increased its lending and deposits to other credit institutions, showing that MB's liquidity is very abundant. MB's deposits at the State Bank account for a low proportion, only around 3%; these are mainly deposits that meet the State Bank's reserve requirements and serve clearing payments.

- Securities item:

**Table 3. MB's securities structure**

Unit: VND billion

	2015	2016	2017	2018	2019	2020
Trading Securities	3,469	926	2,805	578	1,168	3,085
Proportion of Trading Securities/Total Assets (%)	1.57	0.36	0.89	0.16	0.28	0.62
Derivative Securities	96	53	122	-	15	37
Proportion of Derivative Securities/Total Assets (%)	0.04	0.02	0.04	-	0.01	0.01
Investment Securities	46,760	53,286	50,677	73,731	85,629	99,714
Proportion of Investment Securities/Total Assets (%)	21.16	20.8	16.15	20.34	20.81	20.14
Total Securities	50,325	54,265	53,604	74,309	86,812	102,836
Proportion of Securities/Total Assets (%)	22.77	21.18	17.08	20.50	21.10	20.78
Total Assets	221,042	256,259	313,878	362,325	411,488	494,982

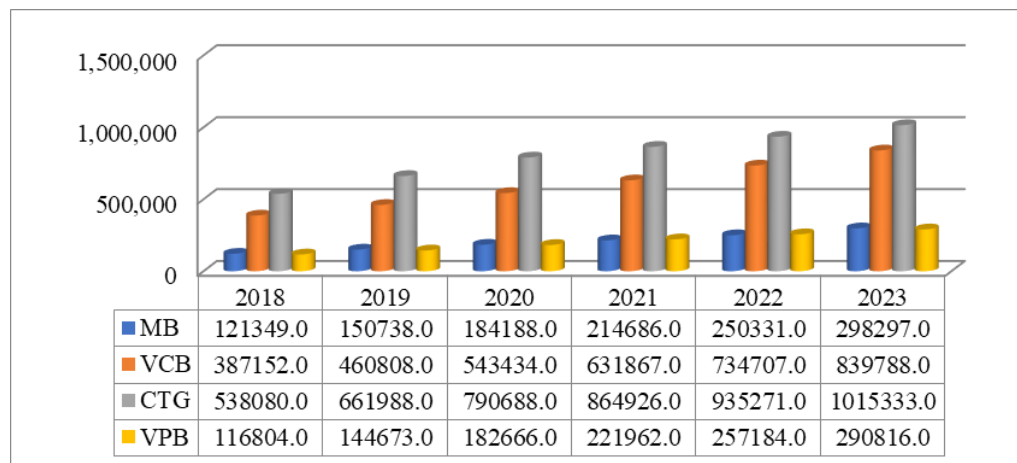
(Source: MB annual report 2018 - 2023)

MB mainly holds currency forward contracts and interest rate swap contracts to hedge foreign exchange and interest rate risks. The total value of these instruments in 2020 was the largest at VND 122 billion.

- Loans item:

**Figure 4. Outstanding loans of MB, VCB, CTG, VPB**

Unit: VND billion



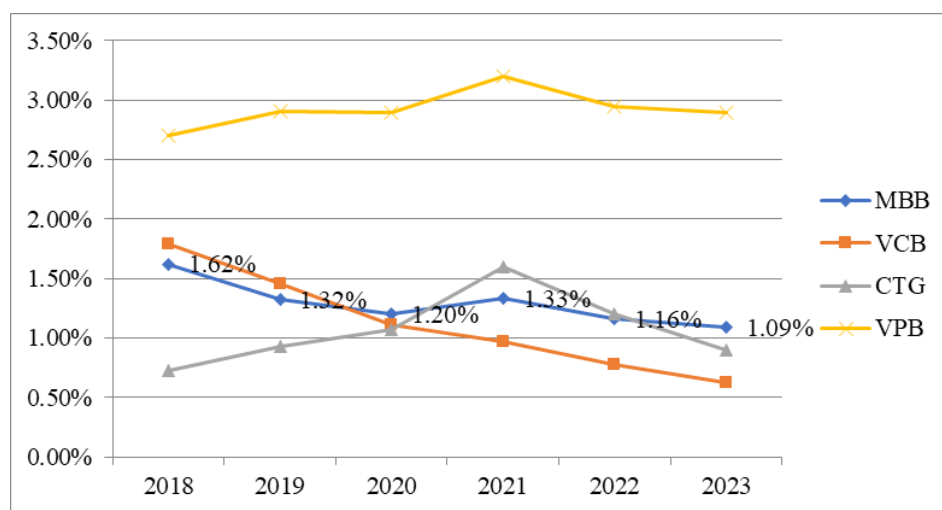
(Source: MB, VCB, CTG, VPB annual reports 2018 - 2023)

Lending accounts for the highest proportion and also brings the largest income to commercial banks. The State-owned commercial banks with the advantage of mobilization capacity and abundant customers always account for the largest lending market share. In 2023, Vietinbank had a total outstanding loan balance of VND 1,015,333 billion, nearly 3.5 times higher than the outstanding loan balance of VND 298,297 billion of MB. In the private commercial banks, the indicators for outstanding loan growth of MB and VPB are quite similar. MB and VPB are always among the leading private commercial banks in providing capital to the economy.

The bad debt ratio shows the quality of credit items of each commercial bank. The bad debt ratio shown in Figure 5 of commercial banks in Vietnam is quite low. After the period of 2007 - 2008, commercial banks experienced a period of very high bad debt from 2010 to 2014. With the Project to restructure the system of commercial banks in the period 2015-2020, in which the focus on resolving bad debt has brought the bad debt ratio of most commercial banks to below 3%. MB is among the commercial banks with the best loan quality in the system, always maintaining a bad debt ratio of less than 2% and continuing the downward trend from 1.62% in 2018 to 1.09% in 2023. Although 2020 and 2021 are years when Vietnam as well as other countries in the world are negatively affected by the Covid 19 pandemic, MB still achieved very positive results when the bad debt ratio still decreased and remained low compared to other commercial banks.

**Figure 5. Bad debt ratio of MB, VCB, CTG, VPB**

Unit: %



(Source: MB, VCB, CTG, VPB annual reports 2018 - 2023)

## 5. Conclusion and solutions

*Firstly*, restructuring bank assets.

Cash and deposits in the State Bank are non-profitable assets for the bank, so the bank should not maintain this ratio too high while still ensuring liquidity. Banks need to accurately estimate liquidity needs at each time point. Calculating liquidity needs accurately is not an easy task. It requires technology to support information retrieval, closely monitoring capital mobilization and capital use activities of all departments in the bank.

Investment items are not effective for MB. To maintain liquidity and stable income, MB should still increase the investment rate in securities issued by the Government and large domestic financial institutions. It is important that MB must build an effective investment department to promptly have investment plans that bring benefits to the bank.

Credit is still a traditional activity that brings high benefits to MB, the credit ratio tends to decrease to nearly 50%, which is in line with the trend, but the bank needs to focus on credit quality management, develop products to meet the needs of customers, thereby increasing bank interest income.

*Secondly*, improving liquidity risk management.

Building a liquidity risk management process that ensures effectiveness and efficiency. The survey of liquidity risk management at MB shows that: the organizational structure of management is still overlapping, the time to process liquidity risk management work is still long. Therefore, MB needs a process for liquidity risk management that is compact but effective, satisfying management standards according to international practices. This process needs to receive high consensus from members of the Board of Directors and the consensus of all employees in MB.

Innovation in liquidity risk measurement method. MB needs to apply dynamic liquidity reporting, which fully accounts for cash flows in and out of the bank to accurately measure the liquidity gap.

Actively and proactively prevent liquidity risk. Liquidity management strategy combining both assets and capital is the strategy chosen by most commercial banks, including MB. With this strategy, in addition to maintaining the appropriate proportion of each item in the balance sheet, the quality of each item is also very important in contributing to preventing liquidity risk for the bank.

*Thirdly*, improving the efficiency of investment management activities. MB needs to focus on: improving the investment process, developing criteria for selecting investment opportunities, developing a portfolio risk management process, diversifying the investment portfolio and improving the capacity of human resources.

*Fourthly*, improving the efficiency of credit management.

Building a credit portfolio: to plan loan portfolio management goals, it is necessary to closely link with the goals of profit, market share growth, and brand development of the bank.

Strengthening credit portfolio monitoring: based on reviewing and analyzing risks affecting the possibility of income decline and capital loss of the current loan portfolio (due to changes in the business environment, state policies, fluctuations of the enterprise itself, causes of the bank itself, etc.), timely and reasonable adjustments of the loan portfolio should be made to create a balance in the portfolio between high-risk assets and low-risk assets, thereby creating reasonable income and regulating risks.

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