CREDIT RISK MANAGEMENT FOR SMALL AND MEDIUM ENTERPRISES IN THE VIETNAM BANK OF AGRICULTURE AND RURAL DEVELOPMENT - HANOI NORTH BRANCH

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Hanoi, 2017
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ACKNOWLEDGEMENT

I am indebted a great various thanks to many people giving support me during doing this master’s thesis.

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ABSTRACT

Credit risk is one of the most general risks that exist in the financial market and a major risk faced by financial institutions. Credit risk management (CRM) is to identify, measure, monitor, and control risk arising from the possibility of default in loan repayments. The primary objective of CRM of Agribank is to maintain risk within acceptable parameters and satisfy the regulatory requirements.

Because of these reason, this thesis “Credit Risk Management for small and medium enterprises in the Vietnam Bank of Agriculture and rural Development - North Hanoi Branch” adopts qualitative analysis and case study approaches to identify key factors contributing to the result in loan defaults and banks’ credit risk. In addition to normal risks faced by financial institutions, Agribank North Hanoi Branch are also exposed to risks specifically to rural commercial banking business and in particular, farming-related loans and services. This thesis proposes a CRM framework for Agribank North Hanoi Branch.

With the current status of lending activities, credit risk management at Agribank North Hanoi Branch, the thesis has pointed out the achievements, limitations and causes of risk management process of Agribank North Hanoi to small and medium enterprises.

Finally, after analyzing Agribank's results-based and data analysis, the thesis presents a number of solutions and recommendations to the risk management process for small and medium enterprises.
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<td>AMT</td>
<td>Amount</td>
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<td>Bil</td>
<td>Billions</td>
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<td>Es</td>
<td>Enterprises</td>
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<td>M</td>
<td>Millions</td>
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<td>SOEs</td>
<td>State-owned enterprises</td>
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<td>T</td>
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INTRODUCTION

1. The urgency of the subject

In the progress of economic integration, the Commerce Banks in Vietnam should focus on various areas, including: credit, investment, mobilizing Cap and guarantee ... for sustainable development and stability. Among that, the issue of credit risk management, which is an urgent issue, has a decisive role in the development and stability of the banks.

Be a subsidiary in the Agricultural Bank of Rural Development and Vietnam System, North Hanoi Branch always appreciated the role of management operations, credit control, limitation and minimization of credit risk in the whole branch. In particular, in the underlying risks and competitive environment in Hanoi today together with the pressure of economic integration, even though the bank’s credit activity has many existing guidance documents, is still inadequate to perform and need to be renovated. Credit risk management, which generate the business security, must be consider as a prerequisite to ensure for the development of the commercial banks in general and for North Hanoi Branch in particular. For these reasons, credit risk management is top concern on the theoretical as well as in practice.

Therefore, on the basis awareness that the improvement of credit risk management is necessary for North Hanoi Branch, I chose the theme: "Credit Risk Management for small and medium enterprises in the Vietnam Bank of Agriculture and rural Development -Hanoi North Branch ".

2. Research Purpose

Thesis research content and analyze the role of credit risk management. Since then, practical measures are given in order to improve credit risk management in North Hanoi Branch. As follows:

- Researching the theoretical basis of credit risk management and lessons learned from foreign banks.
- Collecting data investigation, analysis and assessment of the credit risk status, causes of credit risk and governance of credit risk in North Hanoi Branch.
- On a theoretical basis, analyzing the situation of the credit risk management, which provides some solutions to improve the effectiveness in North Hanoi Branch.

3. Object and scope of research

- Research’s objects: the credit activity in North Hanoi Branch.
- Research’s scope:

Thesis research the credit risk management activity in North Hanoi Branch from 2014 to 2016.
4. Methodology

Based on the method of dialectical materialism, combining theoretical studies, statistics, surveys, interviews and practical experience through working time in North Hanoi Branch, analyze and clarify the status area, propose orientations and solutions for the credit risk management’s improvement in North Hanoi Branch.

5. Structural Thesis

Besides the preface and conclusion, the thesis’s content include 03 chapters:
Chapter 1: The basics of credit risk management in bank operations.
Chapter 2: Situation of credit risk management in North Hanoi Branch.
Chapter 3: Solutions and proposals to enhance the effectiveness of credit risk management in North Hanoi Branch.
CHAPTER 1
BASIC ISSUES OF CREDIT RISK MANAGEMENT IN COMMERCE BANKS

1.1. Bank credit and bank credit management

1.1.1. Bank credit:
First of all, bank credit is defined as property transaction between banks and customers. In which banks transfer credit asset to customers in the form of certain kind of asset and customer commit to return within a certain time period.

Bank credit operation has the following noted characteristics:

First, credit transactions are made base on trust between two parties: bank and customer. In which customer trusts bank in the ability to provide services and make the commitment to customers. Bank trusts in the customer’s repayment capacity and willingness to repay. On theoretical research of risk management perspective, this characteristic play important role because the risk here is that the customer can repay the loan to the bank or not, in which features "willingness to repay" holds a decisive role.

Second, transaction is made on the basis of asset transfer from the bank to the customer. Bank grants customer a credit is funding capital, which is an intangible concept, so it must be expressed in a tangible form that we call property. This property could be money, machinery, equipment, goods... but mostly in terms of money. The significance of the study of this characteristic in credit risk management is that the risk here is in the process of capital mobility. Specifically, the funds will be transferred from the bank to the customer in terms of some currencies (mostly), then depending on its use that customers continue to transform them into other forms... finally it returned currency to repay the bank. In that capital flows, risk can occur at any stages and things to be noted here is that risk will happen to the customers first and the bank after. Therefore, the bank must to control how the customer transforms the loan in order to manage risk.

Third, the loan repayment value must be larger than the original value. The customer must repay the bank loans at maturity include principal and interest amounts. Interest amounts are used to cover the cost of bank (such as the cost of raising capital and operating costs...) and to bank’s profits. The calculation of interest on the loan related to interest rate and interest rate risks is also listed in the operation risk that banks face, but in the study of the subject, the interest rate risk will not be mentioned.

Fourth, the customer commits to repay the loan to the bank on time. This characteristic is very important in the study of credit risk management for the following reasons. First, the amount of money that lend from bank not owned by the bank because the bank is only a
financial intermediary made "deposit trading" in other words "borrow to lend". Deposit trading have a rule that when customers send money to bank with any period, the bank has no right to refuse if the client wants to withdraw money before maturity. Therefore, the repayment at maturity play important role in the guarantee of bank liquidity. In this case, the credit risk if happens will be the cause of the liquidity risks that any banks is always afraid to face. One more thing for repayments at maturity is "whether banks want customers repay before maturity date or not?". Of course there will not be a credit officer refuse if a customer repay before maturity date. But if it happens, it will affect the debit plans of the bank as well as the expected profit that bank calculated. In summary, the calculation of the loan duration and managed to collect debts at maturity have an important role in preventing customer to use funds for wrong purpose as well as execute the bank’s plan.

1.1.2. Credit risk on banking

1.1.2.1. The definition of risk

In the market economy, any business activity always exist underlying risks. Business activity of commercial bank could not avoid risk. So what is the risk?

Risks are events occurring unwanted and effect adversely on banking, leading to loss of bank’s assets and then reducing bank’s net profit than expected.

Banking related to different economy’s sectors, influenced by many objective and subjective factors such as economic, political, social... Banking activities are not only capital mobilization and lending but also many other areas such as payment, guarantee, foreign exchange trading, securities, joint ventures, agent cards service... Therefore it can be said that banking risks are diversity, including: credit risk, interest rate risk, liquidity risk, foreign exchange risk, lack of available capital risks, risks in international credit and other risks.

Among the above-mentioned types of risk, credit risk is the biggest and most complex type due to credit is mainly profitable operation as well as most potentially risky in bank. Therefore, the biggest concern in the credit activity is credit risk.

1.1.2.2. The definition of credit risk in the Banking activities

Currently, there are many different definitions of credit risk:

According to A. Saunder & H. Lange in Financial Institutions Management – A modern Perspective, "credit risk is the potential loss when the bank provides credit to a customer; mean the ability of the projected income streams brought from loans banks cannot be fully implemented in both the number and duration".

In Vietnam, according to Decision 493/2005 / QD-NHNN dated 22/04/2005 of the Governor of the State Bank, promulgating regulations on debt classification, provisioning and use of
provisions against credit risk management in the banking activities of credit institutions, the "credit risk in the banking activities of credit institutions is the possibility of losses in the banking operations due to customer not to perform or inability to perform its obligations under the commitment".

These above definitions are quite diverse, but we can draw the basic content of the credit risk as follow:

Credit risk is totally objective so it is impossible to completely eliminate credit risk in banking activities that banks can only restrict its appearance as well as the harm they cause by the strategy and specific measures. A loan may not be overdue, but still bring potentially irrecoverable loss to the bank. Bank has a low delinquency rate now but credit risk would be very high if the credit portfolio focuses on a group of customers or potentially risky trades. This recognition will help the operation of credit risk management is proactive in preventing, provisioning, ensuring sustain and offset losses when risks occur.

**1.1.2.3. Features of credit risk:**

*Credit risk is very diverse and complex:* this feature is performed in the variety and complexity of the causes, forms and consequences of credit risk. Therefore, in prevention and treatment of credit risk bank need to pay attention to any signs of risks, causes come from the nature causes and consequences of the credit risk to take suitable measures.

*Credit risk is inevitable, that is always present and associated with commercial bank credit,* the status of information asymmetry give the Bank is unable to grasp the signs of risk comprehensively and completely, this makes any loan have underlying risk. Banking is trading risk at appropriate levels and with the main aim is still to achieve profit.

**1.1.2.4. Credit risk classification.**

The aim of classification of the credit risk is having better understanding of each type of risk and measures for each type. Credit risk can be classified as follows:

a) **According to the causes of risk**

Classification by the causes, credit risk includes two types of risk are due to objective reasons and subjective reasons, specifically as follows:

*First,* the credit risk due to objective reasons includes:

- Risks from the unfavorable changes of economic environment: this leads to difficulty in the customer’s acquisition and customer cannot pay debt to the bank.

- Risk of unfavorable regulatory environment: system of legal is inadequate, management of state agencies in the local is still weak, and management information system is limited.
- Risk of policy: changes in state policy or change some of the law provisions can also cause risks for banking credit. For example when banks decide a loan for firework enterprise at the time the State did not yet prohibit fireworks trade but after that, the State decided to ban in firework production (when longer term contracts) obviously enterprise cannot be operated and of course unable to repayment.

Second, the credit risk due to subjective reasons includes:

- Risks caused from customers: improper use of funds, unwillingness in the repayment, the incompetency in management, unhealthy financial condition...

- Risks caused from banks: weaknesses in internal inspection, the inadequate qualifications or professional ethic of staff led to mistakes, the lack of inspection and supervision when lending, the loose link and cooperation between commercial banks, the ineffective role of CIC (credit information center) ...

b) The nature of the risk

According to this way of classification, credit risk can be classified into two types:

Firstly, the risk of capital loss: the bank cannot collect the principal and interests on the loan due to the borrower do not repay the debt intentionally or unable to repay.

Secondly, risk of outstanding capital: customers use capital ineffectively or get risk so they are unable to pay debts on time.

1.1.2.5. Some indicators of credit risk measurement

Normally, in order to assess the credit quality, as well as determine the level of credit risk that a commercial bank faces, people often used Indicators of delinquency and bad debt ratio of total outstanding loans.

These are two very important indicators; which reflect the credit quality clearly and indicate the level of risk of capital loss that affect the business results of the bank in the present and in the future.

* Overdue loans are those loans are not repaid at maturity, unauthorized or unqualified for debt renewal.

\[
Overdue \text{ loan ratio} = \frac{Total \text{ overdue loans}}{Total \text{ loans}} \times 100\%
\]

Meaning: The higher overdue loan ratio, the lower the credit quality of the bank and more risk banks face, and vice versa.

However, if only based on overdue loan ratio to assess the credit quality of a bank is not accurate. Therefore Decision No. 450 / QD-HDTV-XLRR dated 05/30/2014 issued the
Regulation on the classification of assets, amount of provision, methods of provisioning and use of provisions against credit risk. It more accurately assessed the credit quality of the Bank and approached to international practices. According to above decision, the outstanding loan of the credit institutions is divided into 05 groups as follows:

- Debt Group 1 (Standard debt)
- Debt Group 2 (Special Mention)
- Debt group 3 (Substandard debt).
- Debt group 4 (Doubtful).
- Debt group 5 (Potentially irrecoverable debt)

\[
\text{Bad debt ratio} = \frac{\text{Total bad debt}}{\text{Total loans}} \times 100\%
\]

Bad debt is debt in Group 3, 4, 5 and have the following characteristics:

- Customers do not perform or perform repayment obligations at maturity.
- The customer’s financial situation is on the bad, customers are struggling in business and in the process of arranging funds to repay the bank, leading to the Bank does not collect full of principal and interest.
- Customer’s collateral mortgage may be insufficient to cover principal and interest.

Meaning: Bad debt ratios assess the credit quality of the credit institution. The higher bad debt ratio, the worse credit quality get and vice versa. If the bad debt ratio of less than 5%, the credit quality will be normal, as less than 5% as possible. Conversely, if the bad debt ratio is greater than 5%, the credit quality will be not abnormal. Banks need to consider and review the portfolio and strategies to reduce bad debt ratio in detail and carefully.

### 1.1.2.6. The measurement models of credit risk in worldwide

*Qualitative model of credit risk- Model 6C:*

For each loan, the most important issue of the bank is whether the customer is willing and able to pay the loan at maturity or not? This involves detailed study of 6 terms- 6C of customer, including:

- Character: Credit Officer must ensure that the borrower has a clear credit purpose and are willing to pay debts at maturity.
- Capacity: The borrower must have the legal capacity and civil capacity.
- Cash flow: The source of the borrower to repay.
- Collateral: The customer’s assets used as security for loans.
- Conditions: Bank defines the conditions according to credit policy of each period.
- Control: Assess the impact of changes in laws, regulations and the borrower’s ability to meet the standards of the Bank.
Advantages: the use of this model is relatively simple.
Disadvantages: the effective of using this model depends on the accuracy of information gathering resources, predictability and the level of analysis and evaluation of Credit Officer.

1.1.2.7. The consequences of the credit risk
Credit risk is always underlying in banking and causes serious consequences, which affected many aspects of economic – society of each nation.
- For bank:
Because bank do not recover principal, interest and fees of issued credit, in addition still has to pay interest on the funds mobilized, the profits diminished and can lead to bankruptcy.
- For Banking System:
If a bank gets bad results, even lead to loss of liquidity and bankruptcy, will have an adverse chain effect on the entire banking system. Without the intervention of the central bank and the government, the fear of losing funds will spread to all depositors and they will simultaneously withdraw money from banks so other banks also take solvency.
- For economy:
Bank attracts and pumps money to the economy, so if a bank faces critical credit risks, caused the bankruptcy will create confusion in economy, instability in economic activity and stagnant, unstable supply and demand relationship.

1.2. Small and medium enterprises customer inn the commercial bank

1.2.1. The definition of small and medium enterprises:
Small and medium enterprises are enterprises with small scale in terms of capital, labor or revenue. Small and medium enterprises can be divided into three categories based on the size. There are: micro-enterprises, small and medium enterprises.
According to the criteria of the World Bank Group (WB) micro enterprises have number of employees less than 10 people, small enterprises have the number of employees from 10 to less than 200 people and their capital is less than 20 billion, medium-sized enterprises with from 200 to 300 employees and their capital is from 20 to 100 billion. Each country has its own criteria to determine small and medium-sized enterprises in country.
In Vietnam, according to Article 3 of Decree No. 56/2009 / ND-CP dated 30/6/2009 of the Government, micro-enterprises have the average annual the number of labor is less than 10 persons, small enterprises have from 10 to less than 200 employees and enterprise has from 200 to 300 employees are considered as medium enterprises.
1.2.2. Role of small and medium enterprises:
In each economy, the small and medium enterprises can keep roles in different level, but generally there are some similar roles as follows:
- Play important role in the economy: these usually account for a large proportion, even overwhelming in total business (in Vietnam, this rate is over 95% for only registered businesses). Therefore, their contribution to total output and employment is significant.
- Stabilize economy: the small and medium-sized enterprises are subcontractors for large enterprises. The correction subcontracts at times allow the economy to get stability. Therefore, small and medium-sized enterprises are considered as the cushion for the economy.
- Make the economy dynamic: For small and medium-sized enterprises are small, so easy to adjust operation (in terms of theory).
- Create industry and support services: small and medium-sized enterprises often specialize in producing a few details to be used for assembly into a complete product.
- As the backbone of the local economy: if large businesses are often based in the business center of the country, the small and medium-sized enterprises present in all localities and is an important contributor on revenue, production and creating local jobs.
- Significant contribution to the national GDP value.

1.3. credit risk management with small and medium enterprises in the commercial banks

1.3.1. The necessity of credit risk management
Credit risk is always a potential problem in operation of any bank and credit risk may cause the consequences at different levels, so credit risk management is essential.
+ Credit risk management will help predict and detect potential risks: detecting unfavorable events, preventing unfavorable situations, dealing with the consequences of risk to limit the damage to bank’s property and income.
+ Credit risk management will help unify the way to deal with credit risk in staffs and leaders in the Bank.
+ Credit Risk Management will set out the objectives, specific plans to help banks in the right direction in preventing and mitigating the consequences of the credit risk.

1.3.2. The task of the management of credit risk:
- Orientate directions and risk prevention plan. Directions aim at prediction how risk could happen, in what condition, what is the reason of the risk, risk consequences...
- Determine the organizational direction of risk prevention, the specific objectives to be achieved, the safety threshold; the level of errors can be acceptable.
- Participate in building professional programs, the structural control of risk prevention, separation of powers and responsibilities for each member, choosing the tools and techniques of risk prevention, treatment and handling risks in serious way.
- Check and control to ensure that the progress of risk prevention which was planned on schedule, detecting potential risks, errors in transactions ... On that basis, recommend measures and additional adjustments in order to improve risk management systems.

1.3.3. Contents of credit risk management in commercial banks

1.3.3.1. The study identified the types of risk

To manage risks, first identify the types of risk that banks may encounter. This work includes:

Identification of risk: firstly analyzes bank lending structure according to criteria such as time, customers, and methods of funding, forms of financing ... and identify possible types of risk for each category and the ability of risk occur for each type. For each type, the identification of risk include risk monitoring, risk review, researching specific environment aimed at statistic the possibility have been happening and trying to forecast the risks may occur in the future to set out the control measures and funding. The commonly-used method is analyzing the reports, analyzing the specific loan contract and work directly with the relevant department when risks occur.

Risk measurement: this is something that the bank managers are very concerned, because if risk is measurable, the prevention is easier. The bank will use the criteria; apply models (as described above) to the quantitative and qualitative credit risk.

1.3.3.2. Develop strategy for credit risk management

Base on the study and calculation the risks banks may have encountered, the bank carry out the construction in long-term strategies to manage those risks and concretized into the governance plan for each specific period.

• Risk Management Strategy

In Vietnam commercial banks, the deployment of new risk management in its infancy, so the strategies of risk management for a long period have not been fully implemented, only some big banks can do this. According to the development trend, risk management must become a central activity in the banking and financial institutions. Building strategic credit risk management is to build and implement policies and management measures to achieve the safety, efficiency and sustainable development. Strategy for credit risk management is achievement the goal to maximize adjusted income ratio or minimize the difference between the actual level of profitability and expectations.

• Risk Management Plan
This is the materialization of risk management strategies into specific tasks in order to manage credit risk in each stage. That is the plan of debt management, customer management and management of bad debts. In each plan, steps must be calculated, planned measures to address the emerging issues (measures that can handle when risk occur). Risk management plans must take out the tools that banks use for risk management. These tools are often used as follow:

**a) Credit Policy**

This is a document provide to credit officers and managers a framework for detailed instructions in making credit decisions and direction of credit portfolio of banks. Basic content includes:

- Description of target credit markets.
- Announcement the criteria for the loan portfolio.
- Defining the powers and responsibilities of the people involved in making lending decisions.
- Process and loan procedures.
- Regulation policies and methods of determining the interest rates, fees, loan term.

**b) Granting credit limitation.**

To limit risk, the bank will provide a quota maximum credit level for each level of management. It can be specified for each branch, each transaction or on the type of credit product. The credit limit is interpreted as the maximum safe credit in which enterprise administrate its operations in efficient way and with this level of risk banks can be accepted is the lowest. Credit limits include limits of all risky banking activities or services banks issue to customers (such as loans, opening the L / C, guarantees ...). When overcome this limitation, the risk was excessive.

The credit limit is calculated on the basis of bank credit policy, credit rating of the customer, the business sector and the customer’s scale of operations, the ability of management of the banks themselves.

**c) Customer’s credit rating**

Bank carries out the assessment of customer risk periodically for credit rating for customers. This ranking is the same as classifying clients into groups with different degrees of risk to take measures to effectively manage customers as well as early detection and prevention of irregularities.

**d) Collateral**

Collateral is a source of bank guarantee in case of default from customer. However this is only a necessary condition to be considered for loan customers. In fact, many banks rely on this asset and neglect in evaluating clients and think that if customer cannot repay, the
collateral can be sold for replacing. This is a very shortsighted and irresponsible viewpoint which needs to be reorganized to improve the quality of credit activity.

e) Diversification the portfolio.
This tool, which also bases on the principle of risk diversification, is often referred to "do not put all your eggs in one basket" by experts. For well portfolio, the bank needs to research each market, industry, type of credit product ... with different operational characteristics, different level of risk in order to find out the credit market section and a balanced portfolio structure.

1.3.3.3. Implementation of credit risk management plan
The plan of credit risk management is implemented from the first stages of credit process. This means that credit risk management occurs from reaching customers until the contract is liquidated.

• Choosing customer
In this stage, banks collect information about customers to assess the level of risk and choose the least risky customers.

• Decision-making and controlling credit

a) Decision-making credit
This is a significant step for decision whether bank face risks in the future or not. According to regulations, the highest authority competent in decision making is Credit Council. The evaluation is not only evaluating the financial condition of customers, but also the feasibility of the use of capital. In summary, the customer is accepted if meets five conditions are:

1) Sufficient legal personality.
2) Loans are used legally
3) The customer has a healthy financial situation, ensuring repayment of loan at maturity according to commitments.
4) Customer’s plans and projects are feasible and effective.
5) Making the loan guarantee as stipulated.

b) Credit control
After signing contracts with customers, a lot of uncertainties that may occur due to changes in the environment or subjective matters. Credit Officers need to be sensitive to irregular change and periodic inspect credits until maturity. That helps to detect potential risks in order to find out preventive measures.

• Dealing with problematic credit
The process of regular credit checking detects abnormal signs; bank should immediately seek measures to recover these “problematic” credits. Some noted points when performing this task:

First, the experts have to consider all possible options and expect sources can be used to recover the debt.

Second, all problems must be urgently explored and timely reporting.

**Table 1.1: The signs of a bad credit and an ineffective credit policy**

<table>
<thead>
<tr>
<th>The signs of problematic credit</th>
<th>The signs of an ineffective credit policy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not repay loans on time or erratic.</td>
<td>Customer choice is not balance with their risk level</td>
</tr>
<tr>
<td>Regular propose for an amendment or extension deadline of credit.</td>
<td>Lending policies depend on events that may occur in the future.</td>
</tr>
<tr>
<td>There are records of refunding (when it has new loan, original debt decreased slightly).</td>
<td>Loans on the basis of the customer’s promise of maintaining a huge deposit balance.</td>
</tr>
<tr>
<td>Abnormal high interest credit rates (to offset credit risk).</td>
<td>Lack of a clear plan to liquidate each credit.</td>
</tr>
<tr>
<td>Accounts receivable or inventory increase abnormally.</td>
<td>The high credit rate for customers outside the domain of bank.</td>
</tr>
<tr>
<td>Leverage ratio increased.</td>
<td>Inter-company lending rate high.</td>
</tr>
<tr>
<td>Lost records (especially customer finance reports).</td>
<td>Over trend in competitive (Bad credit granted to retain customers).</td>
</tr>
<tr>
<td>Low credit security quality.</td>
<td>Lending support for speculative purposes.</td>
</tr>
<tr>
<td>Believe in revalued assets to increase Customer’s equity.</td>
<td>Not sensitive to change of economic environment.</td>
</tr>
<tr>
<td>Lack of cash flow statement</td>
<td></td>
</tr>
<tr>
<td>Customers pay off debts by irregular revenues from property.</td>
<td></td>
</tr>
</tbody>
</table>

(Source: FDIC, Bank Examination Policies, Washington, D.C., selected years.)

**1.3.3.4. Assessment risk management activities**

For each risk management activities, the assessment also has a very important meaning. It gives managers the necessary information to how to perform administrative operations, what
was done, what not to do and which issues need to be corrected. The results of the evaluation will also help administrators make recommendations for better work.

Another point to note is that the assessment is not carried out only after the business cycle but also needs to be conducted immediately in the organization, at all stages, all relative parts to direct support, regulate the operation and timely detection of shortcomings to propose remedial measures.

1.3.4. Factors affecting the credit risk management

To manage these risks, firstly know the how it happens as well as what its mechanism of action is. So considering the factors affecting the work of credit risk management is considering the factors affecting credit risk. Here are the basic factors affecting the credit risk:

**Firstly, the elements belonging to the bank**, including factors such as:
- Bank policy of credit management.
- Risk governance model applied and credit granting procedures.
- Qualifications and moral quality of loan officers.
- The inspection or supervision after lending.
- Credit growth is too fast out of control and facile psychology in lending decisions when economic growth.
- trails psychology in lending: loans for enterprise is safety, collateral ...
- Regardless of the level of customer risk when pricing loans.
- Loan portfolios are not diversified
- Human Resource Management is still insufficient.

**Secondly, the elements of the economy**, such as the economic cycle, fluctuations in policy, inflation, interest rates, real estate market.

**Thirdly, the elements of the customer** including internal factors such as the customer's financial situation, the moral of the client, collateral ...; the objective factors such as natural disasters, fire, theft ...

1.4. Experience of risk management activities in some credit commercial bank in the world

1.4.1. Experience of China

Credit activity in China shows bad debts of commercial banks in this country usually comes from:

Firstly, credit balance increases too fast, while lending to non-traditional area and bases on mortgage, guarantors, and reputations as secondary sources of repayment - without evaluating the main source of payments.
Secondly, the level of profession of credit officers is limited compared to the standard. Thirdly, undermine the credit safety standards, such as: loans with expected assets formed from loans will be of high value. Loan structure is non-effective, over-payment; no written agreement on the purpose and the use of the loan, the source repayment plan. Fourth, supervision after disbursement is poor; do not adequately supervise construction loans, such as field visits, withdrawal of funds, inspections, etc. There is no voucher for dealing with clients, incomplete legal documents; do not collect, verify and analyze reports throughout the life of the loan; no aware of warning signs such as inventory turnover cycles and receivables slowdown, cycle of payables and net loss in business. Recognizing and handling these early and effective causes is the most important factor in minimizing the credit risk of commercial banks in China.

1.4.2. Experience of Japan

Actual credit activity of Japanese commercial banks shows that the tight lending along with the so ambitious expansion policy is further stimulated by competition in the market as a result of losses of Bank. On the other hand, due to the lack of experience with severely lost loans, Japanese banks are unaware of the management of credit losses. Banks are not well aware of the serious consequences of delaying decisive measures on risky borrowers, so the bank's profit and loss cannot be resolved quickly and at a lower cost. In other words, the bank should be proactive in assessing a potential customer in the near and foreseeable future, thereby taking action as soon as possible.

1.4.3. Experience of America

Actual credit performance of commercial banks in the US shows that for effective credit risk control it is necessary to:
First, foster a lasting and integrated relationship with the borrower and serve all their financial needs. As a result, lenders will understand more about the financial condition of their customers and profit from the sale of diverse financial products, while the borrower will have a long-term source of support along with Credit service.
Second, emphasis is on loan appraisal rather than loan control. Cutting or deactivating the appraisal process will lead to bad debt. Furthermore, it is important to appreciate the condition of each borrower rather than the formula and the automated formula, such as grading credit. Credit scoring, based on the available formulas for measuring and predicting the level of risk of potential customers, designed to refine the loan appraisal process.
Third, avoid using brokers because brokers are not motivated to provide higher quality loans because they are paid not based on the quality of the loan.
Fourth, require the borrower to demonstrate his or her experience in the business, require the borrower to provide collateral for both personal and corporate property whether collateral is needed in order to create a psychological motivator for the borrower for the loan.

Fifth, focus decides the loan to ensure consistency and control. Although small or large lenders may differ in the method of loan review, both require at least one officer, not a loan appraiser, to review the loan and final decision is made. This structure eliminates the final approval decision from many scattered staff that focuses its approval on an officer or team to ensure consistency, control and efficiency in loan appraisal.

Sixth, require lenders to be responsible for their loans. Credit decisions are only good when the information is presented, the analysis must be complete, most of the lenders believe in the responsibility of the lender. Although no unit emphasizes penalties for bad debt holders, in most cases lenders must support the recovery of bad loans.

In short, in banking business, facing credit risk is unavoidable. The problem is how to limit this risk at the lowest acceptable rate. Chapter I of the thesis outlines the basics of credit risk as well as the models and measures to mitigate risk.
CHAPTER 2
THE REALITY OF CREDIT RISK MANAGEMENT FOR SMALL AND MEDIUM ENTERPRISES IN VIETNAM BANK FOR AGRICULTURE AND RURAL DEVELOPMENT – NORTH HA NOI BRANCH

2.1. General introduction about Vietnam bank for agriculture and rural development- North Hanoi Branch

2.1.1. The formation and development of North Hanoi branch.

North Hanoi branch is a subsidiary of Agribank. The branch was established under the Decision No. 342 / QD of the Governor of the State Bank of Vietnam, with the first transaction date of November 1, 2001 and the official opening date of November 6, 2001. Through many difficulties, under the wise leadership of the Board of Directors and the efforts of all staff, North Hanoi Branch has constantly completed and improved the quality of products and services and has become one of the leading branches of Agribank.

2.1.2. Organizational structure

Up to 31/12/2016, Agribank Hanoi North Branch has 08 professional departments at Head Office and 05 sub-transaction offices.

As of 31/12/2016, the branch has 135 employees, of which the number of male is 40 people accounting for 29.6%, and the quantity of female is 95 people, accounting for 70.4%.

* About professional qualifications:
+ Postgraduate level: 19 employees (Masters).
+ University degree: 116 employees.

* About foreign languages:
+ 08 people have the university degree.
+ 97 people with the level C.
+ 30 people with the level B.

* In terms of informatics: 100% of staffs have basic computer skills, including three employees at level C and 87 cadres at the level B.

* About training: Branch has organized and mobilized all employees to regularly improve their professional skills in all forms and abilities such as: Learning classes taught by Agribank's staff training center, organizing short-term training courses for staffs, encouraging staff to attend professional training courses.
Table 2.1: Organization chart of North Hanoi Branch:

![Organization chart of North Hanoi Branch]

(Source: Human Resource Department - Agribank North Hanoi)

2.2. Business results of Agribank North Hanoi Branch

2.2.1. Capital mobilization:

Capital mobilization is considered as one of the important activities of commercial banks in general and Agribank North Hanoi Branch in particular. In the years ago, the branch has diver the types of capital mobilization mighty following:

![Table 2.2: Capital mobilization for three years 2014-2016]

Table 2.2: Capital mobilization for three years 2014-2016

<table>
<thead>
<tr>
<th>Capital mobilization</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>Increase/ Decrease compared with the last year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>AMT (bil VND)</td>
<td>Rate (%)</td>
<td>AMT (bil VND)</td>
<td>Rate (%)</td>
</tr>
<tr>
<td>Sorting by currency type</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>VND</td>
<td>6,922</td>
<td>91%</td>
<td>9,590</td>
<td>98%</td>
</tr>
<tr>
<td>Foreign currency</td>
<td>663</td>
<td>9%</td>
<td>194</td>
<td>2%</td>
</tr>
<tr>
<td>Sorting by entity</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Resident's deposit</td>
<td>1,282</td>
<td>17%</td>
<td>1,384</td>
<td>14%</td>
</tr>
<tr>
<td>Deposit of economic organization</td>
<td>6,303</td>
<td>83%</td>
<td>8,400</td>
<td>86%</td>
</tr>
<tr>
<td>Total</td>
<td>7,585</td>
<td>100%</td>
<td>9,784</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Business Performance Report for 2014-2016 Integrated Planning Department - Agribank North Hanoi Branch
Looking at the table above it can be seen that the capital at Agribank Hanoi North Branch through 2014, 2015 was grown. By 2015, the capital reached VND9.784 trillion, which increased VND2.199 trillion or 29% in comparison with 2014. However, the 2016 capital is VND7.380 trillion, down VND2, 404 billion or 25% compared to this figure in 2015. This is due to a decrease in the capital of Social Insurance in 2016.

**Figure 2.1 Capital Mobilization by currency type**

![Chart showing capital mobilization by currency type.](image)

Integrated Planning Department- Agribank North Hanoi Branch*

It can be seen that the structure of capital in Agribank through 2014-2016 mainly focused on local currency. By 2015, local currency capital will reach the VND 9,590 billion, accounting for 98% of the total capital; foreign-currency equivalent reach the VND 194 billion, accounting for 2% of total capital.

By 2016, local currency capital reach VND7, 227 billion, decrease VND2, 363 billion compared to 2015, accounting for 98% of total capital. Foreign-currency capital reached VND 153 billion, down VND 41 billion compared to that of 2015, accounting for 2% of total capital. It can be seen, since April 2016, under the policy of the State Bank, foreign-currency credit began to shrink. Credit institutions implement USD cap rate of 0% / year. Due to the interest rate policy (the interest rate of foreign currency is currently being mobilized by Agribank Northern Branch of Hanoi at the interest rate of 0% under the direction of the State Bank of Vietnam, so the number of customers deposite foreign currency at a branch account for a very small proportion, almost focus on the domestic capital source. Domestic capital source account for a large ratio to total capital, almost 98%.
Looking at the table above, the capital source at Agribank Northern Hanoi Branch is mainly the source of deposits of economic organizations. In 2015, the capital of economic organizations reached 8,400 billion, accounting for 86% of total capital. In 2016, the capital of economic organizations reached 5,832 billion, accounting for 79% of total capital and this figure reduce 2,568 billion compared to 2015. The capital of economic organizations accounted for a large proportion in the total source of capital due to in Agribank Hanoi North Branch, there are 02 big deposit customers are Hanoi Social Insurance and Vietnam Electricity. This is also risky if the capital sources of these two customers are withdrawn, the capital of the branch will decrease. Therefore, in order to ensure sustainable growth, besides continuing to take good care of depositors, the branch should seek more capital sources from other economic organizations that are fixed and long-term capital.

In addition, residential capital has increased over the years. In 2014, the source of capital mobilized from the population reached 1,282 billion, accounting for 17% of total capital, in 2015, this figure reached 1,384 billion, accounting for 14% of the total capital. And in 2016, this source of capital has reached 1,548 billion, accounting for 21% of total funds.

There has been a growth in this kind of capital source because the branch has applied the measures to mobilize from each staff. Branch’s employees have mobilized deposits from their relatives and acquaintances, contributing to the growth of mobilized capital.
### 2.2.2. Lending activity:

#### Table 2-3: Agribank North Ha Noi branch’s outstanding loans of 2014-2016

<table>
<thead>
<tr>
<th>Outstanding Loan</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>Increase/ Decrease compared with the last year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>AMT (bil VND)</td>
<td>Rate (%)</td>
<td>AMT (bil VND)</td>
<td>Rate (%)</td>
</tr>
<tr>
<td></td>
<td>+,-</td>
<td>%</td>
<td>+,-</td>
<td>%</td>
</tr>
<tr>
<td><strong>Sorting by currency type</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>VND</td>
<td>1,315</td>
<td>89%</td>
<td>1,252</td>
<td>81%</td>
</tr>
<tr>
<td>Foreign currency</td>
<td>163</td>
<td>11%</td>
<td>292</td>
<td>19%</td>
</tr>
<tr>
<td><strong>Sorting by term</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short term</td>
<td>948</td>
<td>64%</td>
<td>1,026</td>
<td>66%</td>
</tr>
<tr>
<td>Medium and Long term</td>
<td>530</td>
<td>36%</td>
<td>518</td>
<td>34%</td>
</tr>
<tr>
<td><strong>Sorting by economic sector</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>State - owned company</td>
<td>205</td>
<td>14%</td>
<td>85</td>
<td>6%</td>
</tr>
<tr>
<td>Joint Stock company</td>
<td>499</td>
<td>34%</td>
<td>385</td>
<td>25%</td>
</tr>
<tr>
<td>Limited liability company</td>
<td>362</td>
<td>24%</td>
<td>458</td>
<td>30%</td>
</tr>
<tr>
<td>Personal</td>
<td>412</td>
<td>28%</td>
<td>616</td>
<td>40%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,478</td>
<td>100%</td>
<td>1,544</td>
<td>100%</td>
</tr>
</tbody>
</table>

*Source: Business Performance Report for 2014-2016 Integrated Planning Department-Agribank North Hanoi Branch*

It can be seen that total outstanding loans have changed over the years. In 2014, total
outstanding loans will reach VND1, 478 billion. In 2015, debt increased VND66 billion and reached VND1,544 billion. In 2016, total outstanding loans reach VND1,493 billion, down 51 billion doing compared to this figure on 31/12/15 (equivalent to 3% reduction compared to 2015).

Figure 2-3: Agribank North Ha Noi branch’s outstanding loans by currency of 2014-2016

Integrated Planning Department- Agribank North Hanoi Branch

It can be seen that the total outstanding loans of the Branch over the years are mainly local currency loans. Local currency loans in 2014 reached 1.315 billion, accounting for 89% of total outstanding loans, in 2015 is 1.252 billion. In 2016, local currency debt reached 1.254 trillion dong, up to 2 billion dong compared to 2015.

Foreign-currency outstanding loans in 2014 reached 163 billion, in 2015 reached 292 billion, increase 129 billion compared to 2014. By 2016, it is the VND239 billion, decrease VND53 billion compared to 2015. This is because, in 2016, there is a reduction in outstanding loans of Ha Nam Textile Co., (reducing the discount balance of the document 43 billion)), TCT Vietnam Joint-Stock Company (reducing the discount balance of the document 10 billion).
From the chart above, the following remarks can be made is that outstanding loans in Northern Hanoi mainly focused on short-term loans. In 2014, the short-term outstanding loan of the branch is VND 948 billion, medium and long term outstanding loans is VND 530 billion (medium and long term loans account for only 36% of total loans). In 2015, short-term outstanding loan reached 1,026 billion; medium-term outstanding loans reached 518 billion. In 2016, short-term debt was VND984 billion, accounting for 66% of the total outstanding loans, decline VND42 billion, or 4% lower than this ratio in 2015. Long-term and medium-term outstanding loans reached VND 509 billion, accounting for 34% of total outstanding loans of the whole branch, decreasing VND 9 billion, equivalent to 2% decline compared to 2015. This is because in 2016, branch used risk provisions to deal with short-term borrowers such as Cavico Cau Ham Joint Stock Company (VND14 billion), Nam Trieu Power Technology JSC (VND9 billion), deal with risk of some medium and long-term customers such as: Dang Minh Construction Trade Company Limited (35 billion). The structure of outstanding loans by economic sectors is shown in the following table:
Figure 2-5: Outstanding loans structure in term of economic sector:

Integrated Planning Department- Agribank North Hanoi Branch

It can be seen that, over the years, outstanding loans of the whole branch are concentrated in the non-state enterprises’ sector (joint-stock companies, limited liability companies) the total outstanding loan of two sectors is 861 billion VND, accounting for 58% of total outstanding loans, this figure is 843 billion VND in 2015, accounting for 55% of total outstanding loans and 681 billion VND in 2016, decreasing 162 billion VND in comparison with 2015.

Outstanding loans of state-owned enterprises decreased over years. In 2014, this figure is 205 billion VND (14% of total outstanding loans), this figure is 85 billion VND in 2015 (accounting for 5% of total outstanding loans), in 2016 no longer outstanding loans in State-Owned Enterprises sector. This situation is due in 2015, 2016, the branch decide to write off debt for Nam Trieu Shipbuilding Industry One Member Limited Liability Company. In addition, another State-owned enterprise borrowed capital from Agribank Hanoi North Branch, which was the Electricity of Vietnam Group, paid off all debts. As a result, outstanding loans of state-owned enterprises have been decreasing over the years and by 2016, outstanding loans have been discharged at Agribank's North Hanoi Branch.

In particular, there is a change in household and individual outstanding loans at branches over the years. In 2014, household and individual debts reach VND412 billion and VND616 billion
by 2015 (up to VND204 billion compared with 31/12/2014, equivalent to a 50% increase). In 2016 reached 812 billion, accounting for 54% of total outstanding loans, increased 196 billion, equivalent to 32% increase compared to 2015. This is due to a number of reasons:
- In 2016, the branch has reached some households and individuals who have demand for loans to carry out some big projects, causing high personal debt: customers Hoang Hai: 70 VND billion, customer Ngo Ton Nhan: 100 VND billion, ...
- Credit officers and staff at the Professional Departments and Transaction Offices have been searching for a number of individual clients, leading to an increase in household and individual loans.

Analyzing the outstanding loan structure at Agribank Hanoi Northern Branch showed that the state-owned enterprises at the branch were not really effective. Although Joint stock companies, limited liability companies have large outstanding loans rate, should not focus too much on one or two clients to avoid "putting all eggs in a basket".

In the future, branch should continue to seek to expand non-state owned enterprises and households and individuals with feasible, effective plans and assets, well performance. However, the branch should also approach more large projects to ensure the growth of outstanding loans such as thermal power projects, hydropower projects, real estate business projects, building mega centers.

2.3. The reality of credit risk management activities for small and medium enterprises in north Hanoi branch

2.3.1. The establishment of credit risk management strategies and plans:

In Northern Hanoi Branch, the establishment of credit risk management strategies and plans is carried out by the credit department and approved by the Board of Directors. Long-term risk management strategy while the risk management plan is specified in a certain period. In fact, Agribank's North Hanoi branch just stopped to set up a short-term plan for each year, but did not have a long-term risk strategy. The credit management plan is only a part of the credit management plan in general because no credit officer is in charge of risk management at the credit bureau. Credit management plans include: credit customer management, credit risk management and credit management. However, the three parts are not separated but directly supporting each other. Therefore, when implementing credit risk management, it is necessary to pay attention to both the management of customers and the management of credit
management. A credit management plan is drawn up based on the bank's overall business plan, the credit department's performance at the time of establishment and the results of the environmental analysis, as well as forecasts of performance over time. In specific, the plan of credit risk management includes:

*Firstly:* Managing loans: Loans of customers are managed by banks on the basis of classifying loans into different risk groups. Each of these loans has different characteristics and risks, so the bank has a different approach.

*Second,* Bad debt management: Debt loans are in group 2, which are overdue from 60-70 days, begin to switch to bad debts and banks have to plan to handle in time. In order to manage the bad debt, bank need to establish plan to deal with. In order to deal with bad debt Agribank Northern Hanoi branch proceeds to determine the severity of each bad debt and to anticipate the methods. The measures used by the bank can be divided into two groups:

Firstly, the group of exploitative measures: the nature of this measure is to continue to assist customers with the expectation of obtaining debt in future. The form used is loan restructuring, extension, debt rescheduling or term adjustment, interest rate exemption and reduction.

Secondly, the group of liquidation measures: the nature is to stop borrowing relationships with customers and carry out debt recovery. Forms of implementation include using a "second source of payment" (loan guarantee) or legal intervention.

### 2.3.2. Implementing the credit risk management plan

Credit risk management plans include risk management in loans and management of bad debts. Risk management should be taken into account when the bank contact with the customer. The implementation of this plan is carried out by the Credit Department under the direction of the Head of Division and Deputy Director of Credit Department. Agribank Northern Hanoi Branch has a General Manager and three Deputy Directors in which each Deputy Director is in charge of one or more key sections of the bank. For credit, credit department managed risk on each loan application. Specifically, each credit officer in charge of the file will calculate and manage this file (the large loan application, the higher the number of people jointly responsible for). All data are recorded in the internal computer system and for general control. Risk management is conducted throughout the credit extension process. The credit granting process can be summarized in the following diagram:
Therefore, the implementation of the credit risk management plan can be concretized into the following main tasks:

2.3.3. Screening, risk assessment and customer selection:

In order to minimize credit risk at the outset, the bank must select the least risky customers or select good prospects out of bad prospect’s customer. The basis of this selection is based on the information collected by customers to conduct customer ratings assessments into different risk groups. The bank has to do all the work:

- Gather the necessary information and documents for customer credit rating: using credit scoring criteria for customers and selecting customers with enough high ratings to consider credit rating.

- To measure the risk level of each customer: In order to concretize the level of customer risk, the bank conducts quantitative analysis and measurement of customer risk.

- Financial appraisals and loan projects of customers to determine the feasibility of the loan plan.

The result of the above analysis to answer the question should choose that customer to lend money or not. However, the implementation of the above steps is only ideal because for a new branch of level 1 such as North Hanoi branch, both the ability and experience, branch cannot be realized. The bank only conducts some parts, some stages of those activities but not fully implemented. Specifically, the bank collects information to provide a rough qualitative analysis of the client's risk and appraise the financial aspect of the client as well as the project using the loan to make the decision. At Agribank Northern Hanoi Branch the work is carried out as follows:
For individual customers (consumer loans): the bank collects information such as age, income, marital status, job, credit history (where they used to borrow, and loan repayments ...) to determine the ability of the customer to repay and make a decision.

For corporate customers: The bank not only collects financial and business information, but also evaluates the feasibility of a loan project to make a credit decision.

At this stage, the greatest risk that can occur to the bank is moral hazard. First of all, the moral hazard from the customer is that the customer deliberately provides false information to the bank to pass the evaluation round (the accuracy of the financial statements is very difficult to prove). Second is the moral hazard from the credit officer: credit officers collude with clients to "process" the data to satisfy the bank's loan conditions.

After the screening and choosing, the bank will decide which customers to lend. Often at this stage, the bank can face two basic mistakes. In the first case, the customer is well appreciated and the bank accepts the loan, but the client is not able to pay the loan on time. In the second case, the customer is considered not good and the bank does not choose to lend money but in fact the customer can repay the loan on time to the bank. In case one is dangerous to the bank because then the bank has actually faced credit risk. But the second case is equally dangerous and is often ignored by the bank. This case is dangerous because the bank has lost a good customer and is likely to become a traditional customer in the future. This is extremely important because in banking business, there is a truth to keeping a former customer far better than finding a new customer. Because banking business is riskier than any activity (except securities business) and every customer who has a loan relationship with a bank is considered a new customer. Each bank loan project must be handled in accordance with the procedure of ordering although client borrowing how many times already. However, traditional customers are much more favorable because the bank already has the information, analysis and belief in the customer. Back in the case of a bank that ignores a good customer, it is clear what the bank has lost is not simply an efficient loan contract at the moment. The more dangerous thing is that customers who are denied will look for another bank and this is more competitive. The bank not only loses the opportunity but also gives it the chance to fall into the hands of competitors.

Consider this at Agribank Northern Hanoi Branch, the fact that bank credit officers are only interested in and calculating how many loans are rated as well but then again, have problems that have never been statistically how many good customers have missed.

For banks, access to customers can be made via two main channels:

Customers already have: customers who have been borrowing, customers who have been using the services of banks but have not borrowed.
New customer:

Because it is far more meaningful for a bank to retain an old customer than to find a new customer, banks are more interested in the first approach. This is especially true with Northern Hanoi Branch. Familiar clients are much less risky; therefore, Northern Hanoi Branch is very concerned about maintaining and developing the relationship with many incentives including unsecured loans. However, this is also risky because if the bank is too subjective, too trusting customers to provide unsecured loans, the risk is huge, if the risk occurs, the consequences will be unpredictable.

Major customers of Northern Hanoi Branch classified by business sector are industrial production and service trade, in terms of ownership of small and medium enterprises and SOEs. However, according to the general trend, the proportion of state sector loans is decline, while the proportion of loans to small and medium enterprises increases. In terms of location, Northern Hanoi Branch mainly serves customers in Hanoi and part of customers in neighboring areas.

2.3.4. Decision making and loan control

a) Loan decision making:

After screening and selecting customers, the bank has completed the first three phases of the credit granting process: customer access, customer information, and customer analysis. At this time, the bank has the results of client appraisal and project evaluation. The job now is to use the analytical financial results to determine whether the client is fully satisfied with the loan terms and conditions. The five required conditions for customer loans are:

1. Eligible legal status.
2. The loan is used lawfully.
3. Customers have a healthy financial status, ensuring timely repayment of loan as commitment.
4. Customers have feasible plans and effective projects.
5. Make loan security as prescribed.

Among the above conditions, the most important condition is condition 3 and condition 4 but in actual behavior, it is quite complicated to apply because it is not easy to determine "healthy" and "feasible".

Of the above conditions, the most important condition is condition 3 and condition 4 but in actual behavior, it is quite complicated to apply because it is not easy to determine "healthy" and "feasible". On the other hand, there are times when customers are financially unsatisfied but banks still want to lend. The solution then was to use Condition 5 as the decisive condition. As long as the customer offers acceptable collateral the bank agrees to lend. This inadequacy
exists only in Hanoi North Branch but many banks have such behavior. When a bank makes a
decision, two principles must be followed: the distinction between appraisal and lending
decision (nature is "re-appraisal before decision is made") and distinguish clearly the different
responsibilities between the person making the credit decision and the bank representative
signs the contract. The content of the loan decision determines the loan amount, term, method
and interest rate. Decision base is based on customer factors as well as factors of the bank's
ability. In this stage may be a risk that the above content is determined inaccurate. Due to
confusion from pre-decision analysis, leading to the calculation of the value of each indicator
in the contract is not accurate and risk in the future is very high.

At Agribank Northern Hanoi Branch, a separate appraisal unit has been conducted in parallel
with the credit department in the client financial appraisal, project appraisal, and price of
fixed assets. However, this appraisal department only conducts appraisals of loan
applications, which excess of decision of the Transaction Offices and the Credit Department
to continue submission to Agribank Vietnam. But now the appraisal function is included in
the credit department. This means that the credit department will be responsible of all
appraisals and evaluation of fixed asset. This is a great inadequacy because the loan
documents only through one-time evaluation so the accuracy is not really guaranteed.

*Table 2.5: Credit activities for SMEs in Agribank North HaNoi Branch*

<table>
<thead>
<tr>
<th>Item</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Item</td>
<td>AMT</td>
<td>Rate</td>
<td>AMT</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(%)</td>
<td></td>
</tr>
<tr>
<td>The number of enterprise</td>
<td>85</td>
<td>100%</td>
<td>81</td>
</tr>
<tr>
<td>Medium and small enterprise</td>
<td>77</td>
<td>91%</td>
<td>74</td>
</tr>
<tr>
<td>Total outstanding loan of enterprise (bill VND)</td>
<td>1067</td>
<td>100%</td>
<td>928</td>
</tr>
<tr>
<td>Total outstanding loan of medium and small enterprise (bill VND)</td>
<td>523</td>
<td>49%</td>
<td>441</td>
</tr>
<tr>
<td>small enterprise (bill VND)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Outstanding loan of medium and small enterprise in term of currency</td>
<td>523</td>
<td>100%</td>
<td>441</td>
</tr>
<tr>
<td>Domestic currency</td>
<td>523</td>
<td>100%</td>
<td>441</td>
</tr>
<tr>
<td>Foreign currency</td>
<td></td>
<td>0%</td>
<td>0</td>
</tr>
<tr>
<td>Outstanding loan of medium and small enterprise in term of period</td>
<td>523</td>
<td>100%</td>
<td>441</td>
</tr>
<tr>
<td>Short-term</td>
<td>274</td>
<td>52%</td>
<td>259</td>
</tr>
<tr>
<td>Medium and long-term</td>
<td>249</td>
<td>48%</td>
<td>182</td>
</tr>
<tr>
<td>Outstanding loan of medium and small enterprise in term of business sector</td>
<td>523</td>
<td>100%</td>
<td>441</td>
</tr>
<tr>
<td>Mining industry and construction</td>
<td>281</td>
<td>54%</td>
<td>210</td>
</tr>
<tr>
<td>Commerce</td>
<td>125</td>
<td>24%</td>
<td>88</td>
</tr>
<tr>
<td>Transport service</td>
<td>94</td>
<td>18%</td>
<td>78</td>
</tr>
<tr>
<td>Lending real estate business</td>
<td>62</td>
<td>12%</td>
<td>44</td>
</tr>
</tbody>
</table>

Source: Business Performance Report for 2014-2016 Integrated Planning Department-
Agribank North Hanoi Branch
Through the table above we see:

The number of small and medium-enterprises account for about 91% of the total number of enterprise customers at the Branch. In 2015, the number of SMEs is 74. In 2016, the number of SMEs is 72, down by 2 compared to this figure in 2015, accounting for 91% of the total number of enterprises.

Outstanding loans of small and medium sized enterprises (SOEs) in 2014 are VND 523 billion (out of a total of VND 1,067 billion of enterprise outstanding loans, 49% of total outstanding loans). In 2015, outstanding loans of small and medium enterprises are VND 441 billion (out of VND 928 billion, accounting for 48% of total outstanding loans of enterprises). In 2016, outstanding loans to small and medium enterprises were VND 332 billion (out of VND 681 million, 49% of total outstanding loans). Outstanding loans to small and medium enterprises decreased by VND109 compared to 2015 billion (equivalent of 25%).

Outstanding loan of small and medium enterprises in branch is all domestic currency loans, no foreign currency loans.

In term of lending, outstanding loan of SMEs: In 2014, short-term outstanding loan is VND 274 billion; accounting for 52% of total outstanding loans, medium and long term outstanding loans is VND 249 billion, accounting for 48% of total loans. In 2015, short-term outstanding loan is 259 billion dong, decrease by 15 billion compared to 2014; medium and long term outstanding loan is VND 182 billion, down by VND 67 billion compared to 2014.

In 2016, short-term outstanding loan is VND 187 billion, accounting for 56% of total outstanding loans, down by VND 72 billion compared to 2015. Medium and Long-term outstanding loan is VND 145 billion, accounting for 44% of the total outstanding loans, decline by 37 billion compared to 2015. The reason is that in 2016, the branch has a number of SMEs have reduced outstanding loans compared to 2015 (Au Viet Industrial Joint Stock Company reduced 40 billion, JSC Corporation Vietnam declines 10 billion ...)

b) Loan control:

The bank always wants to make sure its currency is really safe throughout its use. Because of this, the bank participates in controlling the flow of borrowed funds by the following measures:

**Firstly**, control of disbursement: this is the banking operation in which bank provides money to customers on the basis of contractual credit. The general principle of this operation is the movement of credit associated with the movement of goods. For the bank this is where the risk starts to occur because the money has actually come out of the bank's safe to flow into the client's investment project. In the simple case of borrowing consumer loans or more complex one is investing capital,
the common feature is that capital is used primarily to buy something. Considering the business case of buying machinery or raw materials, the loan converts the value into commodities. It is the bank's job to control the transfer of this form of commitment to prevent possible risks. Risks lie primarily in the fact that the loan is misused. Because the bank only appraises the plan using the committed capital and calculates the risks in this alternative, if customers use for other purposes have not been calculated by banks, the potential for many risks whether the capital can be reimbursed to pay the bank or not. Hence, in order to control this risk, the bank has to well handle in starting stage is disbursement. The first measure is disbursement on a case by case. The bank calculates the movement of cash flow and commodities to determine which customers really need money at point during the project and how much money each time. Not all money is disbursed from the beginning, but every time customers need, the bank disbursed each section. This is to prevent customers from holding idle cash and there is no guarantee that during that time he will not carry money for any purpose. Another measure used by banks to control risk is the use of disbursement by transfer rather than cash. In this way, the bank knows exactly what the customer is paying for (for example, customers use money to buy raw materials, the bank will transfer the money directly to the supplier's account).

Secondly, the monitoring of the project implementation process: this is test the project is whether smooth and favorable or not when project is put into operation in practice. Before signing the loan contract, bank expertise but only on paper, all calculations are predictive and at that time the bank has not actually paid out. But after the loan has been in place in practice, suffered many events and the bank has already paid out, post-loan appraisal is more difficult than advance appraisal. All risks to the project will directly affect the bank's future debt collection capacity because risk will happen to the customer before the bank. If the bank does not track the advance detection, the consequences will be heavier in the future. Monitoring and early detection can help the bank to provide timely advice and support to customers to reduce difficulties and losses in the future. The control and appraisal of the project after the loan is so significant, but the actual operation at Northern Hanoi Branch is mainly controlled by the document provided by the customer. The objective reason is that the job is very difficult because of its characteristics as analyzed above. On the other hand, bankers who have never worked on an investment project, have to carry out a survey. It is very difficult. The subjective reason is also the habit, psychological work which has existed is that just appraisal before the loan is basically completed, and how the implementation of the project is the work of investors. This is extremely risky because this is the most risky stage. Despite the risk is happened to the customer but it is related to payment capacity for the bank in the future.
Third, customer control: The nature of this job is to track the satisfaction of the customer's loan conditions after the loan. In usual, banks are only interested in looking at the conditions of a customer's loan before entering into a contract but whether the customer is still satisfied after the loan or not is also overlooked. However, check customer after lending is equally important. Since customers are actually using a bank's currency, the bank is determined to control whether the currency is used correctly and securely. Furthermore, the customer check will also help the bank make the necessary adjustments and customer support. The content of the check consists of: verifying the purpose of using the loan with proper commitment, controlling the level of credit risk arising during the use of capital, monitoring the implementation of the specific provisions, follow up on the contract, follow up and record the implementation of the credit process of related departments / individuals at the bank.

2.3.5. Dealing with problematic credit

None Performance Loans (NPLs) are a threat to banks because when they cannot be processed immediately, they become loans which cannot recollect capital in the future. As discussed above, the bank classifies debts into groups of different degrees of risk and deals with those debts. In principle, when debts go to group 3, the bank has to manage immediately because the debt can be considered bad debt and very high risk. The problem at Northern Hanoi Branch is bad debts are discovered and processed too late. The debt to jump to group 5 debt is too bad (likely to lose capital) to be processed. This represents the subjective psychology of the bank. Although recent credit ratings have shown that bad debt has been managed fairly well and bad debts have not yet caused serious consequences for banks, does not mean that risk will be not occurred in the future. The most commonly used bank remedies for dealing with bad loans are:
- Group of exploitation measures such as extension, rescheduling, term adjustment, additional loans or other advisory support. These measures are applicable to bad debts due to objective reasons or if the subjectivity is unintentional and the debt must be expected to recover in the future.
- Group of liquidation measures such as debt recovery by collateral, legal intervention ... applicable to loans which have subjective reason of deliberate and unrecoverable loans in future.

Thus, determining the measure is mainly based on the "recoverable in future" of the loan. This is where people take advantage, so at this stage moral hazard is most likely to occur. The first is that the customer seeks evidence to provide the prospect of loan restoration in future in order to continue borrowing. Secondly, it is the bankers themselves who want to hide the seriousness of the debt by colluding with the customer to give the evidence. Both of these cases resulted in
the wrong identifying the seriousness of the bad debt and instead of taking action in time, the bad debt would get worse and too late to deal with.

**Table 2.6: Group Debt Classification in North Ha Noi Branch**

(According to Circular 02/2013 / TT-NHNN dated 01/03/2013 of the State Bank and Decision No. 450 / QD-HDTV-XLRR dated 30/05/2014)

<table>
<thead>
<tr>
<th>Item</th>
<th>2014 AMT</th>
<th>2015 AMT</th>
<th>Increase/Decrease compared with the last year AMT</th>
<th>2016 AMT</th>
<th>Increase/Decrease compared with the last year AMT</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>-</td>
<td>+,- %</td>
<td></td>
<td>-</td>
<td>+,- %</td>
</tr>
<tr>
<td>Total branch bad debt (billion)</td>
<td>334</td>
<td>57</td>
<td>-277</td>
<td>34</td>
<td>-23</td>
</tr>
<tr>
<td>The number of bad debt customer</td>
<td>90</td>
<td>42</td>
<td>-48</td>
<td>52</td>
<td>10</td>
</tr>
<tr>
<td>Bad debt rate</td>
<td>23%</td>
<td>3.7%</td>
<td>-19%</td>
<td>2.3%</td>
<td>-1%</td>
</tr>
<tr>
<td>Outstanding bad debt (VND billion)</td>
<td>241</td>
<td>49</td>
<td>-192</td>
<td>17</td>
<td>-32</td>
</tr>
<tr>
<td>In which:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Group 3 (billion)</td>
<td></td>
<td></td>
<td></td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>Group 4 (billion)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Group 5 (billion)</td>
<td>241</td>
<td>49</td>
<td>-192</td>
<td>7</td>
<td>-42</td>
</tr>
<tr>
<td>Bad SME bad debt by maturity</td>
<td>241</td>
<td>49</td>
<td>-192</td>
<td>17</td>
<td>-32</td>
</tr>
<tr>
<td>Short- term</td>
<td>131</td>
<td>20</td>
<td>-111</td>
<td>2</td>
<td>-18</td>
</tr>
<tr>
<td>Medium and long term</td>
<td>110</td>
<td>29</td>
<td>-81</td>
<td>5</td>
<td>-24</td>
</tr>
<tr>
<td>Bad SME debt by type of enterprise</td>
<td>241</td>
<td>49</td>
<td>-192</td>
<td>17</td>
<td>-32</td>
</tr>
<tr>
<td>State enterprise</td>
<td></td>
<td></td>
<td></td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Private Enterprise, JSC, Limited Liability Company</td>
<td>241</td>
<td>49</td>
<td>-192</td>
<td>17</td>
<td>-32</td>
</tr>
<tr>
<td>The number of bad debt customer is small and medium enterprises.</td>
<td>7</td>
<td>3</td>
<td>-4</td>
<td>7</td>
<td>4</td>
</tr>
<tr>
<td>Bad debt ratio of Small and medium enterprises.</td>
<td>46%</td>
<td>11%</td>
<td>-44%</td>
<td>5%</td>
<td>-6%</td>
</tr>
</tbody>
</table>

(Source: Bank for Northern HaNoi branch performance report 2014-2016)
The above table shows that bad debt of small and medium enterprises account for a very large proportion of total branch bad debt. This is further illustrated by the following table:

Figure 2.6 Bad debts in Agribank North Hanoi Branch

![Bar chart showing bad debts in Agribank North Hanoi Branch](chart.png)

In 2014, bad debt of small and medium enterprises is 241 billion, accounting for 72.1% of total bad debt of the branch. In 2015, bad debt of SMEs is 49 billion, accounting for 85.96% / total outstanding bad debt of the branch. There is a sharp reduction in SME bad debt since the fact that in 2015, Agribank Northern Hanoi Branch has used risk provision to handle risks for some SME clients such as: Song Da construction and investment Joint-Stock Company VND85 billion, Cavico Vietnam of Mining and Construction Joint-Stock Company: VND84 billion, Cavico Construction JSC: VND28 billion, Cavico Hydropower Construction JSC: VND65 billion Dong…

By 2016, the bad debt of small and medium enterprises is 17 billion, accounting for 50% of total bad debt of branches. This is because in 2016, the branch continued to urge the recovery of bad debts to reduce bad debt (reduction of outstanding bad debt of Joint-Stock Company No. 318 were 2 billion dong, using risk reserve to handle risks with Dang Minh Construction Trading Co., Ltd: 35 billion dong, Nam Trieu Power Technology Joint Stock Company: 9 billion dong.

It can also be seen that the bad loans of small and medium enterprises in the branch has decreased sharply over the years, however, this is mainly because the Branch handles risks to customers, not really because of debt recovery, or customer repayment to return to group 1, group 2. Therefore, the reduction of bad debt ratio does not really reflect a good quality credit. After reducing the bad debt by risk management measures, the creditor still has to continue to
urge debt recovery and handles the collateral to recover the off-balance sheet debt.

Through the analysis of bad debt and the chart above, it is possible to draw some comments as follows:

- The quality of appraisal and evaluation of business plans has not been uniform throughout the banking system. Despite the credit procedures, the quality of assessment of some parts of the bank was not high and unanimous. The quality of information and professional ability of some credit officers is neither high nor deep.
- Due to the pressure of outstanding loan growth in the competitive environment, sometimes lending branches focus on collateral without carefully analyzing the effectiveness of the loan scheme as well as analysis of repayment sources. Thus, that result in overdue debt in certain stages.

| Table 2.5: The risk provision for the period 2014-2016 at North Hanoi Branch |
|------------------------------|--------|--------|--------|
|                              | 2014   | 2015   | 2016   |
| Branch provision             | 112    | 224    | 66     |
| Provision for SMEs           | 79     | 184    | 52     |
| In which                     |        |        |        |
| Common provision)            | 3      | 7      | 1      |
| Private provision)           | 76     | 177    | 51     |
| Group 2                      | 7      | 24     | 4      |
| Group 3                      |        |        | 5      |
| Group 4                      |        |        |        |
| Group 5                      | 69     | 153    | 42     |
| Total outstanding loan for SMEs |        |        |        |
| Provision rate/ total outstanding loan |        |        |        |
Looking at Table 2.5 and Figure 2.7, it is shown that credit risk actually affected the operation of Agribank Northern Hanoi Branch. The risk reserve for the period 2014-2015 is gradually increasing over the years. In 2014, general provision is a VND 3 billion, specific provision is a VND 76 billion, but by 2015, specific provision is a VND 177 billion. Thus, the risk of credit risk increases is shown in the degree of risk of debt that the bank has to reserve. In 2016, specific provisions and general provisions will be reduced to VND51 billion. This shows the bad debt in the branch decreased, the group 2 debt also reduced so the cost of deduction of these loans also reduced. Reducing risk provisions will help decline the total cost of the business, thereby increasing the income fund.

2.4. Assessment of credit risk management activities of the Vietnam bank for Agriculture and rural development branch of North Ha Noi

2.4.1. About the credit management organization

2.4.1.1. Strength

The bank has directed the credit officers who directly participate in the loan application process to calculate and manage the risks of each loan application. There is a synergy between the appraisal department and the credit department to prevent risk from the customer assessment. Customer information is stored and managed in an integrated manner. The bank also has a computerized information management department that manages the data of the entire system supporting the fastest and most convenient access to information.
2.4.1.2. Weak point

With the organizational structure and organizational chart presented above, we will ask "where is the risk management of the bank?" And "how do they do it?" The answer is that, in practice, Agribank Northern Branch Hanoi as well as most Branch 1, 2 and 3 do not have an independent risk management department as at the head office( where have prevention and treatment center is separated from other departments). All risk-management contents are assigned to the professional sections and are defined in the functions and duties of each department. Each department performs a specific and independent task, deal with risk of each department by itself. As a result, risk management is scattered and dispersed in the operational departments. However there is no single clue to systematically link and manage risk. In fact, there is no real "risk management" but only discrete measures to prevent and limit risks. In fact, the forecasting and calculation of the level of risk have not been properly considered. The risk is only known when it has occurred and has consequences, after which new bank officials meet to discuss appropriate measures.

Credit risk management is basically the same type of organization. The risk management is regulated in the regulations of the room, but no staff assigned to deal with risk. The risk here is considered by each transaction, each customer, and each project. In fact, every credit officer in charge of a loan application is also responsible for the risk of this loan. Credit officers are also responsible for assessing and taking responsibility for the risks of their loans. It is because of the risk-management organization in the business should not calculate the expected risk in the business, cannot determine the risk is how much profit reduction over the years, only seen the manifestation of risk or loss when the risk has already occurred.

The causes of the above may indicate that:

Firstly, risk management has been mentioned for a long time, but how to deploy it, the commercial banks in Vietnam has not built a complete process. For large banks, the organization is still a lot of confusion.

Secondly, Agribank Hanoi North Branch has no staff trained in risk management. In the early months of 2016, Agribank Vietnam recently organized some professional talks on risk management and Agribank Northern Hanoi Branch also sent staff to attend. Credit officers have recently been introduced the most common knowledge about risk management recently so clearly the bank has not qualified human resources to do this job.

Thirdly, Agribank Northern Hanoi Branch is aware of the role of credit risk management, but it is only formal rather than initiative and creative to develop a strategy of action. Management is still fragmentary, practiced according to experience, according to habits have long been.
order to change the way we think, the way we do it takes a long time as well as the effort of our entire branch.

2.4.2. The implementation of credit risk management

2.4.2.1. Risk assessment and customer selection

a) Strengths

As indicated above, the main customers selected by Agribank North Hanoi Branch are two customers: industrial customer and service trade. These two areas have the advantage of not being influenced by natural conditions such as storms, droughts, etc. On the other hand, these sectors are of high interest and development priorities. That is why banks as sponsors (in terms of capital) also enjoy certain benefits when the operation of the business flourishes. On the other hand, the bank's main customers are small and medium enterprises, state-owned enterprises. Small and medium enterprises now have a strong tendency to develop and having a credit relationship with them is a common trend among banks today. On the side of state-owned enterprises, lending in this area has the advantage that when the risk occurs, the bank still has the ability to recover capital because these enterprises are sponsored by the State so it is easy to negotiate than other customer objects. However, in general, the share of lending in this sector tends to decrease.

Another point is that Agribank North Hanoi Branch is more interested in traditional customers. Therefore, the evaluation and evaluation are more convenient, faster, and less costly than evaluating a new customer. In addition, because relationships have been established before and trust is available, these clients are clearly less risky than first-time borrowers.

b) Weaknesses

The risk is well managed; it must start from the well prevention from the beginning rather than when it already happened. However, at Northern Hanoi Branch, this first task has the weakest points. The bank has not used effective risk prevention and prevention techniques but rather based on sensory, empirical, and traditional analyzes that are prone to inadequate risk. In the beginning of customer selection, the bank is only through financial analysis, based on the reports to calculate the targets for decision-making. Customers are not accurately measuring the level of risk through modern methods. This is not the weakness of Agribank Hanoi Northern Branch, because now in Vietnam, only big banks or headquarter offices have started to introduce programs and software to measure risks for prevention from the beginning. Even in big banks, these are new and modern techniques are still the simplest of the methods.

In terms of customer management, banks are basically managing records, but their current operations are limited. Due to the limited number and qualifications of staff, it is imperative
that the staff closely monitor the operation and implementation of the project after borrowing. Moreover, every credit officer does not have to manage only one customer, but after signing the contract, they must continue to approach other customers. Therefore, in Agribank Northern Hanoi Branch, the management of customers after the loan is still limited. The new loan conditions are only paid attention before signing the contract, while in the process of using the capital, the control of customers still continue to meet the conditions that have not been properly paid attention. Another risk to the bank is unsecured lending to its familiar customers. The positive side is that this shows the relationship has been well-established and maintained the trust between the customer and the bank. However, if this is abused, the bank may face incalculable consequences if credit risk occurs.

The causes of above-mentioned problems are mainly shown in the following points:

Firstly, the bank has not applied the techniques of warning and risk prevention. Customer risk measurement models and credit ratings have been applied effectively by the leading countries, but they have to have modern facilities, systematic information management and informatics. It must have programmed to run computational software based on the customer data is collected accurately. Currently, only large banks or head offices have the capacity to do so.

Secondly, the management of customers after the loan is not really much attention. In terms of both quantity and level, the bank does not have qualified staff to supervise the implementation of the project using the client's capital to the maturity date. Assessment before the credit is difficult; evaluation after signing the contract is much more difficult. For that reason, the bank has almost no concept of having a customer appraisal after the loan. Also because it is habits, subjective psychology so the bank still has tracking and monitoring, but only on paper is the main.

Thirdly, the internal and inter-bank information system is still weak; the role of CIC has not been fully utilized by banks. For risk management, the most essential is information. When the bank has not done this well, management cannot be effective.

2.4.2.2. Risk controlling and handling

a) Strengths

As soon as the risk is discovered, the bank has organized to manage and handle to cause no significant damage. As in the analysis of the situation has shown, the bank's bad debt is always controlled, the Bank always try to control the overdue debt is treated risk so as not to leave the consequences of non-recovery capital
b) Weaknesses

Calculation and risk control in Agribank Northern Hanoi Branch is having a problem is that the risk is not well forecasted so the control is mostly coping. The bank organizes and assigns the managerial staff, but when the risk is clear, the bad debts will be dealt with when too serious. Although so far the detected risks have been dealt with relatively well, no bad debt has caused serious consequences but this does not guarantee that in the future other bad debts will be handled and secured.

The cause of the above situation comes from the habit, working mentality of credit officers. First of all, it is subjective, then the part of the psychologist who wants to hide the problems that arise when they are discovered, they want to resolve before letting supervisors know. This is very risky because not every "problem" debt is easy to handle and solve even if the early detection, if kept trying to hide bad debts are handled, it can cause serious consequences later on. Another reason is that the bank's management of customers after the loan is not as good as analyzed above leading to not detect any abnormal signs in time so that when the debt has shown a "bad" clearly to be recognized.

2.4.2.3. Evaluation of the level of credit risk

a) Strengths

It analyzes to have shown that the bank's credit activity is indicative of a risk but at a small scale. The bank has been studying to identify the number of overdue debts, classifying debts at different levels of risk. The results show that bad debt is still in control.

b) Weaknesses

Because at Agribank Hanoi North Branch, there is no credit risk management department and the specific organizational and operational characteristics as analyzed above lead to the fact that the bank itself also has no data that reflects the level of bank credit risk encountered. Banks do not use a formula to measure or forecast risk, only the manifestation of the risk or the impact when the risk has already occurred. These are the results of the bad debts the bank has to deal with or the annual amount of risk provisions.

Conclusion: Over the past years, Agribank's operations in Northern Hanoi have been flourishing, including the contribution of credit subject matter. However, besides the achievements such as the high and stable credit growth rate, the expanded customer base, the trusts of customers in the bank are strengthened and more and more developed ... Banks are also really facing with credit risk. From the analysis of how to organize and implement credit risk management at the bank, one thing can be seen that credit risk management at Agribank
Hanoi Branch is new at the beginning and remains many inadequacies. The problems exist for many reasons both objective and subjective, but the reason is due to the following weaknesses:
- The way of organization and management is not uniform; the management is small and dispersed in the professional departments.
- Risk warning, forecasting and measurement techniques are not available, so only when there are signs of risk or loss, risks are discovered.
- Habits in the way of work and subjective thinking, so the control of credit risk is very formal, management on paper, the record are mainly.
- Problem debts are often handled late so the risk in the future is very high.

2.4.3. Factors affecting the operation of the Bank for Agriculture and Rural Development in Northern Hanoi

2.4.3.1. Factors outside the bank

Being a Type 1 branch of Agribank, operating in Hanoi where the operation of commercial banks is very active, the impacts from the external environment also have a considerable impact on business operation of Agribank North Hanoi Branch. The factors that can be mentioned are:

a) Advantages:
- The socio-political situation continues to be stable; the economy is on the path to recovery and growth. The number of international visitors reached nearly 3 million, the largest number of visitors over the same period. The ratio of budget payment is lower than budget revenue, which is a positive signal in contributing to curb inflation, reducing spending compare to budget and GDP growth. People's lives are improved and social security is guaranteed and strengthened.
- The State Bank of Vietnam (SBV) continues to issue a number of guidelines to regulate and stabilize the financial and monetary market. The highlight is the publication of two new laws: the Law of the State Bank of Vietnam (amended) and the Law on Credit Institutions (amended); directly closed the gold trading floor, settle the status of gold trading on the account overseas.
- In the present context, banks are investing in developing and expanding banking services and utilities. Traveling along with these movements is an increase in customer interest and has created a more equal playing field between commercial joint stock commercial banks and the state commercial banks.

b) Difficulties:
- Besides the achievements in growth, the domestic economic situation still faces many difficulties and challenges: In country, epidemics and natural disasters (storms and floods and the situation of sea pollution in the central), affecting the situation of goods supply and
demand, high food prices, increase basic salary, increase education and medical expenses. Budgets spending and public investment are large. Exchange rates, gold prices are volatile.

- From the characteristics of the socio-economic situation, business activity of Agribank North Hanoi Branch in particular is also very tense. However, under the timely guidance of the Party Committee, the creative use and flexibility of the Board of Directors, the enthusiasm of the staff, the responsibility of the majority of key staff together with the effort of the staff of Agribank North Hanoi Branch has achieved remarkable results.

2.4.3.2. Internal factors of the bank

First of all, at North Hanoi Branch, researching and market development and market share are weak. Although the analysis in the previous section shows that for a credit operation it is far more important to retain a traditional customer than to find a new customer. However, the Bank needs to strengthen marketing and image of the Bank in order to attract more customers to use the services of the bank as well as have credit relations with the Bank. In the past time, this work at North Hanoi Branch has been neglected, so the number of new customers has not been much improved, not matching the potential and requirements. This is a great challenge for the Bank and in the coming time, the banking business will become increasingly active and highly competitive with the strong development of the banking system and the participation of many foreign banks. The outbreak of the banking system will make customers more choices, so if Agribank Northern Hanoi Branch is not more interested in market development, it is difficult to compete with competitors in the area, even keeping current customers is difficult, not to mention to attract new customers.

Secondly, implementation of new informatics and technology applications is also limited. The products and services, the forms of raising capital and credit are also poor, not many choices for customers. Banks are not active and creative in researching customer needs to introduce new products, services and forms of credit to better meet customer needs as well as meet demand of competition that mainly applied the products and services offered by Agribank Vietnam.

Thirdly, the qualifications of many staffs in general do not meet the requirements of business, especially the ability to evaluate projects, methods of information collection, experience of customer service as well as experience of loan management ... and especially the level of informatics and foreign languages have not kept up with the new technology system - IPCAS.

Fourthly, human resource management, contracting and wage distribution mechanisms are not linked to productivity, quality and efficiency of work, so non-encouraging employees to
actively take initiative in creation and highly effective work. This can also be a reason of moral hazard for staff if the bank is not interested in improving the problem in the near future

2.4.4 Causes of the quality of credit risk management in the Bank for Agriculture and Rural Development, Northern Hanoi Branch

- Subjective reasons:

  + From bank side:

  - The capacity of some credit officers is limited: One of the most important determinants of success in business is the people - the highly qualified, experienced and competent workforce, creativeness, responsive and honest worker. The number of credit institutions is still lacking, and there is no separation between customer relations, loan classification and debt management. The planning of staff has not been focused on placement. The lesson for the selection of credit officers is that if they do not have the talent, they cannot expand and improve the quality of loans, if they do not have been ethical, then the quality of loans will be poor.

  - Due to the bank is subjective in assessment of customers having credit relations: this case often falls on customers who have borrowed at the branch many times and all credit standards are implemented well. When customers need to increase credit limits or refinancing, bank is subjective or sometimes compliant in relation with customers so skip several steps in the loan process such as re-look at mortgage, assessment and re-analysis of income sources of customers...

  - The exploitation and processing of information about the branch still have many limitations: banks do not have enough information about borrowers. Moreover, the source of information that the bank has is not timely and quality is not high. The source of information that the bank acquires is mainly provided by the borrower and information that the bank itself studies outside through financial reports, reporting business results which are sometimes inaccurately and reflect false financial status of the customer. Therefore, it is difficult for a bank to properly evaluate the business plan's efficiency and repayment capacity leading to potential risks.

  - The quality of appraisal, assessment, customer classification analysis, debt classification is relative and depends on the subjective will of the credit officers, so it is not exact. The appraisal, analysis of the loan plan as well as the business situation of customers is not close to the reality, so many times; the feasibility is not evaluated, leading to difficulties in timely repayment. The quality of the appraisal work is not high; the development of the appraisal process is not consistent with the staff of appraisal is young, not experienced that causes the overdue debt increased.
- The check for after loan is still weak, many loans are not checked, monitored regularly or only formal inspection, so when there are market fluctuations, the ability to repay, collateral assets, credit officers cannot be caught so there is no plan to deal with risk and loss of capital.

+ From borrowers:

- An existing situation in the area is the licensing of establishment, business registration and business management of the authorities are still loose; the financial statements and production business have not reflected properly. It is difficult for creditors to grasp the real capital needs of businesses, leading to high credit risk.

- Many business plans of customers are not honest, when customers make plans to borrow money is all ways to figure out the number, the evidence of the effectiveness of the plan is aimed at the bank loans, however, are not always close to reality and the crediting level of credit officers is limited, resulting in the bank's credit uses being ineffective. The ability to repay both principal and interest to the bank is difficult.

- Some customers are lent by the bank, but during the implementation of the plan, they encounter unforeseen difficulties and disadvantages, so they do not finish according to the settle plan. The ability to pay on time to the bank is difficult leading to the bank's overdue debt increased.

□ Objective reasons:

- Socio-economic environment:

Due to international and domestic economic and social situation is complicated. In the world, oil prices have been rising steadily; gold prices have been rising steadily and reaching record levels, global inflationary pressures, the effects of the global financial crisis and the recession. In the country, the economy is also facing many difficulties, new challenges; natural disasters caused a continuous increase in price of foodstuff, continuous increase of some key commodities such as gasoline, oil, coal, steel, cement ...; the trade deficit increased sharply, leading to the deficit of current balance deficit. Last year implemented the government's policy of reducing economic recession through lending assistance, which led to increased demand for credit, thus the growth of outstanding loans is faster than raising capital affecting liquidity of the bank.

The state's macroeconomic management mechanism and policies are in the process of renovation and improvement. In which the implementation of the government's directive on the arrangement, renovation and equitation of state-owned enterprises has slowed so the adaptation of enterprises is slow and failed to keep pace with the mechanisms and policies on the micro economy. On the other hand, the high credit growth pressure to support economic
growth is one of the obstacles to a sharp reduction in the bad debt ratio. If the bank focuses on dealing with bad debt and does not generate overdue debt, it must tighten credit; then businesses will be more difficult to access the capital of the bank.

There is increasingly fierce competition in the business of other banks in the area, particularly; commercial joint-stock banks are constantly expanding their operation network along with diversified products and services to attract customers. Therefore, it is difficult for banks to find new customers.

- The legal environment is not synchronized

Although over year, the state has made great efforts in creating a legal framework for businesses and banks to operate such as the laws of credit institutions, business law, commercial law, etc. However, the legal system for the entire economy is incomplete, incomprehensive, lacking of important laws such as economic contract law, financial and accounting law ... In fact, there are many disadvantages in the implementation of laws and policies: the legal environment has bad impacts on the investment environment due to the high level of risk. Many legal regulations are still cumbersome. In addition, the propaganda of the law is very limited, making it difficult for businesses and banks to carry out their duties. Law enforcement is not strict, and the handling of violations is not serious leading to the business situation is unhealthy, causing business disruptions, many legal regulations are no longer appropriate but haven’t yet reviewed timely so leading to difficulties and created gaps for some economic organizations to take advantage of the reduced legal force of the state.

**In summary**: Through credit assessment of Agribank North Hanoi Branch in recent years, it has confirmed the role of credit activities contributing to economic development and construction. Credit quality is a combination of many factors in which overdue debt is a direct and specific factor. Despite some shortcomings and limitations, Agribank North Hanoi Branch still ensures profitable business, contributing to the economic restructuring of the country in the direction of industrialization and modernization. Existing issues and constraints need to be seriously considered in order to work out effective solutions to continuously strengthen and improve the quality of credit to make Agribank North Hanoi Branch's business more and more effective.
CHAPTER 3
SOLUTIONS TO COMPLETE THE OPERATION OF CREDIT RISK MANAGEMENT ACTIVITIES IN VIETNAM BANK FOR AGRICULTURE AND RURAL DEVELOPMENT- NORTH BRANCH OF HANOI

3.1. Forecast for development of credit development activities in North Hanoi Branch in the future
In the coming years, for Agribank Vietnam in general and North Hanoi branch in particular, the challenge will be more than opportunity. Competitive pressure in all areas will be more drastic especially in terms of competition of mechanism and human resources ... Therefore; Agribank North Hanoi Branch has determined that the whole bank must try their best to stand and win the competition.

3.1.1. General direction:
Strictly implement the management and operating mechanism of the Board of Directors, Acting General Director of Agribank Vietnam, promoting the spirit of solidarity and internal strength of the entire branch by all means to concentrate all resources to mobilize resources, focus on analysis and evaluation.

3.1.2. Specific goals
Credit objectives in 2017:
Total outstanding loans: reached 2,100 billion VND
Strive to bring bad debt ratio to below 2%. Debt classification, risk provisioning and risk management as regulated.
Service revenue will increase by 10% compared to 2016.
The income fund is sufficient to cover the laborers in accordance with the salary coefficient after deducting the risk reserve in accordance with regulations.

3.2. The solution to perfect credit risk management activities in the North Hanoi Branch
3.2.1. Solutions to the organization and operation of risk management
3.2.1.1. Organizing and assigning the responsibilities of risk management staff
The biggest problem in risk management activities of Northern Bank Hanoi is that there is no specialized risk management officers nor has any departments or divisions in charge of risk at all. Risk management is still a fairly new concept for bank officers. In order for the credit risk management process to be effective and effective, it is necessary to deal with a number of related factors in a uniform manner, before that, banks must develop a risk management strategy appropriate to their actual bank conditions on which to establish a credit risk management organizational structure and train operators; especially need to be included specialists in risk
management as the credit rating must always be done in parallel with computer and expert methods to make the final conclusion as accurate as possible. Under the conditions of Northern Hanoi Bank, the training of staff in risk management is very necessary. In the near future, the bank should send credit officers to study or invite experts to train bank credit officers who directly manage the loan application and manage the risk loan which they are in charge of. In the far future, it is necessary for the bank to set up a specialized unit to handle the risky issues of the entire bank, but not to continue to manage in a fragmented manner, manage in passive response to the risk arises in operations such as the current situation.

3.2.1.2. Completing the information system of risk management

Risk management will not be possible without information. Therefore, Agribank Vietnam - Northern Hanoi Branch needs to complete the information system by modernizing its banking operations. As the banking system is modernized, departments will be connected to each other, informing each other about the customer situation promptly and accurately. Expanding as the bank modernizes; it can communicate with other banks and organizations in the economy. Every banking activity in which credit is provided will be made more favorable and less risky. Thus the bank must have an effective internal credit information system to collect information and network with the general credit information system to provide the following two types of information to the credit risk management system:

Firstly, information is available for analyzing, evaluating and classifying customers and loans. For example, there must be a sufficient amount of statistical information, have to at least 5,000 financial statements of 3 consecutive years of enterprises in new economic sectors which can produce the sector's average indicators. These are indispensable indicators in the analysis and classification of borrowers. But now there are no agencies in Vietnam set these targets, so credit information systems in the industry must work together to collect, store and serve for themselves.

Second, the relevant information about the borrower (or loan). In addition to information from the lender, collecting information from external sources is required. External sources of information play an important role in evaluating borrowers comprehensively. This is information from domestic and foreign credit information agencies.

One of the most effective solutions to this problem is joining CIC (Credit Information Center of Vietnam). Currently CIC is the only place to gather data of credit institutions as well as credit information of enterprises.

3.2.1.3. Applying other risk mitigation techniques

a) Risk insurance
Banking business is "borrowing for lending" and banks are exposed to both "borrowing" and "lending" risks, thus reducing the risk of bank, bank can share to others by buying insurance. The bank does this by sacrificing part of its profits from the credit to buy insurance for the credit. In this way, the bank loses a fee but diverts the risk to the insurer. Now, many banks have established relationships with insurance companies to share less risk. Acceptance of a partial reduction in profits but a higher level of security, especially when the risk occurs, the bank will be very gentle in handling.

*b) Diversify the portfolio.*

Each bank has its own business characteristics, so the bank has to segment the market and chooses the most appropriate market segments. In order to make a lot of money from borrowers, the bank must also determine what 20% of the customers will get 80% of their revenue. However, the problem is that credit activity is too risky, so if the bank focuses on only one target customer when the customer is at risk, the bank is also at risk. So the bank has to consider between paying attention to its target customers and the task of scattering the risk. The best way to spread risk is to diversify your credit portfolio, so that you do not put all your eggs in one basket

At Agribank Vietnam - North Hanoi Branch, our customers are mainly in the manufacturing and service industries. These two customer groups have the advantage of being less influenced by natural factors but are more affected by the economic environment, from competitive factors in the market. Thus Northern Bank Hanoi, in parallel with maintaining the development of credit relations with these two customer groups, continues to look for other potential markets in order to identify a highly effective portfolio but the least risky. Under the current economic and legal environment, it is not easy to evaluate and forecast the trend of development of the industries. Therefore, the bank should be very careful when choosing projects, areas to decide on credit.

*c) Loans under financing contracts*

Co-financing means that many credit institutions jointly lend to a project which is usually a large project. Banks tend to favor large projects because of the high profit margin (even if the risk is great). However, banks face an obstacle that, according to regulations, banks are not allowed to lend each project more than 15% of their own capital. In this case, co-financing would benefit both investors and banks. Many banks cooperate to lend to a project; they will have the opportunity to learn from each other, promote the strengths and limit weaknesses of each other. From a risk-management perspective, this is important because it has scattered and shared the risk of the project.
d) Strengthening risk forecasting

Risk management is not simply about coping with risk, but the most important thing is that management must find a way to anticipate potential risks to prepare to cope before, avoid the case of passive when the risk has been occurred and confuse to deal with. Experience from modern banks in the world shows that to improve the quality of management, it is necessary to apply early-warning techniques. Having done this, bank must first collect accurate information. Credit risk warnings are, after all, risk prediction for borrowers, which can be financial difficulties, business failure, investment project (due to bank lending) malfunction. So to forecast these risks, the bank can use the following combination of measures:

Firstly, the collection of mid-term financial information: Regular updates of customer financial information can help banks assess how their customers are performing, meet what unusual matters or not. The numbers in the reports are very important to forecast capabilities such as profitability, solvency, forecasting income, future customer costs; customer’s business is safe or risky.

Secondly, credit officers as well as executives should keep their regression analysis of their financial indicators. That is, from the time of the client's financial appraisal, the banker should use those financial parameters to include in the regression analysis spreadsheet such as regression of output or income of the project according to the price of materials. The bank is interested in the financial indicators of customers such as cost, income, solvency, etc. These indicators are highly dependent on the business performance in the market with many variables, unpredictable numbers like interest rates, inflation, prices, etc. So when you have a spreadsheet (using Excel functions), only the parameters in the market fluctuate; the administrator changes the numbers in the spreadsheet is immediately the customer’s financial indicators are also adjusted according to that data. The administrator will quickly identify the market fluctuations that directly affect the customer in any criterion, whether positive or negative, thereby predicting the risk if any happens to the customer.

Thirdly, the use of the SWOT matrix model. This is a very useful tool to help banks assess the potential, position and threats to customers. To do this, the bank must have information about the economic environment that is directly influencing customer activity, the competitive nature of the market, the internal factors of the customer... in order to build the assessment of the strengths, weaknesses, opportunities, risks of the customer, the change of the factors that will positively or negatively affect the operation of customers. So when the economic environment is fluctuated, managers just need to look at the existing aggregate table in order to immediately identify the risks that may occur to their customers.
3.2.2. Completing the credit extension process

3.2.2.1. Selection and analyzing customers

a) Apply classification models and assessing the quality of customers.

First of all, it must be noted that credit risk is an indispensable feature of credit activity, so there is no expectation that this risk are zero and the bank only tries to limit it to the lowest possible level. And the basic solution to prevent and reduce the risk is to choose the most secure customers from the starting point. Of course, the use of these rating systems will be costly but highly effective, so if a bank applies a customer rating system, the quality of the credit will improve significantly.

Models of customer quality assessment can be applied as follows:

**Quality model: based on 6 C factor.**

- Character: Credit officers must clarify the purpose of borrowing money from customers, consider the suitability of the bank's credit policy, together with a review of credit history, with old customers; and new customers need to gather information from various sources such as the risk prevention center...

- Capability of the borrower (Capacity): Based on the law. For individuals, less than 18 years of age are not eligible to sign credit contracts; for enterprises, they must base themselves on their business licenses, establishment decisions, and decisions on appointment of managers.

- Loans (Cash): First determine the source of repayment of customers. Then analyze the financial situation of the borrowing business through the following financial ratios:
  + Liquidity ratios:
    Coverage factor = short-term / non-current liabilities. This coefficient must be greater than 1, otherwise the business will have difficulty paying off the debt on time.
    Quick liquidity ratio = current assets - inventory / short-term liabilities. Enterprises that have slow inventory turnover require this coefficient to be high, and enterprises have fast inventory turnover ratio, this indicator may be less than 1.
    Funding factor = short-term budget / debt
  + Leverage ratios:
    Debt ratio = total assets - equity / total assets. This coefficient of less than or equal to 0.5 is ideal because at least half of the firm's assets are formed by equity.
    Profitability ratio = Earnings before interest, tax, and interest. This factor measures the safety of interest income for creditors.
  + Activity Ratios:
    Inventory Turnover Ratio = Cost of goods sold / inventory
Account receivable turnover ratio = revenue / receivables
Asset turnover ratio = net revenue / total assets
Return on Equity Ratio = net return on equity / equity

Depending on the type of credit banks pay attention to different indicators: short-term loans, pay attention to mobile indicators, debt ratio; Long-term loans are more concerned about the profitability index, the ability to repay.

- Collateral: This is a condition for the bank to issue credit and is the "second source of payment" that can be used to repay the bank.

- Conditions: The Bank stipulates conditions depending on the credit policy in each period as well as the implementation of the monetary policy of the State Bank from time to time.

- Control: Focus on issues such as changes in laws and regulations that have a negative impact on borrowers. Does the borrower's credit requirement meet bank standards?

Z (Credit scoring model) (Credit scoring for corporate customers):
This is the model used by E.I. Altman to give credit scores to corporate borrowers.

Consumer Credit Score Model (applicable to individual customers)
Another model of the credit risk rating system.
This system covers the main areas of greatest risk and can be adjusted to suit the actual conditions.

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<tr>
<th>Item</th>
<th>Criteria</th>
<th>Score</th>
<th>Rating Description</th>
<th>Score</th>
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<td>Financial</td>
<td>Debt balance (including loans under review)</td>
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<td>Loans from customers</td>
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<td>Financial leverage (including loans under review and all external loans)</td>
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<td>&gt; 40%</td>
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<td>21% - 30%</td>
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<th>5</th>
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<td>High level qualification and experience / have under 5 years of relationship Qualification and experience are acceptable / new in relation Unknown / incomplete information / problems with the successor team</td>
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<th>4</th>
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<td>No problem / always follow the rules / long-term relations No problem but short relational history There are some minor issues New / no customer</td>
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<td>Overall good overall position Overall overall competitive position Not sure about some issues Poor competitive position</td>
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<th>4</th>
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<td>61% - 80%</td>
<td>41% - 60%</td>
<td>21% - 40%</td>
<td>20%</td>
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<td>investment of the project</td>
<td>The ability to repay</td>
<td>Collateral</td>
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<tr>
<td>Expected Annual Operating Expenditures / Principal and interest payable annually</td>
<td>1</td>
<td>1</td>
<td>&gt; 250% of the value of the loan / high trade</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>2</td>
<td>&gt; 250% of the value of the loan / average trade</td>
<td></td>
<td></td>
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<tr>
<td>7</td>
<td>4</td>
<td>&gt; 250% of the value of the loan / low trade</td>
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<td></td>
<td>4</td>
<td>= Value of loan / high trade</td>
<td></td>
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<td></td>
<td>6</td>
<td>= Loan value / average tradeoff</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>8</td>
<td>= Loan value / low trade</td>
<td></td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Total score</th>
<th></th>
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<tbody>
<tr>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>General classification</th>
<th>Score</th>
<th>Risk level</th>
<th>Comments - Give the features specific</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>10 – 20</td>
<td>Low</td>
<td></td>
</tr>
<tr>
<td>B</td>
<td>21 – 35</td>
<td>Medium</td>
<td></td>
</tr>
<tr>
<td>C</td>
<td>36 - 50</td>
<td>Acceptable</td>
<td></td>
</tr>
<tr>
<td>D</td>
<td>Over 50</td>
<td>Too high</td>
<td></td>
</tr>
</tbody>
</table>

b) Re-evaluation.

One of the principles when making a credit decision is that reevaluation means that the customer profile must be evaluated more than once. Credit officers may ask other people to verify, for example, auditing firms (who may also be customers hire and provide the results to credit officers). Of course the auditors have sufficient expertise and experience so they do it faster and more efficiently. However, there is a problem that this can be a negative occurrence, such as the customer's hookup with the auditor. In any case, the auditor is still a third party so in order to limit the risk, credit officers should review the case, in other words,
reevaluate the case. If the bank has a specialized appraiser, both parties (credit and appraisal) will independently evaluate and decide based on two outcomes. At North Hanoi Branch, the appraisal is done by the credit department. Therefore, the re-evaluation before the loan decision is not guaranteed contains many risks. In order to minimize the risk, in the coming time, North Hanoi branch should have a credit control unit independent of the credit department, organize this work seriously, ensure the strictest appraisal process and for the most accurate results.

c) Assessment and management of collateral

Collateral is an effective tool for banks to minimize losses when the risk has occurred so properly assessing collateral is especially important. Although the focus of credit decisions is the ability to repay, credit officers still need to look at the collateral and the value of the property to pay off the debt in the case of a debt repayment in case of repayment plan cannot be done as expected. The most commonly used method comparison the value of the debt to value of the asset.

Asset security is important, but it is important to note that this is only a condition, not all condition. When assessing collateral, the North Hanoi Branch should pay attention to the following points

First of all, the conditions required for collateral must be clearly defined. The bank must comply with the regulations of the State Bank as well as the instructions of the Bank for Agriculture and Rural Development of Vietnam on acceptable conditions for collateral. Changes in regulations must be updated and compliant. The bank should pay particular attention to the kinds of collateral that arose from the loan itself because this is a very complex matter. For example, in the past, banks were allowed to borrow securities for investment in securities and real estate and used the assets themselves as collateral but now they are not accepted because of the uncertainties of the two markets.

Secondly, to accurately assess and forecast market fluctuations are likely to affect the value of collateral. Collateral valuation must be strictly conducted and should not be based solely on the information provided by the customer always want their property to be appreciated at highest level. The bank has to account for depreciation and market developments and plans to reassess its assets because of future credit risk, banks must avoid the possibility of selling assets because of the actual value of the property falls far short of the original estimate.

Thirdly, do not take too seriously or too lightweight role of collateral. First of all, the bank should avoid dependence on collateral because this is only the last choice when there is no other way to recover the debt. The bank should not ignore the evaluation of security for traditional customers because if the risk occurs, there will be no source of compensation.
3.2.2.2. Controlling after credit

The quality of the credit must be ensured not only before signing the contract, but also through the signing process. Thus, the bank should set up a specialized unit to periodically check the evolution of the credit. Credit officers will be required to provide reports, regular information on customer situation, project status as well as check credit profiles and other conditions. Credit officers need to have a plan to "visit the customer", to check and monitor at the site, directly collect and analyze data on the financial status and results of project operations, not just review the reports the customer provided. In addition, the control is not only performed at the customer check but also requires the main body of credit officers, supervision of credit card compliance, credit policy, credit portfolio. Detect abnormal signs to report to superiors. Leadership is responsible for reviewing and directing the implementation. If any errors are discovered such as improper staff, overdue loans, unsecured loans ..., timely measures should be taken. Theoretically, there are bigger consequences. In order to prevent ethical risks, senior management should regularly monitor and manage appraisers, credit officers, and other stakeholders.

3.2.2.3. Dealing with bad debt

With the participation of more and more commercial banks, the race between banks has never been as intense as it is today. It is the competition for market share that banks increase credit extension, "loan according to trend" leading to the quality of credit is not guaranteed is understandable. When risk occurs, banks that are inexperienced become embarrassed in dealing with problem loans. From the characteristics of Northern Hanoi Branch as well as the practice of dealing with bad debt in banks, it is considered that Northern Hanoi Branch is really difficult to face with these debts. Appropriate bank measures may be taken:

- When there is overdue debt, the bank must immediately organize the management by assigning the officer to monitor the performance of the overdue debts and pay special attention when the debt has jumped to group 3. Each staff, each branch must often report when the debt transfers group. Staff must immediately identify the cause of the overdue debt, determine the probability of recovery and propose solutions, not to report the situation when the debt is too bad already.

- To minimize losses for both banks and customers, it is imperative that the bank correctly determines the "bad" level of the debt and its ability to recover in the future. Banks should avoid passive psychology, seeing bad debt is a quick thought of a plan to recover with collateral. If the customer really is willing to pay the debt, the bank should try to support customers. Liquidation by collateral is only the last option when there are no other options. In
cases customers are identified as misuse or fraudulent, they must immediately stop the disbursement and seek to recover the capital.

- Deductions to set up the risk reserve fund in accordance with regulations. This will make the bank actively deal with the risk when it occurs.

3.2.3. Human solutions

For any business, human beings are always a key factor in the success of the operation because all activities are to be done under the hands and the human mind. This is especially important for banking business because of the high risk that statistically-derived risks are the most prominent. Understanding this issue, Northern Hanoi Branch always pays attention to the training and development of human resources as a top concern. At Northern Hanoi branch, the staff is considered relatively young (average age is 30.4 years). With such a young staff, the advantage is dynamic and creative, absorbing new knowledge and being able to adapt well to the new environment. This is very meaningful because risk management is quite new to banks in general so training staff knowledge of risk management is very interested. However, in credit activities, young staff also faces challenges because they lack experience and limited working capacity. The bank, therefore, needs to have training and retraining policies for credit officers not only in terms of expertise but also in terms of both professional ethics and job responsibilities. By doing so, the bank can improve the quality of its credit operations and prevent ethical violations.

In order to improve the quality of human resources, the bank needs to do well right from recruiting staff. In this work, the bank should set appropriate and strict standards. The bank should have policies that enable young people to have the opportunity to study, improve their analytical skills, investigate and negotiate with clients. In addition, it is also necessary to arrange the position of work and clearly assigns responsibilities appropriate for their capacity. The bank should also classify credit officers to assign them to the appropriate level of client management to maximize their effectiveness. Due to the wide range of credit activities, specialists who specialize in a particular group of clients will significantly increase the quality of their work. For example, any staff that has experience in handling loan applications for construction of a facility will be solely responsible for financing projects for the construction. Similarly, there are specialists in real estate lending, consumer loans...

Another job that needs attention is the policy of compensation for officials. The salary, bonus and punishment policies must be formulated consistently and appropriately, creating the motivation for staff to strive to work, stimulate creativity and responsibility, and also prevent ethics behavior.
RECOMMENDATIONS

1-Recommendations to the Government

Firstly, the legal corridor needs to be improved to create a favorable environment for the operation of banks in general and the bank of North Hanoi Branch in particular. Vietnam's laws have long been had three characteristics are unclear, inconsistent, and volatile. Therefore, the Government needs to strive to perfect the system of clear legal documents, suitable to the new conditions of the economy, avoid ambiguities that are misleading or deliberately misunderstood, avoid overlapping as well as contradictions among legal documents. Especially, in the coming time, the revised law on credit institutions will actually overcome the limitations of the existing law, thus contributing to the better and more active integration of the banking sector.

Secondly, in order to create a stable economic environment, the government should have appropriate policies to address the emerging issues in the economy. In the last period, the banking business, in which credit activities were especially difficult, required the Government to work out measures to help banks solve problems. In addition, the loosening monetary policy has been continuous over the years so the total payment instruments and the total outstanding loans in the economy increased sharply, as a result of the lending competition of banks. The State Bank's inspection and supervision capacity has been slow to improve and fail to keep up with the situation when credit institutions shifted to market-oriented and international integration activities, without effective control the activities of commercial banks, especially joint stock commercial banks, in lending, securities trading and real estate business. In the current context, the priority objective is to curb inflation, maintain macroeconomic stability and maintain economic growth at a reasonable level. The government also needs to study to submit to the National Assembly for adjusting price growth rates in 2017, economic growth in 2017 at a reasonable level.

Third, the functional agencies need to establish a coordinated relationship in dealing with bad debts of commercial banks. In the recent period, the stock market and real estate have complicated developments negatively affecting the quality of many credits of banks. Many securities investment and real estate loans have become a burden of bad debt that is causing many banks to have a headache. In the coming time, the State should direct and review to ensure that qualified units and securities trading capacity are healthy, determine not to establish, operate for unit not eligible business. To continue well implementing the equalization program of state enterprises, supplying quality goods to the market. In addition, soon to issue tax policies against real estate speculation; the policies and administrative
procedures open to the securities market and real estate development healthy. Strictly manage the bank loans of companies to invest in the stock market and real estate market; step by step healthy these two markets, overcome speculation, push up prices as high as last recent times.

2- Recommendation to the State Bank of Vietnam
Firstly, the State Bank should firmly grasp information; strictly control the total means of payment, credit outstanding loans in the whole economy, lending real estate business, securities trading of commercial banks and other currency trading organizations; flexible adjustment of monetary policy; ensuring reasonable growth of credit outstanding; liquidity of credit institutions and curbing inflation; strengthening the supervision of credit institutions, supplementing the monitoring tools in accordance with market mechanisms and international practices to proactively alert and better handle changes in the credit and currency markets.
Secondly, the bank should soon provide specific guidance to commercial banks on the organization of conducting risk management activities, issuing legal documents on risk management in line with international practice.
Third, the State Bank of Vietnam needs to improve the operation of the Credit Information Center (CIC) to help banks effectively exploit information at this center. To manage risk, the bank needs a lot of information and must ensure the accuracy of the credit rating in order to assess and credit rate. However, in the current situation, banks are very difficult to carry out this work. Therefore, if the information from CIC can be effectively exploited, the quality of credit activities will be improved significantly.

3- Recommendations to the Bank for Agriculture and Rural Development of Vietnam
Firstly, it is necessary to develop plans for training risk managers and implement risk management models at the head office, then organize workshops to disseminate experience as well as guide the branches to implement.
Secondly, there are regular monitoring and support of the branch on risk management, which may send specialists directly to the branch for assistance, advice or funding, as well as other conditions for branch support.
Thirdly, building an effective internal information system between branches as well as between branch and head office can exchange information and experiences on risk management to improve risk management efficiency in all branch network.
CONCLUSION

The banking business is now developing more and more strongly. This is also indispensable when the Vietnamese economy is growing. As a financial intermediary, banks operate effectively, and other members of the new economy are able to develop their operations. However, banking business contains too much risk, especially credit risk. For that reason, credit risk management is indispensable if banks want to develop sustainably and safely, contributing to overall economic growth. But at present, there is not enough investment in research and development. This is a great difficulty for banks in general as the banking system is now widening, and competition is fierce.

During the study of the topic "Credit risk management for small and medium enterprises at Vietnam Bank for Agriculture and Rural Development- Northern Hanoi Branch", I noticed that there were no offices at the branch do risk management research in a systematic way. Therefore, the risk in general, credit risk, in particular in the bank has not really been "managed" effectively, can lead to unpredictable consequences in the future.

During the project, I presented management theories in the commercial business in general, applied to a specific business organization is Agribank -Northern Hanoi Branch. I look forward to receiving the comments of scientists to be able to complete this thesis.
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4) Annual report of Agribank Bac Ha Noi Branch, 2016

5) Regulations of Agribank

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7) Website: thuvienphapluat.vn (Library of law documents)
Advisor Confirmation

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