

Enhancing the credit activities of vietinbank in vietnam essay sample

[Literature](#), [Russian Literature](#)



In the operation of the commercial banks, lending activity is the traditional operation or the background, accounting for a relatively large proportion of all the asset structure and the income structure. Now, when the activities of banking services are all expanding in both quality and quantity, the lending activity is still the inevitable activity in all commercial banks. The credit and investment often account for 70% or more in total asset of the bank. This is the main profit-generating activity to the bank. It is not only meaningful to the bank but also very important to the entire economy. It helps to create the potential for credit financing of industrial activities, commercial and agricultural economy. With the growth and rapid development of the economy, the demand for business capital is constantly increasing so this is an opportunity for banks to increase loans and help banks to look back on their own credit policies to improve as the competition between banks became more acute. Vietnam joint-stock Commercial Bank for Industry and Trade-Thanh Hoa Branch (Vietinbank Thanh Hoa) with its definite advantages as one of the biggest banks in Vietnam has become one of the strongest with firmly truth from customers in Thanh Hóa province.

As one branch of Vietinbank, Vietinbank Thanh Hoa contributes not only to the overall objectives of banking system in Vietnam, but also the social and economic goals of the province. In particular, the bank keeps key role in contributing to capital investment to state and private enterprises. However, lending activities of Vietinbank currently contain many issues and problems, adding that the banking business environment is increasingly more dynamic but encounter greater risks that impede the process of expanding and improving the quality of lending. If you want to maintain and further expand

customer groups, Vietinbank need to improve lending quality continuously. Moreover, the current lending problems, particularly lending to business enterprises are the emerging problems all over in 2011 when many enterprises encountered changes and difficulties in capital mobilization used to be “secured” by banks before as interest rates are too high and the central bank recently applied interest rate ceiling with this field to 12%/year.

Therefore, in practice time at Thanh Hoa branch of Vietinbank I have studied this lending activity of the bank. So I choose the topic “Enterprises-lending activities of Thanh Hoa branch of Vietnam joint-stock Commercial Bank for Industry and Trade (Vietinbank) at the time the interest rate ceiling was lowered in 2011 and 2012”. I would like to send the sincere thanks to Dr. Le Phuong Lan who has dedicated to guide me in process of working on this thematic and to staff of Vietinbank Thanh Hoa, the staff of business customer department in general and the credit officer Dang Thanh Tuan in particular for instructing and giving me the favorable conditions at the time I was a on-the-job trainee here.

INTERNSHIP REPORT

CHAPTER I: INTRODUCTION OF VIETINBANK THANH HOA AND CURSORY

CONTENTS OF MY WORKS DURING THE INTERNSHIP I. Introduction

1. The formation and development

Vietinbank was formerly the Vietnamese specialized bank for Industry and Trade and it was established in 26/03/1988. It was separated from the State bank of Vietnam under the Decree 53/HDBT of the Council of Ministers. For

nearly 24 years of construction and development, the bank has been renamed four times: - 14/11/1990: according to the Decision 402/CT of the Council of Ministers, The Specialized bank for Industry and Trade was renamed to Vietnam bank for Industry and Trade. - 27/03/1993: according to the Decision No 67/QĐ-NH5 of the Governor of the State Bank of Vietnam, we established the State Enterprise with name: Vietnamese bank for Industry and Trade. - 21/09/1996: according to the Decision No 285/QĐ-NH5 of the Governor of the State Bank of Vietnam, Vietnamese Bank for Industry and Trade was re-established . - 08/07/2009: The Decision No 142/GP-NHNN was promulgated changing the name of Vietnamese bank for Industry and Trade to Vietnam joint-stock Commercial Bank for Industry and Trade (Vietinbank).

VietinBank is a large commercial bank, playing an important role and being a vital pillar of the banking system in Vietnam. With a network spanning all over the country including 3 Exchanges, 140 Branches and 700 Transaction departments, Vietinbank is in threshold of being the image of a modern and effectively leading banking and finance institution in Vietnam and further in the world. In addition to that, the bank also has 4 independent firms which are: the financial leasing company, Limited liability securities company, debt management and asset exploitation company, Limited liability Insurance company; and other 3 business units which are: the information technology center, card center, training and human resources center. VietinBank also has nationwide network with relationship with 900 banks and financial institutions in over 90 countries round the world.

VietinBank is also a member of the Vietnam Banking Association, the Association of Asian banking, telecommunications Finance Association Contact global banks (SWIFT), the Issuing and Payment visa, master; is a charter member and joint venture partner of the Bank INDOVIN. Vietinbank pioneered the application of modern technology and electronic commerce in Vietnam, to meet the requirements & business management, opened first branch in Europe marking the boom of the financial Vietnam and regional markets in the world. Thanh Hoa branch of VietinBank is a unit member of VietinBank, established under the Decision No 285 /QĐ-NH5 by the State Bank Governor on 21/9/1986 and located at 17 Phan Chu Trinh, Dien Bien distric, Thanh Hoa city- Thanh Hoa province. VietinBank Thanh Hoa and the other affiliates are organized and operating under the regulations promulgated by VietinBank on the Decision No 31/NH-QĐ on 18/05/1988. However, due to the preparation work, only on 1/9/1988, VietinBank Thanh Hoa was officially announced to be established and put into operation. 2. The organizational structure

This is the organizational structure of VietinBank Thanh Hoa in 2012 that I collected from the department I had been on internship. (Board of Directors (one Director and two Deputy directors) – Director is responsibility for administrating the general activities of the branch. – Deputy directors work under the instruction and entrustment of the Director. (Budget department: This department is responsible for advising the Director to direct and fund operating activities in accordance with regulations of the State Bank of Vietnam. At the same time organize the collection and payment transactions

for customers at their offices and other transaction places, ensuring the security of assets. (Accounting department:

- Organize operations of payment, finance, project accounting in accordance with the accounting principles of VietNam joint stock commercial bank for industry and trade. Analysis organizations planning, general types of capital, and capital using of the entire branch. - To advise the Director of the payment, financial planning monthly, quarterly and annually as the basis for all parts of the branch to follow. Also manage and guide the financial and accounting work of full branch.

(Source: General coordination department of VietinBank Thanh Hoa)

(Administrative department:

Develop work program every month, every quarter of a branch on the fields: organization staff training, employment, wage management, office administration work in business service operations of the branch, and is responsible for regularly urging the implementation of the program approved by the director. (General coordination department:

- Planning and preparing the business report of the entire branch -
Monitoring and inspecting the implementation of plans throughout the branch. - Managing reporting system of banking statistics

(Problematic loan and risk management department:

- To advise the branch Director about the risk management, monitor the loan and investment performance to ensure all are in compliance with the credit

line for each customer. Evaluating or reevaluating customers, projects and schemes for credit providing, assessing and managing the risks under the instructions of Vietinbank. - Responsible for managing and handling the debt problem (including the debt restructure of the repayment period; delinquency, bad debts), operators manage collect the collateral under the provisions of the State to recover the principles. (Information technology department:

This department is responsible for management, maintenance of information systems at the branch, maintenance of the branch computers. (Business customer department:

Direct dealings with business customers to tap capital in VND and foreign currencies; Performing the duties related to credit and managing credit products in accordance with regulations, current practices and guidance of VietinBank, direct advertising, marketing, referrals, and sales of bank products and services for businesses. (Transaction departments:

Carrying out the mobilization of capital, investment and payment of credit ... like branches, however, operating in a narrow range as authorized by the Director. (Individual customer department:

Staff of this department has responsibilities and duties like those of business customer department. The only different is that the customers in this department are individuals with smaller borrowings in general. 3. Overview of operational status of VietinBank Thanh Hoa

The process of innovation and development, especially after the monetary crisis in Southeast Asia region in 1997, and the economic crisis in 2008, the world economy and our country especially the Finance and Banking sector was more or less affected. Thus innovation is essential for Vietnam's banking system and innovation and development of Vietinbank Thanh Hoa associated with the development of our banking system. And this is initiated and directed by the Party and Government in economic-developing policy. Integrate with the development of market economy restructuring of agro-forestry-fishery and services, along with the globalization trend and set the stage for Vietnam's accession to the large economic organizations as the WTO ... the staff of VietinBank Thanh Hoa has been striving to implement its functions, assigned tasks which contributes greatly to the increasing enhancement in the size and business results.

Now, Vietinbank Thanh Hoa has focused on innovation in all areas of operation, more elements to meet the growing needs of society, which promotes the traditional business of the bank, also expanding the operations and new services such as foreign Exchange, discount vouchers, purchase guarantees, financial leasing, ... and card system like Visa card, Master card, G-card, S-card, C-card ... has gained a certain market share in trading of consumer products. Table 1. 3: General results of business operation of VietinBank Thanh Hoa: Unit: billion VND | | | | Change | | | | Year | Year | 31/5/2012 | 2011/2010 | Comparison 31/5/2012 with total | | | 2010 | 2011 | | % | 2011 (%) | | | | | Amount | % | | | Total collection | 333. 106 | 885. 117 | 322. 000 | 552. 011 | 165. 7 | 36. 4% | | Total spending | 281. 341 | 827. 909

| 300. 000 | 546. 568 | 194, 27 | 36. 2% | | Profits | 51. 765 | 57. 208 | 21. 203
| 5. 443 | 10, 5 | 37. 1% |

(Source: General coordination department of VietinBank Thanh Hoa)

Main activities of VietinBank Thanh Hoa:

(Vision:

Making VietinBank Thanh Hoa become a modern banking branch, meeting the comprehensive needs of service products which contains good characteristics of integration and competition in order to support the domestic and foreign customers, manage effectively and develop sustainably

(The motto:

All for the success of everyone, every home, every business. (Service products:

- Taking deposits:

Receiving demand deposits and term deposits in VND and foreign currencies. Getting savings in many forms of rich and compelling: term savings in VND and foreign currencies; savings lottery; savings accrue; issuance of valuable papers... - Lending and guarantee:

Offering short-term loans, medium and long-term loans in VND and foreign currencies. Supporting to import, export, discount with the negotiation of export documents. Co-financing and lending syndicated loans for large or huge projects with long payback period. Offering financed loans, entrustment under the programs Vietnam-Germany (DEG); overdrafts, consumer loans... domestic and international Guarantees and re-guarantee, bid security

guarantee, contract-performance guarantee, payment guarantee. – Trade financing:

Issuance and payment of letter of credit; confirmation and payment of export letter of credit, import and export collection, sight draft collection (D / P) and acceptance of the draft collection (D / A). – Payment service:

Transferring money domestically and internationally. NT and UNC, Sec ... Capital management. Paying expenses for workers through corporate accounts, ATM. Remittance payment. – Treasury service:

Foreign currency trading. purchase of valuable papers, business spending and collecting entrustment – Services and e-banking card:

ATM card services, cash cards with Internet banking. Payment of international credit card (Visa card, Master card ...) – Investment activities:

Joint venture partnership with credit institutions and financial institutions in the country and abroad – Other services:

Financial consulting and investment, investment in life and non-life insurance. Safe for rent, management of gold, silver, precious stones, valuable papers, with patents... Over the years, VietinBank Thanh Hoa has confirmed its position in the market and its role in Vietnam economy in general, in Thanh Hoa province in particular and it still stands stably and grows firmly in the new mechanism of the market economy. However, in recent years, the volatility of the economy with high inflation, high interest rates are making individuals in business enterprises, state enterprises stuck in a state of maintenance delay and in the threshold of equitization...

To reduce the adverse impacts to the entire economy, the government continuously adjusts the interest rate for loans, deposits under the influence of the world economy especially the U. S. Federal Reserve (Fed) ... typically are the instruction to reduce lending rates to 14. 4% in late 2011 through Circular 201/2011/TT-BTC and then continue to reform this number down to 12% last month over the circular 104/2012/TT-BTC, along with other circulars for adjustments reasonable to the nature of the loan market. These changes affect the business of banking system in general and VietinBank Thanh Hoa in particular with both positive and negative points. However, the entire board staff of VietinBank Thanh Hoa is striving to go through this challenge, go up constantly to achieve the best possible results, and in 2012 when is forecast to more stable in economy , Vietinbank Thanh Hoa is firmly in maintaining its good business operation.

II. My works at VietinBank Thanh Hoa during the internship

I applied for internship at business customer department of VietinBank Thanh Hoa. The first thing to do is to observe and get acquainted with customer data, reading documents, lending contracts and guarantee contracts and then do some basic assignments related to credit activities analysis of that department under the instruction of credit officer of business customer department: Dang Thanh Tuan. – The daily or mainly job is to read and enter the data of balance sheet, business results report and cash flows of customers to the credit scoring system and then send confirmation to seniors via “ branch delivery system”. And check again the documents and other customers’ data of previous years. More detailed: I collected data for

evaluating, assessing the risk of the assigned enterprises in the past to help Vietinbank Thanh Hoa look at these to decide whether it's good to continue granting credit to them or not. My work was to rate the year 2010 of Vu Phong Ltd company, Son Trang joint-stock company, year 2008 for the Hop Luc joint stock company, Phuong Hung and Sam Son transport company.

If I rate the year 2008, I must collect data of 3 previous years, which means data of year 2005, 2006 and 2007. Detail of this work requires my skill from learning subject accounting in university to enter extremely correctly accounts. Because each number has to be round up or down at thousand unit so I have to adjust accounts in some ways so that at the end total assets must be equal to total equity plus total capital and as same as data on the paper records. Then read the documents that the customers supplied to evaluate the experience of management, status and reputation in dealing with Vietinbank Thanh Hoa in the sheet after the sheets for entering the date of balance sheet. - For the days that my guiding credit officer had no work for me or unsuitable work for "beginners" I often observed other officers of business customer department working with customers, preparing procedures or necessary documents for loan after the credit scoring process is finished. Sometimes I was assigned to prepare needed papers for lending work or transfer or "bring" documents and money to other departments. -

Most the days I came to the bank, I was assigned to scan and make photocopy profiles of all companies that I've assigned to enter data, including the financial statements of years 2008, 2009, 2011; evaluation reports of year 2009 and sheets of lending limits and evaluation/mark for

those companies. It may be considered a routine work but I think I had chance to read the lending papers, form of insurance or assurance in lending as well as the assessment statements which help me to make clear about the lending portfolio to enterprises. - Some other credit officers of business customer department taught me the way to gain data from accounting software (it's not too hard but requires high carefulness), then assigned me to split the data of the annual comprehensive report of outstanding debts (mainly some months in late 2011 and May & June of 2012) into some prepared criteria to make monthly report to senior, for example, split outstanding debts into amount of that kind of debts according to types of businesses, lending terms, or split all data to get the total monthly amount disbursement according to types of enterprises and even some particular customers based on the CIF in that comprehensive report.

CHAPTER II: THE STATUS OF BUSINESS LENDING ACTIVITIES OF VIETINBANK

THANH HOA I. General situation-effects of new interest rate ceiling recently

1. Economic situations in Thanh Hoa and its enterprises At present, Thanh Hoa province has economic growth at annual average of approximately 12% - 13%. The current economic structure is: agriculture, forestry and fisheries account for 23%, industry and construction accounted for 40.6%, and services account for 36.4%. Thanh Hoa has established five industrial zones and 19 industrial clusters, over 6000 enterprises and 400 trade villages are operating. The strong development of industrial areas, villages, and the production facilities in recent years has contributed to boosting the province's economic growth. Thus, we can see the development potential of

the business where the proportion of industry and services are growing up in the province's economic structure. Enterprises are the inevitable factors in building up the wealth of the city, which should be paid great attention through the private and public policies from government, for big example is the lending problem in 2011.

At that time, many businesses had fallen into the state key constraints, high production costs, low profits and difficulties in the market with large inventory, more respondents (from the beginning 2012 to 5/2012) shows that businesses in Thanh Hoa province were borrowing at high interest rates, even up to 18% / year while the interest rates they could afford is 15 % and a reasonable interest rate is t round of 13-14%/year. 2. Directives of the State Bank of Vietnam on the lending problems and movement of the bank 2011 was a year of economic uncertainty, the market for loans was pretty in disorder, putting up high barriers especially between the small and medium enterprises and capital sources. And banks gave highly record lending interest rate with margin of up to 18-20%. Consequently, many businesses can not get access to the necessary loans or and some companies had fallen into bad debt pile, which would undermines the economy and national finances. Because of this harm, the central bank in late 2011 had the intervention into interest rate to help businesses, as well as pull back the growth, macroeconomic stability and inflation inhibitions.

On 30/12/2011, at the request of the Vietnam Development Bank in the Letter dated 18/10/2011 No 3701/NHPT-CDKH of government offices to adjust interest rates on investment credits, export credit, the Ministry of

finance stipulated Circular 201/2011/TT-BTC stating that lending interest rates of government investment in VN dong is 14.4% and is made from the date of 02.15.2012. On 6/25/2012, The Ministry of Finance continues to tighten the ceiling interest rate down to 12% by enterprises according to the first article in this circular, and this circular replaces Circular 201/2011/TT-BTC above. However, there are many controversies surrounding this issue. And on the upside of theory or practice, the business will be more or less stable and firmly when find it easier in getting access to capital lending, and banks will have to share the “profit” which is considered to be very large in recent times with businesses, and Vietinbank also has no exception. And for banks, this is an issue of concern and requires the proper policies to avoid falling into high risk and low liquidity. In fact, in the last months of 2011 capital raising of banks has declined due to interest rate ceiling was tightened, many small banks were on liquidity stress. Currently, although the interest rate ceiling trim down but there’s no race of interest rate which is due to the reduction of inflation rate expectations and excessive capital of banks.

The lending rate was reduced significantly compared with before and quite attractive, but many enterprises have not paid much attention and in the first half of 2012 VietinBank Thanh Hoa still find ways to increase credit growth and is on the “rough path” looking for customers, which means to find potential customers for credit expansion. This demonstrates that the statement that when interest rate is low, businesses want to borrow is false. They also have to very carefully calculate the time to borrow and their

business opportunities. However, there is always the time delay in each policy's effects so quality of outstanding loans of banks will be improved.

Business customer department of VietinBank Thanh Hoa also announced that there'll be positive trend in the business loan situation when the credit scoring of business customers this month in VietinBank Thanh Hoa are rather good, around at BB or A; AAA and those are the reliable customers to supply credit in the second half months of VietinBank Thanh Hoa.

II. Business lending activity of VietinBank Thanh Hoa

1. Principles, requirements and process of capital lending to business of VietinBank Thanh Hoa (Principles Borrowing is voluntary demand of customers and also is an opportunity or banks to provide credit and gain profit from that activity. However credit providing relates to capital using of customers so the strict or certain principles must be followed. – Capital lending is oriented effectively by the objectives and plan of the State, of the economic entities: Credit aims to strengthen the material base of social economy, to increase production capacity of economic organization in order to promote the development of production forces. In the economic conditions of multiple elements operating under the market-oriented socialist state, the State investment and credit investment are investments oriented by sectors and regions. So, this can be considered an important principle when lending.

– Need to take measures to prevent and avoid risks, to ensure solvency: to implement this rule, loans should be thoroughly researched, each credit file should be reviewed. To make sure things run smoothly, some requirements should be respected: + Investing dispersedly: Do not make loans to a

number of economic organizations, investment projects. + Base on research and situation analysis, predict the viability and operations, projects and works of economic organizations. + Only investing in institutions or projects having feasible, greater economic efficiency, and quick payback period. – Complete payment of principal and interest payment due date: This principle ensures the motto of the bank which is “ borrowing to lend” and implement the accounting principles which is covering expenditures with revenues and profits. (Requirement to bank

(Have a license for establishment and operation by the State Bank. (Have regulations approved by the State Bank.

(Have certificates of registration for legal business.

(There is a representative having capable and authorized competence to enter into contracts with credit customers. (Only lending to customers having legal and behavior capacity. Specifically, the bank gives the loan when customers meet the following conditions: – Having full legal and civil act capacity and can bear civil liability according to law. – The purpose of loan using is legal. Businesses must use the loan capital tin production activities, goods productions, which are not prohibited by law. – Having financial ability to repay the debt for a period of commitment. – Having feasible and effective investment projects, production plans, sales. –

Implementing the provisions on loan security as prescribed by State Bank of Vietnam. The loan security should establish a legal basis for additional revenues based on mortgage, pledge of property owned by the borrower or guarantor of a third party to protect the interests of the lender, when the

first revenue debt does not work. The conditions that law prescribed for lenders contribute to limit, exclude credit institutions that are not eligible for trading on the market, making healthy credit relationships, and protecting the interests of the investors. (The process of lending to businesses

(Making credit file to provide credit:

This is the first basic stage of lending process, it is done immediately after the credit personnel contact with customers. Credit personnel assigned to dealing with customer having demand for loans is responsible for access, dissemination and guiding customers to make or complete documents, loan procedures, complete dossier to move to next stage . Depending on the relationship between customer and bank, credit type and size, credit personnel will guide customers to file with the information requested. A credit file needs to be collected from credit customers with the following information: – Credit issuance application of customers.

– Information on legal capacity and behavior capacity which is demonstrated through proof of legal status of customers such as establishment licenses, director appointment decision, charter operations... – Information on the ability to use and repayment of customers through business plans, investment projects, latest financial reporting and payment plan. – Information on credit guarantee by the papers related to mortgage, pledge or loan guarantee. (Credit analysis (assessment of loan application):

This is the stage of analyzing the current and potential ability of customers on the use of credit, repayment of loan principal and interest. Credit analysis

helps to check the authenticity of the loan application which helps to make comments on the repayment behavior of customers, identify situations that can lead to risks for banks. Credit analysis process includes: collecting meaningful information for credit assessment, analysis of information collected, synthesize and store information for use in the future: – Assessing the legal capacity of customers: Customers applying for credit must meet the legal capacity under the provisions of law. In some cases, base on the credit type, need to examine whether or not that customer's profile subordinates to “ credit objectives” of the bank. – Assessing financial capacity of the client: means to assess the financial and self-financing ability in business, solvency and repayment ability.

This helps identify strengths and weaknesses of existing customers through the calculation and analysis of different ratios. When analyzing the financial capability of customers there are many criteria to evaluate, but the assessment for each specific client, assessment personnel evaluate criteria in accordance with actual conditions of each customer for analysis. Basically they can use the ratios of the following: Ratio Analysis of liquidity, of business performance, and of financial structure and the situation for capital works business. Through this assessment system by financial ratios, financial situation of very enterprise is clearly delineated. (Decision on credit providing:

– If loan is approved, the credit personnel will draft the credit contract, loan secured contract, and then submit those contract to higher authorities for approval. If thing's fine, all these are sent to relevant departments for

accounting, disbursement, debt collection, loan monitoring ... – If the loan is not approved, the credit personnel or relevant department manager will prepare relevant notice of refusal to lend to the board chairman or general manager, the person authorized to sign and then send to customers. – For ultra vires loan, the profile with results of credit assessment and credit scoring will be submitted to higher senior, and then that senior will send decision to authorized departments whose responsibility for informing the results to customers. (Disbursement:

– The credit personnel requests customers to provide records and documents about the intended use of loan for example, contracts for the supply of materials, goods or services, declaration or statement of expenditures, cost plans, check-before-acceptance report, payment report to the escrow account at the bank. – Accounting and payments (transferred to the beneficiaries or transfer to the deposit accounts at the request of the customers) or transfer the funds for disbursement to the client (if the loan is in cash. And depending on the characteristic of the customers demand for loans, bank will choose one of the two following disbursement methods: + One-time disbursement: Bank uses two separate accounts (loan accounts and deposit accounts) to monitor the withdrawal of borrowings and repayment of customers. This method is simple, applicable to loan customers whose several withdrawals in the early period. + Disbursement under the current accounts: instead of using 2 accounts, bank opens only one to record the business activities of customers. This account allows customers to withdraw borrowing money or pay debt at any time. So this

account applies for customers having demand for regular loans during the loan term. (Inspection and monitoring after disbursement:

This is an indispensable step in the lending process for inspection and monitoring to urge customers to comply fully with the commitments agreed in the credit contract. Officers responsible for the loan open books to monitor the loan, to track the information on the loan. The credit personnel should regularly check the secured property to ensure timely handling of issues arising such as loss, damage or decrease in value,... Depending on the credit scoring, customers ranking and seriousness of violation, directors of bank or the competent authority will give appropriate decisions. And during the time of handling with problems, there are different issues that credit personnel have to work with: restructuring the repayment period, overdue, bad debt handlings...

- Restructuring the repayment period: bank adjusts the repayment period, extends time for the current problematic loan in two ways: + Adjust the original payment period: means bank's approval to change the original repayment period and / or interest loans within the loan term agreed upon earlier in the credit agreement, in which the final term of debt returns is unchanged. + Debt scheduling: Bank agrees to extend the period of payment of principal and/or loan interest exceeding the lending period previously agreed in the credit contract. - Overdue debt and bad debt settlement: Overdue debt is made when payment period is due but bank refuses to adjust to extend time of payment, then this loan is converted into overdue debts. In case, customers use funds for improper purposes, and

lending stopped, the loan is immediately transferred to overdue debts.

Depending on the specific case and purpose of debt collection, bank will apply the appropriate measures to collect. (Loan repayment and liquidation of credit contract:

This is the ending stage of lending process. When the payment period is due, customers will pay both principal and interest. When signing the credit contract at the beginning, depending on the characteristics of business, financial capacity, income and loan sources of customers, bank and customers will make agreement of debt payment methods. After customers complete the obligation of paying debt which is secured the pledge, title-deed of that pledge property will be returned to borrowers, and certificate of property clear-away will be made. In case customers can't pay the debt at the due date, bank can handle the pledge property in accordance with the law.

2. Real situation of business lending activity of VietinBank Thanh Hoa

1. Data and comments of business lending activity

Table 2. 1. 1: Business lending situation according to BUSINESS FORMS at VietinBank Thanh Hoa (unit: Bil VND) | | Year 2010 | Year 2011 | 31/5/ 2012 | 2011/2010 | 31-5-2012/2011 | | | Amt |% | Amt |% | | | | | 2011/2010 | 31-5-2012/2011 | | | Amt |% | Amt |% | | | | | 2010/2011 | 31-5-2012/2011 | | | Amt |% | Amt |% | Amt | | Outstanding debts of businesses | | | | | | | 2 676 | 2 439 | 2 382 | -8. 8% | 97. 7% | | Outstanding debts of whole branch | | | | | | | | 3 320 | 3 708 | 2 570 | 8. 7% | 87. 1% | | Ratio: Outstanding debts of businesses/Total branch | | | | outstanding debts | 80. 6% | 65. 8% | 92. 7% | | |

In recent years, enterprise customers have always occupied a large share in the provision of credit VietinBank Thanh Hoa, always above 60%. In 2011 this ratio had decreased by nearly 15%, due to uncertain economic environment in 2011, coupled with the many loss-making enterprises: the amount of goods flowing into the market many causes increase in inventory, so business lending loans fell, while outstanding loans also increased but not much leading to reduction in this ratio. But with the adjustment of central bank lending rate late 2011 and in the second quarter of 2012, this rate has skyrocketed to nearly 93%. This reflects the quality of loans to large enterprises tend to be more advanced. Table 2. 2: Loan classification of Business lending department of Vietinbank, Thanh Hoa. Unit: Billion VND

(Source: Annual operating report 2010 - 2012- General coordination department VietinBank Thanh Hoa)

We can see the dramatically change of debt category of business customer department over the years. Debt category accounted for the largest share in total lending debt is category 1. It accounted for over 95% and decreased slightly over the years, from 99.6% to 95%. The table shows the increase of loan outstanding of business customer at VietinBank Thanh Hoa, but also the increase in the rate of bad debts with faster speeds, especially bad debt ratio in 2011 was 0.5%, about 3.8 times compared to 2010. Debts in category 4 and 5 also went up, in which debt of category 5 - the category of uncollectible debt increased sharply revealing the bad situation of loss-making enterprises with no ability to repay, this is beside due to the weakness of the market assessment of such enterprises, is also a part due to

the subjectivity of the credit officers in credit scoring process before lending. To mid 2012, bad debt problem is still a difficult problem with the bank, as the rate has not decreased (still at about 0.4%). In tough times with the current businesses VietinBank in particular as well as State bank and other commercial banks in general have tightened policies on the work on lending operations as well as other preferential policies to help businesses, expecting that this ratio will decrease in 2013, helping the economy to recover.

(Analysis of effectiveness in capital using of VietinBank Thanh Hoa Loan cycle

This indicator tells us that the bank's capital lends how many times during the year, measuring the debt recovery rate is fast or slow. The faster credit cycle is (reaching the greater value), the more effectiveness the bank's introduction of capital into the business activities has. The formula to calculate:

$$\text{Loan cycle} = \frac{\text{Loan turnover (times)}}{\text{Average outstanding loans}}$$

Table 2. 2c: Loan cycle of business customer department

Year	2010	2011	31/5/2012
Loan turnover (billion VND)	1 494	3 015	1 848
Average outstanding loan of the bank (billion VND)	1002	2 300	975
Loan cycle ratio (times)	1.5	1.3	1.9

Sales turnover from business lending makes loan cycle of the whole branch is about average of 1.57% with these 3 years. Loan cycle ratio of the year 2011 reduced, this shows that the growth rate of outstanding debts is higher

than that of loan turnover which is also consistent with economic situation in 2011 when business encountered difficulties reducing the rate of debt collection for the bank. Furthermore, the short-term loans paid by loss-making companies have been set for extended repayment period caused slight decline in the credit cycle. In spite of the decrease, it's not considered to be bad as turnover of short-term loan has still increased steadily over the years. Productivity of mobilized capital usage in business lending This indicator reflects the effectiveness in the credit operation of the bank: how much the bank lends to enterprises compared to the funds mobilized from this group. The bigger this figure is, the more effective the bank use its mobilized capital The formula to calculate:

$$\text{Productivity} = \frac{\text{Total outstanding debts}}{\text{Total mobilized capital}}$$

Table 2. 2. 3: Efficiency of mobilized capital usage in business lending		
	2010	2011
Total outstanding business loan (bil VND)	2 676	2 439
Total mobilized capital (bil VND)	4 900	4 300
Efficiency of capital usage (%)	54. 6	56. 7
	2012	2013
Total outstanding business loan (bil VND)	2 382	3 656
Total mobilized capital (bil VND)	4 900	4 300
Efficiency of capital usage (%)	54. 6	65. 2

(Source: General coordination department of VietinBank Thanh Hoa)

Efficiency of capital usage from business customer department of Vietinbank Thanh Hoa has steadily increased over the years. Efficiency of capital usage in 2011 increased 2. 1% despite total outstanding loan of business customer department reduced, the rate of decline in outstanding loan is (at about 8. 9%) slower than the rate of decline of mobilized capital (about 12%) so the efficiency of lending in 2011 is still high. This is quite in line with actual bank

lending because enterprises are the largest proportion of credit operations, and also the key customers of the bank. In 2012 the total outstanding loans reached a high proportion of loans that increase performance, furthermore according to the table “ real situation of business lending according to lending terms”, long and medium term loans tends to rise more in 2012 leading to the increase in total outstanding debts in the future, and the deposits mobilized from individual customers may decrease a little bit due to the adjustment of interest rate of the Government, however the rate of decreasing of the mobilized deposits is forecasted to be slower than that of total outstanding loan, so the growth of capital using efficiency is still optimistic. Profitability of lending loans

This is the indicator to evaluate the profitability of each unit of money lent out. The bigger this figure is, the higher the bank gets for its income (so as to save more the cost) The formula to calculate:

$$\text{Loan profitability} = \frac{\text{Net income from lending activity}}{\text{Total outstanding loans}} \times 100\%$$

Table 2. 2. 4: Loan profitability of business lending activity |

Year	2010	2011	31/5/2012
Net income from business lending activity (bil VND)	892	685	660
Total outstanding debts (bil VND)	2 676	2 439	2 382
Loan profitability (%)	33. 3	28. 1	27. 7

Loan profitability of business customer department is slightly decreased by 5. 2% in 2011. The rationale for this is that interests and fees unearned from lending activity increased due to the economic difficulties in 2011 making

many enterprises asked to extend the “ deadline” for the loan payment, and outstanding loans also went down in 2011, however its velocity of reducing is slower than that of net income from business lending. This suggests that the bank should pay more attention on the quality of lending companies because late-collecting interest expense leading to quick declination in net income while outstanding loan decreased not much. In 2012 both outstanding and net income are sharply up, then growth in net income form lending business customer (= 96. 4% of 2011) is still slower than that of outstanding loan (= 97. 7%) so VietinBank Thanh Hoa have set the management policies of the credit officers to ensure and improve the quality of business loans in periods of unstable economy recently.

2. 3. Evaluation of business lending activity of VietinBank Thanh Hoa 2. 3. 1. Advantage and achievement in business lending activity – The outstanding loan growth achieved by VietinBank Thanh Hoa has declined slightly in 2011 but finished off half of 2012, outstanding debt has been more than 90% over the whole of 2011, marking the growth of outstanding strength which in part because of the tightening policy of central bank to interest rates to help businesses but also largely due to efforts in the work of lending staff of business customer department. The loan structure of the bank is reasonable in accordance with the development of the economic sectors of the province. The bank have turned to the JSC & Ltd companies which are the faster-growing economic sector is, but still impose proper attention to the state-owned economic sectors. Such achievements are the results of the bank’s

initiative taking in the timely implementation of flexible guidelines and direction of the Government , as well as state of the industry.

After the economic crisis in recent years the economy is recovering but inflation has sharply increased prompting the government to perform many different stimulus packages to curb inflation and avoid the risks declining economy. Economic difficulties are also the difficulties that businesses are facing, along with the policy of the government in 2012, the bank also actively implements interest rate support program for government business, so businesses have more opportunities for capital accessing and the bank can increase its total outstanding loans. Beside that, the bank also reinforces the relationship with traditional customers, and helps the units overcome difficulties, thereby creating sustainable, loyal in relationships and ensuring a stable power balance and growth. - Lending operations are also relatively efficient, if we consider the quality of lending activity based on the loan category, we can see that the bad debt ratio of the branch increased, however now is not out of control the and can be acceptable as this ratio amounts to only 1/3 of that of BIDV or Vietcombank.

VietinBank in general and VietinBank Thanh Hoa in particular always try to maintain this rate less than 2%. - The bank has the option staff responsible for the enthusiasm, but also highly specialized to meet the performance requirements on lending activity, as credit officers of the branch will have to implement all work arising from the loan until the end of the credit contract. Furthermore in 2011 and 2012 when bad economic situation emerged, VietinBank Thanh Hoa made close inspection policy that is all operational

staff of the bank, especially the credit officers have to sit the annual banking test so as to ensure the stability and safety in the branch's activity. 2. 3. 2.

Current difficulties and reasons

(Difficulties

Although credit activity of the bank has gained positive results when loan sales and outstanding debts are increasing, the operation still exist some limitation due to disadvantageous economy and bad debts among the business customers as well as the subjective attitudes of the credit staff when making credit profile to provide capital for customers. The followings are some outstanding difficulties that VietinBank Thanh Hoa has to cope with recently: – Over haft the year of 2012, bad debt problems of banking system in Vietnam have gained much attention when the total bad debt of the whole banking system now is 202. 000 billions VND, of which, VietinBank Thanh Hoa accounts for 10. 3 billions (table 2. 2. 2). In the extent of high interest rate, potential risks of domestic and foreign economic environments, enterprises continues to face many difficulties in production and other business activities, making the bad debt situation and over due debts are in upward trend, which “ steal’ lots of cost money of the bank, affecting the profit and reputation of the bank in the long run. So this issue is the concerning problem of the bank when solutions for this have been considered not to be absolute.

In theory, the banking credit risk management is focused in all stages, but often quite sketchy in stages to prevent bad debt. Run to the general trend of the Vietnam market, VietinBank has made quite a period of massive loans

on real estate. This can create immediate profits for banks, but this also contains potential significant risk in the future. In the second half of 2012, VietinBank has disbursed a large amount which is mostly related to the purpose in real estate investment. Disbursements have caused the relatively high bad debt ratio. Most loans are secured by value real estate, in spite of devaluation, still ensuring a good payback, so VietinBank still focus on this segment. This has a negative impact on society as a part of borrowers lack of knowledge were quite risky in bank loans and lose all when real estate prices go down. The bank is only interested in lending and debt recovery with less emphasis on analysis and direction, advises for customers. In the long run, this should change when the bad loans are increasing and capital resources mobilized from deposits are increasingly scarce which require better banking management of loan to avoid liquidity risks.

- Main business customers of VietinBank Thanh Hoa are companies and enterprises having long-term relationships with the bank before. The target of attracting and expanding this customer group has met many difficulties, especially in attracting new customers. This is the matter of loan, another problem arising is the problem of capital mobilization from this group. And in this sensitive time of interest rate, VietinBank Thanh Hoa is still trying to search for customers depositing money in the bank to strengthen the supply of capital for bank ensuring the bank lending. New economic policies for big depositors to get close relationship with these customers, and broaden the bank reputation to other customers as well. - The marketing activity of the whole branch in general and the business customer department in particular

is not given much attention. Especially, when there was a circular adjusting the lending rate down to 14.4% at the end of 2011 and down to 12% in this June, people believe that there will be more many business customers but in reality, it's not like thinking as due to the large volume of inventory in warehouse of enterprise and partly due to "not so hot" marketing activity of the bank. This somewhat limits the understanding of customers about the lending products of the bank and moreover rises lack of convenience and time consuming works for both customers and credit personnel.

In addition to that, VietinBank Thanh Hoa has not had a personal website for customers to find information about methods of lending, lending policies and other information related to lending activities, thus creating more obstacles to the transaction as time may be exacerbated when customers have to move around much. So this indirectly decreases the potential customers for bank. The followings are some additional problems at business customer department that I found out during the one-month internship here: - Credit scoring system at this department emerged a few incomplete shortcomings: the system for customers' CIF entering sometimes is not correct and in disorder list, form of entering the financial statement is not unified throughout the year, leading to the unnecessary exchange time between the credit officers.

As when I was on internship here, I realized that some credit officers are in argument after summing the financial statement scoring to the manager of the department due to the situation of not unified forms of scoring, for example, form to scoring the year 2010 is if different from the form to score

2011 or 2012 in which credit officers have to re-evaluate the previous years' data leading to the possibility of mistakes in forms of each year. - The analysis of the clients also has a bit different compared with that of VietinBank management policies. In theory the customer analysis including character analysis, client capacity, cash flow out to the customer, collateral, location of customers in the society ... basically, the evaluation process at the department is similar in theory, but the importance of each factor in the process has difference. Here, the evaluation of customers primarily located in the evaluation of collateral and repayment source of the customer (or the money in and out at the customers' accounts). The most important factor for credit officers to decide the lending loans is the credibility of the customer and value of secured assets. VietinBank Thanh Hoa has attached importance to this factor to ensure the recovery of loans when customers lose the ability to repay. Revenues of the customer are the next element to be focused. However, because many customers can not prove income on the loan papers, so many hardships emerged during the lending process.

Theoretically credit officers are only allowed to receive proven record of revenue from customers as a basis to lend, but in fact they have to find out various options to help customers prove income, even "fake" some papers for customers which often contain potential moral hazard of credit officers if they do wrong in considering the income of the customer. But basically this doing is quite effective at the present, when a client is assessed as good and potential, however if only comply with the principles, customers may be not eligible for loans, so ignoring them will reduce the income of the bank.

That is the contradictory difficulty that the bank and credit officers are facing. - When I was on internship here, in the process of entering data for credit officer, I perceived that superiors put down the list of (range more than 20 enterprises) the business customer up to now can not repay the debt by the loss-making, resulting in bad debts to the bank. And each credit officer was assigned to 4-5 businesses to handle with documents in which there are enterprises used to be lent by different loan officers or former loan officers. Such things take time and effort of many staff not knowing much about the industries in which the debtors majored in, so in the credit scoring or solution giving (mainly handled with secured property) to process the debtor, credit officers met many awkward and prone to mistakes due to the pressure of bad debts (Reasons for big problems: bad debts and marketing activities Objective factors

- From customers:

Due to losses, bankruptcy and low consumption of goods: this is the main reason leading to state of delinquency in the whole financial industry in Thanh Hoa city in general and overdue debts in VietinBank Thanh Hoa in this 2 years. The reason stems from the enterprises' choosing to produce low demand goods. Moreover, during the process of business adjustments, weak management capacity, low level technical capacity make low productivity, poor product quality, high price, leading to situation of being unable to meet domestic and foreign consumption demands, and to compete with imported goods so it's difficult to push goods into market and losses are indispensable leading to uncertainty in sources of debt payment for the bank. Due to

uncollected debt: This is the phenomenon of mutual funds appropriation in business, creating difficulties for borrowers from banks as they have to bear interest and deferred payment to the bank Due to capital using with wrong purpose: Overdue debt from this cause mainly derive from non-state sector. In fact, it is more difficult for the bank to manage the capital lending in non-state owned economy than that in state owned one as business traders in non-state owned sector, especially individuals do not have enough regular documents or books taken notes in full accounting principles.

Recognizing this problem and yielding for benefits, instead of investing in business plan that are submitted to the bank, they invest their lending capital to other areas capable of receiving high returns but also high risks too, thus when the economy is unstable like in 2011, they lost and could not afford to pay the debts for the bank, making situation overdue debt and bad debt of the bank become worse. – From economic environment: Due to the economic uncertainty, there were many changes in financial policies from central bank at the end of 2011 and in 2012: continuous adjustment of basic interest rate, rediscount interest rate; refinancing; increase of reserve requirement ratio; credit tightening... making the lending activity of the bank could not adapt to changes and encounter many difficulties, leading to decrease of loan sales as well as arising obstacles in the management of loan quality. Subjective factors:

– The quality of evaluation work still exist some issues of concern. Evaluating customers exactly contributes to limiting risks for the bank so this requires credit officers have to get enough and more information about evaluated

objectives – customers. However, through comparison between gained credit information and real situation, due to the close relationship between customers and the bank, the credit information system “ is made” not to reflect fully. Here, this is caused partially due to lack of information of sources for evaluating work, credit officers have to spend much effort to check whereas cost for this process is still limited or no provided. – The bank gave lots of trust on the mortgages: lending principle requires borrowers to have mortgage however, credit officers are told not to be rigid with good businesses. As some enterprises do not need collateral and still work smoothly, whereas vice versa, many have large mortgages but still make big losses in revenue causing liquidity risk for the bank and collateral release for debt recovery.

But the sale of the mortgages is the difficult problem for bank as it is not easy to evaluate the valuation of the mortgage, not mention that most of the mortgages are the real estate which was in stuck in market in 2011. – Credit officials are mostly young people, and the working capacity of whom decides the feasibility of the lending loans. And such capacity are appreciated on: project evaluation, gathering information from customers, evaluation of financial statements...so number of credit officials having high level of synthesis, comprehensive evaluation, analytical abilities accounts for only 1/2 of all branch. At business customer department, staff working here consist 9 officials, most of whom already have good working experience of analyzing, assessment and understanding of all other departments, but they can not anticipate all the risks all the time. Moreover, before the pressure of

attracting customers for the bank, the essential requirements of the credit scoring are easily overlooked. Therefore, although the number of business customers increase though out the year but the quality of customers may raise a hanging question over the bank, and this depends on the capacity of credit officers.

CHAPTER III: SOLUTIONS AND PETITIONS ABOUT PROBLEM OF BUSINESS

LENDING I. Solutions

1. Handling with bad debt problem in 2012

The most important work now is to find solutions to reduce bad debt – the issue is considered urgent and dangerous for commercial banks across the country in general and VietinBank Thanh Hoa in particular. High outstanding debt means good but also means high possibility of bad debt and credit risk for the bank. Therefore, bank should have reasonable policies. The credit officials in business customer department who are considered to response for one of the largest part in the credit supply of bank capital mobilization must pay more attention to investment orientation work. To minimize the amount of overdue debt, VietinBank Thanh Hoa has made adjustment in credit investment, focusing investment on SOEs which having better financial ability, and narrow the lending activity with non-state economic ones, and should invest more on projects of top or key economic industries which have effective results or return on investment. Here are the solutions that VietinBank Thanh Hoa tends to put into practice to solve the problem of bad debt in the short term: – Financial policies:

+ Be initiative in increasing the risk reserve and accept decrease in profits or even loses. High risk reserve will help the bank make up for losses in the short run, decrease the business income tax which may decrease the salary funds but may increase the internal financial capacity. + Need to have proper policies for salary and bonus or reward in this difficult time- this is the way to reduce cost reasonably in order to assist the work of increasing risk reserve. + Converting unrecoverable debts into shares or stock in particular method. In case, companies or enterprises having good record of business are in difficulty of paying debt principle due to unfavorable economy and not-on-work investment projects, the bank can convert these bad debts to medium term bonds in order to help borrowing business stabilize their liquidity and still exist well to work. Converting overdue debts and bad debts into shares and change the position of the bank as a major shareholder or shareholder holding a majority stake if credit officials find out possibility of good working after the restructuring . This is the common treatment in the world. For Vietnam, this method recorded many successes showing not only save the borrowing businesses form bankruptcy but also preserve the capital of the bank.

With this method, the bank can easily find out buyers for such debt-converted shares such as strategic investors. When the bank offers such shares, most investors at the beginning feel hesitated to buy because they do not want to be new debtors and find it hard to control the business but if they hold the majority of shares, they will easily take control of the whole business and implement the restructuring plans as well as corporate

governance. At that time, it is worth the investment. The basic conditions for successful securitization process are: in the role of creditors (of bad debts) in a business, the bank should actively improve more communities, work together to handle the bad debts. In addition to that, the bank should actively use their subsidiaries as their debt trading management companies, securities companies, funds management companies to participate actively in securitization. + Should submit more suggestions in documents about the idea of increasing the ratio of ownership of foreign investors in the banking sector up to 40%, while also increasing ownership ration of foreign strategic investors up to 25% – 30% of chartered capital. VietinBank Thanh Hoa should also contribute ideas to push this “ strategy” come into effect soon.

Accordingly, rapid deployment at this time is meaningful as the bank will have chance to increase the attractiveness to the foreign indirect investors (FII) and especially to strategic investors. If this comes into effect soon, commercial banks in general and VietinBank Thanh Hoa in particular can mobilize great amount of capital within 3 years, may be even up to few million dollars, which can solve the capital mobilization problem at the bank now. + Be prepared to restructure the budget allocation in the second half of 2012 and supervise closely in 2013 with the direction of increasing budget for the field of infrastructure development on the basis of decreasing budget spending for unnecessary or not-urgent industry sectors. With that point of view, this will stimulate more economic development, as well as effective measures to reduce the proportion of bad debt in the commercial banking system and in VietinBank Thanh Hoa in particular. It is known that in recent

times, because of the bad debt problem that banks have interpreted the collateral, however most of these assets are real estate or not guaranteed to be true to the value of debts or are under construction, or freeze so that banks have also experienced difficulties in handling with these properties.

The solution in the near future of the bank now is no offerings of loans for real estate investment – an investment field is said to be bubble in the past few years, and need to have policies limiting the high risk collateral in order to increase liquidity for the bank. + The bank has divided its funds to invest in various types of investment and granting for many different industries as well as many customers in many areas. This has help expand the branch's scope of credit activity, also raise prestige of reputation, and above all, has achieved its goal of risk diversification. To do this well, the branch has set out business strategies: avoid lending too much to one customer. Bank should always make sure of a certain percentage of loans in total working capital of customer to avoid clients' unexpected dependence and risks, Investing in many different economic sectors to avoid the competition of other credit institutions in gaining market shares in some developing industries as well as avoid risk of facing new issued policies of the State recently – the policies that aim to limit operation of some industries in the list of State's restructuring economy. – Management policies:

+ Improve the competent capacity of credit officials: The banking credit staff is always the workers playing an important role in determining the business effectiveness of the bank, as well as contributing a role in risk, bad debt overdue debt adjustment. So there should be have proper and reasonable

policies as “ training courses” for new credit staff, as “ presents” for experienced credit ones with firm professional knowledge to help the bank have better performance: (Reward and discipline policies:

Policy of timely supporting and encouraging for staff of VietinBank Thanh Hoa is a very necessary job. This policy stimulates the spirit of work, puts the whole team interest priority, over the private interest, thereby limiting the risk of errors coming from credit officials to work due to work overload. These supporting and encouraging policies are: pay rise, bonus for credit personnel who have good outs