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Evaluation of Credit Risk Management Policies and Practices in a Vietnamese Joint-Stock Commercial Bank's Transaction Office

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Tiivistelmä

Concerns about distressing credit activities and vulnerable credit risk management system have been climbing these years, from the United States' troubled mortgage lending (2008) to the European debt crisis (2010). In the little country Vietnam, small banks are also facing the big question of establishing a strong credit risk management framework in order to maximize their profits and to gain competitive advantage over their rivalries. This is where the research problem for this thesis arises. The biggest objective of this research is to provide the investigated bank with an insight into its credit risk management framework and the effectiveness of the credit risk management practices at both the bank's and a transaction office's level. In addition, the readers will also get familiar with the risks inherent in banking business, realize the importance of credit risk management in banks, and understand the facts about the Vietnamese credit conditions. Four research questions will step by step guide the audience on how these objectives are achieved.

In order to give out an evaluation of credit risk management practices, this thesis has tried to build a list of assessment criteria deriving from the literature that has been revised during the study. The criteria are grouped into four categories: credit culture, credit policies, credit organization & personnel and credit practices & performance. The research was mainly done at a small transaction office of the bank with three credit staffs (two relationship managers and one credit assessment officer). Both qualitative and quantitative research methods were employed. An in-depth interview

with two in three staffs and a questionnaire to all three were conducted. Moreover, the State Bank of Vietnam's regulations, the bank's internal policies and annual reports as well as the transaction office's business results also provide significant findings for the research. The analysis of both primary and secondary data shows that this bank has been trying to adopt a close-to-standard credit risk management framework with numerous published documents governing the day-to-day credit activities. Some good points are a complete lending procedure or a standard internal credit rating system – SYMBOLS. However when it comes to actual operation, some aspects should be considered, e.g. the staff training quality or the priority treatment to high-value customers. Especially, the high non-performing loans at the transaction office and the non-complied loss provision must be reviewed and adjusted. These discoveries have led to several constructive improvement suggestions for the case bank. Besides, recommendations for new research directions have also been made.

Oro över kredit aktiviteter och sårbara kreditriskhanteringsystem har ökat de senaste åren, från Förenata staternas problem med belåning (2008) till Europeiska skuldkrisen (2010). I det lilla landet Vietnam, står små banker också inför den stora frågan om inrättande av en stark kreditriskhanteringsstruktur för att maximera sina vinster och vinna konkurrensfördelar gentemot sina konkurrenter. Det är där forskningsproblemet för denna avhandling uppstår. Det främsta syftet med denna forskning är att förse den undersökta banken med en inblick i kreditriskhanteringsstrukturen och effektiviteten av kreditriskhanteringsutövningen, både i banken och på en transaktionskontors nivå. Dessutom kommer läsarna att få bekanta sig med de inneboende riskerna i bankverksamheten samt inse vikten av kreditriskhantering i bankerna. För att kunna ge en utvärdering av kreditriskhanteringsutövningen har detta lärdomspra byggt upp en lista med bedömningskriterier som härrör från den litteratur som har använts under studien. Kriterierna är uppdelade i fyra kategorier: kredit kultur, kreditpolicy, kreditpersonal och kreditutövning och prestanda. Forskningen gjordes huvudsakligen vid ett litet transaktions kontor i banken tillsammans med tre kreditanställda (två relationsföreståndare och ett kreditbedömningsdirektör). Både kvalitativa och kvantitativa forskningsmetoder användes. En fördjupad intervju med två anställda och en enkät till alla tre anställda genomfördes. Dessutom, the State Bank of Vietnams föreskrifter, bankens interna policy, årsredovisning samt transaktionskontors resultat är betydelsefull information för forskningen. Analysen av både primära och sekundära uppgifter visar att denna bank har försökt att anta en nära till standard kreditriskhanteringsstruktur baserat på ett stort antal internt publicerade dokument som reglerar dagliga kreditaktiviteter. Några bra åtgärder är ett komplett utlåningsförfarande eller ett internt standard kreditrankingsystem - SYMBOLS. När det kommer till själva utförandet finns det dock vissa förbättringar som borde tänkas över, t.ex. kvaliteten på utbildning av personalen och prioritetsbehandling av högt värderade kunder. Speciellt de höga oreglerade lånen vid transaktionskontoret och de icke-uppfyllda kapitalreserverna måste ses över och justeras.

Kokoelmat
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The year was also a milestone for the bank in a number of other aspects. After 20 years the bank went through a rebranding exercise, launching a new brand name of VietinBank. Additional accomplishments included centralization of Trade Finance processing to reduce risk and improve efficiencies (Main Operation Center No. 3), establishment of a Disaster Recovery Data Back-up Center, inauguration of the Human Resource Developing and Training School and was awarded Second-Place Independence Medal presented by the State. VietinBank published policies on credit risk management in late 2004. The principles of these policies include investment portfolio diversification, multi-level process of authorization and approval, regular monitoring procedures and credit limit control. The future of banking will undoubtedly rest on risk management dynamics. Only those banks that have efficient risk management system will survive in the market in the long run. The effective management of credit risk is a critical component of comprehensive risk management essential for long-term success of a banking institution. From the study we found that the existing procedures of credit management are not adequate to compete with the challenging financial and economic environment. This paper is concluded with some guidelines that will help commercial banks to sustain in the volatile marke... Credit Risk Management Practices in Commercial Banks-An Evaluation". Working paper. Indian Institute of Capital Market. Posted: 2002. S N Bidani. Commercial banks play important credit intermediates in the national financial system. The operation of commercial banks has a great influence on economic development. However, doing business on currency field makes commercial banks face up to a lot of risks, especially credit risk. The reality of applying capital regulations based on Basel II at Vietnam commercial banks. In practice, to perform the opening, execute the international commitments in the integrated inclination and maintain its position towards the competition of foreign banks requires Vietnam commercial banks and The State bank of Vietnam (SBV) oblige to implement the policies in accordance with international practice, especially, use and comply fully with Basels' standards given.