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CREDIT RISK MANAGEMENT OF YAMA BANK

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CREDIT RISK MANAGEMENT OF YOMA BANK

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ABSTRACT

This thesis aims to identify credit risk management of Yoma bank and analyze the control of Non-Performance Loan (NPL) in Yoma bank. To explore these objectives, the descriptive method is used and only secondary data are collected from Central Bank of Myanmar, internet website and library. Regarding of first objective, it found that credit risk management is very effective in control of NPL. The key finding factors of the study about NPL control in Yoma bank are policies and procedures are clearly defined in credit ratings of borrower in 2019, loans spread to different types of loan are mostly increased than policy identification of loan amounts by Yoma bank. It means that when customers rating are getting high they will give less collateral amount. And then, Yoma bank can choose the loan customers effectively and eligible loan amount also can decide easily. As a sampling method, the convenient sampling was credit card user in study. In this study, 70 managers from 3 branches and head office of Yoma bank. Yoma bank credit rating system can be used effectively to decide requirements of suitable collateral amount. The concerning about analyzing the control of NPL in Yoma bank total amount of NPL increasing percentage is smaller than compare with total amount of loan increasing. Yoma bank has to need more uses of international credit risk assessment methods such as moving to latest basle guidelines on credit risk capital, provision, requirements, insist for more documentary evidences on financial status of borrowers to assess real financial strength of the borrower to reduce collateral requirements, introduce more loan products suitable for various industries, ensure proper usage of funds disbursed to borrowers, more stringent follow up methods etc.

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Credit Risk Management of Yoma Bank

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CHAPTER 1

INTRODUCTION

Credit risk is one of the most vital risk for any commercial business. The credit risk is even reflected in the capital, which are required to keep a side for protection against various risk. Effective strategic credit risk management process is important to eliminate the credit risk. The process provides a framework to ensure consistency between strategy and implementation that reduces potential in earnings and maximize shareholders wealth.

Credit risk is the process of identifying and controlling threat to an organization's capital and earnings. The credit risk strategies to alleviate them have become a top priority for business. As a result, credit risk management plan increasingly includes business processes for identifying and controlling threats to its digital assets.

Regarding to the credit risk management is probably more important in the financial sector than in any other part of the economy. The purpose of a financial institution is to maximize income and offer more value to shareholders by offering variety of financial services, and especially by properly managing risk.

(Raghavan, 2003)

Banking risk have two categories that financial and non financial credit risk. Credit risk are also subject that may significantly increase a bank's overall risk profile. A lesson from the 2008 global financial crisis is that all these risk areas are interconnected, and one type of risk. Credit risk covers losses that might arise due to debts being written off. Credit risk are defined by the accord. These are corporate, banks, equity, retail project the finance. Consumer credit, including mortgages, personal loans and credit cards are included within the retail credit category. (World Bank, 2011)

The main credit risk is loan in Banking, or the possibility of the borrower defaulting on its payment. In the process of providing financial services, they assume various kinds of financial risk. This study focuses on credit risk management of banking industry. Credit risk management is important in an organization because without it, a firm cannot possibly define its objectives for the future. The credit risk

management team is responsible for assessing each loan credit and determining which of them are critical for the business.

1.1 Rationale of the Study

In Southeast Asia banking industry, people are very cautious in dealing with banks and this is one of the reasons why the financial sector is the least developed. (Credit Risk Management of GIZ.Feb,2015).The banking sector in Myanmar has already changed. The financial system in Myanmar has significant potential to grow and become a much larger part of the economy. The dramatic surge in the number of local and foreign banks resulted in banking risk as banks strive to each other in providing services, such as: attractive interest rates for savings and loans to customer, opening branches in localized areas where is a concentration of banks to grab market share. (Minh Thong,2013)

Banks organized and performed to protect the credit risk management committee and risk department. By the risk protecting and the risk supervision, banks reduce their losses, credit risk managements is more important to be prevented in the banking sector than any other part of economy. Credit risk management to perform their all operation with internal control and internal check by senior management. The success of banks is resulted from its effective and systematic to the credit risk management practices. This study focuses to explore the credit risk management system and to analyze the performance of credit risk management in Yoma Bank.

Yoma Bank Ltd. was established, one of the first private banks in 1993 at Myanmar. First bank in Myanmar to use a computerized accounting system, and pioneered wireless banking communications. In 2001 grew to be one of the biggest banks in the country with 41 branches in 24 cities providing secure and efficient banking services nation wide. A new chapter began in August, 2012 when Yoma Bank regained its full banking license. With more than 50 branches and over (30,000) staffs across Bank in Myanmar.

The main rationale of this study focuses on analysis on performance of credit risk management in Yoma Bank. This paper also focuses on credit operation and credit risk provided by the Yoma Bank. The last five years information about credit policy and credit risk management of Yoma Bank is evaluated. Finally, the

recommendation is presented by comparing the credit risk condition of Yoma Bank based on the collected last five years information.

1.2 Objectives of the Study

The two main objectives in this study are as follow

1. To identify the credit risk management practices of Yoma Bank.
2. To analyze the effect of credit risk management practices on NPL of Yoma Bank.

1.3 Scope and Methods of the Study

This study mainly used descriptive method to arrive objectives. Both quantitative and qualitative method designs are used. This study is base on secondary data from Yoma Bank of last five years . Literature review is made on materials about credit risk management, commercial bank risks and related papers, dissertations and thesis in the library and internet. Credit risk management functions of Yoma Bank will only be concerned.

1.4 Organization of the Study

This study includes five chapters. In chapter 1, introduction is presented. Chapter 2, is focused on the theoretical background of credit risk management. Details profile and credit risk management practices of Yoma Bank are introduced in chapter 3. Analyzing the effect of credit risk management practices on NPL of Yoma Bank is desired in chapter 4. Findings recommendations and conclusion for further research are presented in the last chapter.

CHAPTER 2

THEORETICAL BACKGROUND

This chapter includes defining credit risk management, types of credit risk management process of the banking sector. Bank has to deal with eight main types of risk. They are market risk, credit risk, liquidity risk, operational risk, legal risk, business risk, strategic risk and reputation risk.

Credit risk is the biggest threat that the banks have to prevent. Credit risk is very close to non-performing loan NPL. Credit risk occurs when the debtors cannot pay back their loans and interest for the bank. In order to prevent the credit risk, the banks will use many methods called credit risk management. The main cause of the credit risk is N.P.L. N.P.L is an amount owed by a debtor that is unlikely to be paid. N.P.L is the percentage of the N.P.L in the total debt of a bank or the whole banking system. The criteria to evaluate an overdue loans to become bad debt will be mentioned in next parts.

2.1 Types of Credit Risk

Among them risk of the bank, the biggest risk is credit risk. One element that is widely affects the riskiness of credit in a bank is the asymmetric information or information asymmetry. It is defined as the situation where the one part of a transaction does not have the same or even has better information than the other and this may lead the transaction to fail. Symmetric information generates two problems: adverse selection and moral hazard. Adverse selection in banking refers to a situation where individuals in a selection process have hidden economically undesirable characteristics and the final selection results in default and moral hazard describes the situation where one party to contract takes a hidden action that benefits him or her but hurts the another party.

It is obvious that solving asymmetric information problems in banking is a way to manage credit risk. The most usual methods is screening (collection of financial information about potential borrowers before the transaction), specialization (knowledge of particular credit markets and particular potential borrowers),

monitoring the activities of the relationships, collaterals and compensating balances (eg. Mortgages where home is collateral) and finally credit or loan rationing (refusal lending to borrowers even though they are willing to borrow).

To continue with credit risk management tools, credit scoring and risk-adjusted return on capital (RAROC) method help to decide whether a loan is accepted, rejected or requires more attention. Credit scoring is a popular one, and is a technical method of assigning a score that classifies potential borrowers into risk classes according to their economic, or other, characteristics and RAROC is a technique that is used extensively as a management performance tool to evaluate the economic profit generated mainly from a loan. RAROC is compared with a benchmark rate in order the final decision to be made. Additionally, Credit metrics model (JP Morgan's Credit metrics TM, 1997) which is based on a transition matrix of probabilities that measures the probability that the credit rating of a loan or any debt security will change over the term of the loan or maturity of credit instrument, is widely used. Another approach to credit risk management is by credit risk mitigation tools.

Securitization is one of the more visible forms and involves selling registered rated securities in the capital markets. The aim is to transfer the credit risk which is involved in a specified loan portfolio to the institutional investors and insurance companies while bank is gaining liquidity (loans decrease by the same amount). An alternative to the process of securitization is to insure the bank asset by a credit default swap(CDS). The party buying credit protection pays aperiodic fee to another party who agrees to reimburse the purchase of credit protection in the event of failure to repay either the capital value of the debt or related interest within a specified time period. Proportionally, counterparty risk takes place. Ideally, every bank should institute a credit risk management in order to monitor and implement all the appropriate functions that immune the organization from a daily and unavoidable risk like the credit risk.

Credit risk defined as the chance that a debtor or financial instrument issuer will not be able to pay interest or repay the principal according to the terms specified in a credit agreement is an inherent part of banking. Credit risk means that payments may be delayed or ultimately not paid at all, which can in turn cause cash flow problems and affect a bank's liquidity. Despite innovation in the financial services sector, credit risk is still the major single cause of bank failures. The reason is that

more than 80 percent of a bank's balance sheet generally relates to this aspect of risk management.

2.1.1 Liquidity Risk

Liquidity risk is the risk that a company or bank may be unable to meet short-term financial demands. This usually occurs due to the inability to convert a security or hard asset to cash without a loss of capital or income in the process.

2.1.2 Operational Risk

Operational risk is the prospect of loss resulting from inadequate or failed procedures, systems or policies. Employee errors. Systems failures. Fraud or other criminal activity. Any event that disrupts business processes.

2.1.3 Transaction Risk

Transaction risk is the exchange rate risk associated with the time delay between entering into a contract and settling it. The greater the time differential between the entrance and settlement of the contract, the greater the transaction risk, because there is more time for the two exchange rates to fluctuate.

2.1.4 Compliance Risk

Compliance risk is defined as the risk of legal sanctions, material financial loss, or loss to reputation the bank may suffer as a result of its failure to comply with laws, its own regulations, code of conduct, and standards of best practice. Overly restrictive, but allows for the presentation of loans to the board that officers believe are worthy of consideration but exit to allow for fast reaction and early adaptation to changing conditions in a bank's earning assets mix and market environment.

2.1.5 Credit Interest Rate

Credit interest rate is the risk that the future cash flows of a financial instrument will fluctuate because of the changes in market interest rate. Fair value credit interest rate risk is the risk that the fair value of a financial instrument will

fluctuate due to the changes in market rates. The Yoma bank does not have significant interest-bearing assets which are exposed to the cash flow and fair value credit interest rate. The bank is exposed to credit interest rate through the impact of rate changes interest income and interest expense.

2.2 Major Types of Credit Risk

Banking is the intermediation between financial savers on one hand and the fund and the funds seeking business entrepreneurs on the other hand. As such in the process of providing financial services, bank assumes various kinds of risk both financial and non-financial. Financial risk arises from any business transaction undertaken by a bank, which is exposed in potential loss.

Non-financial risk refers to those risks that may affect a bank's business growth, marketability of its product and service, likely failure of its strategies aimed at business growth. These risks have been grouped in different ways to develop the risk management for the various analysis but the common ones, which are considered in this study, are credit risk, liquidity risk, operational risk and transaction risk and compliance risk.

2.3 Credit Risk Policy

Credit risk management plan should propose applicable and effective security controls for managing risk. Good risk management plan should contain a schedule for control implementation and responsible persons for those actions. Specific risk management measures include four kinds of policies. There is risk avoiding, risk classification, risk retention and risk transfer. Loans classification is key risk management tool in the banking industry. Loans classification recognizes the following classes; normal, standard or passes, specially mentioned or watch, substandard, doubtful and loss or bed. Generally, the appropriate classification for an individual account will be determined on a case-by-case basic, based on the principles enumerated below, taking into account all relevant information currently available. Nonetheless, in order to expedite the process of evaluation the quality of loans and provisioning for possible loan losses, all loans and credit facilities should be classified in the following manner. Various types of loans are as follows:

- (a) Standard loans:

When loan is repaid in due time as determined in the contract (at the maturity date) and the financial position of the borrower is sound and payment is made in accordance with the term of the loans, The bank is to classify those loans as standard loans.

(b) Irregular loan (Watch Loan):

The financial position of the borrower is currently adequate but potential weaknesses exist if not corrected will result in a deterioration of the borrower's financial position at a future time and principle or interest are delinquent for a period from 31 days to 60 days from the due date, those loans are defined as Irregular Loans or Watch Loans.

(c) Sub-standard loans:

When loans not adequately secured, the borrower's financial position is not satisfactory, the principle or interest has not been repaid for a period of 61 to 90 days from the due date, such loans are defined as Sub-standard Loans.

(d) Doubtful loans:

A loan classified as doubtful has all the characteristics of a substandard loan and credit weakness making full collection questionable and the principal or interest has not been repaid for a period of 91 to 180 days from the due date, such loans are defined as Doubtful Loans.

(e) Loss loan:

Certain assets are considered uncollectible and of such little value that the continued definition as bankable assets is not warranted. This classification does not mean that an asset has absolutely no recovery or salvage value, but rather that it is neither practical nor desirable to defer the process of writing it off, even though recovery may be possible in the future. Non-performing assets that are at least 181 days past due are also classified as losses, unless such assets very well secured.

The ratio of total NPL to total loans that the bank has disbursed is commonly known as the asset quality ratio that is the best indicator for situation of NPLs. Regards to the formula for the non-performing ratio, it is exactly as its name implies, the total non-performing loans divided by total loan.

2.4 Non-Performing Loans (NPL)

Bank specific factors are where numerous causes of non-performing advances lie. These range from loans sanctioned by corruption, reduced attending by the borrowers and moral hazard. Sometimes loan sanctioning authority sanctions loans for satisfying their self interested behavior. Thus they engage themselves with clients and corrupt the total system by giving some benefit for taking something in return. Other aspects of the customer such as character were the bank is paying attention to them through regular inspections by bank officials on their activities get better results than perception of inattention, of being ignored. The adverse incentives on bank owners to adopt imprudent lending strategies, in particular insider lending and lending at a high interest to borrowers in the most risky segment of the credit market has precipitated the problem of non performing advances too. (Waweru, et al. 2007)

Non-performing loans are the most common of the bank failures. This has prompted all regulatory institutions to prescribe minimum standards for risk management. Credit risk management plan should propose applicable effective security controls for managing risk. Good credit risk management plan should contain a schedule for control implementation and responsible person for those actions. Credit appraisal is major requirement for properly appraisal of loans risk management. The credit appraisal model are used in the scrutinizing loan status to enable banks achieving knowing their customer' norms. This goes down in reducing the level of default risk, banks are subjected to the risk management process. (Mac Donal,2006)

Many lenders choose to control their credit risks at board or board committee level. There are a variety of possible reporting structures. In some organizations there in traditional economy, commercial banks play the role of financial intermediation, receiving deposits and making Loans. In doing so commercial banks must abide by the regulations laid down by Central bank with regard to keeping sufficient Reserve Ratio, Loans to Deposit ration, Capital Adequacy, and of course respecting other Central Bank guidelines.

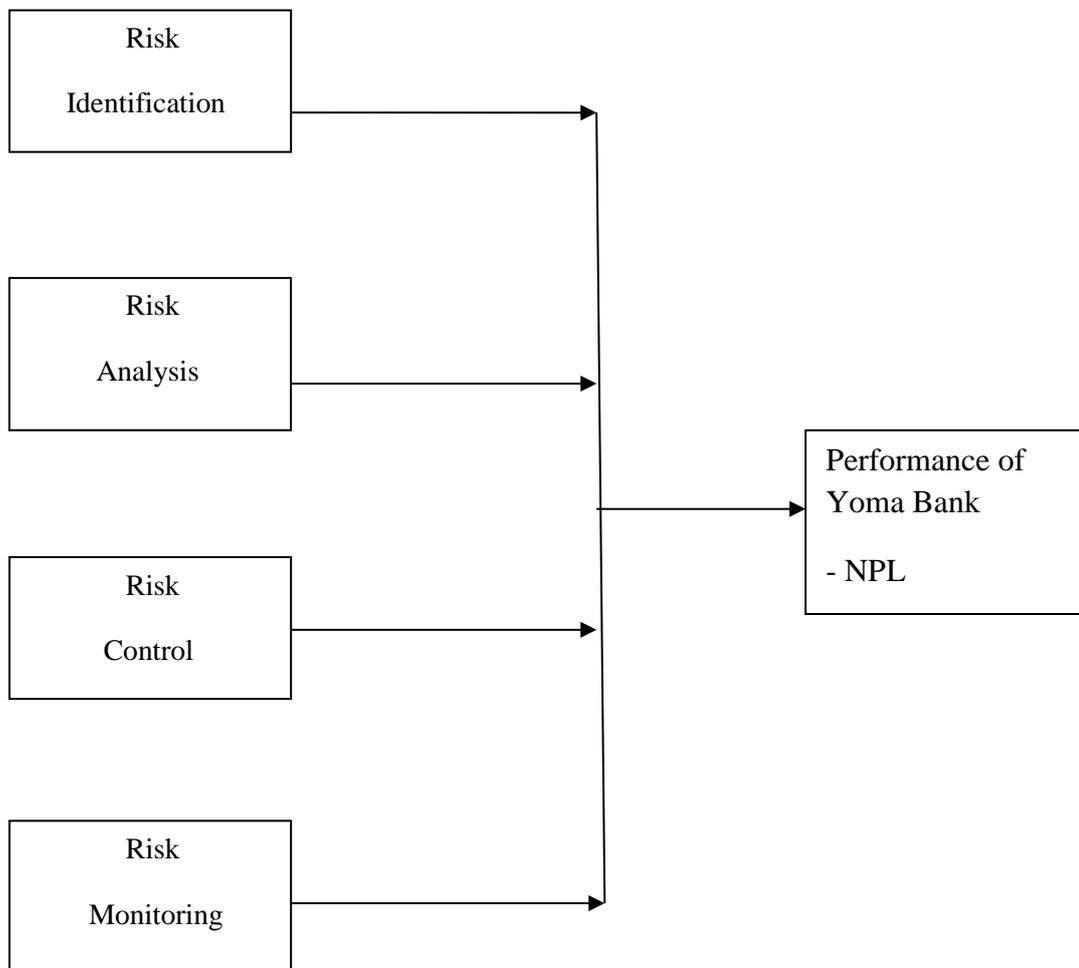
It is also of great importance that risk factor should be taken into consideration in making Loans and Advances. Provision for Doubtful debt shown at financial statement is not cover the amount of non-performing Loans.

The bank are required to build up and maintain a general provision account amounting to at least 2 percent of total outstanding Loans/advances at the end of the year and they also required to maintain specific provision for Doubtful and/or bad Loans on case by case basis.

At the same time such factors as character of the customer, business of the customer and the proposed repayment should also be taken into consideration. The failure on part of banks to adhere to these leading principle could result in the increase in non-performing Loans (NPL).

NPL include Sub-Standard, Doubtful and Bad Debts. Loans for which interest and principle amounts are not received for six months from the maturity date are classified as Sub-Standard, those for which interests and principle amounts are not received for one years are classified as Doubtful debts, and those for which interest and principle amounts are not received for two years and above are classified as Bad Debts.

Figure(2.1) Conceptual Framework Of The Study



Source : Chowdhury, L.R.,(2002)

CHAPTER 3

CREDIT RISK MANAGEMENT PRACTICES OF YOMA BANK

In this chapter, the background history Yoma bank, organization structure and services of Yoma bank are presented.

3.1 Background History of Yoma bank

Foundation and first years edit Yoma bank was founded in May 1993 by entrepreneur Serge Pun of the First Myanmar Investment Company (FMI). After receiving a full commercial banking license, Yoma bank opened its first branch in august 1993. Since 1996, Yoma bank expanded and has become one of the largest private banks in Myanmar. In 1999 Yoma bank was Myanmar's first bank with a computerized accounting system and to use wireless communication to connect to all of its branches. In 2001 Yoma bank provided 41 branches in 24 cities. After the Myanmar banking crisis in 2003, Yoma bank's license was limited stopping the bank from accepting deposits or issuing loans. Yoma bank focused on fee-based services such as remittances.

In August 2012, the Central Bank of Myanmar reinstated Yoma bank with a full banking license. Yoma bank chairman stated the goal for the future development of the bank is to be of international standard local bank. To accomplish this, Yoma bank began employing foreign managers and returning Burmese from abroad and focusing its service on small and medium-sized enterprises(SMEs). The international finance corporation(IFC), member of the world bank group, announced in May 2014 the long term plan to promote the Yoma bank in its SME lending promote the Yoma bank in its SME lending program with a loan of over \$ 30 million.

In August 2014 Yoma bank employed more than 2,200 employees in 51 branches. After signing the contract with the IFC, the bank received the first \$ 5 million for its SME program in September 2014. Additionally the IFC agreed to assist Yoma bank with installing a new core banking system and improving the bank's risk management and corporate governance.

In November 2014 Yoma bank and the telecommunication firm, Telenor Myanmar announced their cooperation to provide mobile banking to Myanmar. The cooperation is to provide the non banked access to financial services. For the transformation of their core banking system in March 2015. Yoma bank access to SME and international banking standards, the German development agency GIZ selected Yoma bank in May 2015 as a partner for its program to promote SMEs in Myanmar.

The main rationale of this study focuses on analysis on performance of credit risk management in Yoma Bank. This paper also focuses on credit operation and credit risk provided by the Yoma Bank. The last five years information about credit policy and credit risk management of Yoma Bank is evaluated. Finally, the recommendation is presented by comparing the credit risk condition of Yoma Bank based on the collected last five years information.

Risk management and corporate governance is a key component of the bank's culture and the bank holds a strong commitment to its motto of "The responsible bank". Commitment to training of its employees is also a critical component in ensuring that the bank is able to deliver quality services to customers. To reflect its growing maturity, the bank received a number of awards over 2014 and 2015 and recognition both domestically and internationally continues to grow.

Vision is to be the leading customer centric bank build on safe, sound and trustworthy principles and mission is Yoma bank to become the bank of choice for customers who value personalized high quality service, building stronger customer relationships and trustworthiness the base of Yoma bank. We will keep on strengthening and building on our customers, stakeholders and partners trust by building relationships giving them sound solutions that combine the highest level of banking expertise, technology and financial security and objectives of Yoma bank are (1) To provide excellent professional services & improve its position as a leader in the field of financial related services. (2) To build & maintain a team of motivated and

committed workforce with high work ethos. (3) To use the latest technology aimed at customer satisfaction & act as an effective catalyst for socio-economic developments.

3.1.1 Vision of Yoma bank

Myanmar is embarking on several decades of fundamental change. The future will look very different. It will be full of opportunities that will touch every aspect of the lives of people of Myanmar. At Yoma bank, our vision is to provide the vitally important banking infrastructure that will make a lasting and sustainable impact on this future, building the economic foundations of a progressive Myanmar. The name of the Yoma bank represents the bank's vision. Its vision is to be one of the leading banks in the region having the good corporate social responsibility. Vision of Yoma bank is to become the most admired banking services providers and trusted advisor to our customers in Myanmar.

3.1.2 Mission of Yoma bank

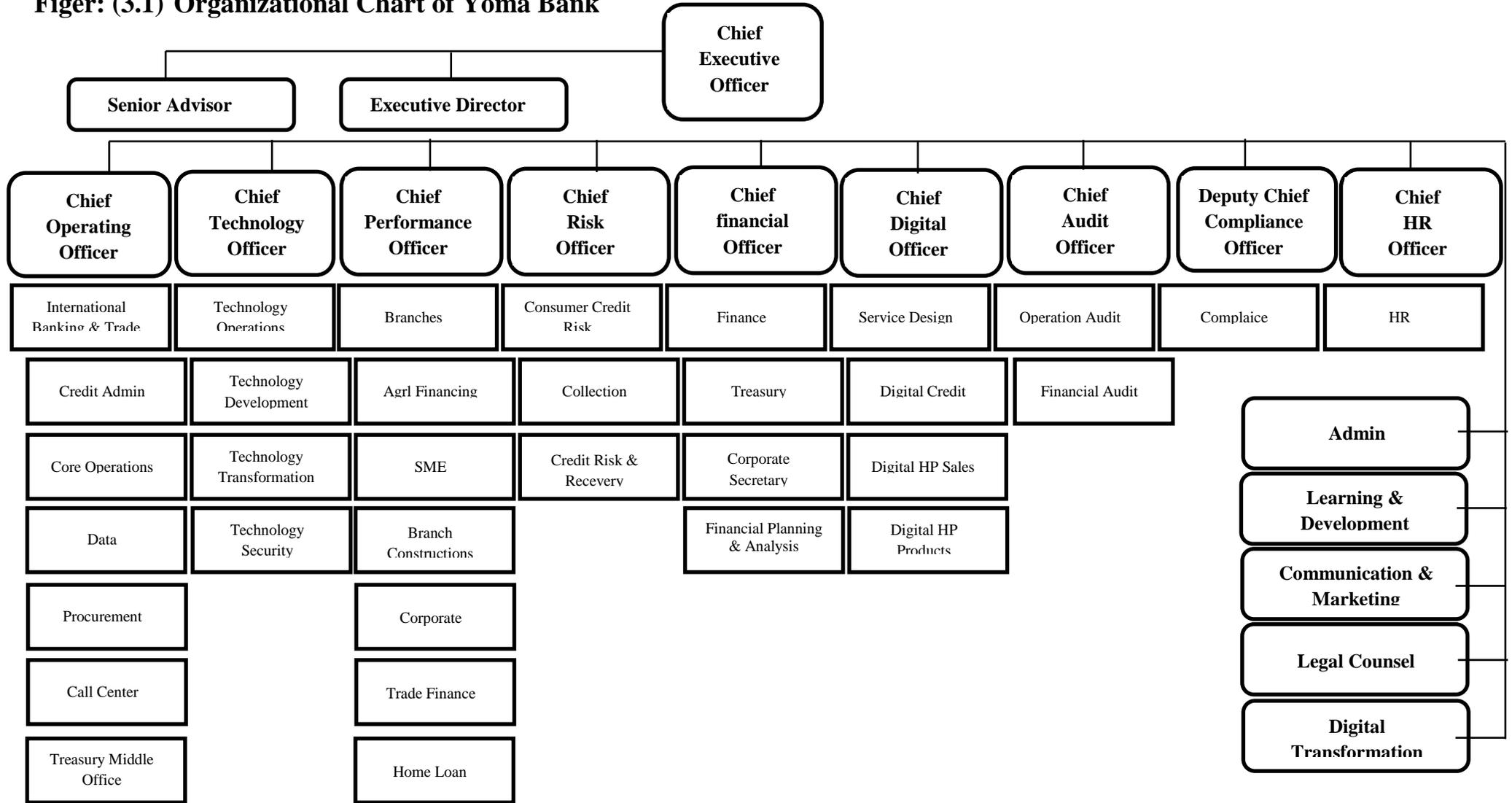
Yoma bank missions are as follows; to provide customer service through quality services and products. To employ the best people who exceed customer expectations. To maintain the highest ethical principles and excellence in regulatory compliance. To show that we care and provide safe banking while earning a reasonable profits. To be the most accessible network for both offline and online banking services. To provide and support well-trained and experienced professionals into banking industry. To bring this mission to life, we will strive our utmost in everything we do to set our own unique, industry leading, standard for banking excellence. Bank will accomplish this by always focusing on future opportunities and translating these into a commitment to outstanding levels of service, delivers day after day to each and every customer, helping them fulfill their needs and achieve their aspirations.

3.2 Organizational Structure of Yoma Bank

Yoma bank is a private limited company established by BOD and management committee. Under the BOD, there are Audit committee and risk oversight committee. Under the management committee, there are committee, asset and liability committee, product committee and NPL committee.

Board of directors are executive chairman, chairman, executive director, non-executive director and director. Audit and risk oversight committee includes non-executive directors and director. Management committee includes CEO, Senior Advisor, Executive Director, COO, CTO, CPO, CRO, CFO, CDO, CAO, CHO, CTO and head of administration, head of learning and development, chief human resource officer and deputy chief compliance officer. The organization structure of Yoma bank is show in the appendix. Management is a top down system and all the department are under control of executive chairman, chairman and board of directors.

Figur: (3.1) Organizational Chart of Yoma Bank



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Source: Yoma Bank, 2019

3.3 Bank Services of Yoma bank

Yoma bank is conducting banking services in accordance with the rules and regulations prescribed by the Central Bank of Myanmar.

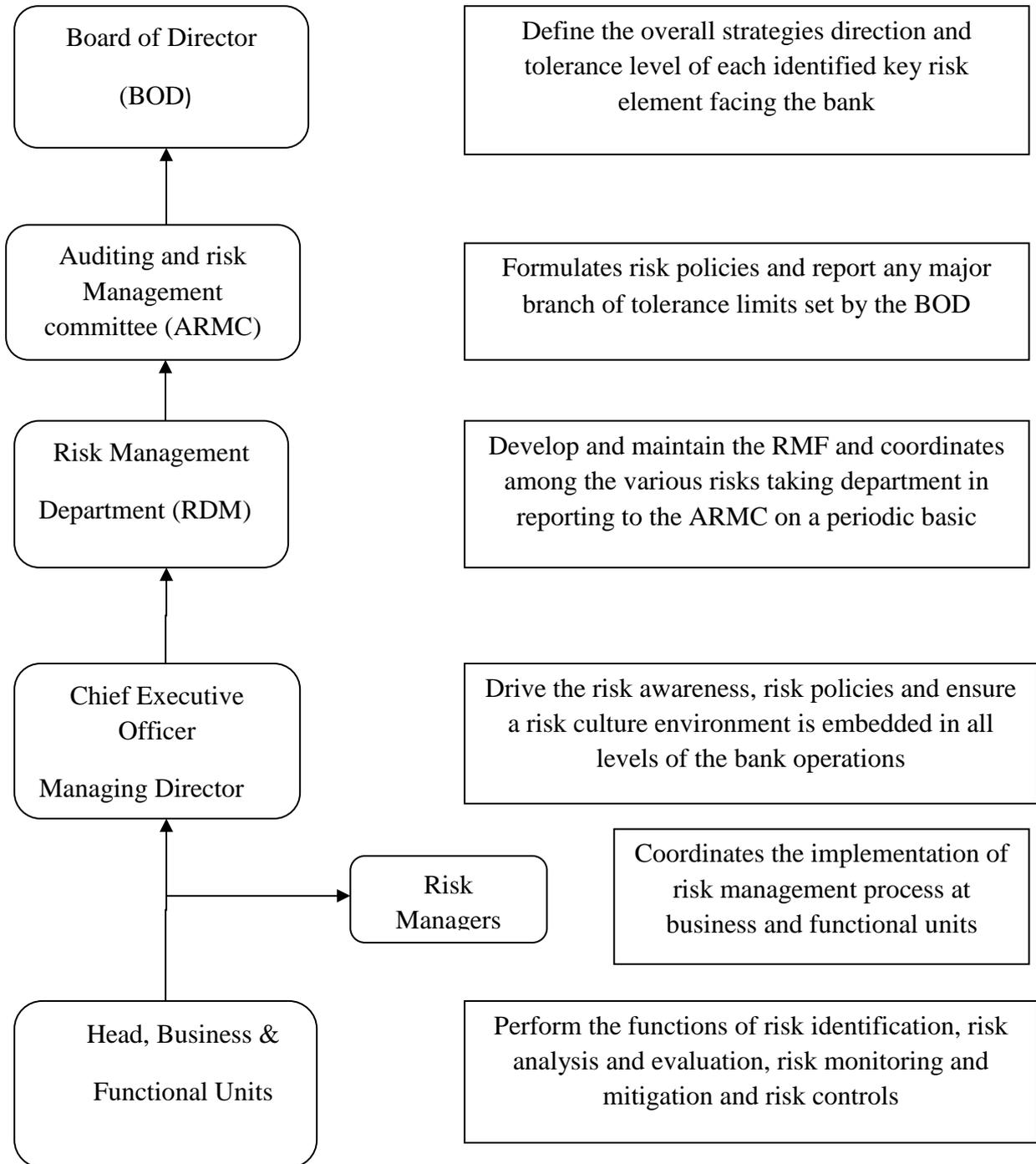
Yoma bank's domestic and foreign banking services are as follow;

- Saving deposite account
- Current account
- Fixed deposit account
- Special deposit account
- 24 hours ATM system
- Online payment system
- Remittance (Smart Account)
- Foreign banking
- International remittance
- Money changer (Foreign Exchange)
- Foreign currency account
- Bank guarantee/ Payment order
- Trade finance
- Loan & Overdraft/ Hire purchase/Home loan

Financial services provided by Yoma bank can divided into five categories such as deposits management which include saving account, current account and fixed account. Cash services include payroll and collection. Overdraft and loans services are available under bank loans. Other services such as bank guarantee, trade finance, ATM, international banking, online phone billing, money changer, hire purchase and call center are also provided by Yoma bank. Its remittance services are offered for domestic telegraphic transfer and payment.

Now the bank is introducing electronic delivery channels ATM. There are (118) numbers of ATM services provide at all branches. The bank is now providing money changer service in Yangon, Mandalay, Maw La Myine and Taunggi. The maximum amount of foreign currency that bank's money changers can exchange is 10,000 USD requiring no documents the exchange rates for those money changers are set by the Central Bank of Myanmar. Daily exchange rates are also updated on Yoma bank's social networking page. Yoma bank is introducing call center service for the customers who require assistance currency from 9:00 am to 3:00 pm.

Figur: (3.2) The Reporting Line Of Risk Management in Yoma Bank



Source: Yoma bank,2019

3.4 Credit Risk Management Process and Procedure of Yoma bank

Credit management process and procedure of Yoma bank consists of identification as borrowers, interview with the borrower, Field visits and enquiry about the borrower, List of documents required for a credit proposal, Presentation to credit committee and BOD.

3.4.1. Credit Proposal

A credit proposal in this context refers to an orderly set of written reports with respect to the party applying for credit facilities, culminating in a recommended course of action for decision by the approving authority. It is the product of credit analysis, which encompasses a range of analysis and judgment regarding every area of the party or applicant's business activities. In view of the serious consequences or repercussions that could occur as a result of inadequate or careless analysis on the part of the lending officers, we have therefore to emphasize the importance of careful and thorough credit analysis.

3.4.2. Identification as Borrowers

Primary business of a bank is collecting deposits from the general public and lending the needy. Lending is the primary and most important activity of a Bank. In any market, there will be a number of person and entities who require money to do business, to spend for day to day activities, to spend for emergencies, to spend for consumer goods to construct / buy a home, to buy a vehicle, and many other requirements. Bank is the trustee of public deposits made at the bank. Bank should return public deposits whenever they demand. Hence lending activity of a bank must be undertaken with at most care and is to be done wisely, to ensure prompt repayment from the borrowers whenever bank demand from a borrower. There will not be any difficulty in finding a borrower in any market. We can find hundreds of loan applicants at any time. But finding a good borrower is difficult and a banker need expertise and good application of mind to identify a good borrower from a number of loan requests received at branches. A Bank manager or a loan department may get a loan application through various ways. As a "walk in customer" Introduced by an existing customer/ friend, Known business units visited and canvassed by the Manager/ Loan sales staff etc. In any case, as the first step, Branch Manager/ Loan

officer must conduct a detailed interview with the loan applicant and get the maximum information.

3.4.3. Interview with the Borrower

It is important that the bank should ask details and collect all information regarding the business. However, officer should understand, which questions should be asked to whom. It should be ensured that the customer is not offended by our questions and the officer should try to make the customer understand, the need of such an interview with a loan customer to process with the Loan request. It is mandatory to record all the financial and business details of a customer, in the loan proposals as per internal guidelines of the bank, guidelines issued by the central bank etc.

After conducting the interview with the customer and making local enquiry about the customer, Branch manager/ credit officer should take a decision, whether we should process the customer request or not. If they decide to proceed with the customer request, get all the required documents and application forms and inform the customer that bank wish to proceed with the proposal and give the list of documents required by the bank to process the loan application.

3.4.4 Field Visits and Enquiry about the Borrower

Branch manager/ loan officer visit customer's business place, collateral security properties, residence, factory, ware house.,etc and assess the realities on ground and match with the information given by the customer during interview and details provided in the documents submitted by them. During the course of preparation of the loan proposal, concerned officer should enquire about the customer and guarantors to known persons, persons doing the same line of business, without divulging the fact that the customer applied for credit facility with the bank.

3.4.5 List of Documents Required for a Credit Proposal

Documents are required to be submitted by the customer for assessment of eligibility and prepare loan process note are duly filled loan application form from the customer, address proof and photo of all the individual borrowers/ partners/ guarantors, copies of NRC, copies of census, recommendation letter of chief of quarter for stay in the house, certificate of incorporation and commencement of

business, MOA/ AOA (if the borrower is a company), last two years audited balance sheet, last 12 months bank statement. (If the customer is banking with other banks) details and copies of past/ existing contracts, Licenses, permits, copy of approval from local authorities for construction, approved plan (if the purpose is for construction), copy of performs invoice/ quotation.,etc (if the purpose of finance is to buy machinery), vehicles, or other fixed assets, copies of all the documents related to collateral security property such as grant documentation relative to land possession, register document and other relative document, land map, land history, form 105,106,1-a which 6 months, building photo (front, back, sides inside, floor by floor) two photos for each, legal opinion from the lawyer about the security property and see any specific conditions are insisted, photos of business places, shops, warehouse, etc.

3.4.6 Reports of Lawyer and Assessor

The lawyer and the assessor assigned by the bank submit their respective after performing their tasks. The reports usually contain as mentioned below; The Lawyer's report includes particulars of immovable properties used as collateral, history of holdings, clearance of ownership, and the names of persons who shall definitely sign in the deed of mortgage also called on demand. The assessor needs to perform his tasks only when the lawyer recommends the ownership of the property (mortgage) as clear title. The assessor's report includes particulars of immovable properties used as collateral, but must be the same as those mentioned in the lawyer's report. It also needs to describe the feature of the property in detail. The property must be assessed in market values as well as forced sale value. Loan amount is decided by the risk committee base on the forced sale value of the property (collateral).

3.4.7 Presentation to Credit Committee and BOD

After completing all the process of documents collection, verification, local enquiries, collateral valuation, credit risk rating.,etc loan officer/ branch manager/ corporate department officer prepare the loan process note in power point format communicated by head office. After finalizing the PP format, a printout should be taken and signed by the loan processing officer and branch manager/ corporate head and send to head office along with copy of all documents collected from the customer, including copy of loan application. Soft copy of power point format should be sent to head office by mail to the concerned desk officer.

Up on completion of presentation, files should be presented to credit committee. After CC recommend for limit, file to be presented to BOD for approval. After BOD approval, credit department prepare loan approval letter to branches in the standard format and add all the terms and conditions applicable to the credit facility approved. When branch receive approval letter form head office, branch manager/ loan officer arrange to disburse the loan after getting loan documentations.

3.4.8 Insurance Cover

After the loan agreement is made, the mortgage like building and machinery shall be insured against fire at the insurance companies. The premium on the insurance policy is to be paid by the borrower only, though the name of insured is the bank. The value of the policy is usually amounted to 125 percent of the loan for mortgage. Like first class buildings and houses, and 150 percent of total loan for other buildings in normal condition.

3.4.9 Approved Documentation for Giving Loan

There are three stages for loan documentation.

(a) Pre - Approval Documentation

In this stage, branch/ corporate departments need to get all the documents required for loan approval such as loan application, details about business unit, personal details about the borrower/ guarantors, details about the collateral security, copy originals of title deeds of collateral security offered, including Form 105/106 update etc.

(b) Pre – Disbursement Documentation

In this stage, After getting approval form head office, Branch need to prepared all the loan documents such as promote, agreements, creation of equitable mortgage, insurance etc. Preparation of loan documents is as per type of facilities, type of collaterals, constitution of the borrower, etc which require professional expertise.

(c) Post – Disbursement Documentation

There is certain documentation, to be completed after disbursement of the loan as registration of charges with registrar of companies within 21 days, informing

YCDC/ MCDC/ other local bodies, regarding mortgage of land and getting acknowledgement etc.

3.5 Credit Rating of Yoma Bank

As per international best practices, each borrower should be rated according to the risk of lending to the customer and a credit risk rating should be given. Each bank prepare their own risk models as per bank's internal policies, to rate their customers and given different ratings.

3.5.1 Customer Rating

In Yoma Bank credit rating model, customer is rated based on 15 parameters which are length of business started, Promoters, business continuity, Type of business, business sector, management quality, previous banking experience, availability of goods, business performance, Profitability of business, Purpose of finance, quality of information/ transparency, diversification of business, type of major facility, value to Yoma bank expected and total marks is given 100 marks: Final rating models are allotted as based on percentage of marks. Marks obtained above 80% is rated at-1, between 80% to 70% is rate at – 2, between 70% to 60% is rate at-3, between 60% to 50% is rated at– 4 and under 50% is rated at – 5. When the customer has highest rating, bank will be in a better position to consider the customer request with more relaxed terms and conditions. When a customer has rated lower in the initial rating done by branches/ corporate department, they should try to analyze, where the customer has lost marks and try to improve such areas, by discussing with customer and asking for more details, cross selling the products, getting other bank account details.,etc.

3.5.2 Collateral Rating

Securities offered by the customer is rated based on three parameters which are primary security, collateral security and guarantee. Marks are allocated based on its value, location, easy marketability, legal status, personal/ corporate guarantees.,etc and total is 50 marks. Rating is given the percentage of total marks. Marks obtained above 80% is rated at – 1, between 80% to 70% is – 2 , between 70% to 60% is -3, between 60% to 50% is – 4 and under 50% is – 5 . It the customer is top rated, even

though collateral rating is lower, banks can take a positive view on the customer request, considering the value of the customer. In case of lesser collateral securities, branch/ corporate department should try to get additional securities by way of hypothecation of stocks/ machineries, additional personal guarantees and corporate guarantees etc and try to get better ratings security is rated as follows based on percentage of marks obtained.

3.5.3 Overall Rating

Based on percentage of total marks received by the customer as per separate customer rating and collateral rating, final rating models are awarded. Marks obtained above 80% is rated at -1, between 80% to 70% is - 2, between 70 % to 60% is - 3, between 60% to 50% is - 4, and under 50% is -5. Normally if customer is rated - 4 and - 5, their loan requested will not be considered.

3.6 Loan Monitoring

An account will be put under surveillance by the bank and monitored when the following events occur: -

- (1) Bad/ deteriorating financials
 - (2) Litigation against Borrower
 - (3) Key principal of borrowing customer dies or becomes incapacitated
 - (4) Collateral/ security value significantly decreased as detected during account review.
 - (5) Excesses – regular and exhibiting further deterioration.
 - (6) Installment Loan repayments habitually in arrears.
 - (7) Overdrafts becoming hardcore.
 - (8) Where Director / Partners of Partners of proprietor's personal accounts (E.g. cards, mortgages, loans etc) are delinquent.
 - (9) Delayed provision of financial statements of other mandated & relevant information
 - (10) Material breach of covenant without satisfactory response from Borrower.
- After having a clear understanding of the problems, appropriate remedial measures should be taken. These may include:- continue with close monitoring re-schedule debt, restructure debt and recall the debt.

3.7 Loan Recovery Action

Despite the rescheduling/ restructuring being carried out and if the loans still cannot be regularized and continue to be in delinquent status, serious considerations should be taken to recall the facilities and recover the full outstanding owing to the bank. The recovery action include: the recall of credit facilities, the realization of security held through the legal process which includes auction sales and suit against the guarantors, if any.

The legal process, once commenced should be monitored and followed up closely to bring it to conclusion expeditiously. For any legal action to be taken, the officers must only use the panel of lawyers approved by the bank. If the delinquent account portfolio is sizeable, it may be appropriate that a dedicated team of recovery specialist staff be established to manage these non-performing loans.

That interest is worked out and included in the plaint as far as practicable up to the date of filing the suit. That in a case of a suit for a decree for sale of the mortgaged property a personal decree, in case there is a shortfall in the sale proceeds is also prayed for in the plaint. That interest from the date of filing the suit to the date of realization at the court rate on the decrial amount and also cost of the suit have to be paid for plaint.

All the parties to the account the guarantor and signatories to the mortgage deed, together with the spouses of the signatories to the mortgager deeds are added as defendants in the plaint. That all documents relied on by the bank are placed before the lawyer or attorney general's office before drawing up the plaint and the branch manager must send the case to the township law officer for filing well before the expiration of the limitation period. That in the event of the death of defendant or defendants, the township law officer must be informed immediately to enable him to substitute the legal representatives of the deceased defendant or defendants. The manager is reminder to be watchful that limitation period for such substitution of defendant is 90 days from the death of defendant.

When law court passes a decree, the manager is instructed to take action as to check whether the decree is drawn up in accordance with judgment passed. He should request the township law officer to check this. If the court has not passed a judgment as prayed to by the bank, the manager will be required to obtain certified copies of the judgment and decree and to send these to head of loan

department, together with recommendation for appraisal so that appeal can be filed within statutory time limit. It is imperative for loan manager to apply for a certified copy of the judgment and decree as soon as it is passed and to forward the same to head of loan department immediately.

CHAPTER 4

THE EFFECT OF CREDIT RISK MANAGEMENT PRACTICES ON NPL OF YOMA BANK

In this chapter, it contains three sections. First section states the profile of respondents of Yoma Bank. The second section states the profiles and credit risk management structure of Yoma Bank. The last section is the effective results of credit risk management of Yoma Bank.

4.1 Research Method

This study assesses the risk management in Yoma Bank. To support the assessment, the required data were collected through survey. As a survey instrument, structured questionnaires were used. The questionnaire includes three main parts. The first part is includes the question on the demographic characteristics of the employees namely gender, age, education, service in Yoma Bank, and Experience in Non-Banking Services. The second part is include assignment of risk manager (credit risk manager, market risk manager and operational risk manager), report to respective manager, time dedicated to risk assessment activity number of people work in risk assessment activities and assessment of interest rate is used. The last parts is made up of 18 pairs o five – point Like Scale (ranging from strongly disagree = 1 to strongly agree = 5) , which measures influencing factors of market risk, variable factors of operational risks and variable factors of credit risks. This part includes 6 items in total 18 items for credit risk, market risk and operational risk. As a sampling method, the convenient sampling was credit card user in study. In this study, 70 managers out of 210 managers in the Yoma Bank, 30% of population) are selected of Yoma Bank in Myanmar. The chosen were requested to complete the questionnaire. All 70 managers kindly responded to the questionnaires. After collecting the required data, the data were analyzed by using the SPSS version 22.

4.2 Profile of Respondents

Demographic characteristics of sample employees such as gender of respondents (male and female), five classes of age intervals, six classes of education level, nine classes of occupation analysis, years of service in Yoma Bank, five level of experiences in non-banking sector are asked with closed-type questions. Each characteristic has been analyzed in terms of absolute value and percentage, and the summary of the demographic characteristics of employees of Yoma Bank is presented in Table (4.1)

Table (4.1) Profile of Respondents

Type	Profile of Respondents	Frequency	Percentage
Gender	Male	31	44
	Female	39	56
Total		70	100
Age	18 – 28	10	14
	29 – 38	15	21
	39 – 48	35	50
	Above 48	10	14
Total		70	100
Position	CEO	1	1
	Executive Director	2	3
	Deputy Director	2	3
	CRO	1	1
	General Manager	14	20
	Assistant General Manager	17	24
	Senior/ Junior Manager	33	47
Total		70	100
Level of Education	Bachelor	42	60
	Master	1	1
	Post-graduate Diploma	20	29
	Other	7	10
Total		70	100
Year of Service	Under 1 year	10	50
	1 year – 3 year	35	19

	4 year – 7 year	15	14
	8 year – 10 year	10	17
Total		70	100

Source : Survey data, 2019

By the information about the gender of employees, it is found that out of 70 respondents, the sample includes 31 males and 39 females. In terms of percentage. Female for 56 present while male share 44 present. The ages of employees have been grouped into five. It is found that the age group the age group between 18 and 28 includes 10 employees, the age group between 29 and 38 includes 15 employees, the age group between 39 and 48 includes 35 customers, and the age group above 48 includes 10 customers, respectively. In terms of percentage, the age group between 38 and 48 shares the largest with 50 per cent while the age group between 18 and 28 and above 48 shares the smaller with 10 per cent.

The respondent's position of job are roughly divided into CEO, Executive Director, Deputy Director, CRO, General Manager, Assistant General Manager, Senior/ Junior Manager. It is found that the sample includes 1 CEO, 2 Executive Director, 2 Deputy Director, 1 CRO, 14 General Manager, 17 Assistant General Manager, 33 Senior/ Junior Manager.

Education level of employees is grouped into four bachelor, diploma, master and other. It is found that, the most respondent's education level is bachelor level 42 respondents with 60 percent, and the lowest respondents' education is master level 1 respondent with 1 percent. Experiences in non-banking sector of employees are grouped into five: Under 1 year, 1 to 3 years, 4 to 7 year and 8 to 10 years. The most respondents' experience between 1 to 3 years is 35 respondents with 50 percent and the lowest respondents' experience between 7 to 10 years is 10 respondents with 14 percent.

4.3 Credit Risk Awareness of Organization Members in Yoma bank

In the banking industry, every member of the organization should be known risk management process, how to deal with credit risk, market risk and operational risk and clear reporting structure of risk problems.

Risk awareness of organization structure of Yoma bank is assigned manager of credit risk department, market risk department and operational risk department at all branches and Head Office.

Table (4.2) Risk Awareness of Organization Members in Yoma bank

No	Questions	Number of Respondent
1	Credit risk department is important for Yoma bank.	100%
2	Credit risk management is needed for Yoma bank.	92.85%
3	Credit risk management is needed for Yoma organization.	100%
4	Know the reporting process of credit risk management.	91.43%
5	Know the person whom to report for credit risk management.	100%
6	Know to report for credit risk management.	92.85%
7	Know the time to report for credit risk management.	100%
8	Know to analyze loan documents systematically not to become NPL.	100%
9	Know to credit risk department takes action on NPL Loan cases.	100%

Source: Survey data, 2019

According to the above Table 4.2, it is found that all branch managers from Yoma bank are aware of having credit risk management department. Moreover, they also aware of having credit risk department, Market Risk Department and Operational Risk Department as they all responded are agreed. They also understand the reporting process and to whom they have to report if problems happen in operations, loans, foreign currency exchange. But, regarding to credit risk question, 70 respondents

answered that they know how to analyze loan documents systematically not to become NPL. With regard to NPL loan cases, 65 respondents accept that credit risk management is needed for Yoma Bank. However, 5 people said they are not clear for that.

4.4 Types of Risk Encountered by Yoma bank

Yoma bank encountered the following risk such as credit risk emerged from internal and external environment.

(a) Credit Risk Identification

This dimension includes assessment on credit risk management. It is more important to have quality collateral than strong financial background. Bank analyzes the financial position of borrowers carefully by calculating ratios and make industry comparison. Bank always compares rate of return risk has to be perceived if giving loan to each customer. Bank takes action to loans which are failed to pay interest and principle. Bank takes security to reduce the credit risk.

Table (4.3) Assessment on Credit Risk Management

Assessment of Credit Risk Management	Mean	Standard Deviation
It is more important to have quality collateral than strong financial background.	3.47	1.02
Your bank analyzes the financial position of borrowers carefully by calculating ration and make industry comparison.	3.47	0.94
Your bank always compares rate return and risk has to be perceived if giving loan to each customer.	3.49	0.56
Our bank takes action to loans which are failed to pay interest and principle.	3.44	1.06
Bank takes security to reduce the credit risk	3.56	0.86
Average Score	3.49	

Source: Survey data 2019

Table (4.3) shows the credit risk assessment on Yoma bank. The overall mean score for assessment on credit risk management is 3.49. The highest mean score is 3.56 for bank takes security to reduce the credit risk. The mean lowest mean score is 3.44 for bank take action to loans which are failed to pay interest and principle to reduce non-performance loan. Other mean values are above average level for high quality of collateral, analyzing the financial position of borrowers and compare risk and return of providing loan to customers.

4.5 Credit Risk Analysis

Assessment on the performance of Yoma Bank contains the results of loan to deposit ratio, average loan, loan portfolio, and loan product distribution and non-performance loan status with respect to business sectors and location.

4.5.1 Loan Portfolio

The volume of loan of a bank includes among others current asset, credit portfolio, fixed asset and other investment and capitals. The amount of loan is one part of bank that affects the profitability. Loan can be classified as its funding to economic sectors of country. Loan being major assets that generates the major share of the banks income, it is important in disbursement of loans as injection to working capital of businesses. Thus, loan portfolio management is important for risk management and the volume of NPL has to be determined.

There are different types of sectors where most of the bank emphasis for financing. These are production, trade, services, transportation, construction, agriculture and general guidelines of loan portfolio set out by Yoma bank Loan Department. These rates are illustrated in table(4.4).

Table (4.4) Loan Portfolio by Business Sectors from 2015-16 to 2018-19

Type of Business	2015-16			2016-17			2017-18			2018-19		
	No	K in Mill	Contribution (%)	No	K in Mill	Contribution (%)	No	K in Mill	Contribution (%)	No	K in Mill	Contribution (%)
Production	122	15,623	30	154	16,322	24	211	18187	26	189	22,134	27
Trade	113	18,324	35	201	21,400	31	232	17230	25	267	36,578	45
Services	73	8,923	17	75	14,531	21	92	15663	23	78	1,700	2
Transportation	12	1,123	2	12	1,449	2	11	1210	2	14	551	1
Construction	34	4,414	8	32	3,596	5	30	3660	5	22	2,868	3
Agriculture	2	834	2	2	1,021	1	2	902	1	2	1,021	1
General	12	3,387	6	31	10,105	15	86	12166	18	123	18,273	22
Total loan amount	368	52,628	100	507	68,334	100	664	69018	100	695	83,125	100

Source: Yoma Bank, 2019

Table (4.4) shows that the average loan amount was 52,628 kyat in million in the financial year 2015-16 , 68,334 kyat in million in the financial year 2016-17, 69,018 kyat in million in the financial year 2017-18, and 83,125 kyat in million in the financial year 2018-19, respectively. In term of the total number of businesses, there is 368 numbers of businesses that the bank is serving with loans. Yoma Bank has extended its loan services to 507 numbers of businesses in financial year 2016-17, 664 numbers in financial year 2017-18, and 695 numbers of businesses in financial year 2018-19, respectively. Yoma Bank was intended to uplift and improve trade sector and production sectors, the most proportions of loans are rendered to this sector, Other sectors are little fluctuate amount but agriculture sector is lowest loan distribution by Yoma Bank but maximum ceiling rate for agriculture sector is 3 percent from CBM.

Table (4.4) shows that loan portfolio by business sectors namely Production, Trade, Services, Transportation, Construction, Agriculture and general sector. During 2016-2017, the highest percentage is trade sector, secondly production and lowest percentage is agriculture. Next year trade sector is also highest and agriculture is lowest percentage. For 2017-2018, production sector is highest percentage and agriculture is lowest percentage. Last year, trade sectors are again highest and also agriculture is lowest by instruction of Loan Department of Yoma Bank.

4.5.2 Loan Product Distribution

Product distribution of Loan is overdraft, SEM Loan, Hire purchase, corporate loan and Other Loans. Loan product distribution is presented in the following Table (4.5).

Table (4.5) Loan Product Distribution from 2015 -16 to 2018-19

Types of Product	2015-16	2016-17	2017-18	2018-19
Overdraft	93.57	88.29	86.43	85.42
SME Loan	6.43	11.14	12.70	11.90
Hire Purchase	-	0.57	0.87	1.23
Corporate Loan	-	-	-	1.45
Total	100%	100%	100%	100%

Source: Yoma Bank, 2019

According to, table (4.5) overdraft loan in the financial year 2015-16 is 93.57 and in the financial year 2018-19 is 85.42 percent. Regarding to the SME Loan class, it is found that, the most SME loan class, it is found that, the most SME loan volume is 12.7 percent in the financial year 2017-18. In this study, it is found that there is not hire purchase in financial year 2015-16 and 1.23 percent in financial year 2018-19. Corporate Loan started from financial year 2018-19 with 1.45 percent. According to the extending of loan product portfolio, loans are separated into all kind of loan classes, whereas, loan overdraft is much more included potion.

Table (4.6) Loan to Deposit Ratio from 2015 -16 to 2018-19

Types of Product	2015-16	2016-17	2017-18	2018-19
Treasury Bond to Deposit Ratio	35.52	38.39	28.57	17.75
Deposit in Other Banks to Deposit Ratio	0.70	1.52	6.25	20.78
Loan to Deposit Ratio	47	65	72	75

Source: Yoma Bank, 2019

Table (4.6) describes that the ratio of treasury bond to Deposit was 35.52 percent in 2015-16. That ratio in 2016-17 was increase to 38.39 percent. This ratio sharply reduced to 28.57 percent at 2017-18 and then reduce to 17.75 percent at 2018-19. In conclusion, Yoma bank reduces investing in treasury bond while the loan size is developed. For the linked to other banks, Yoma have deposited to them. These deposits in other banks to total deposit ratio was 0.70 percent at 2015-16, 1.52 percent at 2016-17, at 6.25 percent at 2017-18, at 20.78 percent at 2018-19. Raising the deposits in other banks tells bank's strong saver position if depositors will be asking for their deposits at Yoma Bank.

The third deposit ratio analysis is loan to deposit of Yoma Bank customers. From the analysis, it was found that loan to deposit ratio at year 2015-16 was 47 percent, at year 2016-17 was 65 percent, at year 2017-18 was 72 percent, and at the year 2018-19 was 75 percent, respectively. At the year 2015-16, it was found that bank couldn't utilize deposits effectively; however, bank can utilize loans during the years 2017-18 effectively.

4.6 Ratio of NPL by Business Sectors

Yoma Bank identified non-performance loan for each sector, that are production, trade and services sectors. These sectors are highest loan percentage and loan amount so must likely to chance of non-performance loan. The following table are illustrates aspects of a business sector analysis that can be performed to identify ratio of NPL by business sectors.

Table (4.7) Ratio of NPL by Business Sectors to Total NPL

Type of Business	2015-16	2016-17	2017-18	2018-19
Production	49	65	37	31
Trade	51	19	20	37
Services	-	16	43	32
Total	100	100	100	100

Source: Yoma Bank, 2019

It is found that ratio of NPL in production sector in the financial year 2015-16 with 49 percent, 65 percent financial year 2016-17, 37 percent in financial year 2017-18, and 31 percent in financial year 2018-19, respectively. It is found that ratio of NPL in trade sector 51 percent in the financial year 2015-16, 19 percent financial year 2016-17, 20 percent financial year 2017-18, and 37 percent financial year 2018-19, respectively. The ratio of NPL in services sector 16 percent in the financial year 2016-17, 43 percent financial year 2017-18, and 32 percent in financial year 2018-19, respectively.

4.7 Classification for Non Performance Loan

The usual risk management procedures and controls often fail to protect the bank. This defaulting borrowers' loan outstanding are in banking terminology, called Non- Performing Loan (NPL), which are outstanding more than six months after due date to repay loan. NPL are classified by Sub Standard (not paid interest over six months from due date) and Doubtful Debt (not paid interest over months from due date). NPL ratio can be calculated bad debt divided by loan limit. Loan limit is the maximum amount of bad debt set by Loan Department. Classification of NPL amounts are shown in the following tables.

Table (4.8) Classification for NPL (Kyats in Million)

Year	2015-16	2016-17	2017-18	2018-19
Loan Limit (Kyats in Million)	52,628	68,334	69018	83,125
Sub Standard (Kyats in Million)	7.368	84.30	77.30	82.96
Doubtful Debt (Kyats in Million)	26.31	30.11	27.61	29.63
Bad Debt (Kyats in Million)	5.26	6.02	5.52	5.93
Total Non-Performing loan	105.26	120.43	110.43	118.51
NPL to Loan Ratio	0.20	0.18	0.16	0.14

Source: Yoma Bank, 2017

Table (4.8), NPL ratio is 20% for 2015-2016 that over the maximum loan limit set by loan Department. After financial year 2015-16, NPL ratio is less than 20% percent but in 2018-19, NPL ratio is decline to 14 percent of loan limit and credit risk is likely to be reduce because of effective credit risk management of Yoma Bank.

Overall effective risk management of Yoma Bank is improve risk management practices within the banking operation so operation risk likely to be reduced and all operational branch managers are known important of credit risk management practices. Therefore all branch managers are willing to participate in the implementation of organization risk management practices of Yoma Bank.

CHAPTER 5

CONCLUSION

In this chapter, findings are summarized and concluded to derive the answer of questionnaires. This chapter includes findings, suggestions and need for further studies. First part includes the finding of the study, analysis of awareness and assessment on credit risk of manager level, and analysis on effect of credit risk management. In second part, includes the recommendations that are from the result of the findings. In third part includes need for further research.

5.1 Findings

This study analyzed on the respondent's awareness and assessment of credit risk. There are two main objectives: to explore the awareness on credit risk management in Yoma bank. To meet these objective of the study and to do analysis, the require data are collected through sample survey. The total respondents of 70 are Manager level of Yoma bank.

Demographic characteristics of sample employees such as gender of respondents (male and female) , four classes of age intervals, four classes of education level, and years of service in Yoma bank, asked with closed-type questions. Each characteristic has been analyzed in terms of absolute value and percentage, and the summary of the demographic characteristics of employees of Yoma bank is presented. The majority of respondents' gender is female, the age between 39-48 years are highest, the most respondents' position is senior/junior Manager, the highest respondents' education is bachelor level and years of services 1 to 3 years is the most.

In the second section, credit risk management practices of Yoma Bank's manager from three branches and head office. Assessment on the performance of Yoma bank contains the results of loan to deposit ratio, average loan, loan portfolio, and loan product distribution and non-performance loan status with respect to business sectors and location. Regarding the bank authorities understanding of the important level of credit risk, Total mean score is 3.49 and Yoma bank believes that there is more than average level of risk factor. Regarding the respondent understanding of the important level of operational credit risk management of Yoma

Bank Branches, respondent employees are required to answer on their important level on operational credit risk management of bank asset classification regulation on NPL.

Regarding the respondent understanding of the important level of credit risk management of Yoma bank branches, six variables are analysed whether “credit risk management is clearly set out and well understood across the bank variable, accountability of credit risk management of Yoma bank helps to reduce costs and expected losses at the bank, Yoma bank set up well organized reporting and communicating credit risk management process, Yoma bank credit risk management process are well documented and provide guidance to staff about the management of credit risk.

If is found that among these operation credit risk management items, employees are most agreed on well organized reporting and communicating credit risk management process. The overall mean value is higher than average level and thus, Yoma bank has awareness on operational credit risk is important level.

In the third section, regards to classification for NPL, it is found that classification for NPL is decreasing year by year. It is because borrowers of Yoma bank paid interest regularly and repay principle according to the Bank’s rules. But it took over one year to completely set up, instruct and coach credit risk management process, rules, regulations and reporting process throughout the whole bank branches. It is obvious that loan interest payment and principle repayment are improved and NPL rate is dropped after Risk Management is well set up. NLP to loan ratio is decreased from 0.20% to 0.14% from 2015-16 to 2018-19.

5.2 Suggestions

Yoma bank has also been revealed that some personnel are not fully understand how the activities relate to other units of the bank, how to control NPL. Operation staff, loan staff must have full understanding on how to handle what can cause problem by giving them proper periodical trainings, seminars and clear pictures on credit risk reporting system. Therefore, meetings of seminars should be organized periodically. Moreover, management has to make sure of all information spread to every entity and every single person of the bank, showing how each area of work relates to each other and to the overall credit risk management for the bank.

Credit policy and credit risk management system is more effective, it can see on the low NPL to loan amount ratios, distribution of loans in to various sectors, managing concentration risk by distributing various loan sizes, and established process and procedures from top to bottom. However central bank is strict-lending norms regarding collaterals margins etc., are also contributing to the strength of Yoma credit portfolio. Future challenges are many as Yoma may not be able to insist for collateral requirements as per present norms, when CBM releases such lending restrictions. In addition, competition among banks are increasing day by day, foreign banks already started operations in the market with limited roles. CBM may allow foreign banks to handle full-fledged banking operations in the near future.

The overall responsibility of credit risk management in bank's board. The board should outline credit risk management strategy and formulate well-defined policies and procedures. Possible credit risks should be quantitatively measured and reported. Credit risk management department should also have contingency plans for any abnormal or worst case scenarios. The risk should be first identified and then effectively measured, regulated and managed. All this should be done under the supervision of the competent authority. Banks cannot eliminate risks entirely, but the mission and the main task of each bank should be to minimize them to the extent possible.

5.3 Needs for Further Research

First, this study is need to in- depth interview would be need to determine how effectiveness of credit risk management could be measured. One way do is to look into bank, to see what actually happens on credit risk management and compare that to some kind of ideal-type. This ideal-type could be committee of the sponsoring organization to the framework the index developed by standard.