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Effect of Non-Performing Loan Management Practices on Recovery of Non-Performing Loan of SMED Bank

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Effect of Non-Performing Loan Management Practices on Recovery of Non-Performing Loan of SMED Bank

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ABSTRACT

This study aims to analyze the factors influencing the recovery of Non-Performing Loan at SMED Bank. The primary objective is to examine SMED Bank's Non-Performing Loan Management Practices and to assess the key factors affecting the recovery of NPL. Both primary and secondary data were utilized for the study. The target population is 65 respondents. The sample size is 56 respondents of population. The respondents are selected using a simple random sampling method. The study considered four key factors such as loan appraisal, credit policy, loan recovery procedures, and repayment plan. As Findings, the three Non-Performing-Loan Management Practices are influencing recovery of Non-Performing Loan at SMED Bank, indicating a meaningful and significant contribution. Loan appraisal, credit policy, and loan recovery procedures have somewhat affected the recovery of non-performing loans. Therefore, SMED Bank should prepare and review the repayment plan of the bank and instructed the credit officers and branch managers to follow the policy and procedure. As part of the repayment plan, the bank should organize the collection agency and hire experienced lawyers to recover non-performing loans.

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LISTS OF ABBREVIATIONS

SMED Bank	Small and Medium Enterprise Development Bank
CBM	Central Bank of Myanmar
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CTO	Chief Technology Officer
CCO	Chief Compliance Officer
CRO	Chief Risk Officer
COO	Chief Operating Officer
CBO	Chief Business Officer
SMEs	Small and Medium Enterprises
BOD	Board of Directors
CAR	Capital Adequacy Ratio
CMD	Credit Management Department
HO	Head Office
HOD	Head of Department
MCC	Management of Credit Committee
NPL	Non-Performing Loan
ROI	Return on Investment
SACCOS	Saving and Credit Cooperatives

CHAPTER 1
INTRODUCTION

By providing important services such as taking deposits, giving loans, and enabling financial transactions, the financial sector, and banks in particular, play a crucial role in the economic growth of a nation. This is because banks are especially responsible for delivering these services. Financial institutions serve as mediators between depositors and borrowers, facilitating the flow of capital to individuals who are in need of funding, which in turn contributes to the expansion of the economy (Zimbalchew, 2015). According to Kebede (2018), one of the key tasks of banks is to give credit to individuals, households, enterprises, and government entities. It is because of this that banks are an essential source of cash that may be loaned out. In spite of this, it is very necessary for lending institutions to make timely repayments of loans in order to preserve their financial health. It is possible for persistently low repayment performance to result in financial instability, damage public trust, and even lead to the collapse of the banking industry, which can have significant effects on the economy of the nation (Pischke, 1991). According to Kebede (2018), loan defaults occur when borrowers fail to follow the conditions of their loan agreements. This failure can be attributed to a wide range of variables, including psychological, emotional, social, cultural, and economic forces within the borrower's life. One example of this is the growing number of banks in Myanmar, which has resulted in increased rivalry among these institutions. These institutions are working hard to satisfy the requirements of their customers by providing innovative goods and services. Despite these efforts, loan defaults continue to be a significant concern. In order to limit the impact of non-performing loans (NPLs) on bank profitability and capital ratios, it is necessary to have efficient loan follow-up and recovery mechanisms in place (Kebede, 2018).

For banks to continue to be financially stable, the recovery of nonperforming loans (NPLs) is very necessary. Banks have the ability to reschedule loans by defaulting borrowers or to take legal action in order to reclaim the sums that are owing to them. The accumulation of bad debts, on the other hand, can put a significant pressure on the financial resources of banks (KEBEDE, 2018). This can occur if the court system fails to provide support to lenders. According to Pischke (1991), high levels of nonperforming loans (NPLs) can hinder the expansion of banks, prevent interest revenue from being generated, and cause banks to designate provisions for loan losses, which in turn can have an impact on the banks' overall profitability and operational efficiency. When it comes to the stability and expansion of the banking industry, the proper management of loan repayment and the recovery of non-performing loans are both crucial components. For the purpose of promoting prompt repayments, financial institutions are required to use rigorous follow-up measures and to build strong connections with borrowers. In the event that loan defaults are not addressed, it might result in substantial financial difficulties, not just for individual banks but also for the economy as a whole. According to Pischke (1991), Zimbalchew (2015), and Kebede (2018), when it comes to maintaining a healthy financial system, it is essential to have a comprehensive understanding of the variables that influence loan defaults and to put into practice effective recovery techniques.

The loan appraisal is essential to reducing the number of non-performing loans (Chen & Pan, 2012). By undertaking exhaustive evaluations of the creditworthiness of borrowers prior to the granting of loans, financial institutions may greatly lower the likelihood of default. According to the findings of research, a high correlation exists between severe appraisal criteria and reduced non-performing loan percentages. These criteria include a comprehensive review of financial history and cash flow estimates. The enhancement of evaluation procedures might prevent problematic loans from being made in the first place, which would result in an improvement in overall recovery rates for SMED Bank.

According to Kargi (2011), credit policy is an essential component of efficient non-performing loan management. Through the implementation of such rules, clear criteria are established for lending procedures, risk assessment parameters, and monitoring processes. The findings of studies indicate that financial institutions that have comprehensive credit policies are better able to identify early warning signals of borrower distress, which enables them to intervene in a timely manner (Kargi, 2011). The credit policy of SMED Bank might be improved by including more dynamic monitoring technologies and tougher enforcement measures. This would be beneficial to the bank.

When it comes to maximizing non-performing loan recovery rates, loan recovery procedures are absolutely necessary (Bofondi & Gobbi, 2017). Restructuring loans, liquidating assets, and taking legal action against mortgage defaulters are all measures that have shown to be effective. According to the available evidence, financial institutions that utilize organized recovery methods have a greater chance of successfully retrieving non-performing assets. If SMED Bank were to streamline its recovery operations, notably by utilizing speedier legal remedies and forming relationships with specialist collection companies, such methods may potentially improve the outcomes.

It is possible to avoid loans from becoming non-performing by implementing repayment plans that are suited to the cash flow realities of the borrowers (Beck & Demirguc-Kunt, 2009). The likelihood of default is decreased when borrowers have their debt obligations aligned with their revenue cycles through the use of customized repayment plans. There is a possibility that the implementation of more flexible repayment alternatives by SMED Bank might rehabilitate troubled loans, so transforming non-performing assets into performing assets. The Small and Medium Enterprises Development Bank, often known as SMED Bank, is a financial institution that was created in 1996 with the purpose of assisting in the expansion and development of small and medium-sized enterprises (SMEs) in Myanmar. With a total of 26 locations, it provides a wide range of financial goods and services to customers who are in the business sector. Its primary objective is to offer individualized services to small and medium-sized enterprises (SMEs), with the intention of assisting these businesses in expanding and making a contribution to the economic growth of the nation. In addition, the SMED Bank intends to enhance the local small and medium-sized enterprise (SME) sector by providing financial services and training enterprises to penetrate markets that are focused on exports.

In order to enhance both its profits and its financial stability, SMED Bank places a strong emphasis on efficient non-performing loan management techniques. Through the process of recovering non-performing loans, the bank is able to lower credit risks and contribute to the stability of the financial system. This strategy guarantees that small and medium-sized enterprises (SMEs) obtain finance in a timely manner, which assists them in growing and remaining competitive.

The purpose of this study is to investigate the impacts that SMED Bank's Non-Performing Loan management practiceses have on the bank's ability to recover non-performing loans. The purpose of this study is to give insights that can ultimately lead to improvements in decision-making within Myanmar's private banking industry by studying these practices.

1.1 Rational of the Study

Small and Medium Enterprises (SMEs) are the focus of SMED Bank, which is a significant financial institution in Myanmar that specializes in providing assistance to these businesses. Having been established with the purpose of promoting economic progress, the bank plays a crucial role in the provision of essential finance to firms operating in a wide range of industries. Nevertheless, the growing frequency of non-performing loans, also known as NPLs, has emerged as a significant obstacle, which poses a danger to the bank's ability to achieve its developmental goal as well as its financial stability. Considering that small and medium-sized enterprises (SMEs) are the foundation of Myanmar's economy, making important contributions to employment and innovation, the bank's battle with non-performing loans (NPLs) has wider-reaching repercussions for the state of the national economy (CBM, 2017).

The financial institution provides a wide range of loan solutions that are tailored to satisfy the various requirements of businesses. The following types of loans are available: consumer loans for individual borrowers, corporate loans for bigger businesses, and specialized small and medium-sized company (SME) loans that are designed to facilitate business development and operational continuity. Despite the extensive spectrum of non-performing loans, the high incidence of non-performing loans has had a negative impact on the profitability and liquidity of the bank. Its capacity to offer credit is hindered as a result of this circumstance, which in turn stifles the growth potential of small and medium-sized enterprises (SMEs) who are significantly dependent on such financial support (SMED Bank, 2024).

Due to the increasing number of non-performing loans (NPLs), SMED Bank has implemented a number of recovery procedures. The following are some examples: improved procedures for loan follow-up, increased internal controls, and more stringent procedures for evaluating borrowers. Additionally, technical solutions have been implemented by the bank in order to enhance the monitoring of loan performance. In spite of this, there are still systemic impediments that continue to hamper successful non-performing loan recovery (SMED Bank, 2021). These obstacles include inadequate risk assessment frameworks, insufficient post-disbursement monitoring, and excessively complicated legal procedures for default resolution.

SMED Bank has undertaken the implementation of structured non-performing loan management techniques in order to comply with regulatory guidelines issued by the Central Bank of Myanmar (CBM, 2017). Specific loan categorization systems, mandated provisions for bad loans, and early warning measures to identify possible defaults are some examples of these types of systems. To further aid borrowers who are experiencing financial difficulties, the bank has investigated several debt restructuring possibilities. On the other hand, the efficacy of these interventions is hindered by fundamental problems in the financial ecosystem. These problems include inadequate legislative enforcement and low institutional capability for comprehensive credit risk management.

In order to maintain its stability and provide assistance for Myanmar's economy, SMED Bank needs to solve its non-performing loan (NPL) problem. A better loan approval process, stricter lending regulations, more efficient collection procedures, and more flexible payment alternatives are the four important areas that the bank should work to do better at. Poor loans will be reduced as a result of these measures. NPLs might potentially be managed more effectively with the use of new technology such as digital risk tools. By implementing these enhancements, SMED Bank will be able to continue assisting the expansion of small enterprises and make a contribution to the economic growth of Myanmar. By finding a solution to the problem of nonperforming loans, the nation's financial system will be strengthened.

For banks to continue to be financially stable, the recovery of nonperforming loans (NPLs) is very necessary. Banks have the ability to reschedule loans by defaulting borrowers or to take legal action in order to reclaim the sums that are owing to them. The accumulation of bad debts, on the other hand, can put a significant pressure on the financial resources of banks (KEBEDE, 2018). This can occur if the court system fails to provide support to lenders. According to Pischke (1991), high levels of nonperforming loans (NPLs) can hinder the expansion of banks, prevent interest revenue from being generated, and cause banks to designate provisions for loan losses, which in turn can have an impact on the banks' overall profitability and operational efficiency.

When it comes to the stability and expansion of the banking industry, the proper management of loan repayment and the recovery of non-performing loans are both crucial components. For the purpose of promoting prompt repayments, financial institutions are required to use rigorous follow-up measures and to build strong connections with borrowers. In the event that loan defaults are not addressed, it might result in substantial financial difficulties, not just for individual banks but also for the economy as a whole. According to Pischke (1991), Zimbalchew (2015), and Kebede

(2018), when it comes to maintaining a healthy financial system, it is essential to have a comprehensive understanding of the variables that influence loan defaults and to put into practice effective recovery techniques.

The findings of this study highlight the interconnectivity of loan appraisal, credit policy, loan recovery procedures, and repayment plans in terms of their effectiveness in affecting the recovery of non-performing loans. Key findings indicate that improving loan evaluation processes may lower the risks of first default, comprehensive credit policies can enable proactive non-performing loan management, effective recovery procedures can promote the retrieval of non-performing assets, and flexible repayment plans can assist the rehabilitation of borrowers.

Several different stakeholders will benefit from the contributions that this research makes. These insights may be utilized by SMED Bank in order to improve its credit management framework. Policymakers may use the findings in order to develop regulatory settings that are more helpful, and academic institutions will acquire more views on the management of non-performing loans in emerging economies.

1.2 Objectives of the Study

The objectives of this study are:

- To identify the non-performing loan management practices of SMED Bank.
- To analyze the effect of non-performing loan management practices on recovery of non-performing loan of SMED Bank.

1.3 Scope and Method of the Study

For the purpose of this investigation, a quantitative research approach was applied to investigate the elements that have an impact on the loan recovery procedures present at SMED Bank. The target audience consisted of a total of sixty-five persons who were employed by SMED Bank in the areas of loan, legal, loan recovery, audit, Lanmadaw branch, and Kamaryut branch. The selection of participants was carried out using a straightforward random sampling technique. Primary data was collected through the use of a standardized questionnaire, which was distributed to 56 workers, which is equivalent to 86% of the population. These employees were chosen to evaluate the recovery of non-performing loans. guaranteeing that every individual who was a part of the population that was being studied had an equal chance of being included in the research. The technique for determining the size of a sample that Yamane developed in 1973 said that the sample size consisted of 56 respondents. Primary and secondary sources of information are utilized. At SMED Bank, the primary data was obtained through the use of standardized questionnaires that were included in the loan recovery process. The five-point Likert scale questionnaires were developed with the purpose of gaining insights into the non-performing loan management practices of the bank. The questions focused on four crucial aspects: loan evaluation, credit policy, loan recovery methods, and repayment plans. The personnel that responded to this survey come from both management and non-managerial positions within this department. The study collects secondary data from a variety of sources, including websites, reference books, and prior research publications, as well as yearly reports from SMED Bank.

1.4 Organization of the Study

Within this study, there were a total of five chapters. The first chapter was titled "Introduction," and it contained the following information: the rational of the study, the objectives of the study, the scope and method of the study, and the organization of the study. The second chapter provided an overview of the theoretical background that are associated with non-performing loan recovery practices and the elements that influence the process of recovering non-performing construction loans. In the third chapter, the profile of SMED Bank, the organization structure of SMED Bank, the banking services offered by SMED Bank, and the non-performing loan management practices of SMED Bank were presented. A data analysis of the elements that influence the recovery of non-performing loans from SMED Bank was presented in Chapter 4, which was the conclusion of the chapter. Last but not least, the conclusion of the study was presented in Chapter 5, which covered the findings, recommendations, suggesstions, and requirements for further research.

CHAPTER 2
THEORETICAL BACKGROUND

This chapter introduces non-performing loans, their management practices, related theories, bank loan recovery research, and the study's conceptual framework.

2.1 Concept of Non-performing Loan

A Non-Performing Loan (NPL) (Pischke, 1991) occurs when a borrower misses a scheduled principle or interest payment for 90 days or more. NPLs are a key indication of a bank's assets and finances. The bank loses money from non-performing loans, reducing profitability and liquidity. High NPLs can harm the financial system and economy over time (Kebede, 2018). In this essay, NPLs' features, impacts, causes, and management solutions are examined in relation to SMED Bank in Myanmar.

Payment Default, Unlikelihood of Repayment, and Classification define NPLs. Payment default occurs when a borrower misses 90 days or more, showing incapacity or reluctance to repay. Even with collateral, the borrower's financial status makes full repayment improbable. Non-performing loans are classed by regulatory norms, which vary by country but usually follow worldwide standards defined by the IMF and Basel Committee on Banking Supervision (Pischke, 1991).

The impacts of NPLs are widespread and fall into three categories: On Banks: Since non-performing loans earn no interest, high NPL levels lower bank profitability. They lock up cash that might be utilized for new loans, restricting the bank's economic growth assistance. Since non-performing assets tie up capital, banks may have liquidity issues (Kebede, 2018).

On the Economy: High banking NPLs can cause a credit constraint, restricting company activity and economic growth. Reduced lending worsens economic stagnation (Zimbalchew, 2015).

On Borrowers: Non-performing loans can lead to legal action, asset confiscation, or creditworthiness harm, making future funding harder. This can have long-term effects on individuals and organizations, especially SMEs that need bank loans to thrive (Pischke, 1991).

2.2 Non-Performing Loan Management Practices

Financial institutions struggle with non-performing loans (NPLs) caused by borrower financial mismanagement and exogenous variables including weather and market price volatility (Beck & Demirgüç-Kunt, 2009). These unavoidable occurrences set a baseline for loan defaults that banks anticipate through risk management. Financial institutions often use poor loan provisions or insurance to mitigate this risk (Bofondi & Gobbi, 2017). To cover possible losses, several companies apply a risk premium to lending interest rates (Jiménez & Saurina, 2004).

Weak bank management, regulatory monitoring, and overconfidence in creditworthiness during economic expansions make the financial industry more unstable. Moral hazard from excessive government promises or bailout anticipation increases these dangers. International financial market exposure might increase vulnerabilities under economic crisis (Kebede, 2018).

NPL management is essential to financial stability and lending operations. Several essential elements impact effective NPL management, which mitigates risks and improves recovery rates. These factors include:

2.2.1 Loan appraisal

Loan appraisal assesses a borrower's creditworthiness and loan feasibility (Kebede, 2018). It evaluates the borrower's finances, repayment ability, and collateral. A good loan evaluation system helps detect hazards early, lowering non-performing loans. Key factors include rigorous financial statement and cash flow projection revaluation, collateral value and marketability assessment, and borrower industry and economic environment study (Kebede, 2018).

2.2.2 Credit policy

Loan choices are governed by credit policy (Cole & Mishler, 1998). A clear credit policy assures loan approvals, risk assessment, and portfolio management uniformity. Clear eligibility requirements for borrowers (Kebede, 2018), risk-based pricing mechanisms such credit risk-based interest rate modifications, and restrictions on exposure to certain sectors or borrowers to diversify risk are included.

2.2.3 Loan recovery procedures

Loan recovery procedures are used to collect debt from defaulters (Agarwal et al., 2011). Minimizing losses and sustaining liquidity need effective recovery methods. Key components include timely identification of delinquent loans through monitoring systems, structured follow-up actions like reminders, negotiations, and restructuring options, and legal recourse like collateral liquidation or court proceedings when necessary.

2.2.4 Repayment plan

A repayment plan specifies loan repayment conditions and timing. By matching repayment responsibilities to cash flow, flexible and realistic repayment programs can decrease defaults (Karlan & Zinman, 2009). Considerations include tailoring repayment schedules to the borrower's income cycles (Kebede, 2018), offering grace periods or restructuring options for temporary financial difficulties, and regularly reviewing and adjusting repayment terms based on changing circumstances.

2.3 Related Theories

Two ideas underpinned this research: the financial accelerator hypothesis and the asymmetric information theory of NPL recovery. These assumptions will show how Non-Performing Loan management practices affect recovery and other profit-driven enterprises.

2.3.1 The Financial Accelerator Theory

The Bernanke and Gertler (1999) financial accelerator hypothesis describe how economic shocks can worsen small-scale enterprises, which affects financial institutions' lending. The idea emphasizes how a borrower's net worth affects external financing due to lender-borrower knowledge asymmetry. Net worth is a borrower's assets plus non-asset collateral minus outstanding commitments. However, the external finance premium is the difference between externally obtained funds and internal fund opportunity costs (Bernanke & Gertler, 1999).

The idea states that the less equity a borrower gives to a project, the more their interests differ from those of the external finance provider (Gocejna, 2016). Higher profits on risky ventures encourage borrowers to take them on. However, lenders dislike such projects since they shoulder most or all of the expenses if returns are low. According to the hypothesis, economic shocks might make it harder for borrowers to get loans and raise the chance of loan defaults (Carroll & Buchholtz, 2017).

The study uses this theory to emphasize the necessity of loan restructuring and flexible repayment arrangements to prevent economic shocks and NPLs. Financial institutions may improve loan recovery and financial stability by resolving asymmetric information and aligning borrower and lender interests.

2.3.2 Asymmetric Information Theory

The idea of asymmetric information, established by Akerlof, Spence, and Stiglitz (1970), describes transactions when one party has more or better knowledge. Loan scenarios commonly involve this asymmetry since borrowers know more about their finances than lenders. This information asymmetry makes it hard for lenders to discriminate between high-risk (bad) and low-risk (good) borrowers, increasing the chance of NPLs, according to Kipyego (2017). Lenders use screening procedures including credit history and income proof to address this issue, however these methods offer limited insights (Kipyego, 2017).

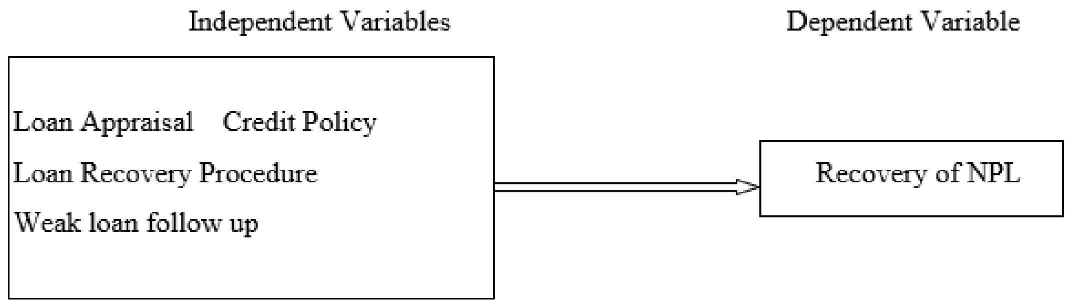
Okundi (2015) stresses that lenders may make better judgments and reduce credit risk and NPLs if borrowers offer accurate and complete financial information during the credit application process. This boosts loan portfolio quality. However, lenders' inability to acquire comprehensive and accurate information generally leads to poor credit monitoring, increasing loan defaults and lowering Recovery of Non-Performing Loan Performance.

The idea shows how information openness reduces credit risk and improves loan recovery, making it applicable to our investigation. However, it has limits. Asymmetric information can cause adverse selection, when lenders lose a lot of money owing to unreported risks. This highlights the difficulties financial institutions confront when lending based on inadequate or erroneous information, which often leads to high default rates and financial crises (Gaithi, 2015).

2.4 Previous Studies

This research cites Abay and Gatimu. Abay's (2006) Assessment of Recovery of Non-Performing Loan Performance in Construction and Business Bank is the initial reference. The study examined CBB loan recovery progress and success. A survey of 206 CBB workers, with 136 employees sampled, examined four important factors: loan assessment, credit policy, loan recovery processes, and insufficient loan follow-up.

Figure (2.1) Conceptual Framework for Assessment of Recovery of Non-Performing Loan Performance in Construction and Business Bank.

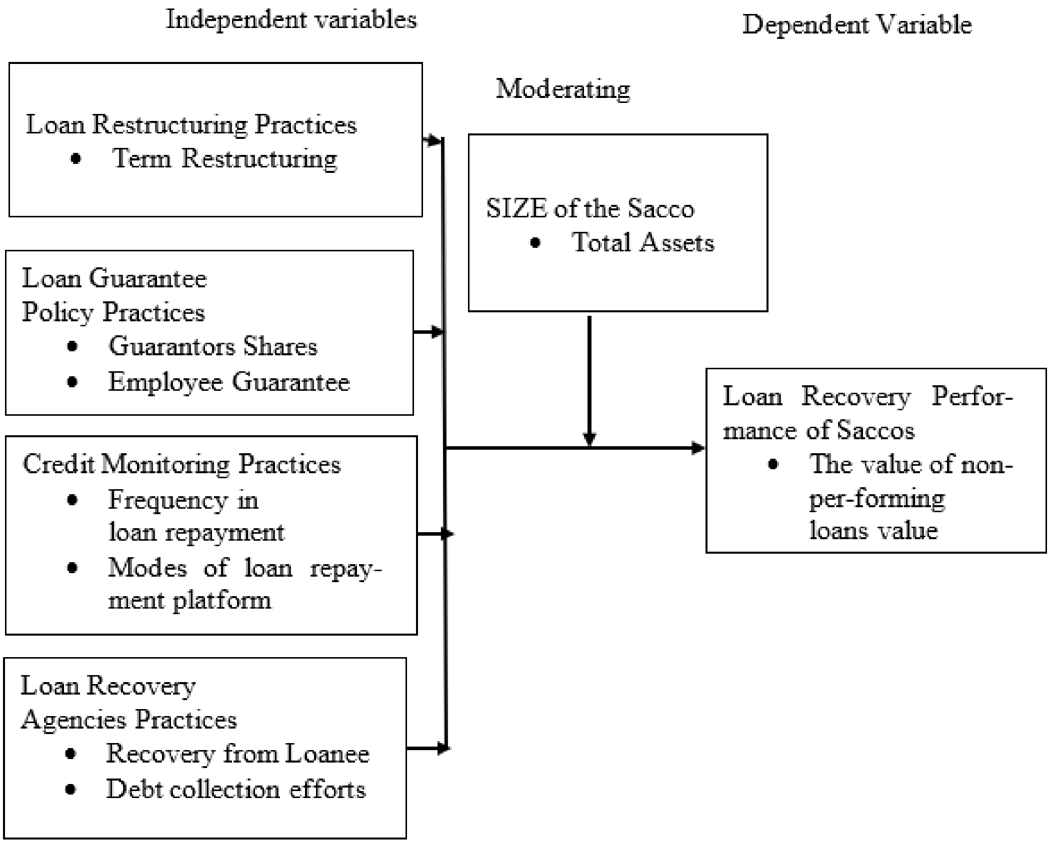


Source: Abay (2006)

NPLs have internal and external causes, according to this study. Internal problems including ridged credit policy, unclear credit approval procedures, and insufficient follow-up to recover non-performing loans hurt the bank's recovery performance. Banks cause cash flow issues, which raise provisioning. This lowered bank profits. It also damaged capital adequacy and liquidity, which might prevent the bank from extending new facilities and increase loan non-recovery, which incurs debit Recovery costs. The study found that business failure, consumer inability to repay loans on time, and customer ignorance cause NPL (Abay, 2006).

The second reference is Gatimu (2018), which examined how non-performing loan management practices affect deposit-taking savings and credit cooperatives in Kenya. Her second research article, Gatimu (2018), examined how non-performing loan management practices affect performance recovery. This study targeted 166 senior management teams of SASRA-registered SACCOs in Kenya in 2018. SASRA (2017) lists 166 SACCOs. Gatimu (2018) examines four variables to determine how management strategies affect NPLs: Loan restructuring, guarantee policy, credit monitoring, and loan recovery agency policies affect Kenyan SACCO loan recovery performance.

Figure (2.2) Conceptual Framework of Effect of Non-Performing Loan Management Practices on Loan Recovery Performance of Deposit Taking Saving and Credit Cooperatives in Kenya



Source: Gatimu (2018)

Kenya's banking sector and GDP benefit from the deposit-taking Sacco industry. Loans are Saccos' primary asset. However, the regulator and other stakeholders have noticed the surge in non-performing loans in Saccos, which has led to their unprecedented collapse.

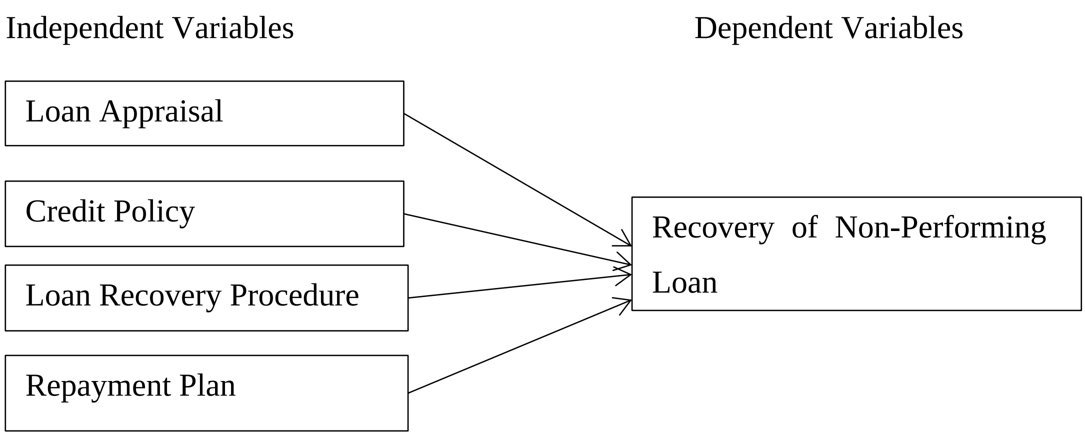
Stakeholders will use this study's findings to make loan performance management and policy choices in Saccos.

2.5 Conceptual Framework of the Study

According to the theoretical backdrop and past studies, Non-Performing Loan Management Practices and recovery are linked. The dependent variable is Non-Performing Loan recovery, while the independent variable is management methods obtained for this research. These include loan evaluation, credit policy, loan recovery, and payback plan.

This study will examine if independent variables affect the dependent variable. Non-Performing Loan management and recovery will also be examined. Finally, it will examine how the bank's Non-Performing Loan management strategies affect loan recovery.

Figure (2.3) Conceptual Framework of the Study



Source: Own compilation (2025)

Working Definition

Based on previous researchers, the following working definitions is specified for this study.

Loan Appraisal

A loan proposal is a well-organized written report that evaluates a customer's request for credit facilities and provides recommendations for the approving authority's decision.

Credit policy

A credit policy is established to standardize the lending process, encompassing comprehensive guidelines for credit risk management and banking practices. It also serves as a framework for managing the credit risks undertaken by the bank.

Loan Recovery procedure

Loan Recovery Procedure refers to the systematic process used by financial institutions or lenders to monitor and ensure the repayment of loans. It involves tracking loan accounts, communicating with borrowers, and taking necessary actions to recover overdue payments.

Repayment plan

A repayment plan is a way to pay back a loan over an extended period, generally by making fixed monthly payments.

Recovery of Non-Performing Loan

Recovery of Non-Performing Loan is recoup some or all of loans where the borrower has failed to make scheduled payments for a specified period.

CHAPTER 3

BACKGROUND INFROMATION OF SMED BANK

This chapter provides SMED Bank background. The following are SMED Bank's profile, organizational structure, banking services, and liquidity management methods.

3.1 Profile of SMED Bank

Previously known as the Small and Medium Enterprise Development Bank (SMED Bank), the Myanmar Industrial Development Bank (MID Bank) continues to operate under its current name. It began operations in 1996 and continued to function as a semi-government bank until the year 2010. In 2010, the bank went through a process of reorganization and eventually became an independent public bank. Previously known as SMID bank, the financial institution is currently managed by a board of directors that is selected by the owners of the company. In accordance with the requirements asked for by the Small and Medium Enterprise Development Bank, the name was changed in the month of May throughout 2019. As a development finance institution, the bank was established with the primary objective of meeting the special needs of small and medium-sized firms (SMEs) by providing them with both financial and non-financial services. This was the major reason for the bank's foundation. It is the mission of the Small and Medium Enterprise Development Bank (SME Development Bank) to augment the products and services provided by other development and commercial banking institutions. The SME Development Bank was established with the intention of strengthening the national implementation infrastructure via enhanced SME capability.

Through the creation of jobs and the production of essential replacement parts and alternative equipment, small and medium-sized enterprises (SMEs) make a substantial contribution to the expansion of the economy. This helps our country save a large amount of foreign money. The small and medium-sized enterprise (SME) sector is constantly expanding as our nation's industrial sector and gradually becoming a more significant contributor to our exports. However, this industry is confronted with a number of similar challenges, such as a lack of technical experience, a lack of long-term financial support, a paucity of qualified labor, a lack of marketing connections, research and development, and understanding of environmental pollution, safety measures, and cleanliness. We need to acquire the essential institutional knowledge in order to successfully complete the technical and managerial education programs. In addition to this, we need to urge academics and researchers to put in more work in order to foster the rapid expansion of the sector. As a result, SMED Bank was making an effort to heighten its efforts to promote this sector in order to expand the size of its industrial base and the quantity of foreign commerce that it engages in as part of its growth strategy.

At the moment, SMED Bank provides services such as deposits, remittances, loans and lending services, payroll services, payment orders, payment guarantees, card payments, and electronic payment services respectively. SMED Bank now operates 26 branches around the country and has between 500 and 1000 employees. These employees include directors, managers, senior management, and other staff members. SMED Bank's sites are spread out over the country. In addition to the committees for asset and liability management, nomination, and remuneration, the boards of directors of the bank are responsible for overseeing the administration of the bank's committees. These committees include the executive committee, management committee, audit committee, risk committee, and credit committee.

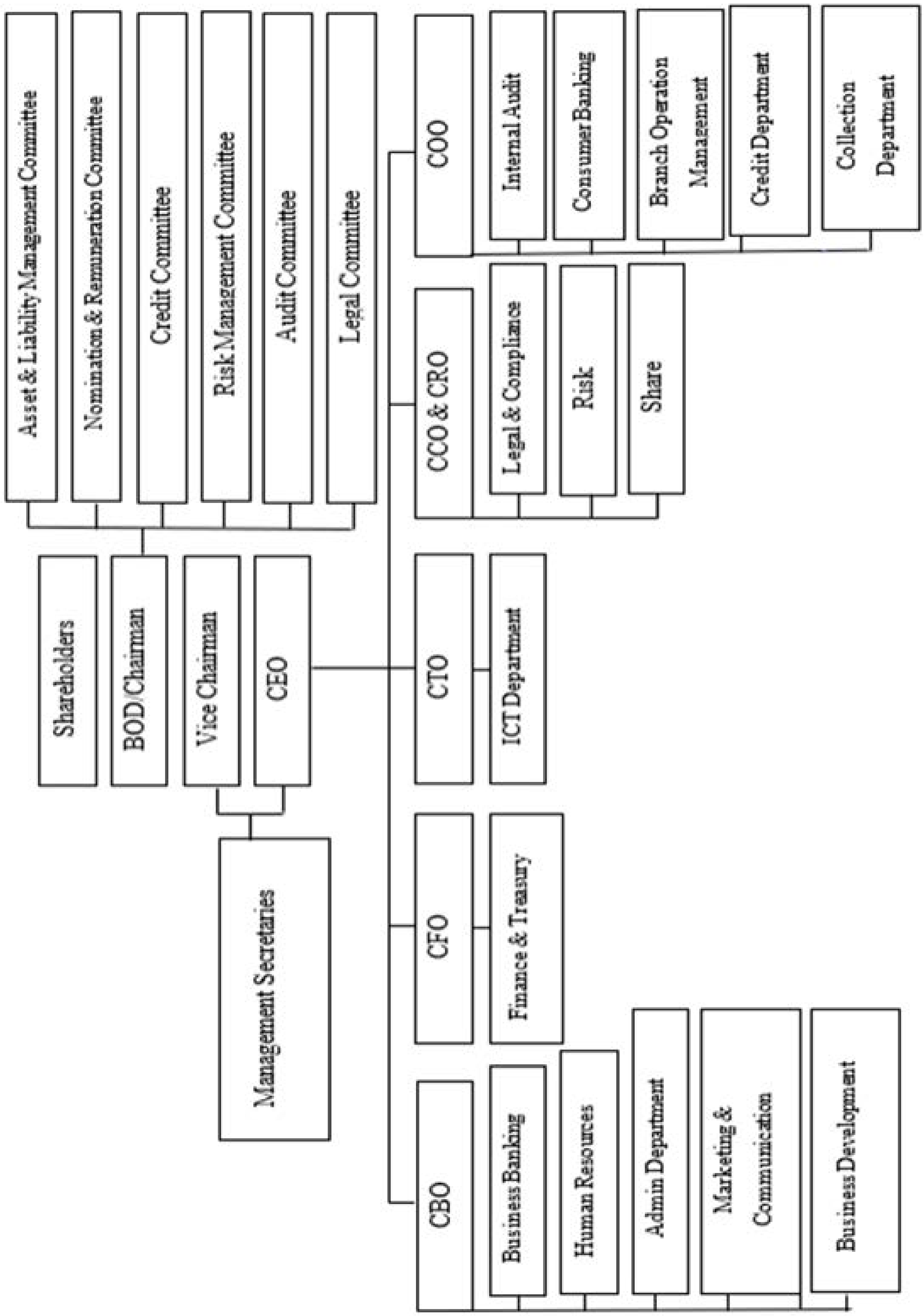
Objectives, Vision, Mission and Brand Values of SMED Bank

Through the provision of financial services to the local small and medium-sized enterprises (SMEs) sector and the facilitation of their entry into export-oriented markets, the SMED Bank seeks to achieve its goals of fostering economic growth in the nation. Small and medium-sized enterprises (SMEs) are the focus of SMED Bank's goal, which aims to transform the bank into the leading financial institution that supports their expansion. Providing assistance to the expansion of Myanmar's small and medium-sized enterprise (SME) sector and economy is a component of the mission. Among the other objectives are the facilitation of consumer access to banking facilities and the generation of additional income through the implementation of innovative digital financial services that are advantageous to both individual and corporate customers, as well as shareholders. The dedication of SMED Bank to its shareholders, small and medium-sized enterprises (SMEs), the general public, and the government is emphasized here.

3.2 Organization Structure of SMED Bank

The organizational structure of the SMED Bank is comprised of thirteen departments and four management committees, which include the Board of Directors and an independent audit committee. Not only does the chairman head the executive committee, but he or she also acts as the chairman of the board of directors. Following that are the CEO, CBO, CFO, CTO, COO, CCO, COO and Dy CRO at the executive management level. Each and every department is under the supervision of the Chief Executive Officer. Additionally, C-Levels have direct responsibility over the departments that they are responsible for supervising. Furthermore, senior management, which comprises assistant general managers all the way up to senior general managers, is responsible for overseeing each and every related and interconnected department. The SMED Bank organization structure may be summarized as follows:

Figure 3.1 Organization Structure of SMED Bank



Source: Annual report of SMED Bank (2024)

3.3 Banking Services of SMED Bank

SMED Bank offers a range of banking services designed to meet the needs of individual and corporate customers. The key services provided by SMED Bank include the following services.

3.3.1 Loan Services

SMED Bank provides small and medium-sized enterprises (SMEs) with a variety of tailored lending options, such as cash flow-based loans, working capital loans, term loans for expansion, and project financing products. Additionally, it offers microloans to new firms and small businesses in order to help them. The CFB Loan, also known as the Cash Flow-Based Loan, is the major product offered by the bank. This loan takes into consideration a company's cash flow and profitability rather than depending exclusively on collateral. SMED Bank is committed to providing funding to critical small and medium-sized enterprise sectors in order to stimulate economic growth. Furthermore, it offers personal loans, such as those for staff, education, hire purchase, and mortgage loans, in addition to corporate loans, which include financing for projects, manufacturing, information technology, overdrafts, green finance, tenders, commercial requirements, term loans, and funding from the Japan International Cooperation Agency (JICA).

3.3.2 Acceptance of Deposits

The interest rates that are offered by SMED Bank are as follows: Compared to fixed deposits, savings accounts offer 7.25% annually, whereas fixed deposits yield 8% for one month, 8.5% for three months, 8.75% for six months, 8.9% for nine months, and 9% for twelve months. Deposits made in the form of calls that are less than fifty million MMK get a 2% yearly bonus, while balances that are greater than fifty million MMK receive an extra 2% bonus on daily balances. Deposits that are up to date do not accrue interest. In addition, the bank offers special call deposits at a rate of 7% per year for daily deposits and a rate of 7.25% per year for savings accounts belonging to young people.

3.3.3 Domestic Remittance Services

Through its 26 locations located all around the nation, SMED Bank offers remittance services. Additionally, the bank works in partnership with eleven local private banks, including KBZ Bank, Cooperative Bank, Myawaddy Bank, and Yoma Bank. Additionally, the bank is able to ease money transactions between customers by utilizing the Customer Credit Transfer (CCT) service, which is offered in conjunction with other domestic banks. Online tax payments are also available through CBM NET.

3.3.4 Payroll Services

Through the use of ATM cards, SMED Bank provides businesses with a payroll solution that is both easy and enables them to pay employee salaries in a timely and correct manner. Through the use of this effective service, businesses are able to save time, protect the safety of their transactions, and streamline their payroll management processes, all while encouraging better financial practices.

3.3.5 ATM and Cards

In order to provide consumers with quick debit services, SMED Bank is placing point-of-sale devices in locations such as shopping malls, restaurants, and airports. The bank is also extending its network of automated teller machines (ATMs) in public places in order to boost accessibility. In addition, SMED Bank intends to provide credit cards, with the goal of simplifying, simplifying, and simplifying the usage of financial services for all of their customers.

3.4 Non-Performing Loan Management Practices of SMED Bank

In order to keep SMED Bank's finances stable, one of the most important processes is the management of non-performing loans, often known as NPLs. The process includes loan appraisal in order to evaluate the risk of the borrower, stringent credit policies in order to prevent defaults, and organized recovery procedures for loans that are past due. When loans are considered non-performing, which means they have not been paid back for more than 180 days, the bank pursues a series of procedures, including talks for repayment, restructuring, and legal action, if necessary. In order to reduce losses, it is helpful to notice payment delays early on and take preventative steps. These policies ensure that loans are recovered effectively while maintaining a balance between equitable treatment of borrowers and preservation of the bank's interests.

3.4.1 Loan Appraisal of SMED Bank

It is necessary for SMED Bank to conduct a loan assessment in order to determine whether or not a borrower is creditworthy before granting a loan. In order to reduce risk, the bank evaluates the borrower's financial history, their ability to repay, and the value of the collateral. According to the state of the loan's repayment, it is divided into five categories: Standard (performing as agreed), Sub-Standard (181–365 days overdue), Doubtful (12–24 months overdue), and Bad Debt (uncollectible, such as debts that have been overdue for more than 24 months or cases of bankruptcy).

For debts that have been overdue for more than one hundred eighty days, SMED Bank implements a systematic recovery strategy for those loans that have been non-performing. In the beginning, the Loan Recovery Department examines the borrower's case, investigates the borrower's credit history, and examines the collateral to ascertain its current estimated market worth. In the subsequent step, the bank negotiates repayment schedules, giving interest a higher priority than principle. It is possible that the borrower will be subject to reorganization or legal action if they do not cooperate.

Identification of risk indicators at an early stage is essential. When an account is monitored by the bank, it looks for warning indications such as delayed payments, decreased company activity, or a decrease in the value of the collateral. In the event that risks are identified, the financial institution may restructure the loan or reschedule the repayments, particularly in the case of long-term loans. When it comes to short-term loans, however, the possibilities for restructuring are restricted.

In an effort to prevent drawn-out court proceedings, which are expensive for both the bank and the debtors, SMED Bank investigates the possibility of reaching a compromise settlement before starting legal action. Legal action is a last choice since it frequently lowers the value of the collateral and slows the recovery process. Borrowers are encouraged by the bank to sell their collateral on their own volition, which results in higher profits than auctions that are imposed upon them.

When a bank is able to successfully recover loans, it increases its income, preserves the trust of its customers, and helps its shareholders. By maintaining a healthy equilibrium between adaptability and stringent risk management, SMED Bank keeps its financial stability intact while also ensuring that borrowers are treated fairly.

3.4.2 Credit Policy of SMED Bank

While providing assistance to borrowers, SMED Bank upholds a thorough credit policy in order to control the risks associated with lending. Standards for loan approval, risk categorization, monitoring methods, and recovery mechanisms for non-performing loans (also known as NPLs) are all included in the policy. Through the use of this methodical methodology, financial stability is maintained while ensuring equitable treatment of customers. All loan applications are subjected to a thorough evaluation by the bank. It investigates the borrower's credit history, as well as their ability to repay and the value of the collateral. In order to be approved, loans must first satisfy stringent requirements. In order to conduct an appropriate risk assessment, the bank considers the current market values to determine the value of the collateral. According to the status of the borrower's payments, SMED Bank divides loans into five distinct categories: According to the terms of the agreement, standard loans "Sub-Standard Loans" are loans that are late by 181-365 days, "Doubtful Loans" are loans that are overdue by 12-24 months and have a significant chance of defaulting, and "Bad Debt" are loans that are uncollectible (bankruptcy or more than 24 months overdue). The financial institution keeps a close eye on all loans, carefully monitoring them for risk signs such as decreased company operations, the death or bankruptcy of important promoters, a loss in the value of the collateral, payment delays, and a decrease in business turnover. As soon as these are identified, they activate heightened surveillance and the possibility of intervention. A structured recovery process is followed by the bank for loans that are overdue for more than 180 days. This process includes a case review and field inspection, an assessment of the borrower's capacity to repay the loan, a negotiated settlement that gives priority to the recovery of interest, restructuring for potentially viable borrowers, compromise settlements prior to legal action, and collateral liquidation as a last resort.

Because borrower-initiated collateral sales generate 20-30% better recovery, legal processes take 3-4 years with increased expenses, court proceedings diminish collateral values, and litigation damages customer relationships, the bank places a greater emphasis on voluntary solutions than it does on legal action. The implementation of this strategy is a collaborative effort between the Head Office Monitoring Department, relationship managers, and branch managers on the ground. They investigate the factors that led to the default and implement suitable solutions while adhering to the regulations set out by the Central Bank.

The credit policy strikes a balance between risk management and providing help to customers. While at the same time offering equitable solutions to borrowers who are experiencing problems, it safeguards the bank's financial health. A successful implementation helps to preserve the quality of the portfolio, the confidence of customers, and the value of shareholders.

3.4.3 Loan Recovery Procedure of SMED Bank

A systematic loan recovery approach is utilized by SMED Bank in order to effectively handle non-performing loans (NPLs) while simultaneously ensuring that borrowers are treated in a fair manner. After loans have been late for more than 180 days and have been categorized as non-performing loans (NPLs), the procedure begins. In the beginning, the Loan Recovery Department will perform a comprehensive review of each individual case. Among these considerations are the review of borrower files, the examination of credit histories, and the assessment of the current value of collateral based on market values. Confirmation of the borrower's financial situation and capacity to repay the loan is accomplished through the use of field inspections. The group determines whether or not loan contracts are legitimate and analyzes the factors that lead to default.

Before ever contemplating taking legal action, the bank gives negotiated settlements the highest priority. Recovery officers collaborate with borrowers to develop revised repayment plans. These plans typically include prioritizing interest payments over principal payments, providing options for installment payments, taking into consideration partial settlements, and extending repayment periods for long-term loans while maintaining the original contract terms. The financial institution keeps a close eye on all accounts to identify potential risk signs, such as decreases in company operations, delays in payments, decreases in collateral value, and large dips in turnover. Whenever these are discovered, they result in increased surveillance and the possibility of intervention. In the event that the restructuring attempt is unsuccessful, the bank will proceed by investigating options that are mutually advantageous. This will involve comparing the prospective recovery amounts from fast settlements to those from prolonged litigation. It is recommended that borrowers sell their collateral on their own will, since this often results in a recovery that is 20-30% greater than that of forced auctions. In the event that all other options have been exhausted, the bank will commence legal processes through authorized attorneys, all the while making sure that the borrowers are aware of the potential financial consequences.

The bank determines the most economically feasible approach by taking into account the following factors: the time value of money, the possible depreciation of collateral, the expenses of litigation and the duration of the process (usually three to four years), and the fact that all recovery actions conform with the requirements of the Central Bank and the internal risk standards. Through the utilization of this well-rounded strategy, recovery is maximized while client relationships are maintained. When non-performing loans (NPLs) are successfully recovered, the bank's financial performance, reputation, and stakeholder value are all improved. The method exemplifies SMED Bank's dedication to responsible lending practices, which are beneficial to the institution as well as to the customers it serves.

3.4.4 Repayment Plan of SMED Bank

For the purpose of assisting debtors in the management of non-performing loans (NPLs), SMED Bank creates structured payback plans. A debt is considered to be past due when it has been late for more than one hundred eighty days. Within the context of safeguarding its financial interests, the bank places a high priority on finding flexible methods to reestablish repayment discipline. Through collaboration with debtors, the Loan Recovery Department develops individualized repayment strategies. Plan choices that emphasize interest payments over principal payments, give installment alternatives that are customized to the borrower's ability, and take partial settlements into consideration are often included in these plans. It is possible for the bank to prolong the payback periods for long-term loans while maintaining the original loan terms if it is deemed impossible to repay the debt in its whole.

A clear timetable that contains attainable amounts and dates is included in each repayment plan. Additionally, an evaluation of the borrower's current income, costs, and assets is included, as well as an updated market appraisal of the assets that have been pledged. The borrowers are required to provide their consent to the frequent monitoring of their financial condition, the quick reporting of any significant changes, and the adherence to the payment plan that has been established.

Restructured conditions (for feasible instances), voluntary collateral liquidation (preferred way), and legal action (last resort) are the three options that the bank will pursue in the event that borrowers cannot be persuaded to comply with the agreed plan.

The financial institution highlights that the recovery rate for borrower-initiated asset sales is twenty to thirty percent greater than that of forced auctions. This strategy strikes a compromise between the aims of recovery and the equitable treatment of clients who are seriously experiencing financial difficulties. Loan performance can be restored through the implementation of effective repayment arrangements, while banking relationships can survive.

CHAPTER 4

ANALYSIS OF INFLUENCING FACTORS ON RECOVERY OF NON PERMORMING LOAN OF SMED BANK

This chapter summarizes the study's survey data analysis results and main conclusions. It describes the research design, respondent demographics, and SMED Bank NPL recovery variables. The research identifies key characteristics that affect loan recovery success, revealing SMED Bank's present policies and opportunities for improvement.

4.1 Research Design

This quantitative study examined SMED Bank loan recovery procedures. SMED Bank non-performing loan management is examined in this study. Structured survey questionnaires with two parts collected data. The first component asks employees about their gender, age, education, present job, working experience, and department at SMED Bank. SMED Bank's lanmadaw branch, kamaryut branch, and loan, legal, loan recovery, and audit departments received these surveys.

The questionnaire was completed by 56 of 65 SMED Bank supervisors to senior executive managers in loan, legal, loan recovery, audit, lanmadaw branch, and kamaryut branch. The sample represents 86% of the population. Junior and senior assistant-level workers compose the remaining 14% and help their departments and branches without actively managing non-performing loans. SPSS software was used for mean, standard deviation, and regression analysis after data collection.

The second portion of the questionnaire evaluates non-performing loan management procedures for recovery. It measures the degree of these activities and their impact on non-performing loan recovery using a five-point Likert scale (1 = strongly disagree, 2 = disagree, 3 = neutral, 4 = agree, and 5 = very agree). This section contains 26 assertions on independent and dependent variables to determine SMED Bank non-performing loan recovery factors. The statements are classified as loan assessment, credit policy, loan recovery method, payback plan, and non-performing loan recovery.

4.2 Demographic Characteristics of the Respondents

A sample of 56 SMED Bank personnel from loan, legal, loan recovery, audit, Lanmadaw branch, and Kamaryut branch were used for demographic study. As shown in Table (4.1), the sample is grouped by gender, age, education, current job, working experience, and department. This classification clarifies the sample's demographics.

Table (4.1) Demographic Profile of the Respondents

Particular	Demographic Profile	Frequency	Percentage
Gender of Respondents	Male	15	26.8
	Female	41	73.2
Age of Respondents (Years)	21 to 30	2	3.6
	31 to 40	8	14.3
	41 to 50	30	53.6
	Above 50	16	28.5
Education	Master Degree	11	19.6
	Post Graduate Diploma	14	25
	University Graduate	31	55.4
Current Position	General Manager and Above	3	5.4
	Deputy General Manager	4	7.1
	Assistant General Manager	3	5.4
	Manager	10	17.9
	Assistant Manager	12	21.4
	Assistant Supervisor/Supervisor	14	25.0
	JA/SA	10	17.8
Working Experience (Years)	Less than 1	3	5.4
	1 to 2	6	10.7
	3 to 5	13	23.2
	More than 5	34	60.7
Departments	Audit	3	5.4
	Branches	19	33.8
	Collection	6	10.7
	Credit	9	16.1
	Finance	7	12.5
	Legal & Compliance	10	17.9
	Risk Mngt	2	3.6
Total		56	100

Source: Survey Data (2025)

According to Table (4.1), there are 56 respondents in total, 26.8% males and 73.2% females. The data shows a significant gender disparity among respondents, with females representing a substantially larger proportion compared to males. This indicates that the workforce in these department is predominantly female within the SMED Bank workforce.

The age group of 41 to 50 years was the most represented, making up 53.6% of the total respondents. The second-largest group was those above 50 years was 28.5%, followed by 31 to 40 years was 14.3%. The youngest group, 21 to 30 years was 3.6%. This suggests that the respondents were predominantly middle-aged and older.

University graduates formed the majority at 55.4%, followed by those with a Post Graduate Diploma was 25%, and Master’s Degree holders were 19.6%. This reflects a relatively high level of education among the respondents.

The largest group of respondents held the position of Assistant Supervisor and Supervisor 25%, followed by Assistant Manager 21.4%, Manager 17.9%, Junior Assistant and Senior Assistant 17.8%, Deputy General Manager 7.1%. and Assistant General Manager 5.4%. Higher-ranking positions such as General Manager and above were 5.4%, indicating that most respondents were in middle level roles.

A significant majority of respondents had more than 5 years of working experience at 60.7%, while those with 3 to 5 years of experience 23.2%. Only a small proportion had less than 2 years of experience at 10.7% and less than one year of experience at 5.4%. This highlights the prevalence of experienced professionals in the sample.

The Branches department had the highest representation at 33.8%, followed by Legal & Compliance at 17.9% and Credit at 16.1%. The Finance department had 12.5%, the Collection department had 10.7%, the Audit had 5.4% and Risk Management departments had 3.6%, the lowest representation. This distribution reflects the varying sizes or importance of departments within the organization.

4.3 Respondent Perception of Non-Performing Loan Management Practices on Recovery of Non-performing Loan

The impact of loan recovery performance of SMED Bank was investigated in this research, and respondents' opinions were expressed using a Likert scale. We requested the 56 SMED Bank (Department) workers to explain their results.

Respondents in this survey answered their perceptions using a Likert scale. Table (4.2) contains the interpretation of the ranges of mean values.

Table (4.2) Mean Rating Scale

Sr.No	Score Range	Mean Rating
1	1.00-1.80	Very Low
2	1.81-2.60	Low
3	2.61-3.40	Neutral
4	3.41-4.20	High
5	4.21-5.00	Very High

Source: Best (1977)

The mean score between 1.00-1.80 indicated a lowest level of agreement, a score of 1.81-2.60 indicated Low level of agreement, a score 2.61-3.40 indicated Neutral level of agreements, and a score of 3.41-4.20 indicated a high level of agreement and 4.21-5.00 indicated a highest level of agreement.

4.3.1 Non-performing Loan Management Practices

This study examines the key demographic factors that influence credit officers' loan appraisal processes for credit risk assessment, as outlined in the table below.

(A) Loan Appraisal

The following Table (4.3) presents respondents perceptions of Loan Appraisal practice at SMED Bank, gathered through five survey questions.

Table (4.3) Perception of Loan Appraisal

Sr. No.	Statement	Mean	St. Dev
1	Securing loans by taking strong collateral guarantees from borrowers.	4.27	.618
2	Checking the borrower's ability to repay, business stability, and collateral before approving a loan.	3.63	.702
3	Ensuring all loan documentation is complete and verified before disbursement.	3.62	.648
4	Using a credit scoring system to determine borrower risk levels and loan terms.	3.48	.786
5	Staying in touch with borrowers by monitoring payments and following up regularly.	3.66	.745
	Overall Mean	3.73	

Source: Survey Data (2025)

According to Table 4.3 A survey of 56 respondents showed positive views about SMED Bank's loan appraisal methods. Scores ranged from 3.48 to 4.27 on five key areas. People agreed most (4.27) with how the bank uses strong collateral for loans. They agreed least (3.48) with the credit scoring system, though this was still good. Other areas scored well too: checking borrowers (3.63), verifying documents (3.62), and monitoring payments (3.66). The overall mean scores on all statements are 3.73, therefore the respondents are perceived on the loan assessment's factors of loan appraisal.

(B) Credit Policy

The following Table (4.4) presents respondents perceptions of Credit Policy practices at SMED Bank, gathered through five survey questions.

Table (4.4) Perception of Credit Policy

Sr. No.	Statement	Mean	St. Dev
1	Classifying loans as doubtful after 90 days of non-payment and writing them off after 180 days.	3.57	.806
2	Requiring approval from the Credit Management Committee for all loan decisions after careful review.	3.63	.676
3	Regularly checking loan portfolios to monitor risk (by the Credit Management Department).	3.61	.888
4	Using advanced software to improve credit risk analysis.	3.54	.830
5	Providing credit loans only when there is full coverage of insurance security.	3.70	.737
	Overall Mean	3.61	

Source: Survey Data (2025)

In Table (4.4), A survey of 56 people showed good ratings for SMED Bank's credit rules. Scores ranged from 3.54 to 3.70 on five important areas. People liked most (3.70) that the bank requires full insurance for loans. They liked least (3.54) the bank's use of computer programs for risk checks - though this was still good. Other rules also scored well: how loans are classified (3.57), needing committee approval (3.63), and checking loan risks (3.61). The average score of (3.61) across all statements indicates that respondents generally accept and adhere to the loan instructions and credit policy. This means that a high level of satisfaction with the credit policy among the respondents, as their responses reflect agreement with the stated policies and guidelines.

(C) Loan Recovery Procedure

The following table (4.5) shows the mean value of Loan Recovery Procedure. The scores' mean and standard deviation values are calculated and shown below and gathered through five survey questions.

Table (4.5) Perception of Loan Recovery Procedure

Sr. No.	Statement	Mean	St. Dev
1	Starting collection when loan interest is unpaid for over 90 days (by the Recovery Department).	3.59	.869
2	Checking the borrower's file and confirming all documents before taking action (by the Recovery Officer).	3.30	.872
3	Visiting borrowers to discuss repayment and assessing recovery options (by loan officers).	3.48	.831
4	Approving any loan restructuring plan (by the Recovery Department Head).	3.52	.738
5	Selling collateral before legal action if borrowers fail to repay (by the bank).	3.48	.809
	Overall Mean	3.48	

Source: Survey Data (2025)

Table (4.5) provides an overview of the survey of fifty-six respondents regarding SMED Bank's loan recovery procedures revealed generally positive evaluations, with mean scores ranging from 3.30 to 3.59 across five key aspects. Respondents showed strongest agreement (3.59) with the bank's practice of initiating collection when loan interest remains unpaid for over 90 days, while document verification by Recovery Officers received the lowest rating (3.30). Other recovery practices including borrower visits (3.48), restructuring approval requirements (3.52), and collateral liquidation (3.48) all scored within the moderate to high agreement range. The overall mean score of 3.48 reflects satisfactory approval of the bank's recovery policies.

(D) Repayment Plan

The following table (4.6) shows the mean value of Repayment Plan. The scores mean and standard deviation values are calculated and shown below and gathered through five survey questions.

Table (4.6) Perception of Repayment Plan

No	Particular	Mean	Std.Dev.
1	Preferring amicable loan repayment solutions over legal action (by the bank).	3.50	.809
2	Offering flexible repayment rescheduling options for defaulting customers.	3.50	.786
3	Setting aside loan loss provisions at the end of each reporting period.	3.57	.850
4	Proposing settlement options before starting legal action (by recovery officers).	3.50	.786
5	Using legal action as the last option only when all other recovery efforts fail.	3.59	.733
	Overall Mean	3.53	

Source: Survey Data (2025)

According to Table 4.6, respondents rated all five conditions highly, with an average mean score of 3.53. This indicates strong acceptance of all the statements presented in the table, demonstrating overall agreement with the assessed conditions.

(E) Overall Mean Scores of Non-Performing Loan Management Practices of SMED Bank.

Based on the statistical findings of SMED Bank analysis of Non-Performing Loan Management Practices. Table (4.7) shows the mean value for each of the four independent variables.

Table (4.7) Overall Mean Score of Non-Performing Loan Management Practices

NPL Management Practices	Overall Mean
Loan Appraisal	3.73
Credit Policy	3.61
Loan Recovery Procedure	3.48
Repayment Plan	3.53

Source: Survey data (2025)

Table (4.7) summarizes the survey of 56 respondents revealed consistent performance across SMED Bank's non-performing loan management practices, with overall mean scores ranging from 3.48 to 3.73. Loan Appraisal emerged as the strongest area (mean=3.73), followed by Credit Policy (mean=3.61) and Repayment Plan (mean=3.53), while Loan Recovery Procedure showed positive ratings (mean=3.48). These results demonstrate that respondents generally perceive SMED Bank's NPL management framework as effective, with particularly strong performance in loan appraisal processes.

4.3.2 Perception of Recovery of Non-Performing Laon in SMED Bank.

The following Table (4.8) shows perceptions of Recovery of Non-Performing Loan. The survey was collected from 6 different questionnaires.

Table (4.8) Perception of Recovery of Non-Performing Loan

No.	Particular	Mean	Std.Dev.
1	Reducing the NPL percentage (by SMED Bank).	3.57	.735
2	Improving overall loan recovery performance through flexible plans (by SMED Bank).	3.52	.738
3	Obtaining the target NPL percentage (by SMED Bank).	3.55	.807
4	Achieving good recovery of default loans (by SMED Bank).	3.62	.776
5	Maintaining good liquidity performance (by SMED Bank).	3.62	.776
6	Handling loan follow-up and recovery (by the credit and collection departments).	3.61	.802
Overall Mean		3.58	

Source: Survey data (2025)

The findings presented in Table 4.8 reveal an average mean score of 3.58, indicating strong respondent agreement with all statements regarding non-performing loan recovery.

4.3.3 Correlation between Non-Performing Management Practices and Recovery of Non-Performing Loan

This study examines the relationship between SMED Bank's non-performing loan (NPL) management practices and NPL recovery performance. Using correlation analysis (Urdan, 2016), we measured the strength and direction of this relationship on a scale from -1 to +1. Positive values indicate a direct relationship, where effective NPL management corresponds to better recovery outcomes, while negative values suggest an inverse relationship. Higher absolute values reflect stronger associations between variables. The analysis specifically evaluates how the bank's loan appraisal, credit policy, recovery procedures, and repayment plans correlate with its success in recovering non-performing loans, providing insights into which practices most significantly influence recovery performance is shown in Table 4.9.

Table (4.9) Correlation Analysis Between Non-Performing Management Practices and Recovery of Non-Performing Loan

	Coefficient of Pearson Correlation	P-Value
Loan Appraisal	.267**	.024
Credit Policy	.270**	.022
Loan Recovery Procedure	.378**	.020
Repayment Plan	.076	.650

Source: Survey Data (2025)

The correlation analysis revealed statistically significant positive relationships between SMED Bank's NPL management practices and recovery performance, with Loan Recovery Procedures showing the strongest correlation ($r = .378$, $p = .020$), followed by Credit Policy ($r = .270$, $p = .022$) and Loan Appraisal ($r = .267$, $p = .024$), all significant at $p < .05$. In contrast, Repayment Plans demonstrated no significant relationship with recovery outcomes ($r = .076$, $p = .650$). These results indicate that SMED Bank's NPL recovery performance is most strongly associated with its recovery procedures, while credit policies and appraisal processes also contribute meaningfully. The findings suggest that enhancing recovery procedures and maintaining robust credit policies would be most effective for improving NPL recovery, whereas current repayment plans appear to have negligible impact and may require fundamental redesign.

4.4 Analysis of the Effect of Non-Performing Management Practices and Recovery of Non-Performing Loan

This study identified loan appraisal, credit policy, loan recovery procedure, and repayment plan as independent variables. At the same time, Recovery of Non-Performing Loan was considered the dependent variable. In this study, we used multiple linear regression analysis to explore the impact of these factors on Recovery of Non-Performing Loan at SMED Bank.

Table (4.10) Effect of Non-Performing Management Practices and Recovery of Non-Performing Loan

Factor Influencing	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	VIF
	B	Std. Error	Beta			
(Constant)	-.172	.303		-.568	.572	
Loan Appraisal	.362**	.156	.267	2.327	.024	4.248
Credit Policy	.261**	.111	.270	2.359	.022	4.220
Loan Recovery Procedure	.349**	.146	.378	2.392	.020	8.057
Repayment Plan	.071	.156	.076	.456	.650	8.998
R Square	.842					
Adjusted R Square	.829					
F	67.813					
Statically significant indicate *** at 1%, ** at 5%, * at 10% level respectively						

A linear regression study examined how Loan Appraisal, Credit Policy, Loan Recovery Procedure, and Repayment Plan affect SMED Bank's non-performing loan recovery.

The study's multiple regression model ($F=67.813$, $p<.01$) shows a substantial influence of independent factors on Non-Performing Loan Recovery at the 1% level. The model explains 84.2% of variation in Non-Performing Loan Recovery ($R^2=.842$), with an adjusted R^2 of 0.842, indicating a satisfactory match.

Loan evaluation, with β 0.267 and p value 0.024, substantially affects Non-Performing Loan recovery at 5% significance level, suggesting a positive effect. Credit policy had a substantial beneficial influence on Non-Performing Loan recovery (β 0.270, p value 0.022) at the 5% significance level. Loan recovery technique with β 0.378 and p value 0.020 significantly impacts Non-Performing Loan recovery at 5% significance level, showing a significant influence. Since its p-value exceeds 5%, repayment plan does not affect Non-Performing Loan recovery. These data show that loan appraisal, credit policy, and loan recovery procedure improve NPL recovery, whereas price appears to have an influence.

CHAPTER 5
CONCLUSION

This study explored the influence of four key banking factors—Loan Appraisal (LA), Credit Policy (CP), Loan Recovery Procedures (LRP), and Repayment Plan (RP) on the recovery of Non-Performing Loan (NPL) at SMED Bank. Utilizing linear regression analysis, the research evaluated the significance of each factor in affecting loan recovery rates. The results offer important insights for financial institutions aiming to enhance their strategies for recovering delinquent loans. This chapter summarizes the primary findings, discusses their implications, and provides recommendations for policy and operational improvements.

5.1 Finding and Discussion

According to the demographic data, the percentage of female employees who participated in various departments and branches occurred at an extremely high level. Considering the amount of time that respondents have been employed by the bank, the majority of them have been there for more than five years, which indicates that the staff is both steady and experienced. In terms of educational credentials, the majority of respondents possess postgraduate degrees, which shows that they are universal graduates. This contributes to a workforce that is informed and talented, and is able to handle difficult financial activities. Based on the arrangement of departments, it can be deduced that the workforce of the Operation Management Department contributes the most to the study. The breakdown of responders according to their positions reveals that a significant number of them have management positions. In light of this, it is clear that the managerial level is of utmost importance when it comes to comprehending the practices of non-performing loan management and the recovery of non-performing loans across several levels within the business. The procedures of SMED Bank regarding the handling of non-performing loans, with total mean ratings range. The section that received the highest scores was the Loan Appraisal, followed by the Credit Policy and the Repayment Plan. The Loan Recovery Procedure also received great ratings. Based on these findings, it is clear that an overwhelming majority of respondents consider the non-performing loan management framework of SMED Bank to be successful, with a particularly excellent performance in loan evaluation procedures.

Loan Appraisal, Credit Policy, and Loan Recovery Procedure were found to have high level perceptions, suggesting that they are significant for Recovery of Non-Performing Loan at SMED Bank. This was the first aim of the study, which was to determine the elements that influence Non-Performing Management Practices at SMED Bank.

Based on the findings of the investigation, it was determined that Loan Appraisal has a favorable influence on NPL recovery that is statistically significant and shows a positive effect. The conclusion that can be drawn from this is that stringent loan appraisal procedures, which include comprehensive borrower credit assessments and risk evaluations, improve the bank's capacity to recover loans obtained. A well-structured evaluation system not only guarantees that loans are only given to borrowers who are creditworthy, but it also reduces the risk that borrowers would fail on their loans. These findings are consistent with previous research that has highlighted the significance of conducting thorough study prior to the granting of loans.

Additionally, Credit Policy was shown to have a considerable beneficial influence on loan recovery, demonstrating that it actually had a favorable effect. It may be deduced from this that credit policies that are both transparent and strict contribute to improved loan performance. The implementation of stringent collateral requirements, interest rate modifications depending on risk, and proactive monitoring of borrower financial health are all examples of policies that may be quite effective. These findings provide credence to the current body of research that emphasizes the significance of institutional credit frameworks in reducing the number of defaults on loans.

The findings of the study indicate that the presence of a Loan Recovery Procedure (LRP) has a favorable impact on the process of obtaining loans, demonstrating a considerable and strong positive effect. Banks need to develop clear action steps when payments are late, offer flexible repayment choices for borrowers who are having difficulty making their payments, and maintain consistent tracking and follow-up processes in order to achieve the best possible results. These well-designed recovery systems make it possible for banks to deal more effectively with borrowers who have fallen behind on their payments and to obtain greater rates of payback. Recent research lends credence to this strategy, demonstrating that the most successful outcomes are achieved via the implementation of individualized recovery programs that are tailored to the specific circumstances of each borrower.

The results of the Repayment Plan were determined to be statistically insignificant, which was contrary to what was anticipated. In light of this, it appears that the structure for the Repayment Plan that is currently in place at SMED Bank may not be helpful in affecting debt recovery. One of the possible causes is that the implementation was not done properly, the borrower did not comply, or the borrower's repayment capacity were not aligned properly. It is necessary to do more qualitative study in order to investigate the reasons why RP does not contribute effectively to recovery efforts.

According to the findings of this study, the Loan Appraisal, Credit Policy, and Loan Recovery Procedure are the most important factors in determining the recovery of non-performing loans, while the Repayment Plans need to be reevaluated.

5.2 Recommendations and Suggestions

According to the findings of the study, the most important component in effective loan recovery is the Loan Recovery Procedure. Therefore, SMED Bank should make it a priority to strengthen its Loan Recovery Procedure in order to improve its performance in loan recovery. The process of the bank's recovery should be streamlined by establishing specialized recovery teams for non-performing loans (NPLs) and adopting structured action plans that are customized to each individual instance. Recovery rates can be considerably improved by the implementation of a more expedient and methodical strategy, which may include early intervention measures, regular follow-ups, and legal enforcement interventions where they are required. Furthermore, the use of digital tracking systems for outstanding loans will assist in monitoring progress and ensuring that the issue is resolved in a timely manner.

However, the Credit Policy is still another important area that has to be improved. According to the findings of the research, clearly stated credit policies have a direct impact on the repayment of loans. The parameters for lending that SMED Bank has established have to be revised so that they contain more stringent eligibility requirements for borrowers, more transparent loan conditions, and more severe penalties for late payments. By doing regular checks on the borrowers' financial health rather than waiting until the loan application stage, it will be easier to identify possible default concerns at an earlier stage. The bank could also investigate risk-based pricing, which is a method of adjusting interest rates depending on the risk profiles of borrowers, in order to reduce the likelihood of future non-performing loans.

In addition, the procedure of loan appraisal needs to be strengthened in order to guarantee an appropriate risk assessment. It would be beneficial for SMED Bank to make investments in enhanced staff training on approaches utilized for credit evaluation and financial analysis. In addition, the use of technologies like as credit scoring models driven by artificial intelligence and big data analytics can improve the accuracy of loan approvals by more accurately evaluating the ability of borrowers to comply with their payback obligations. In addition, automated methods have the potential to lessen the impact of human mistake and bias in loan evaluations, which ultimately results in higher-quality loans and reduced default rates.

It is necessary for SMED Bank to integrate contemporary technology such as predictive analytics for risk assessment, automated payment systems, and digital record-keeping in order to improve loan recovery. The bank is required to take into account broader economic conditions, such as inflation and unemployment, when developing flexible repayment plans. These plans must also include the provision of interim payment assistance during times of economic difficulty. It is important to provide employees with consistent training on loan assessment, credit regulations, and recovery procedures in order to guarantee successful implementation. In addition, the bank ought to do ongoing research and testing of new approaches, compare the outcomes of different branches, and investigate long-term data in order to determine the most effective recovery measures. SMED Bank is able to increase its loan recovery performance by integrating technological advancements, economic knowledge, employee training, and data analysis.

5.3 Need for Further Study

SMED Bank in Yangon was the location where this study was conducted, and it focused on four different non-performing loan management techniques. In further research, it is recommended to investigate the various non-performing loan management techniques and the effectiveness of their loan recovery measures. The subsequent investigation may concentrate on each and every SMED Bank branch. In addition, the scope of this study is limited to examining the relationship between the factors that influence the recovery of non-performing loans held by SMED Bank. In addition, the recovery mechanism will be improved, the percentage of non-performing loans will be decreased, and the other banks will make progress and accomplish their NPL goals. It is possible to conduct more research on other commercial banks, as well as savings and loan associations.

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APPENDIX-A

Effect of Non-Performing Loans Management Practices on Recovery of Non-Performing Loan of SMED Bank

PART I

Dear Respondents,

I am a student of Master of Banking and Financing at Yangon University Economic. The aim of this questionnaire is to get information regards "**Effect of Non-Performing Loans Management Practices on Recovery of Non-Performing Loan of SMED Bank**", for my research dissertation in the partial fulfillment of the requirement of Master's Degree. The researcher would like to assure you that your responses will be completely kept confidential and shall be used for the purpose of this academic research only.

Thank you very much for your cooperation!

Part (1) Demographic Profiles of respondents

1. Gender of Respondents

□ Male □ Female

2. Age of Respondents

□ 21-30 years □ 41-50 years

□ 31-40 years □ Above 50 years

3. Education Level

□ University graduate □ Post graduate diploma

□ Master degree □ Doctorate

4. Current Position

□ Assistant Supervisor/ Supervisor □ Assistant Manager

□ Manager □ Assistant General Manager

□ Deputy General Manager □ General Manager and above

□ Junior Assistant/Senior Assistant

5. How long have you been working in this bank?

□ Less than 1 year □ 1-2 years

□ 3-5 years □ More than 5 years

6. Please indicate the department you are working in

□ Legal and Compliance □ Collection

□ Credit □ Audit

□ Finance □ Risk

□ Branch

Part (II) Descriptive Analysis on Loan Recovery Performance of SMED Bank

Please rate the most appropriate score on the factors affecting the anti-money laundering practices.

Index: 1-Strongly Disagree, 2-Disagree, 3-Neutral, 4-Agree, 5-Strongly Agree

Section: (2) Non-Performing Loans Management Practices (Independent Variables)

(a) Loan Appraisal

No	Statement	1	2	3	4	5
1	The bank secures loans by taking strong collateral guarantees from borrowers.					
2	It carefully checks the borrower's ability to repay, business stability, and collateral before approving a loan.					
3	All loan documentation must be complete and verified before disbursement.					
4	A credit scoring system determines borrower risk levels and loan terms.					
5	The bank stays in touch with borrowers by monitoring payments and following up regularly.					

(b) Credit Policy

No	Statement	1	2	3	4	5
1	The bank classifies loans as doubtful after 90 days of non-payment and writes them off after 180 days.					
2	The Credit Management Committee must approve all loan decisions after careful review.					
3	The Credit Management Department regularly checks loan portfolios to monitor risk.					
4	The bank uses advanced software to improve credit risk analysis.					
5	Credit loans are provided only there is a full coverage of insurance security.					

(c) Loan Recovery procedure

No	Statement	1	2	3	4	5
1	The Recovery Department starts collection when loan interest is unpaid for over 90 days.					
2	The Recovery Officer checks the borrower’s file and confirms all documents before taking action.					
3	Loan officers visit borrowers to discuss repayment and assess recovery options.					
4	The Recovery Department Head must approve any loan restructuring plan.					
5	The bank sells collateral before legal action if borrowers fail to repay.					

(d) Repayment plan

No	Statement	1	2	3	4	5
1	The bank prefers amicable loan repayment solutions over legal action.					
2	It offers flexible repayment rescheduling options for defaulting customers.					
3	The bank sets aside loan loss provisions at the end of each reporting period.					
4	Recovery officers propose settlement options before starting legal action.					
5	Legal action is the last option, used only when all other recovery efforts fail.					

(Part III) Influencing on Recovery of Non-Performing Loan

Please rate the most appropriate score on Recovery of Non-Performing Loan practices.

Index: 1-Strongly Disagree, 2-Disagree, 3-Neutral, 4-Agree, 5-Strongly Agree

Sr. No	Statement	1	2	3	4	5
1	SMED Bank reduces the NPL percentage.					
2	SMED Bank Flexible Plans improve the Overall loan recovery performance.					
3	SMED Bank has obtained target of the NPL percentage.					
4	SMED Bank got good recovery of default loan.					
5	SMED Bank obtains good Liquidity performance.					
6	Credit and collection departments handle loan follow up and recovery.					

APPENDIX B

SPSS OUTPUT

1. Demographic Data of Respondents

Number of Respondents by Gender

Gender	Frequency	Percent
Female	41	73.2
Male	15	26.8
Total	56	100.0

Age of Respondents

Age (in year)	Frequency	Percent
21 to 30 yrs	2	3.6
31 to 40 yrs	8	14.3
41 to 50 yrs	30	53.6
Above 50 yrs	16	28.5
Total	56	100.0

Educational Level

Marital Status	Frequency	Percent
Master Degree	11	19.6
Post Graduate Diploma	14	25
University Graduate	31	55.4
Total	56	100.0

Work Position of Respondents

Position Level	Frequency	Percent
General Manager and Above	3	5.4
Deputy General Manager	4	7.1
Assistant General Manager	3	5.4
Manager	10	17.9
Assistant Manager	12	21.4
Assistant Supervisor/ Supervisor	14	25.0
JA/SA	10	17.8
Total	56	100.0

Working experience of Respondents

Working experience	Frequency	Percent
Less than 1 year	3	5.4
1 to 2 years	6	10.7
3 to 5 years	13	23.2
More than 5 years	34	60.7
Total	56	100.0

Departments of Respondents

Departments	Frequency	Percent
Audit	3	5.4
Branches	19	33.8
Collection	6	10.7
Credit	9	16.1
Finance	7	12.5
Legal & Compliance	10	17.9
Risk	2	3.6
Total	56	100.0

2. Relationship between Non-Performing Loan Management Practices and 11Recovery of Non-Performing Loan

Descriptive Statistics

Variable	Mean	Std. Deviation	N
Loan Appraisal	3.7321	.63403	56
Credit Policy	3.6071	.69196	56
Loan Recovery Procedure	3.4750	69810	56
Repayment Plan	3.5321	.67319	56
Recovery of NPL	3.5833	.70085	56

3. The effect of Non-Performing Loan Management Practices and Recovery of Non-Performing Loan

Model Summary

					Change Statistics				
Model	R	R Square	djusted R Square	Std. Error of the Estimate	R Square	F Change	df1	df2	Sig.F Change
1	.917a	.842	.829	.27100	.842	67.813	4	51	<.001

a. Predictors: (Constant), Loan Appraisal, Credit Policy, Loan Recovery Procedure, Repayment Plan

b. Dependent Variable: Recovery of Non-Performing Loan

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	19.92	4	4.980	67.813	<.001b
	Residual	3.745	51	.073		
	Total	23.667	55			

Dependent Variable: Recovery of Non-Performing Loan

b. Predictors: (Constant), Loan Appraisal, Credit Policy, Loan Recovery Procedure, Repayment Plan

Coefficients[a]								
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-.172	.303		-.568	.572		
	LA	.362	.156	.267	2.327	.024	.235	4.248
	CP	.261	.111	.270	2.359	.022	.237	4.220
	LRP	.349	.146	.378	2.392	.020	.124	8.057
	RP	.071	.156	.076	.456	.650	.111	8.998

a. Dependent Variable: Recovery of Non-performing Loan