YANGON UNIVERSITY OF ECONOMICS

DEPARTMENT OF COMMERCE

MASTER OF BANKING AND FINANCE PROGRAMME

CREDIT RISK MANAGEMENT PRACTICES ON LOAN PERFORMANCE OF KANBAWZA BANK LIMITED

KAY KHAING OO

MBF (Day) - 1st Batch

DECEMBER, 2019

CREDIT RISK MANAGEMENT PRACTICES ON LOAN PERFORMANCE OF KANBAWZA BANK LIMITED

A thesis submitted as a partial fulfillment towards the requirement for the degree of Master of Banking and Finance (MBF)

Supervised by

Daw Khin Nwe Ohn

Associate Professor

Department of Commerce

Submitted by

Kay Khaing Oo

MBF-23

MBF (Day 1st Batch)

DECEMBER, 2019

ABSTRACT

The thesis was focused on the study of credit risk management practices on loan in KBZ Bank and its effect. Two major objectives of the study are to identify the credit risk management practices on Loan in KBZ Bank and to examine the effect of credit risk management practices on loan performance in KBZ Bank. This research used both primary data and secondary data. The primary data collected by face to face data collection method. Survey was conducted by using structured questionnaires and used descriptive analysis. The data is analyzed by using SPSS software version 22 to obtain data. In this study, Multiple Linear Regression analysis was used. The questionnaires have been distributed to 50 respondents from Credit Functions of KBZ Bank. The study shows that a positive and significant correlation between loan performance and credit risk management practices in KBZ Bank. From this study, the correlation analysis shows that the KBZ bank should do more practices in credit risk monitoring. KBZ Bank should do that credit risk management is the most important contribute to the success and the financial stability of the bank and an understanding of risk management practices help reduce the losses and also cost.

ACKNOWLEDGEMENTS

First of all, I would like to express my deep gratitude to Professor Dr. U Tin Win, Rector of Yangon University of Economics and Professor Dr. Daw Nilar Myint Htoo, Pro-rector for giving me an opportunity to attend the Master course and to do this thesis as partial fulfillment toward the requirement of Master of Banking and Finance (MBF) program.

I am also heartily thankful to Professor Dr. Daw Soe Thu, Head of Department of Commerce and Director of Master of Banking & Finance Program, Yangon University of Economics for her great encouragement and contribution to MBF Program and great care and give valuable advice all the time to students.

I am deeply thankful to my supervisor Daw Khin Nwe Ohn, Associate Professor, Department of Commerce, Yangon University of Economics for giving me beneficial opportunity as her candidate and sharing her precious experiences, kind supervision, stimulating suggestion and invaluable advice in writing this research paper. Without her guidance and help I will not accomplish this task.

I would also like to specially thank my respected professors and lectures who imparted their time and valuable knowledge during the course of my study at the Yangon University of Economics.

My special deepest thanks to the Board of Director, managers and staffs of KBZ Bank for their kind supports for sharing knowledge and all the information needed in this study.

I wish to thanks all the classmates of MBF Day 1st Batch for allowing altogether and sharing spirit of friendship during the learning period. I convey special acknowledge to all teachers for sharing their valuable knowledge and experience during their lecture time. Without the encouragement, support and assistance of a number of people and organizations, I would not have been achieved for study.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

LIST OF ABBREVIATIONS

CBM	Central Bank of Myanmar
KBZ	Kanbawza Bank
SME	Small and Medium Enterprises
JICA	Japan International Cooperation Agency
MIS	Management Information System
CGI	Corporate Guarantee Insurance
SB	Smart Branches
CRE	Commercial Real Estate

CHAPTER 1

INTRODUCTION

The financial sector in Myanmar, the privately owned commercial banks are increasing rapidly in the past two decades since 1992. Myanmar banking sector comprises the Central Bank of Myanmar (CBM) which was established following the Central Bank of Myanmar Law in 1990, 4 other state-owned banks, and 25 domestic private banks and 13 foreign bank representatives' offices. Commercial Banks are financial institutions and play a very important role is an economy with the primary function of carrying out financial intermediation- this implies that they accept deposits from customers with extra funds and loan out the money to customers with a funding gap.

The functions of banking are acceptance of deposits, supply loans and financial service to their customers. The bank unfold is that the distinction between what the interest a bank should pay to get the funds and also the rate the bank charges on the loan. Therefore, the number of loans that can make will have a great impact on the profit and loss made by the bank. Commercial loans area unit loans created to individuals trying to begin or expand a business. For commercial banks to minimize loan losses, they must develop a credit risk management system. Credit risk management involves various steps namely, credit risk identification, measurement, controlling and finally credit monitoring. Credit risk identification involves singling out of the risks associated with a particular credit.

Credit risk arises from potential changes within the credit quality of a recipient. The financial institution should identify the risk of loss that it considers that the obligor is unlikely to pay its credit obligations in full or the obligor is more than ninety days overdue on any material credit obligation. Credit risk measurement involves the process of credit rating, scoring. Credit Rating is an account that is done with the primary objective being to determine whether the account after the expiry of a given period would remain a performing asset, i.e. it will continue to meet its obligations as and when they arise. The credit rating exercise seeks to predict whether the borrower will have the capability to honor his or her financial commitments in the future. In reality, there are no mathematical models that can predict accurately the future capability of a borrower to meet his/her financial obligations. Next, a commercial bank should undertake credit monitoring. The financial institution should assign specific individuals for monitoring the credit portfolio including ensuring information is disseminated to those responsible for taking corrective action and assigning adequate reserves for loan losses. An effective monitoring system will ensure that the financial institution understands the current financial condition of the borrower, monitors compliance with the existing terms and conditions, assesses collateral concerning the borrower's current condition, identifies non-performing accounts and enforces proper classification and loan loss provisioning. Lastly, establishments ought to use numerous techniques of mitigating credit risk. The most common area unit collaterals, guarantees and netting off of loans against deposits of an equivalent counter-party.

The nature of banking is strongly related to the management and controls of the risks. The main risks to which banks are subject, namely market risk, liquidity risk, credit risk, and operational risk. Among the types of banking risks, credit risk is the biggest threat that the banks have to present. To prevent credit risk, the bank use the multiple credit risk management. Credit risk management is an important aspect of a bank's success and ensures that a lending institution will not take on more risks than it can handle.

1.1 Rationale of the Study

Credit risk is the risk of loss due to a debtor's non-performance of a loan or other line of credit. Credit risk is defined as the risk arising from the uncertainty of a borrower/counterparty's ability to perform its contractual obligations such as the repayment of a loan and the potential loss that the lender may suffer if the borrower fails to meet its obligations. Credit risk might stem from each on- and off-balance sheet transactions. Besides loans, a bank is also exposed to credit risk from other financial instruments and transactions such as trade finance products and acceptances, foreign exchange, derivatives such as financial options, currency and interest rate swaps, bonds, options, financial commitments, and guarantees.

Poor or weak appraisal of loans is one of the major reasons for delinquencies. Before giving any loan, the client's repaying capacity, the status of business and cash flows must be assessed. This helps in taking loan decisions that whether a client should be given a loan and about an appropriate volume of the loan. A poor appraisal can lead to loans going to unworthy clients or disbursement of the higher amount of loans. Loans given beyond repaying capability puts clients in stress things as they are doing not have enough financial gain to repay installments leading to delinquencies (Karanja G Gladys, 2017).

Most of the banks that used to lend to enterprises that are able to offer immovable assets as collateral are now lending to individuals, corporate bodies and enterprises without any form collateral. As a result of this, most banks ended up with a high default rate and yet even with collateral, some banks are unwilling to provide lending due to the risk that collateral might are utilized in multiple borrowing.

Nowadays banks are lending with an unsecured lending method (CGI) to SME Business in Myanmar. CGI is included as one of bank lending policies. In this system, the businessman can apply for a loan from the bank without collateral after he or she has bought guarantees from the bank. Banks have to buy full guarantees from Myanmar Insurance that is owned by the Ministry of Planning and Finance. If the businessperson had defaults for several reasons and also the client couldn't pay back the borrowed cash, the Myanmar Insurance can come simply 60 % of the loan to the bank. Therefore, a bank is going to take a 40% loss. So, the working risk of CGI is going to be 40% as well. Thus, this system is not fully secure.

Therefore, if banks are lending with this unsecured lending method, banks need credit risk management practices must be carefully made. It also prevented becoming Default Status. Start-up business also faces challenges when trying to access credit facilities because such ventures have no historical financial statements to confirm credit history. Credit risk management is a critical component of a comprehensive approach to risk management as whole and essential to long-term success of a banking organization. It helps reduce bank losses. Credit risk management is very important to banks as it is an integral part of the loan process. It minimizes bank risks, adjusted risk rate of return by maintaining credit risk exposure with view of shielding the bank from adverse effects of credit risk. Bank are successful when the risks they take are reasonable, controlled and within their financial resources and competence (Machiraju, 2008). Credit risk management is very essential in optimizing the loan performance of commercial banks. This motivated the carrying out of this study is to focus on the credit risk management practices used by KBZ on Loans.

1.2 Objective of the Study

This study is constructed by the following objectives:

(1) To identify the credit risk management practices on loan in KBZ Bank

(2) To analyze the effect of credit risk management practices on loan performance of KBZ Bank.

1.3 Scope and Method of the Study

The study focuses on the effect of credit risk management practices on loan performance of KBZ Bank. There are various credit risk management practices at banks. In this study, it focuses on the credit risk management on loans. For more understanding, primary data and secondary data are collected. For the collection of primary data, it includes the use of predetermined questionnaires to 50 numbers of employees, 42% among total 118 employees who are working at Credit Functions in KBZ Bank and secondary data was collected from the previous research papers, internet web sites and other relevant texts.

1.4 Organization of the Study

This study consists of five chapters. Chapter 1 includes Introduction, Rationale, Objective, Scope, Methodology and Organization of the Study. Chapter 2 covers the theoretical background of the study. Chapter 3 discusses background study of KBZ Bank. Chapter 4 includes the analysis of credit risk management practices on loan performance of KBZ Bank. And Chapter 5 is findings, suggestions and future study are described.

CHAPTER 2

THEORETICAL BACKGROUND

This chapter is about the theoretical background of the study. In order to study and understand the term of "risk management", especially in case of banking, risk and risk management has to be defined first. Theoretical about types of risks faced by banks, important of credit risk management and how to manage the credit risks in banking industry from theoretical background to specific framework are presented.

2.1 Definition of Risk and Risk Management

With the ongoing transaction of economy from developing to a developed economy, the economy is going through an overall change. The financial sector, especially the banking sector, is the most emerging sector in the economy and is the passing through a lot of changes. The advent of Liberalization, Globalization, and Privatization has led to rising global competition, usage of modern technology, innovative products, increasing deregulation and contemporary delivery channels. All this has brought the banking sector to the forefront of risk and hence risk management.

Risk can be defined as the chance or probability of deviation from the expected result. In other words, risk is anything that creates hindrance in the way of achievement of certain objective which has a possibility of loss; the loss can be financial nature or nonfinancial nature like loss of image or goodwill, etc. Risk arises due to internal or external factors which can be caused due to change in economic, social, political, legal environment and lack of information considering some change.

Risk management is the proactive strategy to plan, lead, organize and control a wide variety of risks that are faced by an organization's daily and long-term functioning. In other words, it is a measure that is used for identifying, analyzing, controlling and then responding to the particular risk.

Risk is an exposure to a transaction with loss, which occurs with some probability and which can be expected, measured and minimized. Risk in financial institution results from variations and fluctuations in assets or liabilities or both in income from assets or payments and liabilities or in the outflows and inflows of cash.

In recent times, banks are facing various types of risks that financial intermediaries are exposed to in the course of their business (Mareshah Dutt, 2018).

2.2 Types of Risks faced by banks

The very working nature of banks has the threat of risks involved in it. The main role of a bank is that of an intermediately between the ones having resources and the ones in need of resources. The basic challenge of banks is to understand the different types of risk and to learn managing them. The different types of risk faced by a bank are as follows:

2.2.1 Financial Risk

Financial risk can be defined as any risk which results from any business transaction undertaken by a bank, which is exposed to a potential loss. Financial risk can be further categorized into credit risk, market risk.

(a) Credit Risk

Credit risk is the risk of default on a debt that may arise from a borrower failing to make the required payments. In the context of banking, credit risk can be defined as the potential of a bank borrower or counterparty to fail to meet its obligation according to the agreed terms. In a majority of banks, loans are the largest source of credit risk. The credit risk is all borne by the lenders and leads to serious problems. Credit risk is inherent to the business of lending funds to the operations linked closely to market risk variables (Mareshah Dutt, 2018).

(b) Market Risk

Market risk may be defined as the possibility of loss to bank on account of movement in market prices. It is affected by movements in equity, interest rate markets, currency change rates and commodity prices. Market risk is the risk to the bank’s earnings and capital due to changes in the market level of interest rate or prices of securities, foreign exchange and equities, as well as volatilities of those prices (Mareshah Dutt, 2018).

2.2.2 Nonfinancial Risk

Nonfinancial risks are those risks which affect the bank’s business growth, marketability of its products and services, etc. These types of risks arise on account of management failures, competitions, non-availability of suitable product and services, external factors, etc. In nonfinancial risk, basic consideration is given to operation risk and strategic risk.

(a) Operation Risk

According to the Basel Committee for Banking Supervision, operational risk is "the risk of loss resulting from inadequate or failed internal processes, people and system (poor IT background), or external events". Operational risk also includes legal risk, which is defined as the risk of losses due to lawsuits or fines arising from legal, administrative and other proceedings, and from the violation of contractual or legal obligations. Includes compliance risk in the part referring to the risk of losses that will be in the future due to the imposition of measures and penalties, the risk of losses due to failure of operations in accordance with the regulations, standards, codes and internal rules, and the risks associated with anti-money laundering and terrorist financing.

Operational risk is the risk of actual loss or incorrect presentation of profit due to errors in data entry, data processing, evaluation and posting data. Operation risk is the risk of property loss due to unaffected business activities, violation of the internal control system or fraud in transaction and unforeseen risk in operation. Operation risk is also mentioned as arising of risk in process of Bank's activities operation.

(b) Strategic Risk

Strategic risk is the risk that arises from the inability to implement appropriate business plans, strategies, decisions with regard to adaptabilities and changing business environment. Strategic risk affects the overall mission of the company. Risks arising from the possible consequences of strategic decisions taken by the organization and also arise from the way that an organization is strategically positioned within environment.

2.3 Importance of Credit Risk Management in Banking Industry

Lending has been and still is the mainstay of financial institutions and this is more true to emerging economies of developing countries where capital markets are not well developed. To most of the transition economies, lending activities have been a controversial and difficult matter. It has been recognized that in order to reduce loan losses, therefore, credit risk, it is essential for financial institutions to have effective credit risk management systems in place. Given the uneven information that exists between lenders and borrowers, financial institutions must have a mechanism that ensures that they not only evaluate default risk that is unknown to them in order to avoid adverse selection but also that can evolve in order to avoid moral hazards. An effective system that ensures reimbursement of loans by borrowers is essential in managing uneven data issues and in reducing the amount of loan losses, thus the long term success of any banking organization. Credit risk management is important in optimizing the performance of financial institutions.

The goal of credit risk management is to maximize a bank's risk-adjusted rate of return by maintaining credit risk exposure among acceptable parameters. Banks have to be compelled to manage the credit risk inherent within the entire portfolio yet because the risk in individual credits or transactions. Banks ought to additionally think about the relationships between credit risk and alternative risks. The effective management of credit risk could be an important element of a comprehensive approach to risk management and essential to the long success of any banking organization (Karanja, 2012).

2.4 Credit Risk Management Practices in the Banking Industry

Over the recent years, the financial services sector has encountered challenges for several reasons, but many of those challenges can be linked to bad lending, poor risk management, or the lack of agility in adapting to changing economic scenarios. The process of risk management at any enterprise is aimed at developing preventative methods in order to avoid loss or events that would harm the company. Banking operations associate with the issue of risk; it’s inevitable. In the simplest way possible, the risk is an uncertainty of a situation or event that may happen in the future and for banks, it’s the uncertainty of an outcome of business investments.

The primary aim of credit risk management is to require calculated exposures among outlined parameters in order that the general method optimizes the bank’s risk-adjusted rate of return. Since vulnerability to credit continues to be the prime risk factor for the financial industry worldwide, banks should take special initiatives in strategizing comprehensive measures to identify, monitor, and control the inherent risks in lending as best as they can. The best practices outlined in this article address the issue of credit risk management are(1) credit risk identification, (2) credit risk Measurement/Analysis, (3) credit risk Control/Mitigation and (4) credit risk Monitoring.

2.4.1 Credit Risk Identification Practices

Credit Risk Identification is vital for effective risk management. Commercial banks to manage credit risks facing them effectively, they need to know and identify these credit risks. The first step in credit risk identification is the implementation of the credit risk management function to establish crucial observation areas inside and outside the corporation. The use of Credit policies to establish a framework for lending and reflect an institution's credit culture and ethical standards. To be effective, policies should be communicated during a timely fashion, be enforced through all levels of the organization by acceptable procedures and revised sporadically in light of fixing circumstances (Karanja, 2012).

2.4.2 Credit Risk Measurement/Analysis Practices

The lending decision is based on an evaluation of the firm's financial position and its future prospects, in a process known as credit risk analysis. It consists of estimating the probability that a borrower fails to return its credit in accordance with the terms agreed (probability of default) and the expected loss that the bank would incur in case of default (loss given default). The process involves an estimation of the firm's future cash flow and of the value of the assets that could be provided as collateral or security for the credit in the event of default (Guimon, 2005).

Financial Statement rule is a lending rule which places emphasis on evaluating information from the firm's financial Statements. The decision to lend and terms of the contract are principally based on the strengths of the firm's balances sheet. Financial statement loaning is best suited to comparatively clear corporations with certified audited financial statements. Thus, it is likely to be the rule of Choice for lending to large firms. But when adapting this rule for small firms, the firms must be ones with long histories, relatively transparent transactions and strong audited financial statements (Berger and Udell, 2001). Credit-Scoring Rule involves attaching heavy statistical weights to the financial conditions and history of the principal owner given that the credit worthiness of the owner and that of the firm are closely related for most small businesses (Feldman 1997, Mester 1997). Credit scores usually include financial characteristics from both the business and the business owner. Credit scoring model is used to identify credit risks and mitigating factors, evaluating borrower viability and growth potential, assessing entrepreneurial capabilities, determining financing requirements and earnings for the bank, monitoring loan performance risks in crisis situations, and structuring facilities based on credit score ratings. Scoring systems utilize data regarding the standard 5Cs of credit.

Relationship Lending Rule applies where the lender bases the decision to lend in substantial part on propriety Information about the firm and its owner through a variety of contacts over time. This Information is obtained through the provision of loans (Berger and Udell, 1995) and deposits and other financial products (Nakamura 1993). Additional information may also be gathered through other members of the local community, Such as suppliers and customers, who may give specific information about the firm owner or general information about the business environment in which they operate. Importantly, the information gathered over time has significant value beyond the firms' financial statements, Collateral and credit scores. This data helps the connection loaner manage data opacity higher than potential transaction-based lenders. However, relationship lending involves the role of agents in gathering information and this could add extra costs to the banks. There is still a gap in the empirical literature as to how to determine how relationship lending works and how the organizational structure of the banks aids their ability to deliver. It is also necessary to determine how recent changes in the economic environment are likely to affect the availability of credit to small businesses.

2.4.3 Credit Risk Control/Mitigation Practices

These tools used to control credit risk include the use of Covenants, use of adequate collateral, and use of personal guarantors, use of savings /deposit accounts and also insurance against default. Continual participation in the credit risk management policy and strategies. Peer or group lending as commonly known, mitigates credit risk by evading the risk of lending without collateral, over a large number of borrowers within the group acts as insurance cover for the institution. Those members of the group who have not received the loans become agents of the bank in debt collection so that they can have access to their loans also. The Credit Officers work is transferred to the group which has to do overtime here, because they have interest. Group Savings might act as guarantee rather than formal collateral (Karanja, 2012).

2.4.4 Credit Risk Monitoring Practices

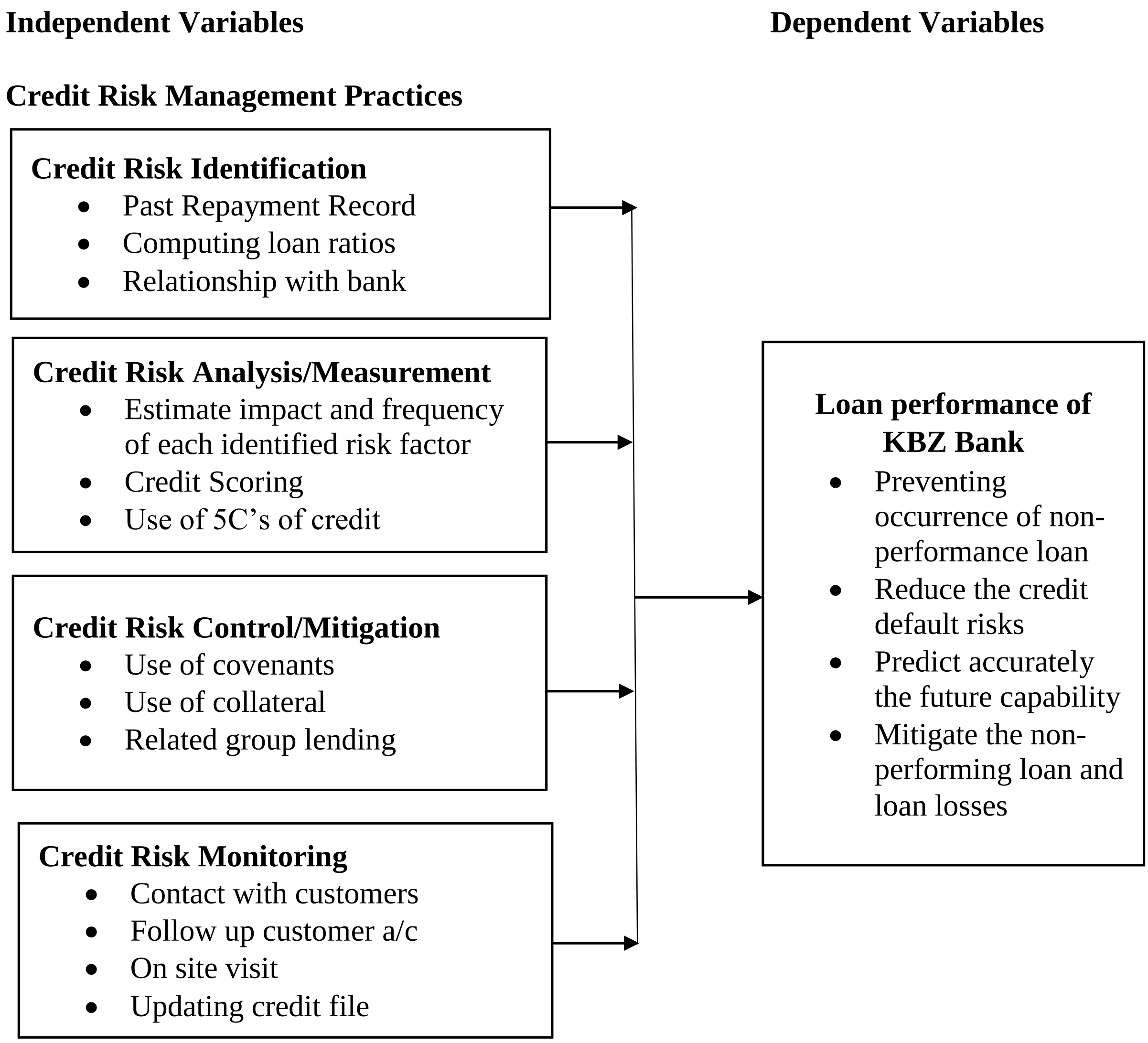
Monitoring is the last step in the credit risk management process. Effective risk management needs reporting and reviewing the structure to make sure that risks are effectively known assessed and acceptable controls and responses are in place. After the loan is approved, the loan should be continuously watched over. These monitoring practices include keeping track of borrowers' compliance with credit terms, identifying early signs of irregularity, conducting periodic valuation of collateral and monitoring timely repayments. Commercial banks need to often monitor the status of borrowers and re-evaluate individual credits and commitments, and their ratings. Reliance on unviewed credits can lead to a serious undetected deterioration of the credit portfolio.

Accordingly, the credit risk management programme of each institution must include procedures governing the regular formal review and, where applicable. Because of their frequent contact with borrowers, Credit officers are during a position to discover changes in a very borrower's operations or economic condition. This permits these officers to identify potential issues before they will be discovered by freelance credit reviewers. Accordingly, credit review systems must ensure that a credit officer is monitoring credit quality and, where applicable. The objective of effective credit review systems include: ensuring that the institution is aware of borrowers current financial condition; ensuring that collateral security is adequate and enforceable relative to borrowers' current circumstances; making certain that credits are in compliance with their covenants and margins; providing early identification and classification of potential problem credits; and providing current data concerning the standard of the loan portfolio (Karanja, 2012).

2.5 Conceptual Framework of the Study

This study determined the effect of credit risk management practices on loan performance of KBZ Bank based on the conceptual framework. As shown in figure below, there are four independent variables that constitute credit risk management practices. The dependent variable is loan performance of KBZ Bank. The four independent variables directly affect the performance of the banks.

Figure (2.1) Conceptual Framework



Source: Adopted from Wachira, Alexander Kinyuai, 2017

CHAPTER 3
BACKGROUND STUDY OF KANBAWZA BANK

This chapter aims to examine the profile of KANBAWZA Bank including background of the bank, organization structure of KBZ Bank and identify the lending products and type of risks encountered by loans in KBZ Bank Limited.

3.1 Profile of KANBAWZA Bank

Kanbawza Bank is one of the Myanmar private-owned banks that opened on 1st July 1994 in Taunggyi, the capital of Shan State in accordance with the financial institution of Myanmar Law 1990. In late 1990, Kanbawza Bank took over the high management level and he reformed the banking business organization structure into the biggest private banks in Myanmar. In April 2000, KBZ headquarters was relocated to Yangon, the business capital of Myanmar. At present, KBZ Bank has more than 414 branches across the country with nearly 690 ATMs and over 190 currency exchange counters. In November 2011, the Central Bank of Myanmar granted an Authorized Dealer License (ADL) to KBZ Bank as the first step to operate a foreign banking business. KBZ Bank will maintain continuous growth in the financial industry along with the development of Myanmar.

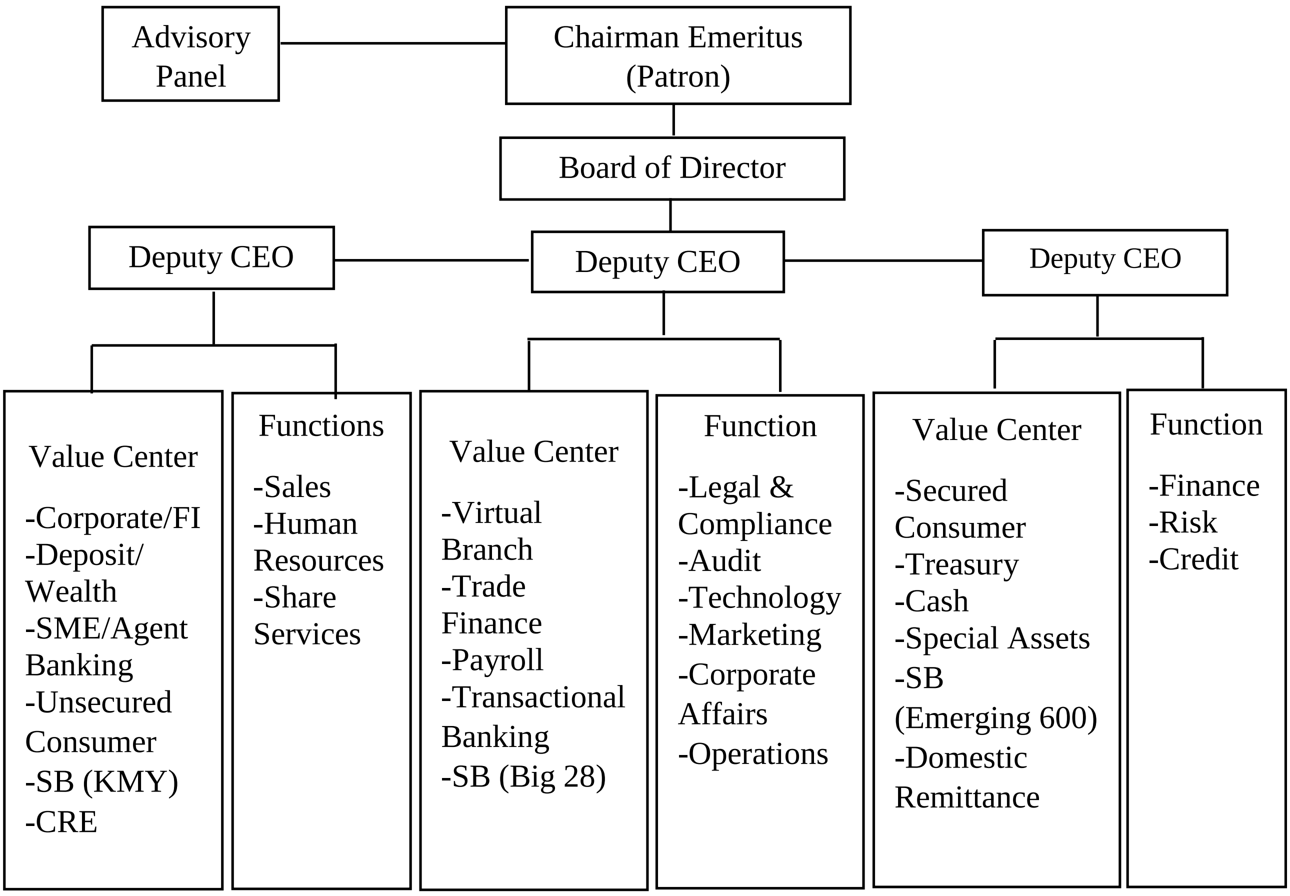
Kanbawza Bank establishes with a vision to be recognized as the bank of the first choice in Myanmar, is renowned for its banking prudence, sound customer relationship, quality customer service and generous donation to worthy causes related to education, health and social sectors. The Motto of the Kanbawza is 'Strength of Myanmar". Specifically, the bank aims to support the economic objectives of the Nation, integrating both internal and external sources of capital to promote investments for the higher growth-rate of the private sector development, and to provide necessary and effective banking facilities and services to the public.

Kanbawza Bank's Vision is to become Myanmar's premier bank with a wide variety of products and services for commercial and private customers. Kanbawza Bank's Mission is to ensure the highest level of customer satisfaction and trust by providing excellent banking services, to ensure the highest level of customer satisfaction and trust by providing excellent banking services, to continuously improve the quality of our financial services by investing in innovative technology and enhancing human capital, to offer rewarding career opportunities and promote staff accountability at all levels and to act as a responsive corporate citizen by combining commercial pursuit, fair business ethic and socially responsible behavior. Kanbawza Bank embraces the core values are teamwork and Cooperation, Honesty, Enthusiasm, Mutual Trust and Respect, Integrity, Leadership, and Dedication.

3.2 Organizational Structure of KANBAWZA Limited

There are many departments and branches in KBZ Bank. Each department has Head of that department and each branch has branch manager. KBZ Bank Limited is established Board of Director and senior management team.

Figure (3.1) Interim KBZ Organization Chart



Source: KBZ Bank Ltd, Organization Chart Report, 2018

According to new organization structure, U Aung Ko Win is announced as Chairman Emeritus. In senior management structure, U Mya Than is new Chairman of KBZ Bank Ltd. There are two Vice Chairmen, one independent director, one non-executive director and one executive director in KBZ Bank Board of Directors. The new board of directors assumed their roles and functional responsibilities starting from April 1st 2018. These are seventeen value centers and eleven functions under KBZ Bank organization structure.

They are Corporate/Financial Institution loans, Deposit/Wealth, SME/Agent Banking, Unsecured Consumer, Treasury, Cash, Special Assets, Smart Branches (Emerging 600) and Domestic Remittance. Moreover, there are eleven functions which are Finance, Risk, Credit, Legal & Compliance, Audit, Technology, Marketing, Corporate Affairs, Sales, Human Resources and Shared Services. Three Deputy CEOs make management of their respective Value Centers and Function. Figure (3.1) presents the organization chart of KBZ bank.

3.3 Type of Lending Products by KANBAWZA Bank

KBZ Bank mainly classified the loans into four broad classes; defined by the purpose of the loans and based on the loan amount, namely Corporate Loans, SME Loans, Hire-purchase Loans, and Mortgage Loans.

3.3.1 Corporate Loans

These loans are classified by the amount of the loans, nature of the borrower's business and purpose of the loan. Corporate loans are defined as all loans over 1 Billion. In this type of corporate loan, the customer can apply various types of loans on their loan need such as Overdraft, Loan and Term Loan. If the customer wants to apply the Loan product, he/she will need to open a current account. After allowing the loan, the loan limit will be approved by the credit admin department. The tenor of the loan is usually a one-year term loan but in some special cases such as to owners of large enterprises. Loans can be received for up to 3 years as term loans. The amount of interest is calculated based on the disburse amount.

Loan interest is paid on the total approved amount and Overdraft interest is paid on the amount used. The current interest rate for the loans is 3% interest plus CBM rate (CBM rate is currently 10% per annum). In some case, the security of the customer is not covered the applied loan and that borrower deemed his/her risk rating is high, the bank will be charge 16% interest rate for that customer. Most of the customers used overdraft rather than take out the loan. The reason of the popularity may be because interest is calculated on the basis of the number of days the overdraft is made. Overdraft is also done on a one-year short term basis and interest rate for overdraft is 13 percent per annum.

3.3.2 Small and Medium Enterprise Loans (SME Loans)

KBZ Bank offers different types of SME loans to attain property growth and development for Myanmar SMEs. For these KBZ Bank SMEs mean permanent employees minimum 5 up to 600, initial capital minimum 50 million kyats up to 1,000 million kyats and the loan amount is defined as including all loans from the proposed lower limit 10 Million kyats to 1 Billion kyats. SME Lending method is a cash flow base. KBZ approved a 1-year loan requiring monthly payments of principal and interest in such amount that the principal outstanding paid down by 25% at 1-year maturity. The loan can be new for 1 more year, requiring the same interest and principal payment every month, so that the original loan had been paid down by 50% in the second year's maturity. The loan can then be renewed along with the same terms for 2 more times until full payoff after 4 years.

In general terms, a business loan can be categorized into three broad classes; defined by the purpose of the loan (i) SME Term Loan for (Business) Expansion, (ii) SME (OD) for working capital and (iii) JICA Two-Step Loan Credit Tenor. For OD and Term-Loan Products, banks are lending from their own fund and two-step loans are lending from another fund (JICA).

(i) SME (Term-Loan) for Business Expansion Loan

Business Expansion loan (Term Loan) is to provide financing for investment in fixed assets such as purchasing new machineries, factory construction, factory renovation, restaurant expansion and more. SME (Term-Loan) can help to reduce the final lump sum repayment burden, as needs monthly principal and interest repayment.

(ii) SME (Overdraft) for Working Capital Loan

Working capital needs for business operations can apply SME (OD) in KBZ Bank. For example, purchasing raw material (or) using business expansion. The business process can be better and smoother as SME (OD) needs only monthly interest repayment upon the actual principal amount used, and the principal repayment needs at the end of maturity.

(iii) JICA Two Step Loan

JICA Two-Step Loan can get longer-term (up to 5 years) with a lower interest rate, borrowers can implement their Business Plan and Expansion Plan for their business growth. JICA Two-Step Loan can be applied for capital Investment needs such as building a manufacturing plant, warehouse, buying machinery and vehicles. Customers can apply for JICA Loan from Kanbawza Bank, to be more successful business and for the capital investment required to buy fixed assets. The loan of the credit tenor is up to 5 years and with low-interest rate (8.5% per annual). JICA Two-step Loans with maximum loan amount up to 500 Million to SMEs Business excludes these sectors (1) Farmers eligible for borrowing from Myanmar Agricultural Development Bank, (2) Real Estate, (3) Finance and Insurance, (4) Precious Metal dealing, (5) Bars and Pubs, (6) Amusement, entertainment (expect for tourism), (7) Weapons, ammunition, or (8) any other sector harmful to the social stability (to be judged by working committee). Any other sector harmful to the social stability (to be judged by working committee).

3.3.3 Hire Purchase Loans

Hire Purchase is a service provided by KBZ Bank for the account holders, SME Business owners, and Organizations alike to pay for goods in installations over a while with a required down payment of 30-50 percent. This service is eligible for individuals or organizations to hire purchase products/items by paying only 30% – 50% (down payment) initially and paying the remainder (depending on the product/item) throughout a period fixed by the bank. The credit terms differ depending on the goods purchased. Types of products for Hire Purchase are Condominium, computers and electronics, cell phones and other communication devices, automobiles and motorbikes, heavy machines, agricultural tractor and machinery, gold and jewelry, furniture and medical equipment. Loan Tenor is up to 5 years and the interest rate for the first years for 9% and another four years for 5%.

3.3.4 Mortgage/Housing Loans

Currently, KBZ Bank is lending Mortgage Loan as a new product of the loan. New lending Mortgage Loan is a monthly installment payment program that is convenient and affordable financial option to fulfill financing needs. Bank offer to purchase a residence of choice as per requirements; condominium, apartment, and land property. Loan tenor is up to 25 years and various types of interest plans to the customer in KBZ Bank. For the interest plan (A), good performance customer, Interest will be charged 13% for the first year and will drop 0.5% for each consecutive following year up to 11% if the customer can show good performance. Interest will be charged 11% flat rate till customers can show good performance. The minimum loan value must be 15 million MMK. Interest will be changed to 13% when the customer makes default at any stage. Customers will have the right to apply this promotion plan after a one-year interest paid with 13% again.

For the interest plan (B), LTV ratio, loan to value (assessor's recommended value) ratio is less than or equal 60%, interest will be charged 12%. If the customer can show good performance, interest will be charged 11% after 3 years. The minimum loan value must be at least 50 million MMK. Interest will be charged 13% when the customer makes default. Customers will have the right to apply this promotion plan after a one-year interest paid with 13%. For the interest plan (C), Income versus Monthly payment, If the monthly repayment of the customer for the home loan is less than or equal of 30% of his/her monthly net income, interest will be charged on 12%. If the customer can show good performance, interest will be charged 11% after 3 years. The minimum loan value must be at least 30 million MMK. Interest will be charged 13% when the customer makes default. Customers will have the right to apply this promotion plan after a one-year interest paid with 13%.

For the interest plan (D), prepared installment, if the customer makes prepaid installment (for 2 months), interest will be charged with 12% for the first 3 years and if the customer can show good performance, interest will be charged 11% after 3 years. Interest will be charged 13% when the customer makes default. Customers will have the right to apply this promotion plan after a one-year interest paid with 13%. If the customers are newly married couples and if they have a regular income, interest will be charged 12% for the first 3 years and if they can show good performance, interest will be charged 11% after 3 years. The minimum loan value must be 20 million MMK. The interest rate will be changed to 13% when customers make default during credit terms. Customers will have the right to apply this promotion plan after a one-year interest paid with 13%.

3.4 Credit Risk Assessment and Management Practices in KBZ Bank

The risks are calculated on the borrower's ability to repay the loan. To assess the risk credit risk the bank looks at the five C's of the borrower. The five C's are credit history, capacity to repay, capital, the loan condition, and associated collateral. KBZ has a dedicated department only for assessing the credit risk of its current and potential consumers.

Credit default risk is the risk of loss which arises from the debtor being unlikely to repay the amount in full or when the debtor is more than 90 days past is the due date of credit payment, it gives rise to credit default risk. The Credit default risk impacts all the sensitive transactions which are based on credit like loans, derivatives or securities. Credit default risk is also checked by banks before approving the loan.

Credit facilities are heavily secured with physical collateral as land, building and machinery and personal guarantors. KBZ Bank also requires that they have operated a Deposits/Savings accounts for a period of six to twelve months before availing credit facilities to them. This is an effective tool for monitoring the cash flow of the business. Personal guarantors are used in lending when the collateral pledged is not enough to cover the security, in most banks the guarantor is an account holder with the lender. Due to the help of technology businesses can now analyze the data quickly and assess customers' risk profiles.

3.5 Non-performing Loan Classification by CBM Regulation

According to the central bank of Myanmar Notification No (17/2017), a bank shall make adequate provisions for impairment of loans, advances and other assets on and off-balance sheet whatever the impairment occurs. The specific provisions for the impairment are to be made against all outstanding balance (principle and interest) of the loans and advances, not just the past due portion. KBZ bank classifies and makes specific provisions in the following manner:

Table (3.2) Classifications of Loans/ Advances and specific provisions

Sr. No.	Classification of Loans/Advances	Days past due	Provisions on shortfall in security value
(a)	Standard	30 days past due	0%
(b)	Watch	31 to 60 days past due	5%
(c)	Substandard	61 to 90 days past due	25%
(d)	Doubtful	91 to 180 days past due	50%
(e)	Loss	Over 181 days past due	100%

Source Data: CBM Notification No. (17/2017) (July 7th 2017)

Standard Loan: When the 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.

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

Sub-standard Loan: When loans not adequately secured, the borrowers financial position is not satisfactory, the principal or interest has not been repaid for a period of 61 to 90 days from the due date, there is no transaction (exception of interest and bank charges) for a period of 61 to 90 days in the customer's account, such loans are defined as Sub-standard loans.

Doubtful Loan: A loan classified as doubtful has all of the characteristics of a substandard loan and credit weakness making full collection questionable and the principal and interest has not been paid for a period of 91 to 180 days from the due date, and there is no transaction (exception of interest and bank charges) for a period of 91 to 180 days in the customer's account, such loans are defined as doubtful loans.

Loss Loan: Certain assets are considered uncollected and worthless and their continuation as bankable assets is not warranted. Bad loans classified when they have the following characteristics; the financial position of the borrower clearly discloses an incapability to fulfill the conditions of repayment, the borrower has been declared a bankrupt and it involved in a liquidation process where creditors have summited their claims, and the principal and interest has not been paid for a period exceeding 181 days past due are also classified as loss loan. According to the CBM Notification No.17/2017, non-performing loans means a loan or advance that is no longer generating income and which is classified doubtful or loss.

CHAPTER 4

EFFECT OF CREDIT RISK MANAGEMENT PRACTICES ON LOAN PERFORMANCE OF KANBAWZA BANK LIMITED

In this chapter, finding from the analysis of the data from the survey are presented with four sections. The first section is concerned about the research design for this study, and the second section mentioned the demographic characteristics of respondents. The credit risk management practices on loan in KBZ bank limited are described in the third one. In the last section, the effectiveness of credit risk management practices on loan performance of KBZ bank limited is analyzed.

4.1 Research Design

The objectives of the study are to examine credit risk management practices on loans in KBZ bank and to analyze the effect of credit risk management practices on loan performance of in KBZ bank limited. To carry out these objectives, the primary data collection is used to obtained information and opinions directly and specifically from the employees who are working in the Credit Functions of KBZ bank. As a tool of the research instrument, a structured questionnaire has been used to obtain data by face to face data collection method. The study adapts the questionnaires from various parts studied related to the topic and mainly used Likert scale measurement for all the variables constructed 46 questions was made to collect data. It was organized into two sections. Section one consisted of 5 questions regarding the personal details of respondents. Section two was designed to sampled employee’s agreement level about the practice of credit risk management and loan performance of KBZ bank in the proposed theoretical framework. A five-point Likert scale has been used in this section to measure loan performance on credit risk management practices. The scaling is 5 for strongly agree; 4 for agree, 3 for neutral, 2 for disagree and 1 for strongly disagree have been given to analyze data.

By way of sampling techniques, probability sampling techniques are employed in the research as it ensures good estimates of the population characteristics. Among a total of 118 employees who are working at Credit Functions in KBZ bank, 50 number of employees (42% of the target population) are selected by a simple random sampling method to obtain the information. After collecting the data, the processed data are further analyzed by SPSS version 22. This thesis would utilize the following statistical tools:

(1) Data organizing and description
(2) Cronbach's Alpha for reliability statistics and
(3) Multiple linear regression analysis.

4.2 Demographic Characteristic of the Respondents

This section presents the profiles of selected sample employees in Credit Functions in KBZ bank. The profiles cover the employees' gender, age, level of education, designation and working experience. All the data obtained from the questionnaires collected are interpreted and summarized in frequency distribution and percentage distribution. The frequency analysis of selected employee's demographic data is illustrated through the table of frequency counts, and their respective percentages.

4.2.1 Respondents by Gender

The respondents are not only males, but also females. Table (4.1) shows the gender of respondents.

Table (4.1) Respondents by Gender

Gender	No. of Respondents	Percentage
Male	14	28.0
Female	36	72.0
Total	50	100.0

Source Data: Survey Results, 2019

According to Table (4.1), it was found that out the 72% of respondents were of female while 28% were males. Therefore, this result captured the gender of the respondents in order to establish the most dominant working group of the employees at Credit Functions in KBZ Bank.

4.2.2 Respondents by Age Group

Ages of respondent are divided by three group. They are age under 30 years, age between 31 and 40 years and Age over 40 years. Table (4.2) respectively shows the frequency distribution of age in year.

Table (4.2) Respondents by Age Group

Age (in year)	No. of Respondents	Percentage
Under 30	27	54.0
31 – 40	21	42.0
Over 40	2	4.0
Total	50	100.0

Source Data: Surveyed Results, 2019

Table (4.2) respectively shows the frequency distribution of age in year. They include three age groups. 54% of employees fall in the age under 30 years, followed by 42% employees fall between 31 and 40 years, and 4% of employees fall age over 40 years, respectively in term of percentage share. Therefore, the majority of age group is under 30 years in credit department of KBZ bank.

4.2.3 Respondents by Educational Level

There are two education levels among the respondents in the sample: Bachelor and master's degrees. The following Table (4.3) shows the level of education and qualification of the respondents and their percentage.

Table (4.3) Frequency Distribution of Education of Respondents

Education Level	No. of Respondents	Percentage
Bachelor degree	32	64.0
Master degree	18	36.0
Total	50	100.0

Source Data: Survey Results, 2019

As the result of Table (4.3) shows that most of the respondents hold a bachelor's degrees with 64% and remaining 36% are holding in master's degree in different field of study. This indicates that most of the management and operational personnel have a high good level of education that is bachelor and master's degree and, they are well equipped with the information concerning risk management practices and they can respond accurately to the questionnaire.

4.2.4 Respondents by Designation

Designation status is divided into four categories; assistant general manager, manager, deputy managers and credit risk officers. Table (4.4) shows the number of designation of respondents.

Table (4.4) Respondents by Designation

Designation	No. of Respondent	Percent
Assistant General Manager	10	20.0
Manager	14	28.0
Deputy Manger	7	14.0
Credit Risk Officer	19	38.0
Total	50	100.0

Source Data: Surveyed Results, 2019

As a result of Table (4.4), about 20% of employees are assistant general manager, 28% of the employees are manager and 14% of the employees are deputy manager and remaining 38% of the employees are credit risk officer. Therefore, most of the employees in Credit Functions of KBZ is credit risk officer. All the employees are management and manager level in operation that outnumbered these of executive level. This was done intentionally to analyze the level of understanding and real operation procedures in their fields. This result indicates that it is to reduce one climbs up the ladder towards the top of the organization since top management is concerned with making decisions which are then implemented by those in lower levels who should be a good number to cope up with various assignments that would be delegated.

4.2.5 Respondents by Working Experience

The other background information of the respondents is years of experience of the Credit Function in KBZ bank. Table (4.5) shows the number of respondents by working experience. Table (4.5) reveals that most of the respondents have worked in loan department of KBZ bank for more than 5 years with 66% of the total respondents.

Table (4.5) Respondents by Working Experience

Working Experience	No. of Respondents	Percentage
Less than 1 years	4	8.0
1 – 3	3	6.0
3 – 5	10	20.0
5 – 10	25	50.0
10 years and above	8	16.0
Total	50	100.0

Source Data: Surveyed Results, 2019

And it could be that most of the staffs acquired sufficient experience to perform risk management activities. Less than 5 years' services indicate that the organizations have good succession plan for the risk management practice which is an important factor for the KBZ bank long term sustainability.

4.3 Type of risks encountered by KBZ Bank on Loan

The employee's mark the type of risks encountered by KBZ bank on loan is divided by four risks. They are market risk, operation risk, liquidity risk and credit risk. The following Table (4.6) shows the percentage of type of risk encounter by KBZ bank in their multiple responses. This Table (4.6) is illustrated by the Figure (4.1).

Table (4.6) Type of risks encountered by KBZ Bank on Loans

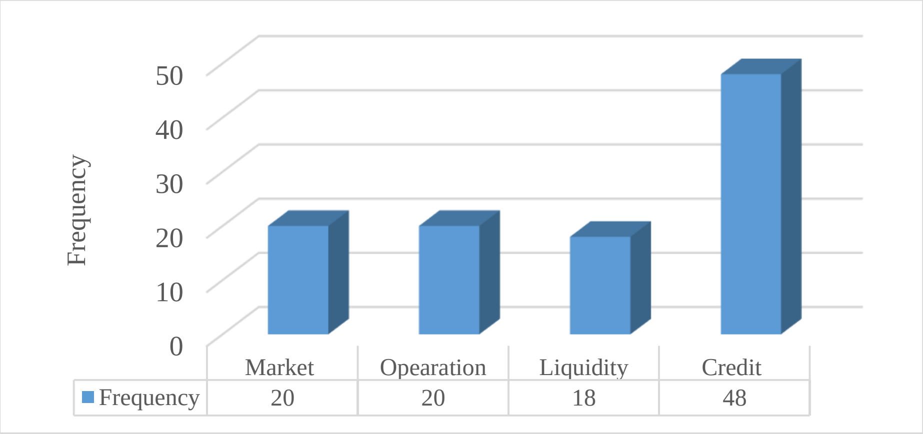
Type of Risk	No. of Respondents	Percentage
Market Risk	10	20.0
Operation Risk	10	20.0
Liquidity Risk	18	36.0
Credit Risk	48	96.0

Source Data: Survey Result, 2019

As commonly found in Table (4.6) and Figure (4.1), most 96% of the lent money and advances from KBZ bank are encountered by facing the credit risk among the other type of risk (Market risk, operation risk, and liquidity). So, it seems like the

KBZ bank effort the avoiding of credit risk to enhance their performance of loan and profitability by emphasizing the credit risk management practices.

Figure (4.1) Type of risks encountered by KBZ Bank on Loans



Source Data: Survey Result, 2019

The biggest risk faced by the KBZ Bank is credit risk, namely the position customer defaults on the loan agreement. To protect the credit risk, KBZ Bank has strict rules and best practices for customers to borrow the loans with full repayment history. The default risk on a debt that arises from a borrower who fails to make the required payments is called Credit Risk. Any financial institutions would include this as a first resort which includes principal and interest along with disruption to cash flows and the collection cost. The loss may be partial or even complete in many cases. Higher borrowing costs are always associated with higher credit risk levels in an efficient market. Due to this reason, the cost of borrowing can be used to conclude credit risks based on the assessment by the participants of the market.

Few cases in which losses can arise when a consumer fails to make the payment or when a company is unable to repay an asset secured debt. They also arise when a consumer is unable to pay an invoice when it is due or when a business does not pay salaries to its employees on time. A credit check is performed by the bank to reduce this credit risk on the prospective borrower and it may require the borrower to take insurance which guarantees from a third party of the payment to the lender. In different cases, mortgage insurance or security over assets will be used for credit. In general, the interest rate will depend on the risk, which means higher there is higher will be the interest. Credit risk increases when the borrowers, willingly or unwillingly, are unable to pay.

4.4 Assessment of the Reliability of the Scale

This study has extensively used Likert scales. Thus, before they are used, it should be checked their reliability. The reliability of a scale is defined as its ability to consistently measure the phenomenon it is designed to measure. Examining the internal consistency of the test enables the researcher to determine which items are not consistent with the test in measuring the phenomenon under investigation. The object is to remove the inconsistent items and improve the internal consistency of the test. In this study, Cronbach's alpha value is used as a measure of the internal consistency of the scales used in the questionnaire. Cronbach's alpha is a single correlation coefficient that is an estimate of the average of all the correlation coefficients of the items within a test. If the alpha value is high, then this suggests that all the items are reliable, and the entire test is internally consistent. If alpha is low, then at least one of items is unreliable and must be identified via item analysis procedure. However, as per DeVellis (2003), Cronbach's alpha value should ideally be above 0.7. Details outputs can be seen in the appendix A.

Table (4.7) Results of Cronbach's Alpha Value

Practices	No. of Items	Cronbach's Alpha Value
Credit Risk Identification	7	0.701
Credit Risk Analysis	11	0.758
Credit Risk Control	5	0.753
Credit Risk Monitoring	7	0.773
Loan Performance	11	0.791

Source: Appendix A, SPSS outputs

The results of the Cronbach's alpha value are between 0.701 and 0.791, suggesting very good internal consistency and reliability for the scale with this sample.

4.5 Credit Risk Management Practices on Loan in KBZ Bank

Credit risk is the possibility of losing money due to the inability, unwillingness, or no timeliness of counterparty to honor a financial obligation. KBZ bank is one of the many other banks and institutions that lend money for individuals and institutions to make a profit. The large stake of KBZ bank profit if from the lend money interest and related fees. But the bank is a challenge of collecting the money they lend which is called credit risk. Credit risk management is the process of dominant the impact of credit risk related events on the institution and involves the identification, understanding, and quantification of the degree of the potential loss and the consequential implementation of appropriate measures to minimize the risk of loss to the financial institution. Consequently, credit risk management practices are impacting on bank performance.

This section mentions the findings with respect to objective one which to identify the risk management practices of the loan in KBZ bank. Risk management practices are a way of assessing the functionality of four components: Credit risk identification, Credit risk measurement and analysis, credit risk control, and credit risk monitoring. The practice assessment statements were ranked in terms of their means and standard deviation as a way of interpreting results.

4.5.1 Credit Risk Identification Practices

Banks are invariably faced with different types of risks that may have a potentially adverse effect on their business. Risk identification is vital for effective risk management. Bank are obliged to establish the identification and assessment of the different risk involving the different lines of defense to strengthen its advanced and proactive risk practices. Risk identification practices are measured by seven statement. All statement concerning risk identification practices dimension are measured via five-point Likert scale. Table (4.8) shows the results of the respondents regarding the practices of risk identification.

As a result of Table (4.8), reviewing of past payment record is the most important factor is the highest means scores of 4.02 and, reviewing the length of time or number of years the business has been in operation and personal business experience of the borrower is the second highest 3.92; while auditing the financial report to know business transparent transactions and long histories of their businesses has the lowest mean score of 3.74 and all statement with a little variation.

Table (4.8) Credit Risk Identification Practices

Sr.	Statements	Mean Value	Standard Deviation
1	Risk identification involves all level of staffs of concerned department.	3.80	0.78
2	KBZ bank reviews the length of time or number of years the business has been in operation and personal business experience of the borrower.	3.92	0.49
3	KBZ bank identifies all possible risks from the survey questions or computing the loan ratios.	3.88	0.63
4	KBZ bank reviews the customer's past payment record from existing loans.	4.02	0.59
5	KBZ bank reviews how long the borrower and his business have been dealing with KBZ Bank. Primarily based on opening date of first deposit account.	3.82	0.66
6	It is important to identify the risks of loss that it considers that the obligor is unlikely to pay its credit obligations in full or the obligor is more than 90 days past due on any material credit obligation..	3.74	0.66
7	KBZ bank audits financial report to know business transparent transactions and long histories of their businesses.	3.64	0.82
Overall Mean		**3.83**	

Source Data: Surveyed Results, 2019

The overall mean score of risk identification practices is 3.83. The result shows, it is obvious that employees are most agreement the risk identification practices are the effect on loan performance. Therefore, all respondents generally agreed to the risk identification process by board and senior manager. Consequently, bank need to consider developing the reviewing of past payment record which is the key function of this practices.

4.5.2 Credit Risk Analysis/Measurement Practices

Credit risk analysis/ measurement practices are one of the main components of effective risk management. This section contains the findings in respect to credit risk analysis/measurement practices which sought to assess the influence of credit risk analysis/ measurement on the performance of bank. To do this, the employees responded as provided in Table (4.9).

Table (4.9) Credit Risk Analysis/Measurement Practices

Sr.	Statements	Mean Value	Standard Deviation
1	KBZ bank estimates the impact and frequency of each identified risk factor.	3.70	0.54
2	KBZ bank checks the level of all debts, including the proposed loan request, compared to the equity how heavy the debt burden is.	3.74	0.66
3	KBZ Bank checks the amount of the financing needs compared to the business size, in terms of capital, total debts and total assets.	3.58	0.76
4	KBZ Bank checks the ability to pay back short-term debts with short-term assets.	3.54	0.78
5	KBZ Bank examines the borrower's business ability of growing sales in the recent years.	3.68	0.59
6	Case Relationship Manager visits to the borrower's business to check the business condition.	4.02	0.47
7	KBZ bank examines the borrower's loan purposes periodically and always compares the rate of return and risk has to be perceived after the loan disbursed.	4.10	0.42
8	KBZ Bank analyzes the length of the need to repay the loan.	3.76	0.72
9	KBZ bank utilizes the credit scoring model to identify credit risks and mitigating factors, determining financing requirements and earnings for bank, monitoring loan performance risks in crisis situations, and structuring facilities.	4.10	0.42
10	KBZ bank analyzes the financial characteristics from both the business and the business owner carefully.	4.12	0.48
11	Scoring systems utilize information relating to the traditional 5Cs of credit.	4.36	0.56
Overall Mean		**3.88**	

Source Data: Surveyed Results, 2019

As a result of Table (4.9), it was found that scoring systems utilize information relating to the traditional 5Cs of credit is the highest means scores of 4.36 and while the ability to pay back short-term debts with short-term assets has the lowest mean score of 3.54 with a little standard deviation. The overall mean score of credit risk analysis/ measurement practices is 3.88 shows that all respondents are fairly agreed the credit risk analysis/measurement on the effect on loan performance of KBZ bank. The result shows, it is obvious that employees are most agreement the risk analysis/

management practices are the effect on loan performance. Consequently, bank need to consider evolving the scoring system utilize information relating to the traditional 5Cs of credit which is the key function of credit risk analysis practices.

4.5.3 Credit Risk Control Practices

This section pertains the findings in respect to risk control which sought to access the influence of risk control on the loan performance of KBZ bank. Table (4.10) shows the results of the respondents regarding the practices of risk control. Assessment of response and control are one of the main components of effective risk management practices. Question on this area put and the results indicates regarding the activities of the risk control across the organization and whether it is in line with the regulatory body and organization risk management framework.

Table (4.10) Credit Risk Control Practices

Sr.	Statements	Mean Value	Standard Deviation
1	KBZ Bank takes the collateral to reduce the credit risk. It is more important to have quality collateral than strong financial background.	3.84	0.51
2	The first and main source of repayment, cash flow generated by the business, be carefully assessed through financial analysis to see if cash will be available.	3.94	0.55
3	Collateral is the second source of the repayment, which would be the repossession and resale of the collateral to cover the loan.	3.92	0.78
4	Lending to related parties is particularly dangerous form of credit risk exposure. Bank consolidates lending of the related party's group that can be reduce the concentration risk in the future.	3.76	0.74
5	When bank is lending with unsecured lending method (without collateral), the bank takes the interest rate for 13% + 3% (risk premium) to cover the risk by insurance.	3.82	0.66
Overall Mean		**3.86**	

Source Data: Survey Results, 2019

Table (4.10) shows that first and main source of repayment, cash flow generated by the business, be carefully assessed through financial analysis to see if cash will be available is the highest means scores of 3.94 and the standard deviation also suggests no varied responses from respondents with .055 while the consolidating of the lend to dangerous of credit risk exposure parties has the lowest mean score of 3.76 with a little standard deviation. Most respondents agreed with the credit risk control practice that the overall mean score is 3.86, which had an effect on loan performance of KBZ bank.

4.5.4 Credit Risk Monitoring Practices

To achieve the effectiveness loan performance, private banks need to regularly monitor the status of borrowers and re-evaluate individual credits and commitments, and their rating. Monitoring is the last step in the credit risk management process. Table (4.11) shows the results of the respondents regarding the function of credit risk monitoring. All the question statement covered to address the necessary actions for monitoring credit risk practices.

Table (4.11) Credit Risk Monitoring Practices

Sr.	Statements	Mean Value	Standard Deviation
1	KBZ Bank follows up the customers' financial analysis periodically.	4.27	0.49
2	KBZ Bank follows up the customer's bank account with cash transaction and regular payment of interest for the all of debt.	4.26	0.60
3	Case Relationship Manager continuously deals with the customer and unexpected Site Visit to the proposed project.	4.32	0.59
4	Credit risk officers are always update the borrower's loan file.	3.92	0.56
5	Management Information System (MIS) uses to produce various reports on demand or as scheduled.	3.94	0.55
6	After the loan is approved, the bank continuously watched over the loan.	4.10	0.42
7	Monitoring practices include keeping track of borrowers' compliance with credit terms, identifying early signs of irregularity, conducting periodic valuation of collateral and monitoring timely repayments.	4.20	0.57
Overall Mean		**4.14**	

Source Data: Surveyed Results, 2019

As a result of Table (4.11) shows that follow up the customer's financial analysis periodically is strongest mean value in that practices with 4.27 and standard deviation also suggests no varied responses from respondents with .49 while needing update the borrower's loan file has the lowest mean score of 3.92 with a little standard deviation of 0.56. The overall mean score of credit risk monitoring practices is 4.14. It can be concluded that all respondents are strongly agreed the effect of credit risk monitoring on loan performance in KBZ bank. Consequently, bank need to follow up the customer's financial analysis periodically is the dominant fact of credit risk monitoring practices in KBZ bank.

4.6 Summary Analysis on the Credit Risk Management Practices

Table (4.12) shows the summary analysis on the credit risk management practices on loan in KBZ bank.

Table (4.12) Summary analysis on Credit Risk Management Practices on Loan in KBZ Bank

Sr.	Practices	Mean Value
1	Credit Risk Identification	3.83
2	Credit Risk Measurement / Analysis	3.88
3	Credit Risk Control/ Mitigation	3.86
4	Credit Risk Monitoring	4.14
Overall Mean		**3.92**

Source Data: Surveyed Results, 2019

The above table (4.12) shows credit risk identification practices, credit risk analysis/ measurement practices, credit risk control/ mitigation practices, and credit risk monitoring practices on loans. As per overall mean value from Table (4.12), the overall mean score for credit risk monitoring practices on loan is highest ranking with M=4.14 which means that all the respondents are strongly agreed the credit monitoring practices have the dominant effect on loan performance in KBZ bank. However, overall mean value for credit risk identification practices on loan is lowest ranking with M=3.83 which means that KBZ Bank have to improve better identification practices on loans and have to increase credit risk controlling practices to be more recovery. In regards to the total average mean value, M=3.92 and overall score from each practice are strongly agreed on the effect of loan performance in KBZ Bank.

4.7 Loan Performance of Kanbawza Bank

This section contains an analysis on the loan performance of KBZ bank in term of credit risk management practices.

Table (4.13) Loan Performance of KBZ Bank

Sr.	Statements	Mean Value	Standard Deviation
1	Efficient credit risk management practices have been vital in preventing occurrence of bad debt and non-performing loans.	4.04	0.54
2	The financial success of a bank depends on the effectiveness of credit management practices as most of the income from interest is earned on loans extended.	4.08	0.69
3	Credit Analysis practice helps to mitigate the level of risk by ensuring that borrowers are credit worthy before giving out credit.	4.00	0.49
4	Credit Scoring practices can be measured the level of default by the borrower.	4.08	0.53
5	By using of the credit analysis model, the bank knows the borrower’s characteristics and that can effect on loan performance of a bank.	4.06	0.47
6	Credit risk analysis practice predicts accurately the future capability of a borrower to meet his/her financial obligation and that reduce the credit default risk in the future.	4.06	0.42
7	Effective credit risk identification practice is to identify all possible risks that are either inherent in any banking operations that may effect on the bank performance.	4.02	0.47
8	In mitigation practice, the bank controls the non-performing loan and loan losses by insurance and by taking the enough collateral for the loan amount.	4.04	0.64
9	Management Information System (MIS) helps in making various decisions on credit risk management and that can be prevented the occurrence of bad debt and non-performing loans.	4.02	0.69
10	KBZ bank maintains the LTD ratio directed by CBM to prevent the liquidity risk and predicts the accurately the future capability.	4.06	0.65
11	Effective monitoring practice ensures that the bank understands the current financial condition of the borrower, monitors compliance with the existing terms and conditions, assesses collateral in relation to the borrowers' current condition, identifies non-performing accounts.	4.12	0.69
Overall Mean		**4.05**	

Source Data: Surveyed Results, 2019

The effectiveness of credit risk management practices has a great impact on the performance of the loan in KBZ bank. This study analyzes the effect of credit risk management practices on the loan performance of KBZ bank. To analyze the loan performance in KBZ bank, questions were prepared into eleven statements and the results show with the overall mean score and standard deviation in the Table (4.13). Respondents were asked to indicate the extent to which they agreed to statements relating to agreement of each factors on a five-point Likert scale (5= strongly agree, 1 = strongly disagree).

As a result of Table (4.13) the overall mean score of loan performance of KBZ bank in term of credit risk practices is 4.05. It can be concluded that all respondents are strongly agreed the credit risk management practices have dominant effect on loan performance of KBZ bank.

4.6 Effect of Credit Risk Management Practices on Loan Performance of KBZ Bank

To examine the effect of credit risk management practices on loan performance of KBZ bank, statistical analysis of this section is included multiple linear regression analysis. It is important to consider which factors of credit risk management practices out of the four factors can significantly explain loan performance of KBZ Bank. In order to do this, the multiple linear regression model is applied to analyze the effect of credit risk management practices on loan performance of KBZ Bank. The output from generating multiple linear regression models is shown in Table (4.14). Details outputs can be seen in the appendix B.

One star (*) indicated the significant at 10% level, double star (**) indicated the significant at 5% level and triple star (***) indicated the significant at 1% level for t value and F value. The above results show that all the coefficients in the model are jointly significant at 1% level, which is indicated by the value of F-statistic (F = 13.57). In addition, individual coefficients have expected positive signs. Three credit risk practices in the model namely risk identification, risk analysis, and risk control are significant while the risk monitoring is not significant.

Table (4.14) Effect of Credit Risk Management Practices on Loan Performance

Credit Risk Management Practices	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.429	.310		1.383	.169
Risk Identification	.256***	.061	.332	4.169	.000
Risk Analysis	.216**	.098	.207	2.210	.029
Risk Control	.195**	.083	.229	2.357	.020
Risk Monitoring	.130	.079	.126	.1636	.105
N=120, R^2 = .527, F = 13.57 *** DW = 1.844					

Source: Appendix B, SPSS Outputs

The magnitude of each coefficient indicates the amount of how much the score of the dependent variable will change if the score of an independent variable increases by 1 unit while other things remain unchanged. That is, if the score of risk identification practices increases by 1 unit, while other thing remains unchanged, the level of loan performance will increase by .256 unit. If the score of credit risk analysis practices increases by 1 unit, while other thing remains unchanged, the level of loan performance will increase by .216 unit. If the score of credit risk control practices increases by 1 unit, while other thing remains unchanged, the level of loan performance will increase by .195 unit.

In terms of the magnitude of the standardized coefficient, credit risk identification (beta = 0.332) is relatively the most important in explaining the loan performance of KBZ bank. As the performance of the regression model, the model can explain about 52.7% of the variation of the loan performance and credit risk management practices.

CHAPTER 5

CONCLUSION

This chapter includes the conclusion which is based on the analysis of the results of the thesis. This chapter has been structured into three main sections: findings and discussion, recommendations and needs for futures research.

5.1 Findings and Discussion

Credit risk management practices of KBZ Bank absolutely look like with credit risk management practices of background theory. The bank follows the guideline for soundness of credit risk management practices, state on reference theory. However, some factors are not yet described on its practice, such as credit bureau referencing. Credit information sharing through the credit reference bureaus will enable borrowers build a track record that can be used in accessing credit and thus bridge the information gap that exists between the Lenders and the borrowers. This will be especially pertinent to those borrowers in the informal who have a track record and good performance to use it to access credit. The study focusses on the credit risk management practices of KBZ Banks on loans. The result was based on the analysis of 42% of the total population of Credit Functions that provide the customers with credit facilities. Findings state that KBZ Bank use different credit risk management practices to ensure that techniques and assessment models manage the credit risk which have one main objective of reducing the amount of loan default that may be a principal reason for failure. Sound credit risk management practices have lower loan default ratio (bad loans).

As per research analysis, credit risk identification practices is mostly effected in loan performance of the KBZ Bank. The study concludes that KBZ Bank used a combination of methods to identify credit risk among the businesses this includes checking of borrower’s working experiences in operation, analyzing in financial position of borrowers carefully by calculating loan ratios and make industry comparison to identify risk and using the survey question for all possible risks, reviewing of past payment record, borrowers’ relationship with KBZ, using audit financial statement and identifying the risks of loss that it considers that the obligor is unlikely to pay its credit obligations. Among them, the popular method for the risk identification is reviewing the past payment record that is the highest mean score in identification and the effectiveness way on the loan performance of the bank. Auditing financial statement was the least popular method in risk identification that is because most business do not have proper records concerning their businesses. Credit Analysis model with Five Cs was most popular in credit measurement method and credit scoring model with financial characteristics from both the business and business owner these are the effective tools in credit risk management practices.

Credit facilities in KBZ Bank are heavily secured with physical collateral as land, building and machinery and personal guarantors. Personal guarantors are used in lending when the collateral pledged is not enough to cover the security, in most banks the guarantor is an account holder with the lender. Bank also require that have to operate Deposits/Savings accounts for a period of six to twelve months before availing credit facilities to them. The first and main source of repayment, cash flow generated by the business was the most popular method in risk controlling and mitigation of the KBZ Bank. KBZ bank also requires the method to follow up the financial statement periodically and visiting to customer premises (unexpected). Visiting the customer's premises was the most commonly used method by KBZ Bank to identify credit risks and to monitor the risk among the loans which have a mean response rate of 4.32, this was mainly used to verify physical address of the business and identified potential sources of the credit risk for the customers. This is an effective tool for monitoring the cash flow of the business. Finally, the analysis found a positive relationship between loan performance and the credit risk management variables used in the study.

5.2 Recommendations

Kanbawza Bank has been relying too much, almost exclusively on the collateral to lend money without ever trying to find out what the borrower exactly needs for money for and how he is going to repay, when, with what money, from what sources. That is the surest way to have big troubles sooner or later. A better lending approach is to try to rely less on the collateral. Kanbawza Bank would still need collateral, but collateral is no longer the only criteria for approving or rejection a loan. If the customer does not have collateral or does not have collateral with sufficient value, we can still find a way to lend if banks are lending with unsecured lending method (CGI) to Business in Myanmar. CGI is included as one of bank lending policies. In this system, the businessman can apply for a loan from the bank without collateral after he or she has bought guarantees from bank. Bank has to buy full guarantees from Myanmar Insurance that is owned by the Ministry of Planning and Finance. If the man of affairs had defaults for several reasons and therefore the client couldn't pay back the borrowed money, the Myanmar Insurance will return just 60 percent of the loan to the bank. So, credit risk can be mitigated by full guarantees from Myanmar Insurance. All of the credit risk management practices are important in banking industry, but regarding of the respondents' survey result, they are friendly with three practices but the practice (risk monitoring practice) is still weak and they assumed that this monitoring process are not fully impacted on the loan performance.

As per suggestion, they need to effort in this credit monitoring because this is an integral part of lending activity. Banks have a good responsibility to maintain the quality of the assets and to recover the interest and alternative dues in time. Though adequate precautions are taken during the assessment and sanction of a loan, a banker has to be more vigilant after sanction the loan. Unless early warning signals square measure captured, a bank may not be able to take proper remedial measures to arrest the slippage in the quality of the asset. Banks ought to place in place awfully sound and effective credit monitoring system for looking at the borrower's account from varied angles.

To abide by the rules and regulations of Central Bank of Myanmar is very important. The government can also provide special support units which includes impacting appropriate business skill through workshops, expert advisers and enterprises forums to SMEs clients, this will help the equip the business with appropriate business management skills for future challenges and reduce instances of nonperforming loans.

5.3 Limitation and Future Study

This study emphasized on the base of lecture notes of credit risk management department and survey questions of management and manager level of operation and credit risk officers from Credit Functions. This study is just analyzed by using descriptive method with tables, graphs and charts.

Therefore, it is needed to continuous study by using more completely method with other analytical tools. Credit risk management is the crucial management for not only banking industry also the whole financial institutions of Myanmar. Since this study just emphasize on KBZ Bank only, the study represented the whole banking system in Myanmar should be continuously performed.

REFERENCES

1. Amalendu Ghost (2012), *"Managing Risks in commercial and retail banking".*
2. Basel (2010), *''Principles of management of credit risk"* Consultative paper issued by the Basel committee on banking supervision, Basel (April 2010)
3. Berger, A.N and G.F. Udell (2001). *Small Business Credit Availability and Relationship Lending*: The Importance of Bank Organizational Structure. Federal Reserve Board Working Paper, Washington D.C.
4. Central Bank of Myanmar (2017), *"Central Bank of Myanmar Notification No. (17/2017)".*
5. Feldman, R., (1997). Banks and a Big Change In Technology Called Credit Scoring. The Region Federal Reserve Bank of Minneapolis, September 19-2
6. Guimon Jose (2005). *"Intellectual capital reporting and credit risk analysis".* Journal of Intellectual Capital Vol. 6 No. 1, pp. 28-42 Emerald Group Publishing Limited.
7. Hus Pyae Htun (2017), *"A study on Credit risk management of Co-operative Bank", Master of Banking and Finance Programme, Yangon University of Economics*
8. Karanja G Gladys (2012), *"The effect of credit risk management practices on the level of non-performing loans".*
9. Machiraju, H.R., (2008), *"Modern Commercial Banking (2nd Ed). New Age International (P) Ltd, USA".*
10. Mareshah Dutt, (2018), "*Risk and Risk Management in Indian Banking Sector*", accessed online at: https://www.researchgate.net/publication/324570155.pdf
11. May Kha Naing (2016)*, "Effect of credit risk management on non-performing loan in Kanbawza Bank", Master of Banking and Finance Programme, Yangon University of Economics*
12. Nakanura, L.I. (1993). Commercial Bank Information Implications for The Structure of Banking in M. Klausner and L.J. White Eds. Structural Change In Banking, Isomer Wood; Ltd, Irowin Vol. 3 pp. 136
13. Ni Lar Hlaing (2015), *"Credit Risk Management of Myanmar Economic Bank", Master of Banking and Finance Programme, Yangon University of Economics*
14. Wachira, Alexander Kinyua, (2017), *"Effects of credit risk management practices on loan performance of commercial banks in Nyeri country".*

APPENDIX A

1) Reliability (Risk Identification)

Case Processing Summary

		N	%
Cases	Valid	50	100.0
	Excluded[a]	0	.0
	Total	50	100.0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	N of Items
.701	7

2) Reliability (Risk Analysis)

Case Processing Summary

		N	%
Cases	Valid	50	100.0
	Excluded[a]	0	.0
	Total	50	100.0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	N of Items
.758	11

3) Reliability (Risk Control)

Case Processing Summary

		N	%
Cases	Valid	50	100.0
	Excluded[a]	0	.0
	Total	50	100.0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	N of Items
.753	5

4) Reliability (Risk Monitoring)

Case Processing Summary

		N	%
Cases	Valid	50	100.0
	Excluded[a]	0	.0
	Total	50	100.0

Reliability Statistics

Cronbach's Alpha	N of Items
.773	7

5) Reliability (Performance)

Case Processing Summary

		N	%
Cases	Valid	50	100.0
	Excluded[a]	0	.0
	Total	50	100.0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	N of Items
.791	11

APPENDIX B

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.739	.547	.527	.37505	.090	1.114	4	45	.362	1.844

a. Predictors: (Constant), Risk Control, Risk Analysis, Risk Identification, Risk Monitoring

b. Dependent Variable: Loan Performance

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	19.342	4	4.8355	13.57	.000
	Residual	16.035	45	0.3563		
	Total	35.377	49			

a. Dependent Variable: Loan Performance

b. Predictors: (Constant), Risk Control, Risk Analysis, Risk Identification, Risk Monitoring

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.429	.310		1.383	.169		
	Risk Identification	.256	.061	.332	4.169	.000	.984	1.016
	Risk Analysis	.216	.098	.207	2.210	.029	.967	1.034
	Risk Control	.195	.083	.229	2.357	.020	.903	1.108
	Risk Monitoring	.130	.079	.126	.1636	.105	.906	1.104

a. Dependent Variable: Loan Performance

APPENDIX C

QUESTIONNAIRES for

"CREDIT RISK MANAGEMENT PRACTICES ON LOAN PERFORMANCE OF KBZ BANK LIMITED"

PART A

Dear Respondents,

This questionnaire is a part of the special study, which is the curricular requirements of the students from Master of Banking and Finance, Yangon University of Economics, Myanmar. All information herein that the respondents provided in this survey questionnaire will be treated with utmost confidentiality. Please kindly answer all the questions in below survey questionnaire spread sheet. I am highly appreciated for your cooperation by spending your precious time answering it.

Please tick the choice that you made after reading the statements.

Profile of the respondents

1. Gender of Respondents
    - Male
    - Female
2. Age of Respondents
    - Age under 30 years
    - Age between 31 and 40
    - Age over 40
3. Level of Education
    - Bachelor
    - Master
4. Designation of Respondents
    - Assistant General Manager
    - Mangers
    - Deputy Mangers
    - Credit Risk officers

5. Working Experience of Respondents
   - Less than 1 year
   - 1-3 years
   - 3-5 years
   - 5-10 years
   - 10 years and above

PART B

Please mark the type of risks encountered by KBZ Bank on Loans.

- Market Risk
- Operation Risk
- Liquidity Risk
- Credit Risk

Please indicate your level of agreement with the following statements as regards setting objective and risk identification techniques used by your company. Use scale of 1-5 where:

Strongly Disagree	Disagree	Not sure	Agree	Strongly Agree
1	2	3	4	5

1. Credit Risk Management Practices

(A) Credit Risk Identification Practices

Statement	1	2	3	4	5
Risk identification involves all level of staffs of concerned department.	1	2	3	4	5
KBZ bank reviews the length of time or number of years the business has been in operation and personal business experience of the borrower.	1	2	3	4	5
KBZ bank identifies all possible risks from the survey questions or computing the loan ratios.	1	2	3	4	5
KBZ bank reviews the customer's past payment record from existing loans.	1	2	3	4	5
KBZ bank reviews how long the borrower and his business have been dealing with KBZ Bank. Primarily based on opening date of first deposit account.	1	2	3	4	5
It is important to identify the risks of loss that it considers that the obligor is unlikely to pay its credit obligations in full or the obligor is more than 90 days past due on any material credit obligation..	1	2	3	4	5
KBZ bank audits financial report to know business transparent transactions and long histories of their businesses.	1	2	3	4	5

(B) Credit Risk Analysis/Measurement Practices

Statement	1	2	3	4	5
KBZ bank estimates the impact and frequency of each identified risk factor.	1	2	3	4	5
KBZ bank checks the level of all debts, including the proposed loan request, compared to the equity how heavy the debt burden is.	1	2	3	4	5
KBZ Bank checks the amount of the financing needs compared to the business size, in terms of capital, total debts and total assets.	1	2	3	4	5
KBZ Bank checks the ability to pay back short-term debts with short-term assets.	1	2	3	4	5
KBZ Bank examines the borrower's business ability of growing sales in the recent years.	1	2	3	4	5
Case Relationship Manager visits to the borrower's business to check the business condition.	1	2	3	4	5
KBZ bank examines the borrower's loan purposes periodically and always compares the rate of return and risk has to be perceived after the loan disbursed.	1	2	3	4	5
KBZ Bank analyzes the length of the need to repay the loan.	1	2	3	4	5
KBZ bank utilizes the credit scoring model to identify credit risks and mitigating factors, determining financing requirements and earnings for bank, monitoring loan performance risks in crisis situations, and structuring facilities.	1	2	3	4	5
KBZ bank analyzes the financial characteristics from both the business and the business owner carefully.	1	2	3	4	5
Scoring systems utilize information relating to the traditional 5Cs of credit.	1	2	3	4	5

(C) Credit Risk Control/Mitigation Practices

Statement	**1**	**2**	**3**	**4**	**5**
KBZ Bank takes the collateral to reduce the credit risk. It is more important to have quality collateral than strong financial background.	1	2	3	4	5
The first and main source of repayment, cash flow generated by the business, be carefully assessed through financial analysis to see if cash will be available.	1	2	3	4	5
Collateral is the second source of the repayment, which would be the repossession and resale of the collateral to cover the loan.	1	2	3	4	5
Lending to related parties is particularly dangerous form of credit risk exposure. Bank consolidates lending of the related party's group that can be reduce the concentration risk in the future.	1	2	3	4	5
When bank is lending with unsecured lending method (without collateral), the bank takes the interest rate for 13% + 3% (risk premium) to cover the risk by insurance.	1	2	3	4	5

(D) Credit Risk Monitoring Practices

Statement	**1**	**2**	**3**	**4**	**5**
KBZ Bank follows up the customers' financial analysis periodically.	1	2	3	4	5
KBZ Bank follows up the customer's bank account with cash transaction and regular payment of interest for the all of debt.	1	2	3	4	5
Case Relationship Manager continuously deals with the customer and unexpected Site Visit to the proposed project.	1	2	3	4	5
Credit risk officers are always update the borrower's loan file.	1	2	3	4	5
Management Information System (MIS) uses to produce various reports on demand or as scheduled.	1	2	3	4	5
After the loan is approved, the bank continuously watched over the loan.	1	2	3	4	5
Monitoring practices include keeping track of borrowers' compliance with credit terms, identifying early signs of irregularity, conducting periodic valuation of collateral and monitoring timely repayments.	1	2	3	4	5

2. Loan Performance of KBZ Bank

Statement	**1**	**2**	**3**	**4**	**5**
Efficient credit risk management practices have been vital in preventing occurrence of bad debt and non-performing loans.	1	2	3	4	5
The financial success of a bank depends on the effectiveness of credit management practices as most of the income from interest is earned on loans extended.	1	2	3	4	5
Credit Analysis practice helps to mitigate the level of risk by ensuring that borrowers are credit worthy before giving out credit.	1	2	3	4	5
Credit Scoring practices can be measured the level of default by the borrower.	1	2	3	4	5
By using of the credit analysis model, the bank knows the borrower’s characteristics and that can effect on loan performance of a bank.	1	2	3	4	5
Credit risk analysis practice predicts accurately the future capability of a borrower to meet his/her financial obligation and that reduce the credit default risk in the future.	1	2	3	4	5
Effective credit risk identification practice is to identify all possible risks that are either inherent in any banking operations that may effect on the bank performance.	1	2	3	4	5
In mitigation practice, the bank controls the non-performing loan and loan losses by insurance and by taking the enough collateral for the loan amount.	1	2	3	4	5
Management Information System (MIS) helps in making various decisions on credit risk management and that can be prevented the occurrence of bad debt and non-performing loans.	1	2	3	4	5
KBZ bank maintains the LTD ratio directed by CBM to prevent the liquidity risk and predicts the accurately the future capability.	1	2	3	4	5

Statement	1	2	3	4	5
Effective monitoring practice ensures that the bank understands the current financial condition of the borrower, monitors compliance with the existing terms and conditions, assesses collateral in relation to the borrowers' current condition, identifies non-performing accounts.	1	2	3	4	5

Thanks for taking of your time to complete the questionnaires.