

**YANGON UNIVERSITY OF ECONOMICS
DEPARTMENT OF COMMERCE
MASTER OF BANKING AND FINANCE PROGRAMME**

**THE EFFECT OF CREDIT RISK MANAGEMENT PRACTICES ON
FINANCIAL PERFORMANCE IN METRO BANK**

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EMBF – 36
EMBF 11th BATCH**

NOVEMBER, 2025

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FINANCIAL PERFORMANCE IN METRO BANK**

A thesis submitted as a partial fulfilment towards the requirements for the degree of
Executive Master of Banking and Finance (EMBF)

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ABSTRACT

The primary objective of this study is to examine the impact of credit risk management practices on the financial performance of Metro Bank. A quantitative method was used with primary and secondary data. Primary data were acquired from 105 credit operations personnel at the bank's Yangon headquarters. The paper examines five key credit risk management aspects: identification, control, monitoring, collection policy, and mitigation. Data analysis was conducted using descriptive statistics, reliability testing, correlation analysis, and multiple regression techniques. The findings indicate that all five practices play an essential role in sustaining financial performance. Among them, collection policy and credit mitigation measures were identified as the most influential, significantly reducing loan defaults and minimizing potential financial losses. Credit risk identification and control also demonstrated strong positive effects, while credit monitoring contributed in a supportive capacity. These results confirm that effective credit risk management is a vital driver of profitability, asset quality, and long-term stability. Practical recommendations include strengthening recovery procedures, enhancing collateral and guarantee mechanisms, diversifying loan portfolios, and providing continuous training for credit staff. The study concludes that Metro Bank can achieve sustainable growth and competitive advantage through robust, outcome-driven risk management strategies. Future research should explore additional factors such as employee expertise, technological adoption, and organizational culture, as well as comparative and longitudinal analyses across banks to deepen understanding of credit risk management in Myanmar's financial sector.

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CHAPTER I

INTRODUCTION

The banking sector acts as a cornerstone of economic development by facilitating the mobilization of savings and the allocation of financial resources to productive investments. Banks help businesses grow, support trade and expand access to financial services. Banks face several risks, but credit risk is the biggest. Credit risk is the chance that a borrower won't repay a loan, costing the lender. Thus, good credit risk management (CRM) is essential for financial institutions' profitability and longevity.

In Myanmar, the banking industry has undergone substantial transformation following liberalization policies introduced in 2011. These reforms have encouraged competition, modernization, and increased participation by private and foreign banks. Despite these advances, many banks still struggle with significant NPLs, insufficient credit appraisal processes, and poor loan monitoring. Metro Bank, a renowned private commercial bank in Myanmar, must balance profitability and risk management in this dynamic climate.

Credit risk management involves many efforts to reduce borrower default and improve loan portfolio quality. These include client appraisal, credit risk control, monitoring, collection policy, and credit mitigation. Each practice helps the bank identify, manage, and recover credit exposures. Financial performance is measured by ROA and ROE. ROE measures profitability relative to owners' equity, while ROA measures asset use efficiency. This study examines Metro Bank's credit risk management and financial performance.

The growing relevance of credit risk management in Myanmar's banking industry prompted this study. Risk assessment and control are crucial when banks grow their lending portfolios. Poor credit risk management can cause loan defaults, lower profits, and investor skepticism. Conversely, effective CRM practices can enhance financial performance, strengthen institutional resilience, and contribute to sustainable growth. By examining the impact of CRM practices on ROA and ROE, this study aims to provide actionable insights for Metro Bank and contribute to the broader discourse on banking performance in Myanmar.

1.1 Rationale of the Study

Credit risk is one of the biggest banking sector issues worldwide. The inability of borrowers to fulfill their repayment obligations leads to financial losses, undermines institutional stability, and erodes stakeholder confidence. In the context of Myanmar's evolving financial landscape, this issue is particularly pronounced. As the banking sector continues to develop, institutions such as Metro Bank face mounting pressure to strengthen their credit risk management frameworks. The Central Bank of Myanmar (2022) reports that non-performing loans (NPLs) continue to hurt profitability and the financial sector.

This study examines how credit risk management strategies affect Myanmar's banking system. Effective credit risk management not only reduces loan losses but also enhances profitability and institutional resilience. Empirical evidence from other developing economies reinforces this perspective. For instance, Tesfaye (2018) demonstrated that robust credit appraisal and monitoring practices significantly improved return on equity (ROE) in Ethiopian banks. Similarly, Bhattarai (2019) found that inadequate credit control mechanisms contributed to increased NPLs and diminished return on assets (ROA) in Nepalese banks. These findings underscore the direct link between credit risk management and financial performance.

The present study examines five credit risk management practices: identification, appraisal, control, monitoring, collection policy, and mitigation. These practices were chosen because they are common in banking and relevant to the credit lifecycle from borrower appraisal to loan recovery. Each practice plays a distinct role in mitigating credit risk. Credit risk identification allows the bank to detect potential default signals at an early stage, ensuring that emerging risks are recognized before they translate into financial losses. Effective risk identification strengthens the bank's overall credit decision-making process and directly supports improved financial performance by reducing unexpected loan impairments. Collection policy governs the recovery of overdue loans, and credit mitigation measures such as guarantees and insurance serve to reduce potential losses.

ROA and ROE are frequently used financial performance measures. ROA evaluates a bank's asset use efficiency, while ROE measures profitability compared to shareholder equity. The study creates a practical and experimentally tested conceptual framework by studying the five credit risk management methods and these two performance criteria.

This research addresses a pressing issue within Myanmar's banking sector and contributes to the broader discourse on risk management and financial performance. The

conceptual model provides actionable insights for practitioners and policymakers based on theoretical and empirical literature on the specified variables.

1.2 Objectives of the Study

The objectives of this study are

1. To identify the credit risk management practices at Metro Bank
2. To analyze the effect of credit risk management practices on financial performance at Metro Bank

1.3 Scope and Method of the Study

Metro Bank, a Myanmar-based private commercial bank, is examined for its financial performance and credit risk management methods. The research covers five major credit risk management dimensions: identification, control, collection policy, monitoring, and mitigation. These variables are compared to two frequently used financial performance metrics. This study uses quantitative research to meet goals. The study targets employees at Metro Bank's head office in Yangon who are directly involved in credit-related operations, including loan officers, credit analysts, recovery personnel, and financial reporting staff. The population is 105. Yamane's (1967) formula yields 83 responders as a sample size. Simple random sampling ensures equal representation and reduces selection bias. Structured questionnaires gather primary data on credit risk management practices and their effects on financial performance. The questionnaire uses a five-point Likert scale for standardization and analysis. Metro Bank internal papers, Central Bank of Myanmar releases, and related academic literature provide secondary data. These sources provide context and aid interpretation. Data is studied using descriptive statistics, correlations, and regression analysis.

1.4 Organization of the Study

This thesis is organized into five chapters to present the study clearly. Chapter One presents the context, problem, rationale, aims, scope, methodology, and conceptual framework of the research. Chapter Two reviews related theories and empirical studies on credit risk management and financial performance, highlighting knowledge gaps and laying the groundwork for this investigation. Chapter Three profiles Metro Bank and its credit risk management. Chapter Four covers the study results, analysis, and interpretation in accordance with the objectives and hypotheses. The fifth and final chapter summarizes findings, analysis conclusions, and Metro Bank and future study recommendations.

CHAPTER II

THEORETICAL BACKGROUND

This chapter provided the study's theoretical foundation. These include credit risk management, financial performance, associated theories, previous study, and conceptual framework.

2.1 Concept of Credit Risk Management

This study assumes credit risk management is crucial to bank financial performance. Credit risk is the chance that borrowers will default, causing financial losses and lower profitability. Assessing, controlling, monitoring, and recovering credit helps banks manage this risk. Credit risk is the biggest financial risk for banks and microfinance companies; hence Saunders and Cornett (2018) recommend credit risk management. Effective credit risk management enables smart lending decisions, healthy loan portfolios, and minimal losses.

The process comprises credit risk identification, credit assessment, loan approval, credit scoring, collateral evaluation, and ongoing borrower repayment monitoring. Greuning and Bratanovic (2020) stress that credit risk management must consider quantitative (financial ratios, cash flow analysis, credit history) and qualitative (management quality, industry conditions, market environment) variables. This holistic approach helps institutions assess borrower risk and repayment capacity.

Credit risk management follows international norms like the Basel Committee on Banking Supervision (2017), which emphasizes risk governance, capital buffers, and internal controls to maintain financial stability. According to Hull (2018), effective credit risk management not only reduces the likelihood of default but also contributes to long-term profitability, sustainability, and trust in the financial system.

2.2 Credit Risk Management Practices

There is a clear correlation between credit risk management and the stability and performance of the financial system, making it an essential component of banking operations. For management to be effective, it is necessary to have a complete framework that incorporates a number of activities that are interconnected. Identification of credit risk is the initial phase, which entails the procedure of systematically recognizing potential risk

exposures in lending activities, client profiles, and market conditions. The process of credit risk control ensures that suitable policies, limitations, and processes are in place to minimize exposure and protect the bank's portfolio once hazards have been recognized. Continuous credit monitoring is similarly important since it helps the bank to monitor the performance of the borrower, identify early warning signals, and take corrective actions in a timely manner. In the event of default or delinquency, a collection policy that is well-structured will provide instructions for recovering outstanding debts while simultaneously maintaining client relationships and adhering to regulations. Last but not least, credit risk mitigation strategies, which include the necessity of collateral, guarantees, diversification, and insurance, are designed to lessen the possible impact of credit losses. In conjunction with one another, these procedures provide an integrated approach to the management of credit risk. This strategy guarantees that Metro Bank is able to safeguard its assets, improve the quality of its portfolio, and maintain its long-term financial performance.

Credit Risk Identification

The term "credit risk identification" is used in this section to refer to the methodical process of discovering potential sources of credit loss that may occur as a result of borrowers failing to satisfy their financial obligations. The first and most important stage in credit risk management is the identification of risk factors at an early and accurate stage. This is because all future phases, including measurement, monitoring, and control, are dependent on this identification. According to Greuning and Bratanovic (2020), the process of identifying credit risk entails considering all of the internal and external elements that may have an impact on a borrower's capacity to repay the loan. These considerations include the borrower's financial performance, the stability of their cash flow, the conditions of the industry, and the developments in the macroeconomic environment.

In order to identify potential vulnerabilities, the procedure involves doing an analysis of borrower characteristics such as repayment history, creditworthiness, the quality of collateral, and the business climate (Saunders & Cornett, 2018). According to the Basel Committee on Banking Supervision (2017), an effective method for identifying credit risk also takes into account qualitative indicators like management capability, market rivalry, and operational concerns, as well as quantitative tools like financial ratio analysis, scoring systems, and credit rating models. Through proactive identification of these risks, financial institutions are able to reduce the likelihood of default and improve the quality of their loan portfolios.

Credit Risk Control

The internal policies and procedures that serve as a basis for lending choices are referred to as credit risk control regulations. Included in this category are the establishment of loan size limitations, the performance of routine credit checks, the provision of flexible repayment options, and the imposition of penalties for late payments. According to Jensen and Meckling's Agency Theory, which was published in 1976, these regulations assist in bringing the conduct of bank management into alignment with the financial interests of shareholders. Banks have the ability to avoid excessive risk-taking and preserve discipline in lending by enforcing clear standards. According to the findings of Al-Tamimi and Al-Mazrooei (2007), financial outcomes were generally better for banks that had robust credit management systems. The reduction of loan losses and the enhancement of operational efficiency are two ways in which effective credit risk control helps to return on equity.

A collection policy is a set of tactics that are utilized in order to recover loans that are past due. Among these are the enforcement of guaranteed agreements, the provision of incentives to staff members for recovery, the implementation of regular policy evaluations, and the implementation of stringent measures when they are required. The Agency Theory advocates for the implementation of structured collecting mechanisms as a means of lowering the risk of moral hazard and enhancing accountability. Rajeev and Mahesh (2010) stressed that greater repayment rates and better financial results are the result of employing staff members who are driven and having recovery procedures that are clear. As a result of a good collection program, non-performing loans are reduced, which increases return on assets (ROA) by reducing losses and enhances return on equity (ROE) by boosting net income.

Credit Monitoring

After a loan has been disbursed, credit monitoring means keeping a continuous watch of how well the loan is doing. A review of repayment schedules, an analysis of borrower behavior, and the identification of early warning indications of default are all essential components of this process. The Credit Risk Theory provides evidence for the concept that continuous monitoring enables financial institutions to react rapidly to possible issues, hence lowering the likelihood of default. According to Kolapo et al. (2012), monitoring assets on a frequent basis lead to greater returns on assets (ROA) and enhances asset quality. For the purpose of preserving financial stability, credit monitoring is of

utmost significance in Myanmar, because economic conditions are unpredictable and subject to fast change. Through vigilant monitoring of loan performance, Metro Bank is able to safeguard its revenue and enhance both its return on assets and return on equity.

Credit Mitigation Measures

The impact of credit risk can be mitigated through the employment of several techniques known as credit mitigation methods. Loan insurance, guarantees, portfolio diversification, and securitization are some examples of these types of strategies. The Portfolio Diversification Theory, which was developed by Markowitz in 1952, proposes that the bank can effectively protect itself from significant losses by distributing risk over a variety of borrowers and industries. It is the contention of Saunders and Allen (2010) that credit mitigation methods make financial institutions more robust and improve their overall financial performance. In the case of Metro Bank, the utilization of guarantees and insurance in order to limit risk to default and stable income is possible. This results in increased returns for shareholders (ROE) and improved asset utilization (ROA), which are both positive outcomes.

In light of this, each of the five disciplines that make up credit risk management plays a distinct part in ensuring that the bank is protected from monetary losses and that its performance is enhanced. Client evaluation guarantees that loans are provided to borrowers who can be relied upon. Controlling credit risk establishes boundaries and ensures that discipline is taken. Credit monitoring keeps track of the health of loans and helps to avoid surprises. With the help of collection policy, overdue payments can be recovered. Taking steps to mitigate credit exposure helps lessen risk. In conjunction with one another, these practices constitute an all-encompassing structure that provides support for financial performance, as assessed by ROA and ROE.

2.3 Concept of Financial Performance

When we talk about an organization's financial performance, we are referring to the extent to which it is able to successfully employ its financial resources in order to accomplish its objectives and produce value for its stakeholders. It is a reflection of the entire financial health of a firm as well as its capacity to function effectively, maintain its competitive edge, and maintain an expansion over the long term. It has been said by Hitt, Ireland, and Hoskisson (2017) that a company's financial success is an important measure of how effectively it is putting its strategy into action in order to generate economic value.

According to Brigham and Ehrhardt (2019), it is typically evaluated using financial indicators such as profitability, liquidity, solvency, and efficiency ratios. These ratios reflect the company's capacity to create money, control costs, meet financial obligations, and make efficient use of assets.

The performance of the firm's finances also gives management, investors, and other stakeholders with input regarding the financial health of the company and its future prospects. In the framework of the Balanced Scorecard, which was developed by Kaplan and Norton (1996), it is highlighted that financial success is not just a measurement of previous outcomes, but it is also an essential driver for future strategic orientations. It is vital for decision-making, resource allocation, and measuring the effectiveness of managerial performance (Ross, Westerfield, & Jordan, 2018). It serves as a standard for comparing the success of organizations within an industry.

2.4 Related Theories

These three primary ideas serve as the foundation for this investigation: the Credit Risk Theory, the Portfolio Diversification Theory, and the Agency Theory. The theory of credit risk provides an explanation for the possibility that borrowers will not repay their loans. In addition to this, it offers banks the opportunity to recognize and control this risk. According to the Portfolio Diversification Theory, reducing risk can be accomplished by distributing loans among a variety of borrowers and industries. Banks are able to reduce their losses as a result of a single borrower's failure to repay that loan. The connection between lenders and borrowers is the subject of investigation in Agency Theory. In order to ensure that borrowers behave responsibly and return their debts, it explains why there should be regulations and controls in place. These theories, when taken together, provide us with a better understanding of how credit risk management can improve the financial performance of a bank.

2.4.1 Credit Risk Theory

Credit Risk Theory is essential to understanding lending decisions and financial results. Merton (1974) established a structural credit risk model that bases default on a firm's asset worth relative to its debt. Assessing borrower risk before loan approval and monitoring repayment behavior afterward are key to this idea.

Credit risk in banking occurs when borrowers default, causing financial losses. Financial stability requires good credit risk management, according to the Basel Committee

on Banking Supervision (2000). Proper client evaluation, ongoing loan monitoring, and risk mitigation measures are among the committee's credit risk identification, measurement, monitoring, and management principles.

Credit Risk Theory is supported by empirical research. Kargi (2011) found that poor credit risk management cut Nigerian bank profits. Kolapo, Ayeni, and Oke (2012) found that non-performing loans and loan loss provisions hurt ROA and ROE. Achou and Tenguh (2008) found that banks with good credit risk management systems performed better and had reduced default rates.

2.4.2 Portfolio Diversification Theory

Portfolio Diversification Theory, established by Markowitz (1952), argues diversifying investments across assets or sectors reduces risk. In banking, this means that lending to a variety of clients and industries helps protect the bank from large losses if one group fails to repay. Diversification reduces concentration risk and improves the stability of the loan portfolio.

Credit mitigation measures such as loan guarantees, insurance, and securitization are tools that support diversification. These instruments help banks transfer or absorb risk, making their portfolios more resilient. Achou and Tenguh (2008) found that banks using credit mitigation strategies had lower default rates and better financial performance. Similarly, Saunders and Allen (2010) emphasized that risk transfer mechanisms like credit derivatives and insurance can reduce exposure and improve ROA.

2.4.3 Agency Theory

Jensen and Meckling (1976)'s Agency Theory examines principals (shareholders) and agents (managers). The argument indicates that managers may not behave in shareholders' best interests without restrictions and incentives. Managers in banking must follow defined policies and processes to ensure responsible lending and asset protection.

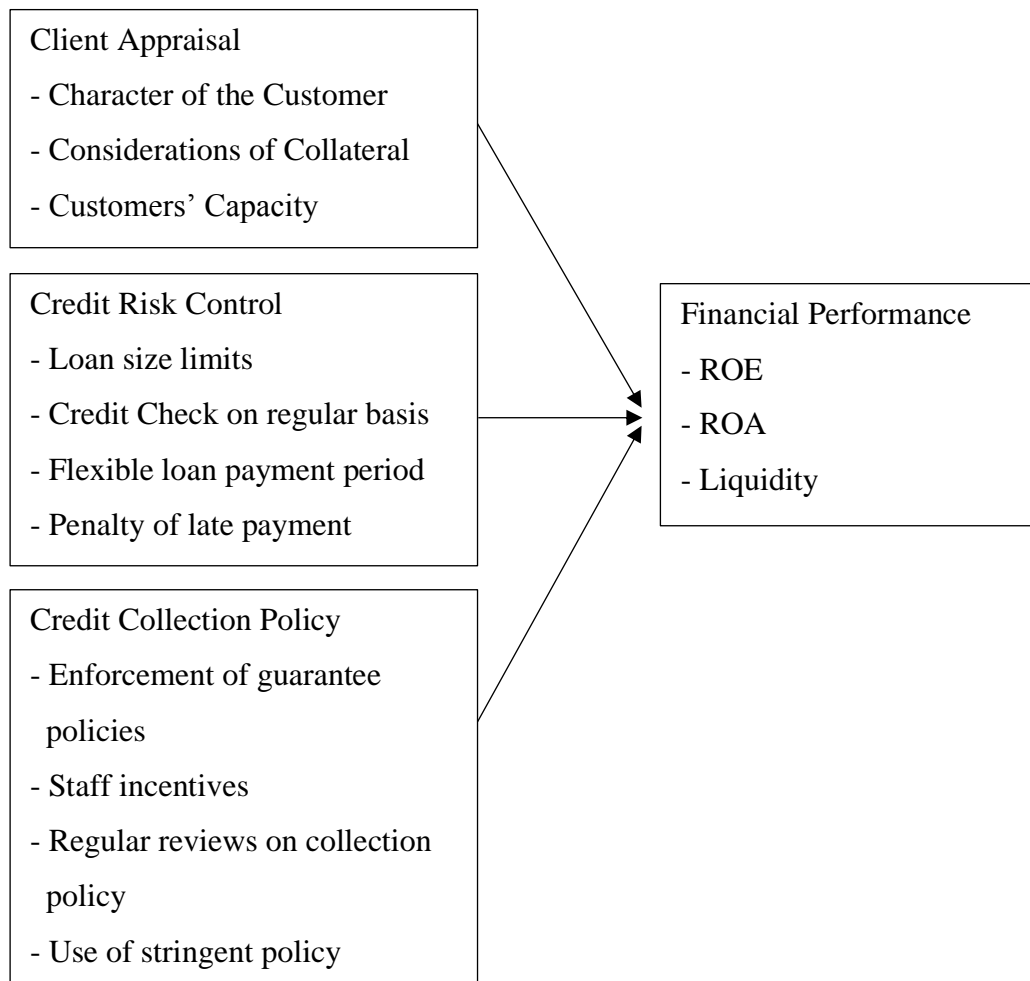
Credit risk control and collection policy are examples of internal mechanisms that align managerial behavior with shareholder interests. These practices include setting loan limits, conducting regular credit checks, enforcing repayment terms, and applying penalties for late payments. Al-Tamimi and Al-Mazrooei (2007) found that banks with strong internal controls and risk management frameworks performed better financially. Their study of UAE banks showed a positive relationship between risk control practices and ROE.

Agency Theory also supports the use of performance-based incentives for staff involved in loan recovery. Rajeev and Mahesh (2010) emphasized the role of staff motivation in effective loan recovery in Indian banks. They found that banks offering incentives for successful collections had higher recovery rates and better financial outcomes.

2.5 Previous Studies

“Effect of Credit Management Practices on Financial Performance of Banks in Rwanda” by Dusabe and Mulyungi (2018) examined Bank of Kigali. The researchers investigated how client appraisal, credit risk control, and collection policies affect commercial bank financial performance. A census sampling method was utilized to study 57 Bank of Kigali credit department personnel. Structured questionnaires, descriptive statistics, ANOVA, and multiple regression analysis were used.

Figure (2.1) Credit Management Practices on Financial Performance of Banks

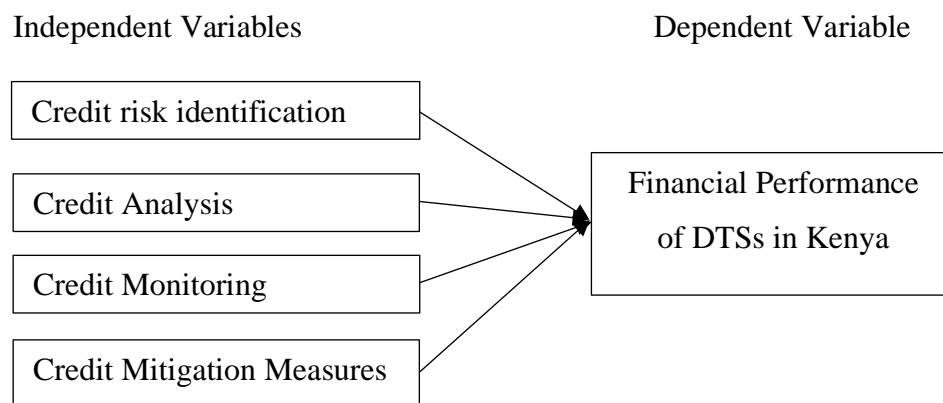


Source: Dusabe and Mulyungi (2018)

All three credit management approaches improved financial performance, measured by Return on Assets, statistically. Suggest that improving these processes can boost profitability and asset efficiency.

Kariuki (2017) conducted a study titled “Effect of Credit Risk Management Practices on Financial Performance of Deposit Taking Savings and Credit Cooperatives in Kenya”, focusing on 164 SACCOs registered under SASRA. The study examined how credit risk identification, analysis, monitoring, and mitigation affect deposit-taking SACCOs' financial performance. The descriptive survey used primary and secondary data. Credit officers, finance managers, and risk managers completed semi-structured questionnaires. Institutional records provided secondary data. The entire population was censused and analyzed using correlation and multiple regression.

Figure (2.2) Effect of Credit Risk Management Practices on Financial Performance



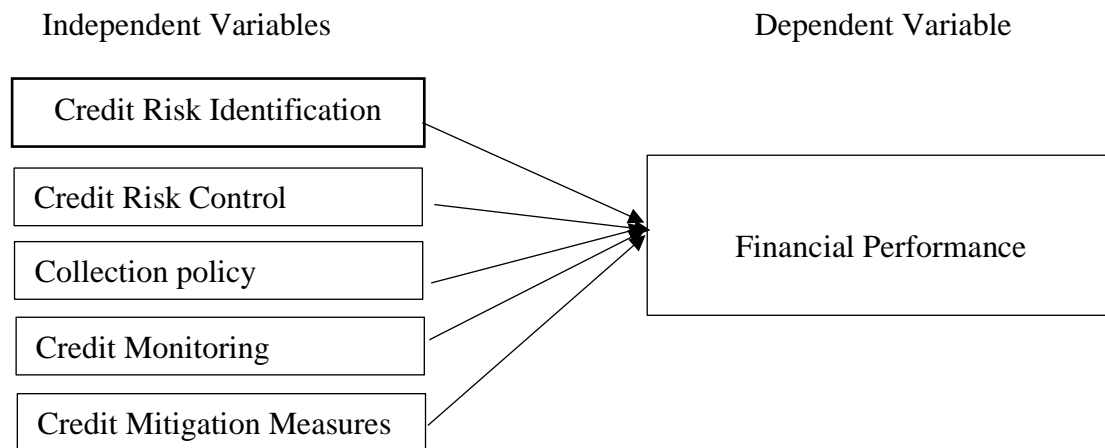
Source: Kariuki (2017)

The four credit risk management practices positively and statistically significantly affected financial performance. Credit monitoring had the greatest impact, followed by mitigation, analysis, and risk identification. Regression showed that each practice improved financial performance, notably Return on Assets.

2.6 Conceptual Framework

The study's conceptual framework comes from literature reviews and three previous studies. Study conceptual framework is in Figure (2.3).

Figure (2.3) Conceptual Framework of the Study



Source: Own Compilation (2025)

Working Definitions

Credit Risk Identification

Credit Risk Identification involves identifying and assessing financial capacity, credit history, and external variables that may cause a borrower to default.

Credit Risk Control

Credit risk control involves the internal policies and procedures used to manage lending limits, repayment terms, and penalties. It ensures that loans are issued within acceptable risk boundaries.

Collection Policy

Collection policy refers to the strategies and procedures used to recover overdue loans. It includes enforcement of guarantees, staff incentives, and use of strict or lenient recovery methods.

Credit Monitoring

Credit monitoring refers to the ongoing supervision of loan performance after disbursement. It includes tracking repayments, identifying early warning signs, and taking corrective actions.

Credit Mitigation Measures

Credit mitigation measures are tools used to reduce the impact of credit risk. These may include loan insurance, third-party guarantees, and diversification of the loan portfolio.

Financial Performance

Bank financial performance is defined by how well it uses its resources to make money. This study evaluates it using ROA and ROE.

CHAPTER III

PROFILE OF METRO BANK AND CREDIT RISK MANAGEMENT PRACTICES IN METRO BANK

This chapter focuses on the key aspects of credit risk management and their influence on financial performance within Metro Bank. It begins by presenting an overview of credit risk and its significance in banking operations, providing essential context for understanding how effective risk practices support institutional stability. The chapter then outlines Metro Bank's credit processes and management structure, emphasizing its role as a major institution implementing systematic credit risk controls. Finally, it discusses the core components of credit risk management risk identification, risk control mechanisms, monitoring activities, collection strategies, and mitigation measures that collectively shape financial outcomes and determine the bank's overall performance.

3.1 Overview of Credit Risk Management and the Banking Environment

Metro Bank has been operating within a banking landscape that has been defined by continual modernization and stronger regulatory scrutiny in recent years. This has been driven by the need for improved financial stability and sustainable lending practices (Basel Committee on Banking Supervision, 2021). The relevance of credit risk management has greatly increased in recent years as a result of the growing exposure that financial institutions are experiencing to economic instability, altering credit needs, and sectoral financial hazards. Banks have been encouraged to improve their systems for recognizing, assessing, and managing borrower risks as a result of regulatory organizations and international frameworks that have placed an emphasis on enhanced credit governance (International Monetary Fund, 2022). As a result of this transformation, financial institutions such as Metro Bank have been able to improve their policies, strengthen their internal controls, and adopt more comprehensive approaches to the management of their credit portfolios.

In the highly competitive banking industry, where credit services continue to play a vital role in the process of financial intermediation, Metro Bank operates. Due to the fact that commercial banks are continuing to increase their loan portfolios in order to provide assistance to companies that are involved in trade, manufacturing, agriculture, and infrastructure development, comprehensive risk management systems are required in order

to protect the quality of assets (World Bank, 2023). Because of the growing demand for credit, financial institutions are required to make certain that their lending activities are backed by efficient risk identification processes, robust control systems, and continual monitoring in order to preserve the stability of the financial system. The Metro Bank has reinforced its credit procedures in response to the situation by implementing expanded assessment frameworks and early warning techniques. This is done to ensure that possible risks are identified and dealt with in a timely manner.

The credit environment of the bank has also been impacted by the deployment of structured collection techniques and improvements in recovery strategies, both of which have contributed to the enhancement of portfolio quality and the reduction of credit losses (Greuning & Bratanovic, 2020). In addition to these steps, Metro Bank has implemented a number of credit mitigation instruments, such as collateral requirements, diversification techniques, and third-party guarantees, all of which contribute to the reduction of exposure and the enhancement of resilience. These activities contribute to the bank's ability to maintain a balancing act between the expansion of lending and the judicious management of risk, which ultimately results in more stable financial performance.

Despite these developments, the banking industry continues to face obstacles, such as the unpredictable conditions of the market, worries regarding the creditworthiness of borrowers, and the requirement to maintain continuing compliance with regulatory requirements. In spite of this, Metro Bank is in a strong position within the sector as a result of its ongoing investments in credit systems, transparency, and risk management policies that encourage discipline. Because of the structured credit processes, monitoring mechanisms, and mitigation methods that it employs, Metro Bank is an excellent example to use when investigating the ways in which credit risk management practices influence the results of financial transactions.

3.2 Profile of Metro Bank

Metro Bank is a private commercial bank that has been around for a long time and is noted for its key role in the provision of retail and corporate financial services within the banking sector of the country. Since the beginning of its existence, the bank has been progressively expanding its operations, which has been backed by ongoing institutional changes and an increased emphasis on maintaining adequate financial stability. Metro Bank has strengthened its operational capacity in order to ensure that its credit systems are in accordance with both national requirements and internationally accepted risk management

standards (Basel Committee on Banking Supervision, 2021). This was done in response to the evolution of the banking environment, which was brought about by modernization initiatives and regulatory improvements. Currently, the bank, which has its headquarters in the nation's financial capital, maintains a vast branch network that is supported by digital platforms. These platforms make it possible for the bank to provide services that are both accessible and reliable to both individual customers and enterprises.

Metro Bank has established itself as a leading institution in the field of credit operations, playing a significant role in the facilitation of business financing and providing support to many industries, including commerce, manufacturing, agriculture, and the construction of infrastructure. Its credit offerings include corporate loans, financing for small and medium-sized enterprises (SMEs), working capital facilities, and a variety of structured lending packages that are tailored to the requirements of organizations. The national financial authority is in charge of regulating these operations, which ensures that they comply with prudential requirements, credit exposure restrictions, and portfolio quality standards (International Monetary Fund, 2022). The emphasis that Metro Bank places on disciplined lending policies, strong credit evaluation processes, and dedicated teams that are responsible for analyzing borrower ability and monitoring loan performance across several sectors contributes to the bank's leadership position in the credit services industry.

The complete framework that the bank has in place reflects the bank's dedication to effective credit risk management. This framework includes risk identification, control mechanisms, constant monitoring, organized collection procedures, and the utilization of credit mitigation instruments. Metro Bank has strengthened its ability to successfully manage loan portfolios and reduce its exposure to credit losses by integrating stronger credit analytics, early warning systems, and automated reporting procedures (Greuning & Bratanovic, 2020). This has allowed Metro Bank to lower its exposure to credit losses. Increasing the openness, speed, and correctness of its credit operations, as well as strengthening decision-making and guaranteeing prudent risk control, has been accomplished through the company's investment in digital platforms and internal processes.

In addition to this, Metro Bank is well known for its solid reputation, which is founded on the principles of financial stability, dependability, and a forward-thinking approach to risk governance. The bank has been able to improve the quality of its portfolio while simultaneously maintaining sustainable growth in lending activities as a result of its strategic focus on compliance, the improvement of its internal audit, and the adoption of

international risk management concepts. The bank continues to enhance its ability to address the ever-changing credit demands and operational problems that are present in the financial sector by making strategic investments in human resources, training programs, and digital innovation.

As a result of Metro Bank's well-established market position, well-structured credit operations, and strong commitment to risk governance, it is an organization that is suitable for conducting research on the ways in which credit risk management techniques impact financial performance. This framework offers a solid foundation for understanding the role credit risk management plays in influencing financial results and increasing overall institutional stability. It places a strong emphasis on systematic risk identification, disciplined control procedures, effective monitoring, and strategic mitigation strategies.

3.3 Credit Risk Management Practices of Metro Bank

The management of credit risk has evolved into an essential component of contemporary banking operations, particularly in economies where the maintenance of financial stability and the provision of sustainable lending are of utmost importance. In Myanmar, Metro Bank has established itself as a major financial institution that places a high priority on the implementation of robust credit risk management processes. These practices ensure responsible lending, regular repayments, and effective mitigation of the possibility of loan defaults. Metro Bank offers both individual and corporate customers a safe and dependable access to financial services by implementing extensive credit policies, client appraisal systems, and monitoring mechanisms. This gives Metro Bank the ability to serve both types of customers. The bank has become a reliable institution in the Myanmar banking sector as a result of its unwavering dedication to the disciplined administration of credit, as well as its commitment to transparency and its support of technological advancements. The credit risk management methods of Metro Bank, as a result, play a significant part in the protection of the bank's financial performance, the enhancement of client confidence, and the preservation of the bank's competitive position within the industry. In the next part, the rationale behind selecting Metro Bank as the subject of this study is presented. Particular attention is paid to the crucial role that Metro Bank plays in implementing efficient credit risk management and promoting overall financial stability (Basel Committee on Banking Supervision; Haile & Joshi, 2022).

(i) Credit Risk Identification

It has been stated by Metro Bank that the bank places a significant amount of importance on the implementation of efficient credit risk management techniques in order to encourage financial stability and performance. The employees receive extensive training in customer evaluation, credit monitoring, and risk reduction, which enables them to assess the creditworthiness of borrowers and manage loan exposures in a manner that is both professional and consistent. When it comes to its credit procedures, Metro Bank places a high priority on accuracy, dependability, and timeliness. The bank's goal is to limit the number of missed payments and protect both individual and corporate customers. Additionally, in order to respond to developing risk patterns, the bank conducts frequent evaluations of its credit portfolio, gathers data on performance, and refines its credit rules. Metro Bank increases its financial resilience, builds the confidence of its stakeholders, and supports sustainable growth in its lending operations by placing priority on the implementation of comprehensive credit risk management system. The Metro Bank.

(ii) Credit Risk Control

The Metro Bank has established a solid reputation within Myanmar's banking industry, which has resulted in an increase in the confidence of stakeholders and a reinforcement of the faith that customers have in the credit services that it provides. The bank has earned widespread recognition for its commitment to ethical banking practices, as well as its secure financial position and responsible lending policies. When selecting a lending partner, Metro Bank's reputation is frequently taken into consideration by both corporate clients and individual borrowers. These individuals perceive Metro Bank to be a trustworthy and secure financial organization. This reputation is strengthened by positive word of mouth, endorsements from clients who are delighted with the service they receive, and continuous performance. By preserving a powerful brand image and being known for its integrity, professionalism, and efficient risk management, Metro Bank is able to increase the confidence of its stakeholders, encourage prudent borrowing, and build the loyalty of its customers.

(iii) Credit Monitoring

In order to identify potential risks as soon as possible and to maintain loan quality in a proactive manner, Metro Bank places a significant amount of attention on continuous

credit monitoring. The bank conducts frequent evaluations of its credit portfolio in accordance with the risk management structure it has in place, and it identifies accounts that may exhibit early signs of becoming stressed. Staff members in business divisions, particularly relationship managers, keep a careful eye on the repayment patterns, collateral valuations, and financial performance of borrowers. Metro Bank requires annual account assessments and more frequent follow-ups for high-risk or at-risk exposures, as stipulated by the Risk Management Policies that are implemented internally by the monetary institution.

By placing a strong emphasis on providing senior management and the board with regular risk reports, the bank guarantees that any emerging credit patterns are swiftly handled during the process. In the event that a loan exhibits indications of deterioration or cannot be repaired, it is transferred to a collection and recovery function. This function is responsible for developing plans for restructuring, rescheduling, or exiting the loan. Through the use of remedial management, the bank is able to improve its ability to reduce losses and maintain asset quality. The best practices in banking risk management, which place an emphasis on post-approval monitoring, early-warning signals, and corrective action, are aligned with this strategy.

(iv) Collection Policy

The collection policy of Metro Bank is intended to recover non-performing or delinquent loans in a methodical manner while adhering to ethical principles and complying with legal requirements. As stated in its risk management framework, the company's credit risk policy provides a clear definition of the tasks and responsibilities that are assigned to the collections and recovery team at the company.

A systematic recovery procedure is implemented by the bank in accordance with this policy whenever a credit becomes non-performing. The bank will initially attempt to restructure or reschedule the credit, if it is viable, and if this is not successful, the bank will escalate to more formal recovery channels, such as legal routes or full exit. At the same time, collecting tactics are supported by open and transparent corporate norms, which guarantee that employees are appropriately motivated and that actions are uniform across all situations. Recovering as much value as feasible while limiting the damage to one's reputation and the amount of money spent is the objective.

(v) Credit Mitigation Measures

Several credit mitigation procedures are implemented by Metro Bank as part of its complete risk-control system. These steps are being implemented in order to reduce the bank's exposure to credit risk. The credit risk policy of the bank places an emphasis on collateral as an essential form of protection. Loans are secured wherever they are feasible, and the eligibility, valuation, and coverage of collateral are governed by stringent underwriting requirements. The exposure restrictions that Metro Bank establishes are determined by the borrower, the client group, and the industry sector. In addition, Metro Bank uses portfolio diversification to mitigate the risk of concentration. Large losses caused by correlated failures can be avoided with the use of these constraints. When it comes to underwriting certain forms of credit, the bank may rely on guarantees or support from third parties, as permitted by its credit-risk criteria. However, the specific utilization of guarantees would be contingent upon the bank's internal policy and the regulations that are in place in the local area.

In the end, Metro Bank is able to integrate its risk management practices with the expectations of regulatory agencies. According to the Guidelines on Risk Management Practices of Banks issued by the Central Bank of Myanmar, financial institutions are required to use robust risk-mitigation techniques and to maintain a transparent risk governance structure. This includes defining credit risk appetite and provisioning policies.

CHAPTER IV

ANALYSIS ON THE EFFECT OF CREDIT RISK MANAGEMENT PRACTICES ON FINANCIAL PERFORMANCE IN METRO BANK

Metro Bank's financial performance and credit risk management are examined in this chapter. Bank credit personnel demographics are covered first. The second section evaluates Metro Bank's financial performance using credit risk identification, client evaluation, control, monitoring, collection policy, and mitigation. Correlation and regression analysis determines how these credit risk management approaches affect financial performance measurements like ROA and ROE in the final portion.

4.1 Research Design

This study examines Metro Bank's credit risk management and financial performance. To achieve its goals, the study conducted quantitative survey research. Metro Bank credit staff answered constructed questions on credit risk identification, client evaluation, control, monitoring, collection policy, and mitigation. We used Yamane's (1967) sampling formula to choose respondents. The study population is 105 credit-related professionals, and the sample size is 83.

$$n = \frac{N}{1 + Ne^2}$$
$$n = \frac{105}{1 + 105 * 0.025^2}$$
$$\approx 83$$

Where n = sample size

N = population size

e = error (0.03) reliability level 98% or;

e = level of precision always set the value of 0.03

Both primary and secondary data were used. The primary data was obtained by a questionnaire employing simple random sampling. The questionnaire consisted of two sections: respondent profiles and assessments of e-service quality, trust, and loyalty. SPSS does descriptive statistics and multiple regression analysis on the data. Academic papers, library books, and websites were used to get secondary data. A five-point Likert scale was used to score the answers of the people who answered. There were five different levels of

agreement: strongly disagree (1), disagree (2), neutral (3), agree (4), and strongly agree (5). Using Bowling (1997)'s mean score interpretation, Table (4.1) indicates how the people who answered rated the training and development methods, the skills and abilities of the employees, and their performance.

Table (4.1) Likert Scale Score Interpretation

No.	Mean Score between	Interpretation
1.	1.00 -1.80	Strongly Disagree
2.	1.81 – 2.60	Disagree
3.	2.61 – 3.40	Neutral
4.	3.41 – 4.20	Agree
5.	4.21 – 5.00	Strongly Agree

Source: Bowling, (1997)

4.2 Demographic Characteristics of Respondents

Table 4.1 illustrates the demographics of the employees who were sampled, such as their gender, age, marital status, education, salary, and job experience.

Table (4.2) Profile of Respondents

Items	No. of Respondents	Percent
Total No. of Respondents	83	100.00
Gender	No. of Respondents	Percent
Male	23	27.7
Female	60	72.3
Age (years)	No. of Respondents	Percent
Under 35 years	1	1.3
36 – 45 years	49	59
46-55 years	28	33.7
Above 56 years	5	6
Education	No. of Respondents	Percent
Diploma	2	2.4
Bachelor Degree	47	56.6
Master Degree	34	41

Table (4.2) Profile of Respondents (Continued)

Department	No. of Respondents	Percent
Credit Department	56	67.5
Loan/Financing	17	20.5
Risk Management	3	3.6
Recovery/Collection	3	3.6
Finance & Reporting	4	4.8
Years of Experience in Banking	No. of Respondents	Percent
Less than 1 year	1	1.2
1–3 years	41	49.4
4–6 years	38	45.8
7–10 years	3	3.6

Source: Survey Data (2025)

Table (4.2) presents the demographic and organizational characteristics of the respondents who participated in the survey. The total number of respondents is 83, representing the employees from various banking departments. The gender distribution indicates that 60 respondents (72.3%) are female, while 23 respondents (27.7%) are male. This clearly shows that the majority of the survey participants are female, reflecting the relatively higher female representation in the sampled banking workforce. Such gender composition may also influence perceptions of service delivery and workplace experience, given the known differences in communication and decision-making styles across gender groups.

The respondents are divided into four age groups. The 36–45 age group accounts for 59% of the sample. This suggests that mid-career professionals form the core of the workforce surveyed. The second largest group includes respondents aged 46–55 years (33.7%), highlighting the participation of experienced and senior employees. Younger employees under 35 years constitute only 1.2%, while those aged above 56 years account for 6%. This distribution reflects a workforce dominated by individuals in their mid-career and pre-retirement stages, which may correlate with higher levels of job experience and longer engagement in banking operations.

The majority of respondents (56.6%) have a bachelor's degree. This is followed by those with a master's degree (41%), showing that a large share of the workforce possesses postgraduate degrees. The fact that only 2.4% of respondents had a diploma suggests that the banking industry generally employs persons with higher education levels. This is consistent with the standards that are often required for technical and managerial positions inside financial organizations.

The data reveals that a significant proportion of respondents work in the Credit Department (67.5%), which highlights the department's major position in the banking activities that are reflected in this survey. This is evident when conducting an examination of the distribution of respondents according to departments. Additionally, twenty-five percent are members of the Loan and Financing Department, which is intrinsically linked to the credit operations department. There are smaller groupings of respondents in the areas of Risk Management (3.6%), Recovery/Collection (3.6%), and Finance & Reporting (4.8%). Based on this distribution, it appears that the sample is strongly concentrated in departments that deal with customers and credit, which may have an impact on how respondents view the quality of service, the decision-making processes, and the obstacles that they face in their workflow.

The majority of respondents (49.4%) have between one and three years of experience working in the banking sector, which indicates that the workforce within this sector is relatively young in terms of the length of time they have been employed. There is also a stable group of employees who have spent a moderate amount of time in the sector, as indicated by the fact that 45.8% of them have four to six years of experience. 3.6% of the workforce has seven to ten years of experience, and only 1.2% of the workforce has worked for less than one year. The distribution as a whole indicates that the majority of respondents have amassed sufficient professional experience to comprehend banking procedures, despite the fact that they still represent a workforce that is in the beginning to middle stages of their professions.

In general, the demographic and professional profile of the respondents reveals that the workforce is primarily comprised of people who are in the middle of their careers and have intermediate levels of professional experience. Additionally, the workforce is dominated by women who have a high level of education. Due to the fact that respondents have both practical experience and educational background that is pertinent to the study, this composition offers a sound platform for conducting an analysis of perceptions and attitudes regarding many areas of banking operations.

4.3 Reliability Test of the Study

A reliability test is needed to examine the study. Survey results confirmed credit risk management's financial performance reliability. This study employed Cronbach's alpha to assess internal consistency. Sekaran (2003) employs Cronbach's alpha to evaluate positive correlation. Table (4.3) shows what you need to know about Cronbach's alpha coefficient.

Table (4.3) Rule of Thumb on Cronbach's Alpha

Alpha Coefficient Range	Strength of Association
< 0.6	Poor
0.6 to < 0.7	Moderate
0.7 to < 0.8	Good
0.8 to < 0.9	Very Good
0.9	Excellent

Source: Sekaran, (2003)

Cronbach's alpha was used to check the internal consistency and reliability of the survey variables. Table (4.4) displays the values of the survey Cronbach's alpha coefficient.

Table (4.4) Reliability Test from Customer Responses

No.	Factors	No. of items	Cronbach's Alpha
1	Credit Risk Identification	7	0.933
2	Credit Risk Control	7	0.884
3	Credit Monitoring	7	0.902
4	Collection Policy	7	0.917
5	Credit Mitigation Measures	7	0.918

Source : Survey Data (2025)

The five credit risk management measures' reliability test results in Table 4.4 indicate good internal consistency with Cronbach's alpha values from 0.884 to 0.933. Credit Risk Identification demonstrates the highest reliability (0.933), followed closely by Credit Mitigation Measures (0.918) and Collection Policy (0.917), indicating excellent consistency among their measurement items. Credit Monitoring also shows a high level of reliability with an alpha value of 0.902, while Credit Risk Control records a strong and

acceptable reliability score of 0.884. Overall, the results confirm that all items used to measure the constructs are reliable and suitable for further statistical analysis.

4.4 Perception of Credit Risk Management Practices

This section discusses Metro Bank employees' views on credit risk management's financial impact. The analysis covers credit risk identification, control, monitoring, collection policies, and mitigation. All measuring items were scored on a 5-point Likert scale, with higher mean scores indicating higher practice efficacy. Respondents rated each statement from strongly disagree to strongly agree. The mean values obtained from their responses represent the perceived level of effectiveness for each variable, with values below 1.80 classified as strongly disagree, 1.81 to 2.60 as disagree, 2.61 to 3.40 as neutral, 3.41 to 4.20 as agree, and values of 4.21 and above as strongly agree Bowling, (1997). In addition, the standard deviation provides an indication of the consistency of employee responses, where lower values suggest higher agreement and reliability, while higher values indicate greater variability in perceptions. This analysis helps to determine how employees perceive the role and effectiveness of credit risk management practices in contributing to Metro Bank's financial performance.

4.4.1 Credit Risk Identification

Credit risk identification identifies issues that could cause loan defaults. The meaning and standard deviation of each item are used to determine credit risk identification agreement. Table (4.5) details the results.

Table (4.5) Credit Risk Identification

No.	Items	Mean	Standard Deviation
1.	The bank systematically identifies potential risks before approving any loan.	3.90	.919
2.	Credit officers assess borrowers' financial stability to detect possible risk factors.	3.72	.954
3.	The bank uses established tools or checklists to identify credit risks.	3.95	1.023
4.	Early signs of potential borrower default are recognized during the evaluation stage.	3.92	.872
5.	Credit risk identification is an essential part of the loan approval process.	3.76	.905
6.	The bank identifies risks related to both the borrower and the economic environment.	3.37	.920
7.	Proper identification of credit risks helps prevent future loan defaults.	3.59	1.048
Overall Mean		3.72	

Source : Survey Data (2025)

There are seven items that measure credit risk detection at Metro Bank, and the mean scores for those categories are presented inside table (4.5). According to the findings, employees have generally favorable impressions of the bank's procedures for identifying potential credit risks. All of the mean values fell into the "agree" range, indicating that employees are in agreement with these procedures. The item that states that the bank employs established tools or checklists to identify credit risks had the highest mean score (3.95), which indicates that the bank has strong confidence in the structured techniques that are utilized during risk assessment. In a similar vein, staff are in agreement that potential risks are systematically detected prior to the acceptance of loans (3.90), and that early signals of borrower default are recognized during the review stage (3.92). Additionally, the evaluation of the borrowers' financial stability by credit officers obtained a relatively high mean score of 3.72, which reflects the consistent attention that is paid to risk concerns associated to potential borrowers. Additionally, it is understood that the identification of credit risk is a crucial component of the process of loan approval (3.76). On the other hand,

the item that obtained the lowest mean score (3.37), which indicates that there is space for development in evaluating external economic aspects, was the one that concerned the bank's capacity to recognize risks relating to both the borrower and the larger economic environment. Because the overall mean score is 3.72, it can be deduced that the majority of Metro Bank's staff members are in agreement that the credit risk identification methods are being efficiently executed. The majority of the items have standard deviation values that are less than one, which indicates that participants' replies are relatively consistent.

4.4.2 Credit Risk Control

Credit risk control is the use of policies and procedures to ensure loans are granted within acceptable risk limits. Seven items comprise bank reputation in this poll. The item mean and standard deviation are used to assess user agreement. Table (4.6) details the results.

Table (4.6) Credit Risk Control

No.	Factors	Mean	Std. Deviation
1.	The bank has clear policies that guide loan approval and lending limits.	4.19	.397
2.	Credit risk control procedures ensure loans are issued only within acceptable risk boundaries.	4.22	.443
3.	Repayment terms are carefully structured to match borrowers' capacity.	4.01	.789
4.	Penalties for late or missed payments are consistently applied.	4.12	.425
5.	The bank reviews its credit policies regularly to keep risks under control.	4.07	.640
6.	Staff strictly follow internal guidelines during the loan approval process.	4.13	.375
7.	Credit risk control measures help prevent excessive or high-risk lending.	4.04	.671
Overall Mean		3.66	

Source: Survey Data (2025)

In the following table (4.6), the mean scores and standard deviations for the seven items that measure credit risk control at Metro Bank are presented. Based on the findings, it can be concluded that workers have a favorable perception of the credit risk control methods implemented by the bank, since all elements were found to be in accord. The items that stated that credit risk control procedures ensure loans are issued within acceptable risk boundaries (4.22), as well as the items that stated that the bank has clear policies guiding loan approval and lending limits (4.19), received the highest mean scores. These scores indicate that the respondents have strong confidence in the structured approach that the bank takes. Other elements, such as the consistent application of penalties for late payments (4.12) and the tight adherence to internal norms by staff (4.13), also obtained good scores, which indicate that risk control measures are being enforced in a disciplined manner. There was a slight decrease in the mean scores for items that were associated with monitoring credit policies on a regular basis (4.07), matching repayment terms to the ability of borrowers (4.01), and limiting excessive or high-risk lending (4.04), despite the fact that they still indicate a good perception. The aggregate mean score of 4.11 indicates that employees at Metro Bank are in agreement that credit risk control is successfully applied at the institution. The presence of standard deviation values that are less than one indicates that the replies taken by the participants were consistent, so verifying the reliability of their perceptions of the risk control measures of the bank.

4.4.3 Credit Monitoring

Credit monitoring is the continuous supervision of loans after disbursement, including tracking repayments, detecting early warning signs, and taking corrective actions. This survey covers seven credit monitoring topics. The level of concern about credit monitoring can be shown in means and standard deviations. Table (4.7) details the results.

Table (4.7) Credit Monitoring

No.	Items	Mean	Standard Deviation
1.	The bank regularly monitors repayment behavior after loan disbursement.	3.83	.838
2.	Early warning signs of borrower financial distress are identified promptly.	3.40	1.070
3.	Loan officers frequently review the financial status of clients.	3.49	.902
4.	Monitoring procedures help detect potential defaults at an early stage.	3.48	1.004
5.	The bank conducts timely follow-ups with borrowers who fall behind on payments.	3.57	.844
6.	Corrective actions are taken immediately when risky loan behavior is observed.	3.31	1.058
7.	Effective credit monitoring improves the overall quality of the loan portfolio.	3.72	.846
Overall Mean		3.55	

Source : Survey Data (2025)

The seven items that Metro Bank uses to measure credit monitoring are presented in table (4.7), together with their respective mean scores and standard deviations. According to the findings, employees had a generally favorable impression of the credit monitoring processes of the bank, with mean ratings ranging from 3.31 to 3.83. The item that stated that the bank regularly monitors repayment behavior following loan disbursement received the highest mean score (3.83), which reflects significant agreement on consistent oversight of loan performance. The item was reported as having the highest mean score. A number of other aspects, including the notion that efficient credit monitoring enhances the overall quality of the loan portfolio (3.72), as well as the practice of conducting prompt follow-ups with borrowers who fall behind on payments (3.57), were also rated relatively highly. It was observed that the mean scores for identifying early warning signs of financial distress were slightly lower (3.40), reviewing the financial status of clients (3.49), monitoring procedures to detect potential defaults (3.48), and taking immediate corrective actions for risky behavior (3.31). This suggests that there is some variability in perceptions across different aspects of monitoring. According to the total

mean score of 3.55, it can be deducted that the majority of Metro Bank's staff members are in agreement that credit monitoring is well implemented. Values of the standard deviation that are close to or below one reflect replies that are relatively consistent, which suggests that workers' impressions of the bank's monitoring processes are stable.

4.4.4 Collection Policy

Collection policy is the set of strategies and procedures used to recover overdue loans, including enforcement of guarantees, staff incentives, and recovery methods. Respondents must answer seven collection policy questions. Table 4.8 shows mean and standard deviation analysis findings.

Table (4.8) Collection Policy

No.	Items	Mean	Standard Deviation
1	The bank has clear procedures in place for recovering overdue loans.	3.43	.913
2	Borrowers are contacted promptly when their loan payments are overdue.	3.67	.899
3	Staff follow standardized recovery strategies to handle default cases.	3.40	.935
4	Guarantees or collateral are enforced when borrowers fail to repay.	3.82	.799
5	The bank uses appropriate incentives to motivate staff in loan recovery.	3.63	.822
6	A balance between strict and lenient methods is used depending on borrower circumstances.	3.45	.939
7	The existing collection policy helps reduce overdue and default loans.	3.73	.976
Overall Mean		3.64	

Source : Survey Data (2025)

Table (4.8) shows Metro Bank's seven collection policy items' mean scores and standard deviations. The mean score of 3.64 suggests that employees generally like the bank's late loan recovery methods. Among the items, the highest mean score was recorded for enforcing guarantees or collateral when borrowers fail to repay (3.82), reflecting strong

confidence in the bank’s use of security measures to minimize credit risk. Other items, such as promptly contacting borrowers with overdue payments (3.67) and the belief that existing collection policies help reduce defaults (3.73), also received relatively high ratings, suggesting that employees recognize the effectiveness of the bank’s recovery strategies. Slightly lower mean scores were observed for the use of staff incentives (3.63), balancing strict and lenient recovery methods depending on borrower circumstances (3.45), and following standardized recovery strategies (3.40), although these still indicate overall agreement with the practices. For most survey items, standard deviation values below 1 suggest consistent responses across participants. In conclusion, employees perceive Metro Bank’s collection policy as well-structured and effective, with clear procedures, timely borrower engagement, and balanced recovery methods contributing to the management of overdue loans.

4.4.5 Credit Mitigation Measures

Credit risk is reduced via loan insurance, guarantees, and portfolio diversification. Means and standard deviations show respondents' credit mitigation concern. Table (4.9) details the results.

Table (4.9) Credit Mitigation Measures

No.	Items	Mean	Standard Deviation
1	The bank requires adequate collateral or guarantees to reduce credit risk.	3.77	.941
2	Loan insurance mechanisms (when applicable) help protect the bank from potential losses.	3.86	.828
3	The bank diversifies its loan portfolio to avoid concentration	3.41	.976
4	Third-party guarantees are used to strengthen borrower creditworthiness.	3.57	1.014
5	Proper security documentation is verified before loan	3.57	.926
6	Risk-sharing arrangements are used when dealing with high-risk clients.	3.64	.820
7	Credit mitigation measures contribute to reducing financial losses from defaults.	3.61	.935
Overall Mean		3.65	

Source : Survey Data (2025)

Table (4.9) shows Metro Bank's seven credit mitigation items' mean scores and standard deviations. Employees largely approve of the bank's credit risk reduction strategies, as shown by the mean score of 3.65. The highest mean score was 3.86 for loan insurance measures to protect the bank from potential losses, followed by 3.77 for demanding enough collateral or guarantees to decrease credit risk, indicating substantial agreement on these practices. Diversifying the loan portfolio to avoid concentration risk received the lowest mean score (3.41), suggesting some room for improvement in spreading risk across different borrowers or sectors. Other items, such as using third-party guarantees (3.57), verifying proper security documentation before loan approval (3.57), employing risk-sharing arrangements for high-risk clients (3.64), and the belief that credit mitigation measures contribute to reducing financial losses (3.61), were also rated positively. Standard deviation values below 1 indicate reasonably consistent responses among employees. In conclusion, employees perceive Metro Bank's credit mitigation measures as effective tools for minimizing potential losses, with collateral, guarantees, insurance, and risk-sharing arrangements being central to managing credit risk.

Table (4.10) Overall Mean Score

No.	Factors	Mean	Rank
1.	Credit Risk Identification	3.72	1
2.	Credit Risk Control	3.66	2
3.	Credit Monitoring	3.55	5
4.	Collection Policy	3.64	4
5.	Financial Benefits	3.65	3

Source: Survey Data (2025)

Table (4.10) shows Metro Bank's five credit risk management variables' mean scores and ranks. Credit Risk Identification had the highest mean score of 3.72, suggesting that employees think it's the best approach. This is followed by credit risk control with a mean of 3.66 and Credit Mitigation Measures at 3.65, reflecting strong agreement on the bank's procedures to control and mitigate credit risks. Collection policy scored 3.64, ranking fourth, while Credit Monitoring received the lowest mean of 3.55, suggesting that monitoring practices may require further improvement. Overall, the findings indicate that Metro Bank's employees generally perceive the bank's credit risk management practices positively, with identification, control, and mitigation measures being the most effectively

executed. These results highlight the importance of strengthening monitoring processes to ensure comprehensive management of credit risk across all stages of lending.

4.4.6 Financial Performance

This survey asked customers to choose seven items. Means and standard deviations are shown in Table (4.11).

Table (4.11) Financial Performance

No.	Items	Mean	Standard Deviation
1	Effective credit risk management practices contribute to improved profitability.	3.73	.700
2	The bank's Return on Assets (ROA) has improved due to better loan processes.	3.70	1.033
3	Credit risk control practices help enhance the bank's financial results.	3.58	1.061
4	Credit monitoring activities positively impact the performance of loan assets.	3.66	.887
5	The bank's Return on Equity (ROE) reflects improved shareholder profitability.	3.42	.871
6	Reduced loan defaults help strengthen the bank's financial performance.	3.64	.891
7	Strong collection procedures contribute to higher overall profitability.	3.52	.915
8	Effective credit mitigation measures support stable and sustainable financial results.	3.42	.871
9	The quality of the bank's loan portfolio has a positive impact on ROA and ROE.	3.64	.891
10	Overall, the bank's financial performance is influenced by how well credit risk is managed.	3.64	.891
Overall Mean		3.70	

Source : Survey Data (2025)

Metro Bank employees' financial performance perceptions are shown in Table 4.11 by mean scores and standard deviations for ten items. The total mean score of 3.70 shows that workers think that effective credit risk management techniques improve bank finances. The statement that effective credit risk management improves profitability had the highest mean score (3.73), indicating that employees understand the link between risk practices and financial results. Other excellent scores included enhanced Return on Assets (ROA) due to superior loan processes (3.70) and credit monitoring's favorable impact on loan asset performance (3.66). Slightly lower mean scores were observed for Return on Equity (ROE) reflecting improved shareholder profitability (3.42) and the effect of credit mitigation measures on stable financial results (3.42), suggesting some variability in perceptions regarding different aspects of performance. Items related to reduced loan defaults (3.64), strong collection procedures (3.52), and the overall quality of the loan portfolio (3.64) were rated positively, reinforcing the importance of comprehensive risk management.

In conclusion, employees perceive that well-implemented credit risk management practices at Metro Bank contribute to stronger and more sustainable financial performance, affecting both profitability and shareholder value.

4.5 Relationship the Effect of Credit Risk Management Practice and Financial Performance

Correlation and regression analyses examine independent and dependent factors. Person correlation is 0.80-1.000 (very strong), 0.60-0.799 (strong), 0.40-0.599 (moderate), 0.20-0.399 (weak), and 0.000-0.1999. Tables (4.12) and (4.13) indicate how average e-service quality scores affect client trust and loyalty.

Table (4.12) Correlation of Factors Influencing of Financial Performance

No.	Factors	Correlation Coefficient	P-value
1.	Credit Risk Identification	.751**	.000
2.	Credit Risk Control	.683**	.000
3.	Credit Monitoring	.733**	.000
4.	Collection Policy	.802**	.000
5.	Credit Mitigation Measures	.799**	.000
** Correction is significant at the 0.01 level (2 tailed).			

Source: Survey Data (2025)

Table (4.13) shows how Metro Bank's financial performance is related to the five credit risk management factors. There are strong and important positive links between all the variables. The Collection Policy has the strongest link to financial success ($r = 0.802$, $p < 0.01$), followed by the Credit Mitigation Measures ($r = 0.799$, $p < 0.01$) and the Credit Risk Identification ($r = 0.751$, $p < 0.01$). There is a strong positive relationship between Credit Monitoring ($r = 0.733$, $p < 0.01$) and Credit Risk Control ($r = 0.683$, $p < 0.01$). At Metro Bank, better credit risk management methods are closely linked to better financial performance. This is because all correlations are statistically significant at the 0.01 level (2-tailed). These results show that the bank's profitability, asset quality, and shareholder value may all be improved by successfully recognizing, controlling, monitoring, and reducing credit risks, as well as having strong collection strategies.

4.6 Analysis on the Effect of Credit Risk Management Practices on Financial Performance in Metro Bank

The regression model included Credit Risk Identification, Credit Risk Control, Credit Monitoring, Collection Policy, and Credit Mitigation Measures as independent variables, with Financial Performance as the dependent variable. Table (4.14) illustrates the examination of these credit risk management practices and the financial performance of the bank.

Table (4.13) Analysis on Factor Influencing of Financial Performance

Dependent Variable: Financial Performance	Unstandardized Coefficients		Standardized Coefficients	t	Sig
	B	SE	Beta		
(Constant)	.458	.233		1.965	.053
Credit Risk Identification	.361**	.130	.378	2.773	.007
Credit Risk Control	.384**	.144	.395	2.673	.009
Credit Monitoring	.003	.134	.003	.023	.981
Collection Policy	.472**	.131	.461	3.586	.001
Credit Mitigation Measures	.439***	.120	.444	3.645	.000
R ²				.736	
Adjusted R ²				.719	
F statistics				43.042***	
Statistically significant indicate ***at 1%, ** at 5%, * at 10% level respectively					

Source: SPSS Output (2025)

According to the findings of the regression analysis, which are presented in Table (4.14), the model is robust and significant in terms of its ability to explain the financial performance of Metro Bank. The high level of explanatory power ($R^2 = 0.736$, Adjusted $R^2 = 0.719$, $F = 43.042$, $p < 0.01$) indicates that the combined influence of the five credit risk management techniques that were evaluated offers a good foundation for comprehending the ways in which these factors influence the financial results of the bank. This demonstrates that the model is reliable and appropriate for analyzing financial performance, as evidenced by the overall significance of the model.

It is noteworthy that among the independent variables, collection policy stands out as the most influential element, exhibiting a robust and favorable impact on financial performance ($\beta = 0.461$, $p = 0.001$). The evidence presented here demonstrates that the implementation of comprehensive loan recovery procedures has a considerable impact on the bank's profitability and on the reduction of non-performing loans. Additionally, Credit Mitigation Measures provide a significant contribution ($\beta = 0.444$, $p < 0.001$), emphasizing the significance of collateral, guarantees, insurance, and diversification in the process of minimizing financial losses. Credit Risk Control ($\beta = 0.395$, $p = 0.009$) and Credit Risk Identification ($\beta = 0.378$, $p = 0.007$) both display positive and significant impacts, underscoring the usefulness of structured risk assessment and internal control methods in boosting financial performance. However, it is worth noting that Credit Monitoring does not exhibit a noteworthy impact ($\beta = 0.003$, $p = 0.981$), indicating that continuous monitoring may not directly impact profitability unless it is accompanied by other proactive risk management strategies.

Based on the findings as a whole, it is clear that the implementation of efficient credit risk management procedures, in particular collection policies, mitigation measures, and control strategies, plays a significant role in improving Metro Bank's financial performance.

CHAPTER V

CONCLUSION

This chapter discusses Metro Bank's credit risk management methods' impact on financial performance. In summary, it shows how credit risk identification, control, monitoring, collection policy, and mitigation affect the bank's financial performance. This chapter also offers practical advice to help Metro Bank improve its credit risk management, profitability, and financial performance based on the key findings. Finally, the chapter suggests future study on banking credit risk management.

5.1 Findings and Discussions

This research has two goals. First, we'll evaluate how Metro Bank's financial performance is affected by credit risk management strategies such credit risk identification, control, monitoring, collection policy, and mitigation. The second objective is to understand how these practices collectively contribute to profitability, asset quality, and overall financial stability. To achieve these objectives, data were gathered from employees who are directly involved in credit-related operations at Metro Bank's head office in Yangon. Descriptive statistics, reliability tests, correlation analysis, and multiple regression were used to get insights.

As can be seen from the demographic profile of the respondents, the vast majority of them are female and the majority of them belong to the middle-aged working group. Only a tiny percentage of respondents hold senior or specialist risk management jobs, whereas the majority of respondents work in operational positions within departments that deal with credit, loans, and finances. When it comes to their professional experience, the majority of employees have worked in the banking industry for a number of years, while a handful have either very little or a great deal of experience.

According to the findings of the investigation, the workers of Metro Bank consider each of the five credit risk management procedures to be necessary for the institution to continue to demonstrate solid financial performance. The identification of credit risk is highly regarded because of its role in systematically assessing potential concerns prior to the approval of loans and the evaluation of borrower stability. It is much acknowledged that credit risk control provides defined internal regulations, repayment procedures, and consistent enforcement, all of which contribute to the management of high-risk lending

transactions. Collection policy appears to be the most influential practice, stressing the importance of clear recovery procedures, enforcement of guarantees, and staff motivation in lowering loan defaults and protecting the bank's resources. Collection policy emphasizes the need for clear recovery procedures. In order to reduce the likelihood of incurring financial losses, it is considered essential to implement credit mitigation strategies. These strategies include the utilization of collateral, guarantees, insurance, and diverse loan portfolios. Although it is considered to be an important activity, credit monitoring is often regarded as having a more indirect impact on financial results when compared to other proactive risk management techniques.

As a result of the strong and positive links that exist between each credit risk management technique and financial performance, it can be deduced that improvements in these areas are directly related to increased profitability and stability. Collection Policy and Credit Mitigation Measures are considered to be the most important practices for guaranteeing solid financial outcomes. These practices are located among the practices. The results of the regression analysis demonstrate that these behaviors combined are responsible for a sizeable amount of diversity in financial performance. Although Credit Monitoring has a smaller direct influence, Collection Policy, Credit Mitigation Measures, Credit Risk Control, and Credit Risk Identification are all strong predictors of improved performance. Credit Monitoring is also a major predictor of improved performance.

All things considered, the data indicates that efficient management of credit risk is absolutely necessary for the financial performance of Metro Bank. When it comes to bolstering profitability and maintaining shareholder value, practices that place an emphasis on recovery, risk mitigation, and internal control are particularly influential. In addition, the identification of risks in a systematic manner plays a significant role, and continuous monitoring helps to support and reinforce these practices. Based on the findings, it is clear that Metro Bank must place a strong emphasis on risk management techniques that are outcome-driven and concrete in order to ensure its continued financial stability and sustainability over the long term.

5.2 Suggestions and Recommendations

Metro Bank should focus projects that increase its risk management procedures across all credit operations, according to the findings of the analysis, which underline the fact that effective credit risk management is a significant driver of financial performance at Metro Bank. First and foremost, Metro Bank ought to carry out a thorough analysis of the

existing credit procedures in order to pinpoint areas that might be utilized for enhancement. Internal audits, employee feedback, and analysis of loan performance and default patterns are all techniques that can be utilized to accomplish this goal. These methods provide insights that can be put into action to improve the efficiency of risk management.

In particular, the Metro bank ought to concentrate on enhancing the most important credit risk management procedures that have the most significant influence on the outcomes of financial transactions, specifically the Collection Policy and Credit Mitigation Measures. It will be possible to lower the number of loans that are past due and improve the overall asset quality if recovery procedures are improved in terms of their clarity, uniformity, and enforcement. Further mitigating possible losses and stabilizing financial performance can be accomplished by the use of appropriate collateral management, guarantees, insurance systems, and portfolio diversification.

For the purpose of ensuring that the implementation is carried out correctly, Metro Bank ought to provide personnel who are involved in credit operations with ongoing training and direction. In order to strengthen overall risk control and monitoring, it is important to encourage adherence to internal credit policies, reinforce best practices in loan evaluation, and promote proactive detection of potential problems. Not only would the establishment of a structured method for ongoing supervision of loans and prompt corrective actions increase the efficacy of credit monitoring, but it will also strengthen the effectiveness of credit monitoring even if its direct influence on performance is less pronounced.

In conclusion, it is essential to establish methods for continual evaluation and feedback in order to monitor the efficiency of credit risk management measures. Metro Bank will be able to change its strategy, maintain high standards, and avert potential financial losses if it conducts regular reviews of loan performance, risk exposure, and financial results. By doing so, the bank has the potential to improve its financial performance, guarantee its stability over the long term, and boost its competitive position within Myanmar's banking sector.

5.3 Needs for Further Research

This study sheds light on how credit risk management affects Metro Bank's financial performance, but more research is needed. Future studies could explore additional factors such as employee expertise, technological adoption in credit operations, and organizational culture, as well as the long-term impact of enhanced monitoring, mitigation

measures, and collection strategies on profitability and asset quality. Comparative analyses across different banks and tracking loan performance and financial outcomes over time could reveal best practices and assess the sustainability of risk management initiatives. Investigating behavioral and decision-making aspects of credit officers, along with external factors such as economic conditions and regulatory changes, may offer a more comprehensive view, ultimately helping to refine strategies for improving financial stability, operational efficiency, and overall performance.

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APPENDIX

QUESTIONNAIRE

Dear Respondent,

Thank you for taking the time to participate in this important questionnaire regarding the effect of credit risk management practices on the financial performance of Metro Bank. Understanding employee and organizational perspectives on credit risk is essential for strengthening banking operations and ensuring sustainable performance. This survey explores key practices such as credit risk identification, credit risk control, collection policy, credit monitoring and credit mitigation measures. Your responses will provide valuable insights into how these practices influence the bank's profitability, stability, and overall financial health. All information collected will be kept strictly confidential and used solely for academic research purposes. Your honest feedback is greatly appreciated and will contribute significantly to the success of this study.

THE EFFECT OF CREDIT RISK MANAGEMENT PRACTICES ON FINANCIAL PERFORMANCE IN METRO BANK

Demographic Profile of Respondents

1. Gender

Male

Female

2. Age

Under 25 years

26 - 35 years

36 - 45 years

46 - 55

above 56 years

3. Education

Diploma

Bachelor Degree

Master Degree

4. Department

- Credit Department
- Loan/Financing
- Risk Management
- Recovery/Collection
- Finance & Reporting

5. Years of Experience in Banking:

- Less than 1 year
- 1–3 years
- 4–6 years
- 7–10 years
- Above 10 years

Part II

Please state the level of your agreement on each statement by providing the most relevant number.

1 = Strongly Disagree 2 = Disagree 3 = Neutral 4 = Agree 5 = Strongly Agree

Credit Risk Identification

No.	Statement	1	2	3	4	5
1	The bank systematically identifies potential risks before approving any loan.					
2	Credit officers assess borrowers' financial stability to detect possible risk factors.					
3	The bank uses established tools or checklists to identify credit risks.					
4	Early signs of potential borrower default are recognized during the evaluation stage.					
5	Credit risk identification is an essential part of the loan approval process.					
6	The bank identifies risks related to both the borrower and the economic environment.					
7	Proper identification of credit risks helps prevent future loan defaults.					

Credit Risk Control

No.	Statement	1	2	3	4	5
1	The bank has clear policies that guide loan approval and lending limits.					
2	Credit risk control procedures ensure loans are issued only within acceptable risk boundaries.					
3	Repayment terms are carefully structured to match borrowers' capacity.					
4	Penalties for late or missed payments are consistently applied.					
5	The bank reviews its credit policies regularly to keep risks under control.					

6	Staff strictly follow internal guidelines during the loan approval process.					
7	Credit risk control measures help prevent excessive or high-risk lending.					

Credit Monitoring

No.	Statement	1	2	3	4	5
1	The bank regularly monitors repayment behavior after loan disbursement.					
2	Early warning signs of borrower financial distress are identified promptly.					
3	Loan officers frequently review the financial status of clients.					
4	Monitoring procedures help detect potential defaults at an early stage.					
5	The bank conducts timely follow-ups with borrowers who fall behind on payments.					
6	Corrective actions are taken immediately when risky loan behavior is observed.					
7	Effective credit monitoring improves the overall quality of the loan portfolio.					

Collection Policy

No.	Statement	1	2	3	4	5
1	The bank has clear procedures in place for recovering overdue loans.					
2	Borrowers are contacted promptly when their loan payments are overdue.					
3	Staff follow standardized recovery strategies to handle default cases.					
4	Guarantees or collateral are enforced when borrowers fail to repay.					
5	The bank uses appropriate incentives to motivate staff in loan recovery.					

6	A balance between strict and lenient methods is used depending on borrower circumstances.					
7	The existing collection policy helps reduce overdue and default loans.					

Credit Mitigation Measures

No.	Statement	1	2	3	4	5
1	The bank requires adequate collateral or guarantees to reduce credit risk.					
2	Loan insurance mechanisms (when applicable) help protect the bank from potential losses.					
3	The bank diversifies its loan portfolio to avoid concentration risk.					
4	Third-party guarantees are used to strengthen borrower creditworthiness.					
5	Proper security documentation is verified before loan approval.					
6	Risk-sharing arrangements are used when dealing with high-risk clients.					
7	Credit mitigation measures contribute to reducing financial losses from defaults.					

Part III
Financial Performance

No.	Statement	1	2	3	4	5
1	Effective credit risk management practices contribute to improved profitability.					
2	The bank's Return on Assets (ROA) has improved due to better loan processes.					
3	Credit risk control practices help enhance the bank's financial results.					
4	Credit monitoring activities positively impact the performance of loan assets.					
5	The bank's Return on Equity (ROE) reflects improved shareholder profitability.					
6	Reduced loan defaults help strengthen the bank's financial performance.					
7	Strong collection procedures contribute to higher overall profitability.					
8	Effective credit mitigation measures support stable and sustainable financial results.					
9	The quality of the bank's loan portfolio has a positive impact on ROA and ROE.					
10	Overall, the bank's financial performance is influenced by how well credit risk is managed.					