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RISK MANAGEMENT ON SYNDICATED LOAN IN
AYA BANK

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RISK MANAGEMENT ON SYNDICATED LOAN IN AYA BANK

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ABSTRACT

The thesis was focused on the study of loan syndication in AYA Bank and its impact. The study explored the main features of syndicated loan and potential anticompetitive risks that may occur between the participants in a syndicated loan and the process of risk identification to monitor/gauge the success of the loan syndication process.. It was recommended that participating bank in loan syndication business should endeavor to set up distinct department or section with good management structure capable of dealing with the corporate borrowers seeking for syndication loans and that banks should be involved in a lot of innovation program that will comprehensively eliminate the fear of a possible liquidating that may arise from making syndication loan. The study used descriptive method. Primary data in this thesis was collected by creating the structured questionnaires. The secondary data were gathered from paper, textbooks, newspapers, and related journals. The thesis covered the development of syndicated loan in AYA Bank and the bank practices to mitigate the risk on syndicated loans. Syndicated Loan has become a potent source of finance to big industries such as energy, financial, industrial, infrastructure, public transportation, and health care sectors, and are given access to their desired funding and thus being able to function on the market. For the borrower, syndicated loan helps them to access to capital through efficient and time saving. Banks should establish a special unit to take charge of the syndicated loan requests. The units should be equipped with well trained staffs. Banks should find attempt to reduce the time which takes to consummated a syndicated facility so as not to render the borrower's financial projections not to obsolete and unrealistic.

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LIST OF ABBREVIATION

ALCO	Assets and Liabilities Management Committee
CAMEL	Performance Analysis on Capital, Asset, Management, Earnings, and Liquidity
CBM	Central Bank of Myanmar
COGS	Cost of Goods Sold
CRAR	Capital to Risk Asset Ratio
DSCR	Debt Service Coverage Ratio
DSRA	Debt Service Reserve Account
EAD	Exposure at Default
EBITDA	Earning before Interest Tax and Depreciation
EOD	Event of Default
IFRS	International Financial Reporting Standards
LGD	Loss Given Default
LIBOR	London Inter Bank Offering Rate
LMA	Loan Market Associations
M&A	Merger & Acquisitions
OSA	Onshore Security Agent
ROE	Return on Equity
ROI	Return on Investment
SPV	Special Purpose Vehicle
SWOT	Strength, Weakness, Opportunities and Threats

CHAPTER I

INTRODUCTION

Myanmar is an emerging market and developing country in the world. Many of multinational companies from the developed world explore business opportunities in Myanmar where they can raise large sums of money at a low cost in a developing country. Lack of fund has been one of the major problems militating against the progress and growth of Myanmar economy. There are many ways of solving the issues of providing adequate funding to the businesses in Myanmar, however for the purpose of this thesis, this will examine on loan syndication.

However, most developing countries lack the soft infrastructure that makes markets work efficiently. Due to the absence of specialized intermediaries, regulatory systems, and contract-enforcing mechanisms, corporations in emerging market cannot access capital or talent as easily or inexpensively as European and American Corporations.

Modern world finance has seen numerous technologies entering the frame. Therefore, a whole host of new products have been launched in order to obtain advantage in an extremely competitive environment. However, the older products are also developing and becoming ever more global. Structured Finance has become the most vital financial products throughout the world in recent years.

Syndicated loan, one of the important structural financial products is some of the most common types of large scale loans in the world. Their main aim is to spread the risk over several entities, and to enable the debtors to obtain large sums of money. Banks are normally the entities providing these loans, and they are usually used of various purposes (Dennis & Mullineaux, 200, p.406). The main idea behind syndicated loan is the fact that money being given out is too much for an individual bank, or corporation, therefore they are willing to share the risk and the reward.

In order to understand how banks share risks when they syndicating a loan, it is important to understand the risks attached to syndicated loan. A syndicated loan determines how much each syndicate member exposes themselves to credit risk and/or liquidity risk and how the bank does evaluates the credit worthiness of a borrower.

1.1 Rationale of the Study

The insufficiency of fund for capital investment is a common factor in every economy especially in developing countries of the world. In developing countries like Myanmar, the low level of capital investment manifests in high unemployment rates; low productivity and corresponding low standard of living for greater majority of the population. Finding a solution to this issue of providing fund for capital investment has become a major concern for banks in Myanmar.

Highly globally developed economy created the independence of market. Businesses have crossed boundaries of countries and expanded around the world, in search of disposability of raw materials, cheap workforce, talent, and new markets for their goods and services. Financial Sector deficiencies may also be traced to problem in country's wider economic infrastructures, including education, transportation, and communication systems.

Beyond the traditional term loan, share offers, and bonds, business organizations and financial institutions have sought out avenue to tackle the problem of insufficient fund for capital investment. One of the solutions they have come up with is syndicated loan which is aimed at spreading risks and weakening the impact of restricting laws and regulations on lending by financial institutions.

Loan extensive evidence confirms that creating the conditions for a deep and efficient financial system can contribute robustly to sustained economic growth and lower poverty. Syndicated has been defined as an association of industrialist, or financial institutions forced to carry out some industrial projects. Accordingly, loan syndication is basically defined as an agreement between two or more banks and borrower with credit facility utilizing common loan documentations.

1.2 Objectives of the Study

The objectives of this study are:

1. To identify the structure for lending of syndicated loan in AYA Bank,
2. To examine the risk management practices on syndicated loan in AYA Bank,
and
3. To examine the effects of syndicated loan on Borrower.

1.3 Method of the Study

This study adopted a descriptive survey method in trying to establish the extent to which AYA bank undertakes risk management on syndicated loans. The survey method involved asking the participants on what risk affect their portfolios and on the best practices they adopt to manage the risks. Primary data and secondary data are used for this study. The primary data in this thesis was collected by creating structured questionnaires to the credit committee members of AYA bank and the borrowers of the syndicated loans. The secondary data in this study were gathered from paper and reports from AYA, textbooks, newspapers, magazines, and related journals.

1.4 Scope and Limitations of the Study

The thesis covers only the loan syndication as an alternative business financing in AYA Bank based on two years of bank experiences on syndicated loans. The first limitation of the study is the dearth of statistical data. There are 10 credit committee members who are the senior management to the bank and 50% of the credit committee members responded to the questionnaires. Also 50% of the borrowers' representatives responded to the questionnaires. The banks in Myanmar strictly adhered to the rule of confidentiality in their syndicated loans' statistical data. information is Another limitation is time constraint. This type of study requires efficient time during which information for accurate infirmness could be drawn, the period of the study is shot, hence time posed as a constraint.

1.5 Organization of the Study

The thesis is structured by five chapters. Chapter 1 includes introduction, rationale of the study, objectives of the study, method and scope of the study and organization of the study. Chapter 2 covers the theoretical background of structured finance, the most important elements and parts useful for further analysis, and also gives some general overview of the Syndicated loan, its purposes and goals Profile and Practices of AYA Bank is described in Chapter 3. Chapter 4 covers the analysis

of Syndicated Loan Model and its features. Chapter 5 covers the findings and discussions on the Structured Finance Products and suggestions and recommendations on the use of its in Myanmar.

CHAPTER II

LITERATURE VIEW

The first section of this chapter describes the main definitions of the product and is divided into two parts. The first part begins with the definitions, features of syndicated loan, follows with risk management practices on syndicated loan, and continues with the process of syndicated lending.

2.1 Definitions of Structured Finance

In the literature there is no uniform definition of structured financing, however, there are common characteristics. It is individual, needs oriented and tailor-made financing solutions, which are generated to the respective customer needs. Within the scope of structured financing, the financing requirements are analyzed both, inside and outside the balance sheet of a company or group of companies. This is done to identify approaches of optimization of the financing structure, while taking into account the financing situation. One debt-component of the balance sheet is the syndicated loan. Through the use of a syndicated loan, existing bilateral loans can be bundled into one financing product. This allows medium to long-term maturities and is usually provided by two or more banks. It also describes the different models of products: Syndicated Loan, Club Deals and Best Efforts vs. Underwriting.

2.1.1 Syndicated Loan

Syndicated loans are large-volume loans issued by a consortium consisting of at least two credit institutions, often investment banks which offer corporate finance solutions. In the context of granting a syndicated loan, the lenders enter into a single credit agreement, structured in advance by a so-called arranger or mandated lead arranger. The so-called Book runner, which is often also the Mandated Lead Arranger, invites other banks in the syndication process to participate in the credit facility. All banks are equally entitled to redemption and interest payments within the consortium, regardless of the amount of capital.

Borrowers can be industrial enterprises, banks, insurance companies, public-law entities or special purpose entities. With regard to the structure and duration of

the loans, there are no restrictions. However, since the founding of the Loan Market Association (LMA), a standard for syndicated credit documentation has been developed. The LMA offers model contracts or templates for companies which are rated as investment grade or non-investment grade as well as the leveraged buy-out loans. It simplifies the syndication process and makes it easier for the credit institutions to present the credit with regard to the creditworthiness of the borrower.

The lenders have the option to make three different forms available - the so-called facilities of the loan. The first is called term loan. Term loans can be utilized within a short period of time and offer the possibility of an ongoing or final repayment. The second form is the Revolving Credit Facility, which can be drawn continuously from the date the contract is signed until the due date. These features are similar to a bank overdraft or a credit line. Number three are Letters of Guarantee Facilities. These also provide the borrower with a line consisting of guarantees, such as delivery guarantees. Section 2 describes the types of facilities in detail. By including a consortium, syndicated loans have characteristics of both, classical bilateral house bank loans and tradable debt instruments.

Similar to bilateral loans, the syndicated loan can be collateralized, including the accrued interest that must be repaid after an agreed maturity (Simons, 1993, p. 46). Borrowers have the assurance that individual banks can not simply get out of the contract. The credit agreement has a clause regulating the conditions that banks can only exit if the majority of banks agree. As a rule, the majority is reached by two-thirds. This is especially important in difficult economic phases, when it is vital that the borrowers have are certain the banks cannot terminate the loan. The documentation is designed according to national law, unless foreign banks are in the consortium or the borrower is in another country or region.

Syndicated loan agreements have an extensive documentation, including covenants. Covenants refer to individual terms in a loan contract. They oblige the borrower to undertake certain actions. Financial covenants enable the lender to terminate the loan prematurely in the event of a violation of certain financial ratios (Miller, 2014, p. 18). Furthermore, the borrower also has the option of negotiating credit terms with the banks separately. It could play against the banks by exploiting the previous relationship with the bank against its competitors. Once a bank offers significantly better conditions than another, there is a risk that the shares of the loan

will move. The borrower could increase the proportion of the cheap bank and reduce the share of the lower bank at the same time in order to save interest costs.

Club Deal

Club deal is usually for small amount. The main feature that makes this type of syndicated loan unique is the fact that the lead agent and other members of a club deal consortium all share equal, or nearly equal, parts of the fees earned from the loan facility.

2.1.2 Best Efforts versus Underwriting

The literature distinguishes within syndicated loans, between the so called Best efforts- and underwriting-deals. The majority of syndicated loans fall under the category of Best Effort, which means, that the final amount of the loan depends on each part of the consortium. The borrower might have the risk of losing the desired financing level when capital providers jump out and no bank replaces it. The borrower should first discuss with the potential leading bank a realistic imagination and calculation of volume and terms. However, if the financing level cannot be achieved in the first try, it does not mean the failure of the entire transaction. In this case, various measures, such as higher amounts of the existing banks or adjustments in terms of the transaction can lead to success. In other words, the arranger tries to increase every share on the syndicated loan in order to reach the desired amount.

In underwriting deals, lead banks promise to provide the agreed loan amount. The promise is independent from the success of the syndication, which provides financial safety for the borrower. The takeover of the syndication risk is a guarantee of a successful placement of the transaction for the borrower. The leading bank is responsible for finding sufficient participants for the syndicated loan. This guarantee must be paid by the borrower through an underwriting fee. Underwriting deals often take place in company Mergers and Acquisitions (M&A), since this type of transaction usually has to be undertaken very fast, where the borrower has no time for the long syndication process. Besides borrower's safety, another important advantage is the discretion. Only the leading bank knows of the merger and the details which prevents insider actions. This knowledge also results in asymmetric information because the other participating banks do not have information other than the plan to acquire a certain company.

2.2 Characteristics of Syndicated Loan

This part covers the reasons for offering syndicated loan and the participants and description of some characteristics of the financial instruments with regard to the syndicated loan.

Reasons for Offering Syndicated Loan

The primary reason of syndicated loan is to share risks among participants. Syndicated loans offer banks the opportunity to share credit risks with other banks and reduce the burden of their own regulatory capital requirements. Smaller banks have the opportunity to participate in large transactions by participating with other banks. They are a part of the financing and can thus come into contact with large companies. Small banks are usually limited in the credit allocation and consider such participation as a chance. In addition, an active management of the credit risk and the credit portfolio can be carried out. Another motive is the increase in profitability.

Syndicated loans are an attractive source of income, especially when the bank acts as an arranger or agent where it can gain extra fees. Furthermore, this type of lending provides the possibility to sell additional products (cross-selling) as well as start a new relationship with the borrower. By working together with the consortium, banks are able to establish themselves for the long term and strengthen the reputation. If a borrower extends its syndicated loan or simply obtains a new one, it can decide which banks have to be invited to the consortium once again. If the banks have not caused any problems during the period and left a good impression on the company as well as on the other participants, there is a high probability of being invited for further syndicated loan agreements. From the borrowers' point of view, there is the advantage of reducing dependency on one bank. Decisions regarding the credit agreement can only be implemented with a majority vote.

The standardization of the contract makes it easier to understand and provide clarity. Another important reason for obtaining a syndicated loan is the possibility to apply for large volumes. It gives the opportunity to make major investments, like e.g.: refinancing, acquisitions etc. In addition, the borrower benefits from the low administration fees. While many banks are in the consortium, the arranger is the only participant which has contact with the company and maintains touch with all the other participating banks. Many companies prefer a syndicated loan as opposed to the bond. This preference is due to the cost savings and the effort. The issuance of bonds is a

long-term process while granting a syndicated loan is a short process without special requirements. Also, syndicated loans are much cheaper than bonds, despite the enormous fees. It does not require an official rating from a large agency, which is also costly.

Participants in Lending Syndicated Loan

In the process of syndicated lending, different actors are playing various roles. The two most important participants are the borrower and the lead bank (arranger), the others are facility agent, security agent and participating banks. The roles of the parties describes in the below.

Borrower

Borrower can be a corporation, a large scale project or a special purpose vehicle (SPV) which is set up solely for this purpose. Borrower that make use of this type of corporate lending are the financial sector included big 4 infrastructure categories, which are power, telecommunication, oil and gas, and transport sectors. The purpose of lending is diverse, and can be used for new projects while other reasons can be for refinancing, mergers and acquisitions or project finance, depending on the requirements of borrower.

Lead Bank

The arranging bank is also known as the lead manager and is mandated by the borrower to organize the funding based on specific agreed terms of loan.

Security Agent

Security Agent holds the security packages on behalf of the lenders, and perfects the security packages. Syndicated loan structures avoid granting the security to the individual lenders separately since the practice would be costly to the syndicate. In the event of default, the security agent manages the process of enforcement on behalf of syndication members under their instructions.

Participating Banks

Participating banks are the banks who agreed to participate in a syndication. The participating amounts could be different based on the risk appetite of each bank. Regardless of the amounts, all participants must apply same terms and conditions under a single loan agreement and security package.

2.3 Interest Procedure of Syndicated Loan

Interest rate is expressed as percentage of the principal amount borrowed. It can be either fixed or variable rates over the tenure of the loan. Interest rate is basically set based on the riskiness of the projects. It can be computed on annual, semi-annual, quarterly, monthly or daily basis on 365 days per year basis.

There are two types of interest rate which are:

- a) Fixed Interest Rate
- b) Floating Interest Rate
- c) Fixed Interest Rate

Fixed interest rate is the interest rate which fixed and remains unchanged for the entire tenure of the loan. Such interest rates are used when borrowers think that the interest will rise over the time.

b) Floating Interest Rate

Floating interest rate is pegged to certain benchmarks and is adjusted according to fluctuations of the benchmarks during the tenure of the loan. The common benchmarks are the London Interbank Offered Rate (LIBOR). This benchmark is only applicable to United States Dollar Loan.

2.4 Repayment Procedure of Syndicated Loan

Loan Repayment could be structured in a different way. In general, there is usually no grace period over the period of loan. In a syndicated loan, lenders carefully look at the business plan and cash flow forecasts of the business or projects. The repayment may be different from the conventional loan structure. The tenure of the loan is usually longer than three (3) years. The common types of loan repayment structures include, (i) bullet repayment, (ii) equal amortization repayment, and (iii) balloon repayment.

i. Bullet Repayment

Bullet repayment is not very common in the syndicated loan. This structure represents higher risks to the lender because the borrower's repayment is matured only at the end of the loan tenure.

ii. Equal Amortizing Repayment

Equal amortizing repayment, the loan principal is gradually reduced over the tenure of loan. The servicing interest during the loan tenure falls along with the declining principal.

iii. Balloon Repayment

In Balloon repayment structure, the borrowers pay smaller installments in the early stages and larger installments at the larger stage of the repayment schedule. This structure is attractive to borrowers with the limited repayment capacity at the beginning to match the cash flow and also lesser risks to lenders benefiting to both sides.

2.5 Fee Structure of Syndicated Loan

The fee structure of syndicated loan includes arrangement fee, legal fee, underwriting fee, participation fee, facility fee, commitment fee, utilization fee, agency fee and prepayment fee.

Arrangement Fee

Arrangement fee is received and retained by lead arrangers in return for putting the deal together. The fee is payable front-end basis.

Legal Fee

Legal fee is Remuneration of the legal consul and payable front-end basis.

Underwriting Fee

Underwriting Fee is price of the commitment to obtain financing during the first level of syndication and also payable front-end.

Participation Fee

Participation Fee is received by the senior participants in the syndication and payable front-end.

Facility Fee

Facility Fee is payable to banks in return for providing the facility, whether it's used or not on annual basis.

Commitment Fee

It is payable on annual basis and charged on undrawn part of the facility. The borrower has to pay the commitment fee as long as the facility is not utilized, to compensate the lender for tying up the capital corresponding to the commitment.

Utilization Fee

It is payable on annual basis and charged on drawn amount of the facility. Utilization fee boots the lender's yield, enables the borrower to announce a lower spread to the market than what is actually being paid, as the utilization fee does not always need to be published.

Agency Fee

Agency Fee is payable on annual basis and remuneration of the agent bank's services.

Prepayment Fee

This is payable one-off basis if there is a prepayment by the borrower before the maturity of the facility. Prepayment fee is a penalty for prepayment, and payable on prepaid amount and interest

2.6 Risk Management of Syndicated Loan

Syndicated loan model, compared to other types of financing, is substantially exposed to risks, especially in this ever-changing competitive environment. Banks no longer simply receive deposits and make conventional loans. Instead, they are operating in a rapidly innovative industry with a lot of profit pressure that urges them to create more and more value-added services to offer to and better satisfy the customers. Risks are much more complex now since one single activity can involve several risks. Risks are inside risk and overlap risks. Risks cannot be eliminated wholly however risk can be mitigated by having internal risk management practices to meet with the bank's criteria.

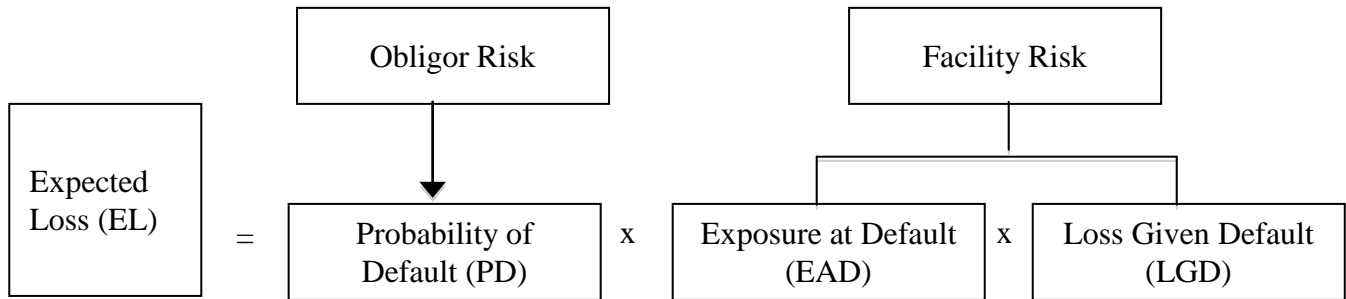
A well-performed credit is critical in ensuring that the bank meets the financing needs of the borrower with appropriate controls to limit the risk exposure of the bank, and maximize the bank's return on the extended credit facilities. The main objectives of credit evaluations are to:

- Identify the risks in extending credit facilities;
- Assess the viability of the borrower
- Determine the sources and likelihood of repayment
- Recommend the appropriate type and structure of credit facilities
-

2.6.1 Credit Risk

There are three components of credit risks – Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD).

Figure 2.1 – Components of Credit Risk



Source: 2016, IBF (Institute of Banking and Finance, Singapore)

Obligor Risk

Obligor Risk is measured by Probability of Default (PD) which is likelihood of borrower defaulting on its obligations over a specified time horizon. Bank performs credit evaluation on potential borrowers to determine their ability to meet its obligation which is market and economic conditions, business operations, management ability and sources of repayment.

Facility Risk

Facility Risk consists of two components which are (1) Exposure at Default (EAD) is defined by the outstanding amount that a bank is exposed to at the time of default. (2) Loss Given Default (LGD) is the percentage of EAD which the bank expects to lose when a borrower defaults. Exposure at Default (EAD) is dependent on the credit facility that is granted to the borrower. Credit facility with ease of drawdown and less control by bank will present higher risk, as compared to structured loan which has strict drawdown conditions. LGD depends on whether the loan is senior or subordinated to other debt obligations of the borrower, and the collateral obtained to secure the loan. In syndicated loan model in AYA bank, the facility ranks as senior to any other debt obligations where the senior debtor gets repaid after the secured debtor. Hence lesser risk than subordinated loan which will not being repaid in full in the event of default. AYA Bank structures the loan as a secured and senior

debt to mitigate facility risk. The common types of collaterals are land and building, account charge, bank guarantee, stand by letter of credit, sovereign guarantee and legal assignment.

2.6.2 Credit Risk Analysis Model

The fiveCs credit analysis model is one of the major factor in recommendation and approval process of a credit facility. AYA bank carefully analyzes the fiveCs as part of the due diligence process and risk assessment to structure the credit facility. The fiveCs looks at character, capital, capacity, conditions, and collateral. The first 4Cs assess the probability of default, while the collateral evaluates the recovery rate in the event of default (EOD). The general aspects of fiveCs are as follows;

1. Character

Character is a prime factor in any lending decision which principally focuses on the willingness to repay and usually inferred by looking at the borrower's banking relationships, and credit history.

2. Conditions

The general macroeconomic, industry and business conditions can impact the borrower's repayment ability.

3. Capacity

The ability to generate cash flow to service the interest and repayment of principal is critical in credit risk assessment.

4. Capital

Understanding the borrower's capital structure helps to determine the financial strength and the commitment of the owners or shareholder in the business.

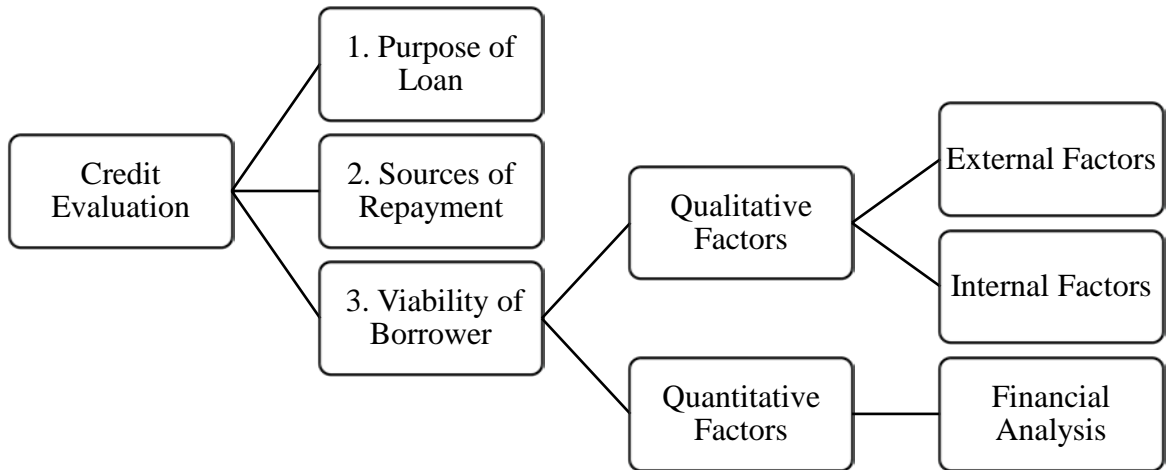
5. Collateral

This is part of the remedy to the credit facility in the event of default to minimize the losses by liquidating the pledged assets.

2.6.3 Risk Management on Syndicated Loan

In credit risk frame work, there are qualitative factors and quantitative factors for mitigation of the risk.

Figure 2.2 Credit Evaluation Frame Work



Source: 2016, IBF(Institute of Banking and Finance, Singapore)

Qualitative Analysis

There are two important factors in qualitative analysis. They are external factors which reflect the Macro Risk Analysis and internal factors which reflect the Micro Risk analysis. It is important to understand these factors when we engage a syndicated loan since syndicated loans are usually large exposure which has large impact on economy. Before we recommending and inviting the participants to a syndication, we thoroughly study and analyze the following factors;

External Factors – Macro Risk Analysis

Macro Risk Analysis has done on the syndicated loan model upon due diligence process. We will be analyzing the above “Power Plant” Project as follows;

1) Economic Outlook

International and domestic economic outlook will have a significant influence on the business environment. Macroeconomic factors such as economic expansion, recession, inflation, unemployment will affect demand and supply, interest and

exchange rates. This will in turn have an impact on business conditions and ultimately, the profitability of the borrower.

2) Political Climate

Political stability is important to ensure favorable environment for business to flourish. Political changes can result in the imposition of new laws or controls. Similarly, they can also bring about new business opportunities or new markets to the syndication loan.

3) Regulatory Control

Regulatory control can affect the different aspects of operations of a business, such as manpower, sales and distribution of products, and cross-border payment. This will have serious repercussions on the ability to pay the suppliers, and to service the loan.

4) Industry Outlook

Industry outlook plays a critical role in credit assessment. A good industry outlook can have significant impact on existing incumbent's market share, pricing, revenue and cash flow. Every industry has its unique characteristics that determine the competitive environment that companies operate in. Key factors that affect the business viability and profitability of an industry include cyclicalities, capital intensity, barrier to entry, threat of substitutes for the products, and services, bargaining power of suppliers and customers.

Borrower's Internal Factors – Micro Risk Analysis

Key internal factors to be evaluated include as follows;

1. Business Life Cycle

The company life cycle is start-up, expansion, matured, consolidation, and decline. At different stages, the risk exposure, revenue potential, profitability and capabilities of cash generation hence banking needs, are different.

Risks tend to be the highest during the start-up and decline stages, when borrower does not generate sufficient funds to service the facility. Failure rates tend to be high and if bank finances on these stages, the credit facility could end up as non-performing facility.

Risk tends to be lower when a borrower has established their track record and maturity. Business is relatively stable and investments tend to level off or decline,

resulting in improving cash flow and building up of cash from operations. At this stage, some borrowers may look to mergers and acquisitions hence resulted in large sum of financing from the bank to back up their M&A.

2. Business Viability

The viability of a business depends on factors specific to the company such as market demand, quality, pricing, product, and service differentiation, marketing strategy, distribution channels, and research and development capabilities. These factors will have significant impact on the company's ability to generate cash flow for loan's servicing.

3. Operational Efficiency

This is to verify the efficiency of the business's operation. The borrowers require providing the business report to the lenders.

4. Management Quality

The quality of management of a borrower is a vital factor to credit assessment. The borrower requires to present the background of management to the lenders for due diligence on management.

Quantitative Analysis

The aim of this analysis is to determine the ability of borrower's financial performance to service the loan. The company annual reports are required to provide to the banks. If the company is special purpose vehicle (SPV), the borrower is required to present the group financial data to the lenders for due diligence. The key elements of annual reports are:

- Management's strategic review
- Key Management team and biography
- Management's discussion and analysis on operational and financial issues
- Auditor's report
- Financial statements
- Notes to the accounts

Management's strategic, operational and financial review and analysis provide insights into the business' performance, risk exposures, management actions and

outlook. The auditor's report provides an independent opinion on whether the financial statements are properly drawn up in accordance with accounting standards, and they reflect the fair view of the business.

2.7 Risk Analysis on Financial Statements of Syndicated Loans

The aim of determining the annual reports of company is to assess the business's ability to generate cash flow to sustain the business itself and repayment capacity as well. For the new project which does not yet have the annual report, it is crucial to understand their business plan and cash flow projections. The financial statements are key sources of information used to perform financial analysis, to quantify credit risk, and facilitate lending decisions to the business. The core financial statements which form the basic of financial statements are statement of financial position, or balance sheet, income statement, or the profit and loss statement, and cash flow statement.

Risk analysis on financial statements is performed to determine the borrower's financial performance, strength of its capital structure, ability to generate cash flow and sustain its operations into the future. The key financial ratios such as profitability, return on assets and equity, efficiency, liquidity and total debt to equity ratios are used to analyze the performance of borrower. When analyzed over a period of time, historical financial ratios help to identify underlying trends in the borrower's financial performance to provide some basis to project the company's expected performance in the future. However, the risk analysis of financial statements needs to take into consideration other factors such as:

- Trend analysis for previous financial periods
- Comparison with industry peers
- Macroeconomic and industry development and outlook
- Comparability arising from changes in accounting treatment and business operations

It is important to know that they are prepared based on key accounting concepts, and principles, in order to interpret the financial information properly. The key accounting concepts and principles shown in Table 2.1 are required to understand by the bank to interpret these properly for lending decisions.

Table 2.1. Key Accounting Concepts and Principles of Syndicated Loan

Monetary Measurement	All transactions must be quantifiable i.e. expressed in monetary terms for them to be captured into accounts.
Separate Entity	Business is separate and distinct from the owners i.e. only transactions related to the business are recorded.
Historical Cost	Transactions involving assets and liabilities are recorded at their cost at the time the transactions occurred i.e. any subsequent changes in value will not be reflected in the accounts.
Going Concern	Business is assumed to be on an on-going basis and will not be forced to sell its assets in the near future.
Materiality	All material matters are to be reported. Materiality is relative to the underlying circumstances. The general principle is that, information is material if its omission or misstatement could impact the decision of users of the financial reports.
Prudence	The principle of conservatism is to recognize profit only when sales are completed, but to capture the costs or losses as soon as there is a reasonable chance that they will be incurred in the future.
Consistency	Transactions and valuation methods are applied in the same way from period to period, to facilitate meaningful comparisons of financial performance.
Matching	Income should be properly matched with the expenses of a given accounting period i.e. accruals.

Source: 2016, IBF (Institute of Banking and Finance, Singapore)

CHAPTER III

BACKGROUND STUDY OF AYA BANK

Syndicated Loan is one and only available structured financial product in Myanmar. AYA Bank is the very first bank in Myanmar to introduce syndicated loan in the market. THIS chapter examines the profile of AYA bank and how syndicated loan was developed and credit evaluation practices to evaluate syndicated loans.

3.1 Profile of AYA Bank

AYA Bank was licensed by the Central Bank of Myanmar on 2nd July, 2010 with Kyats (55) billion paid up capital, and relicensed under the Financial Institution Law 2016 as a full service universal bank. It has become the second largest bank in Myanmar, with (242) branches, (1.4) million customer, Kyats (4.7) trillion customer deposits and (150) Kyats billion Shareholders' Equity. Top hundred depositors represent about six percent (6%) of total customer deposits, underlining the general public's confidence in the bank.

AYA Bank's Principal Activities are as follows;

- Borrowing or Raising of money
- Lending or Advancing of Money either secure or unsecured
- Receiving Securities or Valuables of Safe Custody
- Collecting and Transmitting money and Securities
- Providing International Banking Services

As a member of the UN Global Compact (UNGC), AYA Bank is committed to implement global standards in Corporate Governance and compliance best practices in its management and operations. Since 2014-15, AYA Bank is the only bank in Myanmar to be International Financial Reporting Standards (IFRS) complaint and the only one audited under International Standards of Auditing (ISA) by a big-four international firm. For the years ahead, the bank will continue to extend its branch network throughout Myanmar while concurrently investing in state-of-the-art Core Banking, Digital Banking and Fintech Platforms. AYA Bank aims to provide uniform Omni-Channel interface offering innovative products and services across all customer segments.

The organization structure of AYA bank consists of corporate banking department, treasury department, finance department, human resources department,

credit department, international banking department, digital banking department, marketing department, core banking department, banking operation department, administration department, information and technology department and risk management department. The sub-section under corporate banking department initiates the syndicated loan until the loan agreement is signed off. The credit department administrates the syndicated loan during the post mandate stage. Risk management department monitors the internal process of syndicated loan to mitigate the risk during the tenor of the facility. A credit committee was formed with the top management from credit department, corporate banking department, risk management and legal consults.

The main products of AYA Bank are as follows;

- Deposit
- Loan and Advances
- Remittances
- Cash Management
- Card Payment
- E-banking services
- Trade Services
- AYA Royal Banking
- Foreign Exchange Service
- Correspondents Bank
- AYA SMS Alert
- Safe Deposit Boxes

3.2 Syndicated Loan Development in AYA Bank

AYA Bank has been providing corporate loans to customers throughout the years. AYA Bank had spoken to several large scale projects from both private and public sectors which need to get financing large sum of money from the bank. However, AYA was not able to finance to those projects due to single lending limit regulated by Central Bank of Myanmar which stated that a bank cannot lend to a single borrower more than 20% of its tire 1 capital. AYA Bank introduced Syndicated Loan which is one of key product of Structure Finance in the market in 2016 to finance the large scale projects which are too large for its capital base. Since then, AYA has been collaborating with local and foreign banks in the syndicated loans to

different areas of businesses which require large loan and outside the scope of its risk exposure.

Taking part in a syndicated loan gives the lender the possibility to increase its ability to lend large amounts and thereby being able to serve the borrower's requirements. Syndicated loan structure help to gain the economic benefits to both lenders and borrower in form of efficiencies considering risk management and compliance with regulations. Participating in the syndicated loan benefits AYA Bank to avoid taking too much credit risk on a single borrower, and also decreases the harm that it would otherwise be affected in the event of borrower's default. Although lenders have good information about the borrower's creditability, syndicated loan is a form of risk spreading technique which allows lenders to share the credit risk with other financial institutions.

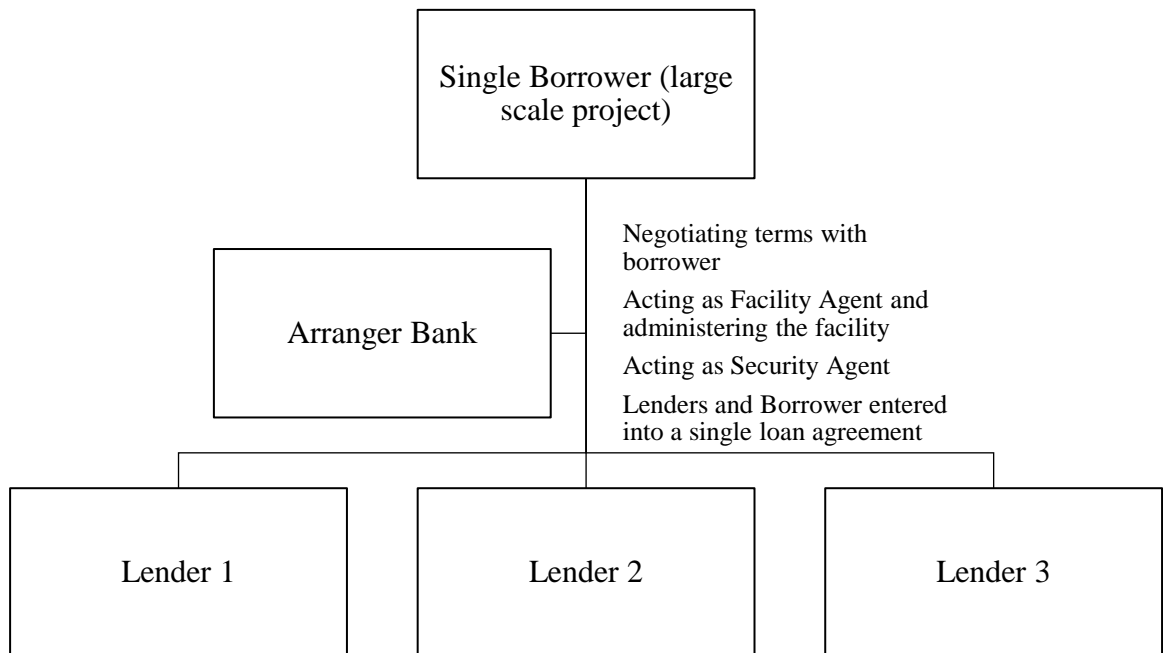
In most cases, AYA bank acts as lead arranger and negotiates the terms with a single borrower on behalf of participating banks with the best effort basis. Borrower receives an indicative terms sheet which includes general terms of the loan and discusses with the lead bank. In terms of negotiation rights, unanimity of all syndicate members is always required to change terms related to principal, interest, maturity, or collateral. The indicative terms sheet details the amount of the loan, tenure of the loan, repayment schedule, interest rate, duration of the loan, and any other fees related to the syndicated loan. As a lead arranger, AYA holds a large portion of the loan and is responsible for distributing cash flows among the other participating lenders. AYA bank discusses with the participants on the financial terms, security packages and appointing of law firms and valuation firms. Once terms sheet has been agreed and finalized by all parties, the group of lenders appoints the independent law firm to represent them in the syndication. Law firms advised on the security packages of syndicated loan where the structures avoid granting the security to the individual lenders separately since the practice would be costly to the syndicate.

Syndicated loan's security structure of AYA is mostly by Type 2 asset-backed security method. It is a form of secured lending to fund the growth of business based on the value of the asset pledged to the bank as collaterals. However, in the syndicated loan structure, the lenders require an independent valuation firm to get the details value of pledged assets. The independent valuation firms are required to analyze and assess the value of collaterals without any influence from either borrowers or lenders. Sometimes, security packages include not only the fixed assets

of the borrower, but also the floating assets of its such as insurance relating to the business and income accounts of it. AYA Bank also acts as facility agent in the syndication loan which is to administer the facility and to monitor the transactions of the facility as well.

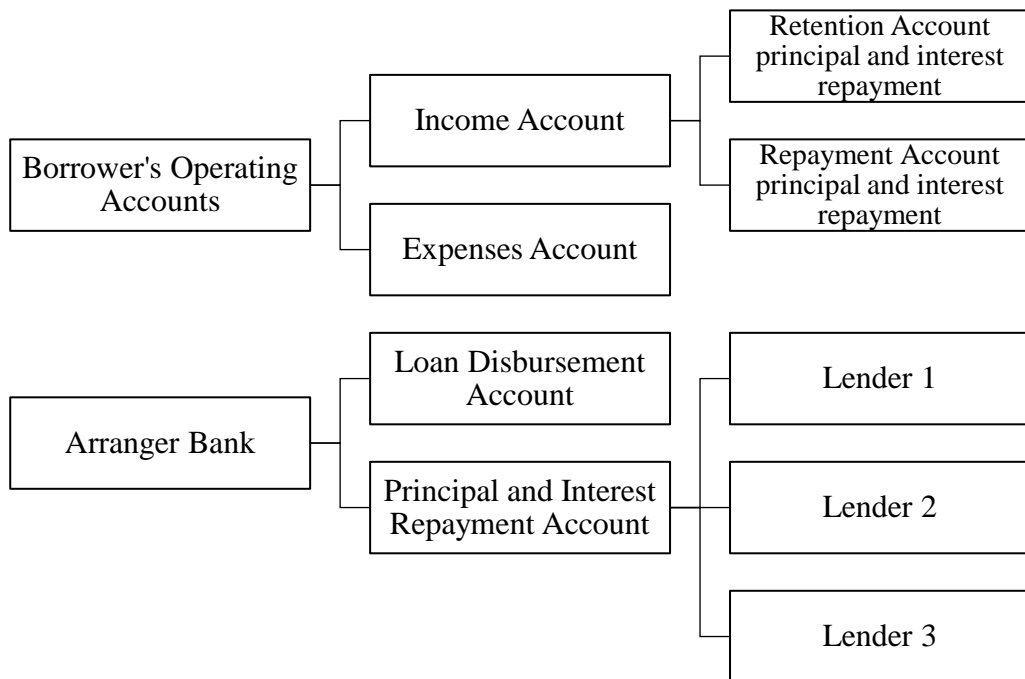
In addition, occasionally there are penalty clauses in the syndicated loan agreement which addresses as if borrower repays the loan before the agreed date, the borrower shall pay a prepayment fee or compensate the lenders on the early repaid amount in the event of early repayment. Syndicated loan fee structure is much complicated than the traditional loan to the borrower, however since the development of syndicated loan, AYA has earned additional fee income. After disbursement, the facility usage is monitored and reviewed by the facility agent/arranger bank, to identify additional opportunities or sings of potential problems. Early identifications of potential issues allow the participating banks of syndicated loan to initiate appropriate action in order to ensure that the loan can be repaid in full on time.

Figure 3.1 Flow of Syndicated Loan



Source : 2016, AYA Bank

Figure 3.2 - Funds Flow of Syndicated Loan



Source: 2016, AYA Bank

3.3 Risk Management Procedures of Syndicated Loan in AYA Bank

In AYA bank, the credit evaluation framework of syndicated loan is carefully structured to determine the purpose of the facility, the viability of the business for which the loan is extended, and the sources of repayment. Qualitative and quantitative factors are analyzed to evaluate the borrower's financial performance, health, and loan servicing capability. Preliminary due diligence is performed before meeting up with the prospects to determining their banking needs, and obtain more information required for performing a detailed credit evaluation.

A credit proposal is drawn up, containing the recommendations and risk mitigation measures, for approval by the credit committee. An offer is then made to the prospect. If the borrower and the participating banks accepted the terms and conditions of the facility, loan agreement and other documentation will need to be completed before the loan disbursement. AYA Bank structures the credit facility suited to the borrower's businesses once they have completed a thorough due diligence on the borrower.

In general to evaluate a credit risk and to have an effective risk management on a syndicated loan, a well written credit proposal is crucial to the risk management

to make a lending decision. A credit proposal typically includes the following components for management review and decisions on how to structure the credit facilities;

1. General information
2. Risk Assessment and Rating

1. General Information

General information includes company background, the purpose of the loan, account servicing strategy and approval authority.

2. Risk Assessment and Rating

When assessing the credit risk of borrower, AYA banks also consider both quantitative and qualitative factors. Qualitative analysis involves the assessment of external and internal opportunities and threats that affect the borrower's operations, hence its ability to service the facility. These factors include economic outlook, political and regulatory climate, social conditions, environmental issues, competition, business life cycles, management and operational efficiencies also known as macro risk analysis. The bank carefully studies and collects market data to analyze on efficiencies of the business to mitigate the credit risk. Understanding the business operations of the borrower is critical to determine the viability and sustainability of financial performance. They also share their opinions on the business and the banks' credit risk appetite within the participating banks during the structuring process of syndication.

3.3.1 Credit Evaluation

In credit evaluation in AYA, financial analysis is performed to determine the borrower's financial performance, strength of its capital structure, ability to generate cash flow and sustain its operations into the future. When analyzed over a period of time, historical financial ratios help to identify underlying trends in the company's financial performance to provide some basis to project the company's expected performance in the future. AYA bank employ their own scorecards to rank the customers' track records. A meaningful evaluation of company's financial performance to take into consideration other factors such as:

- Trend analysis for previous financial period i.e. time-series analysis
- Comparison with industry peers i.e. cross-sectional analysis
- Macroeconomic and industry outlook and development

- Comparability arising from changes in accounting treatment and business operations.

3.3.2 Risk Analysis Practices on Collaterals of Syndicated Loans in AYA Bank

Overall credit risk can be mitigated by using collateral, credit supports, and covenants to reduce the facility risks. Collateral can be in the form of tangible assets, such as property, inventory, plant, equipment, fixed deposits or shares, or intangible assets, such as insurance policies, trademarks or patents. To mitigate the obligor risk using appropriate collaterals is important.

To reduce the lending risk, the lender also requests the credit support in the case where the security is weak or loan is partially unsecured. Common types of credit support are;

- a) Guarantees,
- b) Indemnities
- c) Letter of comfort/letter of awareness
- d) Assignment of Insurances

AYA carefully considers the marketability of pledged assets, asset quality, legal enforceability, and control of assets when they structured the syndicated loan. Once all the due diligence process has done on the borrower, the credit proposal is written up which includes risk assessment of the borrower, recommendation in terms of facilities proposed and risk mitigation for final approval from the management.

3.4 Structuring the Syndicated Loan

Upon the due diligence the bank credit officer recommended the structure to mitigate the risk of the facility. In general it includes the type of facilities, the amount to participate on the syndication based on the risk appetite of the bank, the tenure of the facility, the pricing, the fee structures and terms and conditions to be followed by both lenders and borrower.

The pricing and fee structures varied the risk associated to the syndicated loan. The lead bank obtains the advices from the legal representatives to the lenders with regard to the covenants that require the borrower to fulfill the conditions of the loan or forbid the borrower from undertaking certain actions. Covenants can be financial or non-financial, affirmative or negative. During the pre-mandated stage, after soliciting competitive offers to arrange and manage the syndicated loan to one or more participating bank, the lead arranger negotiates the preliminary terms with the

borrower. The post-mandated stage involves the placement of the loan. This stage is crucial for the transaction cycle of syndication. Indeed, both the borrower and the participating banks have committed themselves to raise funds and, as such, are at a risk. During this stage, the arranger prepares a documentation package called an information memorandum for potential syndicated members. This document contains information about the borrower's creditworthiness and the loan terms. The arranger largely determines the initial set of potential participants to targets.

When securitization the collaterals, the legal console advise the forms of collaterals which suitable to the syndicated loan. The forms of collaterals are legal mortgage, equitable mortgage, and deposit of titles, charges and legal assignments. As lead bank, AYA coordinates with participating bank and structure the security which will be best for the syndication to mitigate the risk on all parties.

The post-signing stage takes place after the completion date when the deal becomes active and the loan is operational, finding the borrower and the syndicate members by the single loan agreement. AYA who is acting as lead arranger handles disbursements, repayments, monitors the transaction of the facility and the operation efficiency of the business and also is responsible for disseminating the borrower's financial statements to the syndicated members. The arranging bank is paid a fee by the borrower to do such activities on the syndicated.

CHAPTER IV

RISK MANAGEMENT PRACTICES ON SYNDICATED LOAN

This chapter presents the risk management practices on syndicated loan based on the secondary data. The chapter also describes the risk management practices on syndicated loan in terms of borrowers and lenders. It is important to examine how the practices of risk management of syndicated loan while long term debt financing is usually more risky as it involves longer payback periods and thus higher credit risks.

4.1 Research Design

For this research, qualitative research questions are suitable for interviewers because the organization of questionnaires begin with what or how, therefore the researcher can gain in depth understanding of the relative topic. For current study, the questionnaires have been created and were sent to borrowers and credit committee members of the bank related to the risk management practices on syndicated loan, the effect of syndicated loan on borrower, and the risk mitigation of syndicated loan with the following questionnaires;

- 1) What are the risk management practices on syndicated loan?
- 2) Why do banks syndicate loans?
- 3) How does syndicated loan mitigate the risk between the participating banks?
- 4) How does syndicated loan effect borrower?

4.2 Risk Management Practices on Syndicated Loan

While consideration of capital and diversification encourage the development of syndications, they pose an increased risk for the banking system. The major sources of credit risk of the bank are its business dealings with individual customers, business and other financial institutions including state corporations. Such trade which is mainly in advancing loans to banks clients come with some obvious risks. A sound practice of risk management includes the followings ; (i) establishing an appropriate credit risk environment; (ii) operating under a sound credit-granting process; (iii) maintaining an appropriate credit administration, measurement and monitoring process; and (iv) ensuring adequate controls over credit risk.

Although specific credit risk management practices may differ among banks depending upon the nature and complexity of the structure of syndicated loan, a

comprehensive credit risk management program will address these four areas. These practices applied in conjunction with sound practices related to the assessment of asset quality, the adequacy of provisions and reserves, the credit worthiness of the borrowers, and the disclosure of credit risk.

A further particular instance of risk management practice relates to the process of settling financial transactions. If one side of a transaction is settled but the other fails, a loss may be incurred that is equal to the principal amount of transaction. Settlement risk which is the risk that the completion or settlement of a financial transaction will fail to take place as expected includes elements of liquidity, market, operational and reputational risk as well as credit risk. The level of risk is determined by the particular arrangements for settlement.

Establishing an appropriate credit risk environment

The board of directors approves and reviews periodically or at least annually reviewing the credit risk strategy and significant credit risk policies of the bank. The strategy reflect the bank’s tolerance for risk on syndicated loan and the level of profitability the bank expects to achieve from syndicated loan for incurring various credit risk. Senior management implements the credit risk strategy approved by the board of directors for developing policies and procedures for identifying, measuring, monitoring and controlling the risks associated with syndicated loan.

The credit risk policy has been set up clearly by the bank’s respective persons for a sound credit management on the syndicated loan. According to the result as shown in table 4.1, risk committee formulated the risk management policies in majority, followed by board of directors and head office.

Table 4.1. Credit Risk Policy Formulation

Level	Frequency	Percentage
Board of Directors	5	27.8
Head Office	2	11.1
Risk Committee	11	61.1
Branch Level	0	0
Total	18	100

Source : Research Design

Operating under a sound credit granting process

A sound, well-defined credit-granting criteria on a syndicated loan includes a clear indication of the target market of the bank and a thorough understanding of the borrower and its participating banks in the syndication. The lenders thoroughly determine the purpose of facility and source of repayment to mitigate the risk of the facility. Bank establishes a clear process in place for approving syndicated loan. Bank also establishes overall credit limits at the level of individual borrowers to avoid having exposure risks.

The study also sought to know how frequent the members of the risk committee holds their meetings as shown in table (4.2).

Table 4.2. Frequency of Meetings

Duration	Frequency	Percentage
Monthly	13	72
Quarterly	5	28
Semi-annually	0	0
Annually	0	0
Total	18	100

Source: Research Design

Maintaining an appropriate credit administration, measurement, and monitoring process

Banks already have a system for the administration of syndicated loan which monitors the condition of the loan's serviceability which are payment of interest, fees payable to the bank relating to syndicated loan and repayment of the loan, operating accounts of the borrower with the facility agent. Internal risk rating system utilizes in managing credit risk. Bank also analyzes their liquidity positions and takes into consideration potential future changes in economic conditions when assessing the syndicated loan portfolios under stressful conditions. According to the results as shown in table (4.3), the objective-based is the most commonly used method of risk identification and followed by scenario-common risk checking and charting method. The least used method is scenario-based and taxonomy-based method.

Table 4.3 – Risk Identification Method

Method	Mean	Standard Deviation
Objective-based	4.8	0.422
Scenario-based	4.1	1.197
Taxonomy-based	4.3	0.949
Common checking	4.6	0.699
Charting	4.6	0.6992

Source: Research Design

Further Analysis was done on the syndicated loans to monitor and summarized the result in below table (4.4);

Table 4.4 Monitoring Methods

Analysis	Mean	Standard Deviation
Capital	3.2	1.814
Adequacy	2.8	1.317
Asset Quality	3.4	1.578
Management	3.3	1.337
Earnings	3.4	1.430
Sensitivity	3.3	1.160

Source: Research Design

The highest mean score was realized from earnings and asset quality with average scores of 3.4. This is an indication that AYA bank has used both earnings and asset quality to monitor or gauge the success of the policies adopted towards the risk management on syndicated loan.

Ensuring adequate controls over credit risk

Bank ensures that the credit-granting function is being properly managed and that credit exposures are within levels consistent with prudential standards and internal limits. The independent assessment of the bank's credit risk management process and the results of those reviews communicate directly to the board of

directors and senior management. They also employ a system in place for early remedial action on deteriorating credits, and managing problem credits of a syndicated loan. Validation process used to identify the risk of syndicated loans are as follows;

Table 4.5. Validation Processes

Validation Method	Mean	Standard
External audit	2.4	0.843
Risk Management reviews	2.7	0.483
Management Certification	2.2	0.632
Internal Audit	2.9	0.316
Regulatory Compliance Certification	2.9	0.316
Control Risk Assessment	2.8	0.422
Consultant Reviews	1.7	0.823
Independent Reviews	1.7	0.823

Source : Research Design

From the results deduced from the above table, it can be observed in terms of validation methods, internal audit, regulatory compliance certification, control risk assessment, and risk management reviews have highest scores respectively. Therefore, these are the top methods used in the bank to validate the risk on syndicated loans.

4.3 Reasons for Lending Syndicated Loan

Participating in syndicated loans give the banks a chance to lend to borrowers in regions and industries to which banks have no convenient access. Several factors are responsible for the desire to share a large loan among several lenders, one of the main factor is to achieve diversification in the loan portfolios. Capital constraints is one of the factor promoting the syndication of loans. Banks with capital-asset ratios below or close to regulatory minimums do not want to increase assets by adding large portfolio loans to the balance sheet instead to share those with other banks by syndicating loans. Furthermore, banks are limited in the size of the loan they can borrow due to the regulation of Central Bank of Myanmar in which banks are not allowed to lend an amount in excess of 20 percent of its capital.

Furthermore, syndicated loan enhances fee incomes to the participating banks by various fees relating to the syndication. Syndicated loan also allows the banks to diversify their portfolios. With syndication, the amount of capital of bank is required to maintain against the particular loan is less than if the bank was the sole lender for the entire credit facility. Syndicated credits allow greater autonomy for each syndicated member when compared to a loan participation, thus banks can actively protect their own financials interest in the loan rather than being forced to rely on the lead lender to steer the transaction. Each syndicated member is given an equal opportunity to obtain directly from the borrower's information which helps banks ascertain if the borrower is an acceptable risk based on the bank's own criteria. The participating banks also have direct controls over waivers, consents, acceleration, terms and provisions in the loan agreement beyond the general conditions. Thus, banks receive greater control over their investments in the syndication to coincide with the amount of risk that they are willing to undertake.

Another reason of banks to participate in the syndicated loan is because each member is in the advantageous position of being able to protect its investment by participating in the enforcement of the loan in case of a delinquent borrower. If the loan is secured, each syndicated member has a direct interest in the collateral as security for its proportionate loan, despite the fact that another lender designated as agent perfects the interest of security. Hence, each member is able to enforce remedies relating to its security interests, and to direct the security agent's acts upon the event of default set out in the loan agreement. Members of syndicated loan can even go as far as to demand maintenance of individual deposit amounts, or payments of additional fees for the borrower's failure to maintain covenants.

4.4 Risk Mitigation of Syndicated Loans between the Participating Banks

The core risk mitigation in a syndicated loan requires a robust fundamental underwriting with a greater visibility and transparency into the loan process. Banks are allocating their credit exposure based on their internal credit risk appetite. By allocating the credit facility among a group of lenders rather than committing to fund the entire credit facility itself, the lead arranger is able to maintain its relationship with its borrower and provide a large amount of funding, while, at the same time, remaining within its credit exposure limits and sharing risk among the lender group.

The lenders themselves may determine the percentage of lender approval required in order to direct the administrative agent to take action or modify the terms of the agreement. For example, some minor amendments to the credit agreement may require the approval of only a simple majority of lenders, while material amendments, such as changing the interest rate or maturity date, may require the approval of two-thirds of the lenders.

There is also an informational benefit to being a lender in a syndicated loan, as opposed to a participant. Unlike a participation, each lender separately underwrites its portion of the loan and, therefore, is entitled to receive, prior to origination, all information regarding the borrower's finances and business operations which helps the lender ascertain if the borrower is an acceptable risk based on the lender's own criteria. Also, the non-agent lenders may require the credit agreement to provide that any material disclosures made by the borrower to the administrative agent under the credit agreement be provided to all members of the lending group, either directly by the borrower or through the administrative agent.

One potential risk to a non-agent lender in a syndicated loan is the limitation on the lender's ability to control the administrative agent's exercise of remedies after an event of default. The agent generally exercises remedies after an event of default subject only to the direction of the lenders holding a certain percentage of the commitments (e.g., 51 percent of the commitments). As a result, a non-agent lender—particularly a lender holding a smaller percentage of the commitments—may be constrained by the course of action selected by the agent and other lenders after a default. For instance, the agent and the required majority of the lenders may wish to tolerate a continuing default under the credit agreement in order to preserve the credit facility and their relationship with the borrower, while a smaller lender instead may wish to direct the agent to proceed against the collateral securing the loan and exit the credit facility.

A problem in syndicated loans that generally does not arise in the context of a participation is where a member of the lending group runs into financial distress or is unable to satisfy its obligations under the credit agreement. A default by one of the lenders does not eliminate the obligations of the remaining lenders to make advances as requested by the borrower in accordance with the credit agreement. To address this situation, the syndicated credit agreement will generally permit the borrower to force the defaulting lender to terminate its commitment in the loan or to assign its

commitment to the other lenders or a third party. If the defaulting lender is in bankruptcy, however, the forced assignment would be subject to bankruptcy court approval. In the case of a defaulting lender, the agent's risk is limited because the credit agreement typically provides that the borrower is required to immediately repay any advance made by the agent on behalf of the defaulting lender.

Syndicated credit agreements do not always address a situation where the agent is the defaulting lender. In the case of a bankruptcy or an insolvency proceeding involving the agent, any loan payments from the borrower to be distributed to the lenders that is held by the agent at the time that the proceeding is commenced could, but likely would not, constitute property of the agent's estate, except to the extent of the agent's pro rata interest in the loan payments in its capacity as a lender. The lenders likely would, however, need to seek court approval prior to realizing payments under the loan.

Further, the existence of a bankruptcy may constrain the agent from performing its other administrative functions under the credit agreement to the extent that the agent is not removed from its position as administrative agent. The agent's exercise of certain of its powers and obligations (such as approving amendments to the credit agreement, actions with respect to the loan collateral, or consenting to a lender assignment of its rights under the loan) would likely require court approval.

4.5 Effects of Syndicated Loans On Borrowers

Loan syndication is an economically beneficial method of transforming mobilized funds into real capital because without syndicated loan, some viable investment opportunities might be lost for lack of preparation on the part of any one bank or financier to finance the investment alone. Hence, syndicated loan enhances the investment and the economy's productive capacity by promoting the flows of funds into the infrastructure, industry and other priority sectors of the economy. Syndicated Loan benefits the borrowers who need jumbo loans to finance their large scale project without needing any access to the capital market to raise the funds. Thus has reduced the rate of failures of projects and mitigated the risk of not finishing the projects.

The regulations in Central Bank of Myanmar limits the credit guidelines which constraints a single bank to grant loans of certain amounts to single borrower.

However, when banks syndicate for large exposure project, it saves the borrower from raising funds independently from different institutions having to prepare costly separate documentations for each credit and negotiating one to one with different lenders under different terms and conditions. The borrower entered a credit agreement with several lenders benefiting them from being in a relationship with different banks. Also, when one lender is played against another, the competition among the banks to obtain the loan may result in the borrower obtaining more flexible loan terms and a more favorable interest rate on the entire loan. Moreover, the lenders with altruistic reasons may introduce the borrower to the new business contacts to expand their business in the region or internationally. The borrower is provided with a larger network of financial resources by utilizing syndicated members throughout the country.

However, despite the numerous of syndicated loan to the borrower, there are downside effects to the borrower. The expensive nature of a syndicated loan is the principal disadvantages of this method of financing. The effective cost of capital exceeds the interest paid sometimes due to the fees arising from the syndicated loan. Structuring syndicate loan is a complicated and it takes time to implement it. The complex structure requires complicated documentations require time to all the participants to vet through the full set of documents and comments to meet with each participating bank's internal practices. Some of the covenants include in the syndicated loan terms are too rigid to the borrower where there are disagreements between borrower and lenders resulting in unnecessary delays.

Repayment schedule structure of syndicated loan also raises an issue to the borrower. Most syndicated loans require the borrower to repay in equal installments after a few grace period, hence the borrower does not make full utilization of the facility throughout the tenure of the loan. The borrower may also be facing liquidity problem if the business is doing not so well according to the business plan during the repayment period. Secondly, certain disbursement criteria and covenants apply to the syndicated loan borrower. Hence, if there is any non-compliance to any of the covenants, the lead bank can cease the drawdown of the facility and there may be the law suit against the borrower for breaching the loan agreement.

There are provisions against incurring additional long-term indebtedness except the permission from the lenders of syndicated loan. The loan agreement also

prohibits the borrower from assuming any contingent liabilities such as guaranteed indebtedness of the subsidiary firm.

CHAPTER V

CONCLUSION

In this chapter, there are discussion on findings over syndicated loan and suggestions and recommendation on development of syndicated loan. From an economic perspective, syndicated lending is an important source of funding for the economic market. It has become a potent source of finance to big industries such as energy, financial, industrial, infrastructure, public transportation and health care sectors, and are given access to their desired funding and thus being able to function on the market. For borrowers, syndicated loan helps them to have access to capital through efficient and time saving.

Syndicated lending structure gives more banks the opportunity to participate in the capital market as they do not have to fund large loans on their own as well as bearing all risk. In addition, it allows lenders with less capital to participate in loan agreements where they can fund parts of the loan and thereby establish themselves. When organizing a particular credit deal, lenders should assess the various loan structures and the associated benefits and risks arising from proposed structures. Multiple lender financing provides lender with the ability to share credit risk with other lenders and diversify their credit portfolios by seizing other lending opportunities. Loan syndication allows a lender to take part in a credit agreement without abdicating much control over the credit and announcing its presence to the borrower. Syndicated loans provide the other lenders with direct rights against the borrower and are structured to create ease in the administration and servicing of large and complex loans. To ensure that lender can structure a credit facility to accommodate its needs and adequately protect its rights, a lender's awareness of the key differences between loan participations and loan syndications, especially when underlying credit becomes distressed, is paramount.

In syndicated lending, lenders are decreasing their risk and lowering their share of lending excessive amounts of capital which means the avoiding large exposure to a single borrower. According to syndicated loan structure, the risk is more when participants act outside of their scope or borrower's consent. Therefore, it is important to keep all documents on all interactions and communications within the

syndicated loan agreement. In conclusion, loan syndication arrangement means less lender risk where banks can diversify their loan portfolio, avoid excessive single-name exposure and increase more fee income for the lead bank.

5.1 Findings and Discussions

Borrowers also benefit from the syndicated loan structure as well. They will receive more competitive pricing, and more flexible funding structure. There will be potential bilateral relationships with other syndicated members. Financial development, banking regulation, and legal environment influence the decision to a syndicated loan. Authorities should favor more banking competition, and cost efficiency to enhance the development of financial markets. The borrowers in Myanmar are not familiar with the syndicated loan's requirements which results to the delay of providing necessary documents the lenders. The longer the time is the lesser the accuracy of the cash flow projections and business plan have become which lead to the rejection of granting the syndicated loan to the borrower.

Findings

AYA Bank has a separate department for risk management. On average three senior persons have allotted this responsibility. Bank has established the Asset and Liability Management Committee (ALCO) to manage the liquidity risk of the bank. However, ALCO does not comprise of senior management from each key area of operations. SWOT analysis, key ratio analysis and statement of structural liquidity methods are used by AYA Bank to mitigate the lending risk of syndicated loan. Credit portfolio view and scenario analysis models are employed by AYA Bank to identify the credit worthiness of the borrowers. As per senior management of the bank, degree of risk management policy approved by board of directors, quantification of system to quantify risk profile and security of backup data are at good level. Management has made necessary changed in monitoring and implementing of risk management policy. Management has also set limits for acceptable level of various risk. Active involvement of management is seen to sketch strategies on risk management. AYA Bank has credit policy duly approved by the board of directors.

To minimize the credit risk, credit portfolio of borrower is analyzed. Financial statement and operation accounts of borrower is watched. Income statements are

closely watched. To overcome the market risk, bank persons closely watching market trends and put market watch on weekly basis. To get lowest liquidity risk, AYA Bank maintaining liquidity on daily basis. They also developed contingency plans to over this risk. Policy framework is made over the operation of the bank especially for the syndicated loan to minimize operational risk. In additional, operation risk is maintaining at acceptable level throughout the year by respective managers.

There are few applicants of syndicated loan in Myanmar. The major reason for low usage of syndicated loan is that the bankers have severally met the industrialists' needs. Not every syndicated loan applicants were successfully structured due to the imperfection of documentations needed for syndication. Syndicated loan require the borrower to provide with well-constructed business plan and cash flow projections and full set of legal documents related to the businesses. However, due to the lack of a few documentations the business could not meet the criteria of syndicated loan resulted to the rejection of their applications by the banks. Till now as per the study, there are only 10 cases of syndicated loan successfully structured. Syndicated process in Myanmar are constrained by delays in documentation, inflation, illiquidity, insufficient trained man power and unstable government policies.

5.2 Recommendations

On the basis of the findings of this research, the following recommendations are made: In additional to key ratio analysis and SWOT analysis, CAMEL analysis should be adopted for risk analysis.

Banks should establish a special unit to take charge of the syndicated loan requests. The unit should be equipped with well trained staffs. Banks should find an attempt to reduce the time which takes to consummate a syndicated facility so as not to render the borrower's financial projections not to obsolete and unrealistic. The banks should carefully do due diligence on the borrower in order to avoid lending large amount of fund to the unfeasible projects. It is strongly recommended that experienced senior persons on syndicated loan should be allotted to the risk management department for better risk controlling systems on syndicated loan. The risk management policy should be regularly reviewed by a responsible person.

The issue of onsite and offsite inspection of the borrower's business must be taken periodically to ensure that operation is running efficiently in accordance with the purpose of the facility. The banks should always be willing to help to the borrower

to perfect the documents which requested by the lenders for due diligence and to perfect security package of the facility. Borrowers of the syndicated loans should get clear information on bank policies of syndicated loans.

While analyzing a company's financials, the credit analyst might be overwhelmed by the sheer volume of data contained in the financial statements. Therefore, banks should only use few ratios to summarize the firm's leverage, liquidity, efficiency, and profitability. When structuring the loan, the composition and quality of a bank's loan should be reflected in its loan policy. The policy sets out the bank's lending philosophy and specifies procedures and means of monitoring lending activity. A meaningful loan policy should express strategies in concrete terms. Management should receive regular reports on market risk measures and review it with experts

The bank's liquidity should be indicated clearly and the funding on the large scale projects should be diversified. The participating banks need to understand Macro factors to avoid falling into the wrong funding on the under-developed sectors. The Central Bank of Myanmar should be encouraging to the development of structured finance in Myanmar as well. CBM should have strong regulatory system on syndicated loans where it could create economic benefits to the public. CBM should be more liberal on syndicated loan by excluding its credit limit in the credit ceiling of the banks. Longer tenure and different repayment structures should be allowed to syndicated loans for sustainable growth of businesses. Secondary market for syndication loan should be developed in Myanmar hence it could create a market to investors and also a market to sell for the banks when they want to sell it back before the maturity period. Credit Bureau should be in place where banks can easily do the credit analysis on the borrowers to reduce time on due diligence process. Government should be encouraging on the Public, Private Partnership projects which could make more bankable projects to get financing by the bank.

There should be an association of banks known in syndication with the aim of bringing of the interested banks together, standardize the documentation process and enhance the level of confidence amongst the member banks.

The increase in the number of banks has resulted in a run on experienced staff in the banking industry. The urgent need to upgrade the pool of expertise in the industry must now be recognized. Accordingly, banks should ensure training opportunities for their staffs. Loan syndications workshops and seminars should be

organized for the credit officers to aid them on the modus of packaging and managing syndication.

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QUESTIONNAIRES

Part A

1. Please mark on the important of risk management on syndicated loan;

Rate the importance of risk management on syndicated loan	Very High	High	Medium	Low	Very Low
Credit Risk					
Market Risk					
Political Risk					
Liquidity Risk					
Operational Risk					
Interest Risk					
Foreign Exchange Risk					
Others (please specify) _____					

2. What are the risk management practices on syndicated loan?

- Establishing an appropriate credit risk environment
- Operating under a sound credit-granting process
- Maintaining an appropriate credit administration, measurement and monitoring process
- Ensuring adequate controls over credit risk
- Others _____

3. Why do banks syndicate loan?

- Diversification in loan portfolios
- Reduction of large exposure to single borrower
- Maintaining capital-asset ration below or close to regulatory minimums
- Additional fee incomes
- Risk sharing between the banks
- Others _____

4. How does syndicated loan mitigate the risk between the participating banks?
- Capital preservation
 - Reduce duration of syndicated process
 - Capital controls and covenant provisions
 - Symmetric information among the participating banks
 - Delegation of monitoring duty by syndicated members to the lead arranger
 - Others_____
5. Which of the following do you believe are the most important benefits of a Credit Risk Management Strategy?
- Improved pricing of products
 - Real time exposure updates
 - Calculation of regulatory exposure
 - Credit grading (scoring) models
 - Reduction in losses
 - Improved selection of clients according to risk profile
 - Indication of the sensitivity of portfolio exposures to underlying risk factors
 - Others_____
6. Who are the credit committee members of your bank?
-

7. How often do they meet?
- Monthly ()
 - Quarterly ()
 - Semi-Annually ()
 - Annually ()

8. Who in your bank is responsible for formulating the Credit Risk management practices?

- Board of Directors ()
- The Head Office ()
- The Risk Committee ()
- Branch Level ()
- Other (Specify); _____

9. Please indicate the extent to which your bank rely on the following to identify credit risk. Applying and using the rating/measurement system in your bank on a scale of 1-5 where;

5 is = to a very large extent

4 is = to a great extent

3 is = medium extent

2 is = small extent

1 is = no extent at all

Number	Credit Risk Identification Method	Effect				
		5	4	3	2	1
i.	Objective-based risk identification					
ii.	Scenario-based risk identification					
iii.	Taxonomy-based risk identification					
iv.	Common-risk checking					
v.	Risk Charting					
vi.	Other (please specify)					

10. To what extent does your bank rely on the following in monitoring the syndicated loan. Applying and using the rating/measurement system in your bank on a scale of 1-5 where;

5 is = to a very large extent

4 is = to a great extent

3 is = medium extent

2 is = small extent

1 is = no extent at all

Number	Credit Risk	Effect				
		5	4	3	2	1
	CAMELS					
i.	Capital					
ii.	Adequacy					
iii.	Asset Quality					
iv.	Management					
v.	Earnings					
vi.	Sensitivity					
vi.	Other (please specify)					

11. Which of the following methods apply to your organization in relation to the validation processes employed in credit risk management

- External audit ()
- Risk management reviews ()
- Management certification ()
- Internal audit ()
- Regulatory compliance certification ()
- Control risk self assessment ()
- Consultant reviews ()

12. Please share any other issues that you may have in regard to structuring the syndicated loan by your bank.

QUESTIONNAIRES

Part B

1. Please indicate the type of industry of your business.
 - Infrastructure
 - Telecommunications
 - Real Estate
 - Hotel and Tourism
 - Others (please specify) _____

2. What is your position at your organization?
 - Chief Finance Officer
 - Director
 - Business Development Manager
 - Others (please specify) _____

3. What did you find difficult for a large scale project?
 - To get financing from the bank
 - Lack of longer tenure of loan offering by the bank
 - No capital market to raise the funds

4. Do you have any existing lending relationship with AYA Bank?
 - Yes/No ()

5. What do you think of syndicated loan?
 - Time consuming
 - Complicated accounting structure
 - Rigid legal structure
 - Too much fees to be payable for loan structuring

6. How do you think of the cost of funding on syndicated loan?

7. How does syndicated loan effect on your business?
- Competitive pricing
 - Flexible funding structure
 - Large Amount
 - Bilateral relationships with syndicated members
 - Uniform terms and conditions
 - Others_____
8. How do you find the service of the assistance of the bank's relationship manager on syndicated loan process?
- Satisfactory ()
 - Unsatisfactory ()
9. Do you find that the bank's employees have enough experiences on syndicated loan process based on your experience with them?
- Yes/No ()