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THE EFFECT OF RISK MANAGEMENT PRACTICES ON TRADE FINANCING IN UNITED AMARA BANK

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

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ABSTRACT

The objectives of this study are to identify the risks in trade financing and to examine the effect of risk management practices for trade financing of UAB. This study used descriptive and quantitative methods. Both primary data and secondary data are also used to discover of the effect of risk management. Primary data is collected from 80 staff who are responsible for conducting risk management at the Head office and Sanchaung Branch of UAB. Secondary data and information are obtained from the annual reports of UAB, previous records, various sources and relevant text books.In this analysis, the study found that UAB faces credit risk, operational risk, market risk and liquidity risk. The effect of performance on trade financing at UAB is significantly affected by management of risk identification: risk assessment and analysis: and risk monitoring and controlling.In this study, it was found that Risk Monitoring and Controlling has the strongest effect on UAB's performance, but the bank needs to develop more systematic control and risk management responses to reduce the risks relating to Trade Financing.

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LIST OF ABBREVIATIONS

ATM	Automatic Teller Machine
BOD	Board of Director
CAGR	Compounded Annual Growth Rate
CBM	Central Bank of Myanmar
D/A	Documents against Acceptance
D/P	Documents against Payment
FATF	Financial Action Task Force
GDP	Gross Domestic Product
G 20	Leaders from 19 Countries + E.U
GATT	The General Agreement on Tariffs and Trade
ICC	International Chamber of Commerce
LC	Letter of Credit
MFTB	Myanma Foreign Trade Bank
MICB	Myanma Investment and Commercial Bank
MPU	Myanmar Payment Union
NOP	Net Open Position
NPL	Non- Performing Loan
RMA	Relationship Management Application
SWIFT	Society for Wordwide Internetbank Financial Tececommunication
TT	Telegraphic Transfer
UAB	United Amera Bank
WTO	World Trade Organization

CHAPTER I

INTRODUCTION

For the economic development of a country, major export stimulates the growth of G.D.P driven by trade surplus, volume of investment, and job opportunities. Maung Hla Thung (2011) stated that the world recognizes International Trade “as an engine of economic growth. Trade finance relates to the process of financing certain activities concerning commerce and international trade. Trade finance includes such activities as lending, issuing letters of credit, factoring, export credit and insurance. Exporters, importers, banks, export credit agencies, financiers, insurers, and other service providers operate in trade finance transactions.

Risk Management is concerned with the identifying, evaluating, prioritizing of risks, coordinating the economical application of resources to maximize the realization of opportunities to minimize, monitor and control the profitability or impact of unfortunate events.

The exchange of goods and services, exporter and importer activities, exchange rates and payments for international trade are involved in International trade activities. Exporters and importers can obtain the most cost-effective methods of payment and settlement in international trade services. Financial institutions and banks play a vital role in identifying the most suitable instruments that could be used to provide international trade from the existing financial markets. Export financing can be simply defined as a mechanism for financing export sales. On these grounds, the financing of international trade can be considered as an integral element of international banking (Murinde, 1996).

Trade finance is a financing business which is based on international commodity trading. Its main function of trade finance is to bridge the gap the financing for the applicant in the manufacturing process, from procurement of materials to recover funds. Being a short-term, repeatable financing product, commercial banks can get steady and significant profit from trade finance. Therefore, the majority of the bank mainly focuses on trade finance services in financial market. Nowadays, banks face intense competition. Hence, banks need to maintain and increase their market share by enhancing trade financing products to be competitive. Trade financing covers a short period. Although trade financing needs fewer funds than other forms of financing, it can generate high- income for the banks. Therefore, commercial banks deal with trade financing transactions to meet the target of liquidity and profitability.

The process of trade financing also creates new risks along with the new business. Compared with the traditional business, trade financing has different characteristics in risk identification and evaluation. Banks that enjoy in Trade Finance confront a variety of risks that can adversely impact on their performance. The Banks need to identify possible risk factors to formulate risk management strategies to mitigate those risks .It is necessary to perform Trade Financing with a sound risk Management for banks. For all banks, from the traditional bank that concentrates on intermediation, to the complex financial conglomerate offering a range of bank and non-bank financial series, the objective is to maximize profits and shareholder value added, and risk management is central to the achievement of the goal.

1.1 Rationale of the Study

Trade financing is a form of cash flow lending which helps procurement of goods global supply chains both domestically and internationally, global supply chains and finance trade flows. Therefore trade financing is one of the major external sources of working capital finance. Companies can use short-term trade facility to expand export or import activities. It covers the several types of activities that include issuing advanced outward TT, letters of credit, forfaiting, export credit, financing and factoring. Cash flow and efficiency of operations are provided by issuing letters of credit. A letter of credit can help the exporter and importer to execute the trade transactions and decrease non-receipt of goods and the risk of non-payment.

The development and growth of Myanmar depend on financial sector. Therefore, at present, the role of private banks in Myanmar is important and the number of private banks has gradually increased resulting in creation of job opportunities and availability of additional banking products including Trade Financing Services. Trade financing generate income and contribute the profit of the banks. Among twenty five local private banks, eleven banks namely Kanbawza Bank, Yoma Bank, Co-operative Bank, Myanmar Apex Bank, United Amara Bank (UAB), Ayeyarwady Bank, Shwe (Rural and Urban) Development Bank, Small and Medium Industrial Development Bank, Construction, Housing and Infrastructure Development

Bank, Myanmar Citizen Bank and Global Treasure Bank are conducting Trade Financing.

One selected bank out of eleven which is UAB will be studied in providing Trade Financing. Therefore the aim of the study is to examine the practices of risk management in Trade Financing Operations. The study also tries to reduce the increasing number of trading risk to minimize the losses of international trade. This study aims to recommend strategies to the Risk Management of UAB which is successful in Trade Financing Services to avoid and mitigate the most important risks in Trade Financing.

1.2 Objectives of the Study

The objectives of the study are as follows:

(i) To identify risks in trade financing of UAB and

(ii) To examine the effect of risk management practices on trade financing of UAB.

1.3 Scope and Method of the Study

The study focuses on the effect of risk management practices on Trade financing in UAB. UAB is one of the private banks that obtained the authorized dealer license to conduct international banking. This study mainly focuses on credit risk, operational risk, liquidity risk and market risk on trade finance. This study uses primary and secondary data. Descriptive and quantitative methods are also used in this study. The primary data is collected from 80 respondents of officials who working in trade finance department by conducting personal interview with structured questionnaires. Secondary data is obtained from annual reports of UAB ,various sources and previous record of internet websites and other relevant texts.

1.4 Organization of the Study

This thesis paper is organized with five chapters. Chapter 1 presents introduction pertaining rationale of the study, objectives of the study, scope and methods of the study and organization of the study. Chapter 2 describes the literature review on risk management for trade financing. Chapter 3 presents the profile of UAB and risks in trade financing at UAB. Chapter 4 presents the analysis on the effect of risk management practices on trade financing of UAB. Chapter 5 is Conclusion that includes Summary of findings and suggestions, and needs for further study.

CHAPTER II

LITERATURE REVIEW

This chapter presents the literature review on the trade finance activities and risk management practices associated with trade financing. It discusses the concept of trade finance and various risk associated in trade financing activities.

2.1 Trade Finance

Yuki Fujiyama (2012) defined trade finance as financing for trade that is concerned with both domestic and international trade transactions. Trade financing propels economic development and helps to maintain the flow of credit in supply chains. In a trade transaction there is a seller (exporter) of goods and services as well as a buyer (importer). Banks and financial institutions can facilitate these transactions by financing the trade.

Trade finance represents the financial instruments and products that are used by banks and financial institutions to facilitate international trade and commerce. Trade finance enables exporters and importers to transact business through trade with ease. All trade transactions require financing to be provided either by the importers or by the exporters. If an importer is to pay cash on delivery, then they must cover the period between obtaining goods and selling them on to recover the expenditure. If an exporter allows the importer some time to pay, then the exporter must finance that period.

Kwai Wing Luk (1999) said that, "banks play a crucial role in international trade, particularly in financing. Banks finance into export finance and import finance. Import finance refers to loans against importer, trust receipts, shipping guarantees, overdrafts and documentary credit. Export finance refers to over drafts, negotiation of export bills, bill discount, usance draft payable at sight basis."

Short-term from medium to long-term trade finance products are distinguished. All instruments facilitating trade transactions with maturity of less than one year are short-term trade finance products. Short-term trade finance instruments are considered highly liquid products given the relationship to a specified transaction and clearly identified trade of goods.

Collateral that is required for trade finance products are (a) a set of documents and (b) the underlying goods themselves. A corporate counterparty risk for an exporter is transformed into a financial institution counterparty risk of the instruments and their products. About one-third of the global trade is directly supported by trade finance, with letter of credit (LC) covering about one-sixth of the total trade. However, the proportion differs extensively at the country level: bank intermediated products are mainly used to finance trade involving emerging market economies (EMES), especially in Asia.

About one-quarter to a third of global trade finance appears to be provided by global banks, and half of their exposures is to firms in emerging Asia. With 80% of LC, trade finance seems to be even more dollar denominated than global trade, and a high proportion of the activities of global and local bank denominated in dollars. In the ICC trade register, about 3.5 months was the average maturity of funded loans while LCs and Guarantees had slightly shorter maturities.

Trade finance loans are sometimes referred to as working capital loans. Global and local trade finance markets are likely to be resilient unless there are severe, adverse shocks that impact the credit worthiness and access to foreign currency funding of the majority of banks active in the markets. Trade finance can act as an amplifier of financial shocks with potential repercussion for the real economy. And also, trade finance claims have been safe and liquid assets themselves posing only limited risks to banks and overall financial stability.

A shortage of trade finance (2008) drew forth joint efforts by the public sector and industry to upgrade the available data on trade finance markets and led the G20 leaders to call joint public sector efforts to boost the availability of trade finance. The World Bank Group and the regional development banks expanded their support for the sector, through guarantee programmes. Innovative strategies targeting trade finance markets directly were also introduced by the Central Banks of Brazil and Korea.

2.2 The Concept of the ‘Trade Cycle’

Peter Mc Gregor (2014) stated that, all businesses require some working capital, the immediately available cash needed to finance the day-to-day running of a business, for example payment of wages and the purchase of materials. This can be obtained from either the capital brought in by the owners/ shareholders of the business or from bank facilities such as overdrafts. The working capital finance the trade cycle, which can be defined as; the time period between the start of the supply chain- the ordering of goods and raw materials and the receipt of payment for the corresponding sales of finished goods.

"International trade can impose extra strains on the working capital needs of a business, because the period between making payment for materials and wages and the time of receipt of payment for goods supplied will often be longer than in domestic business. Thus for sellers the trade cycle is usually extended. Most international trade is conducted on maturity of 180 days or less as agreed between seller and buyer. In practice, a bank will examine an individual company's trade cycle and tailor the length of finance it provides accordingly."

2.3 The Need for Short-Term Trade Finance

The points at which finance may be required by a seller or buyer will be determined by their commercial contract. If a seller has agreed to 'open account' terms or payment, say 90 days after sight, it may require finance for the period of credit extended to the buyer. In an open account transaction, a seller will dispatch its goods to a buyer and send an invoice asking for payment or agreement to pay on a specified date. If goods are shipped by sea, the goods are consigned to the buyer and documents of title will be sent direct to the buyer; if goods are dispatched by air, then the goods are consigned direct to the buyer. A set date for payment is given, and the buyer remits the necessary funds to the seller as agreed. Open account arrangements, therefore, imply a considerable amount of trust being placed on the buyer by the seller. Once goods have been dispatched or services delivered, a seller will lose all control over payment, and has to rely on the trustworthiness and creditworthiness of the buyer to pay.

Open account trade: is common in international trade, with an estimation of over 80 per cent of world trade being concluded on open account terms. It is especially useful in transactions involving regular shipments, where the buyer often makes payments at fixed intervals for goods received during a preceding period. Where necessary, sellers may seek to get credit insurance on their overseas debtors and may use an export invoice discounting or factoring facility to expedite cash flow.

Alternatively, if a buyer is paying for the goods in advance or on an 'at sight' basis, it may require finance for the period between making payment and onward sales that turn the imported goods into cash. A distinction should be made between pre-shipment and post-shipment finance. *Pre-shipment finance*: is more often provided to a seller to commence manufacture of the goods, although a buyer may be given pre-shipment finance to pay a deposit to a seller. *Post-shipment finance:* can either be provided to a seller if it has agreed credit terms with a buyer, or to a buyer if it has granted credit terms to its customers or if it is required to hold the stock for a period of time.

2.4 Payment Methods in Trade Finance Transactions

In International trade, banks play the role of an intermediary by using the five methods of payment namely cash in advance, letter of credit, documentary collection, open account trading and consignment basis.

Cash in advance: is the full payment before shipment. Importer has to pay the commercial invoice up front, before the goods are shipped. This method is in favor of exporter as he might use the advance payment to fund the goods he wants to sell. But for importer, this payment method is the worst one.

Letter of credit: also known as a documentary credit is a written undertaking by a bank on behalf of a buyer/importer to pay the seller an amount of money within a designated time provided the seller presents documents strictly as per the terms laid down by LC. LCs can be especially useful for a trading relationship, since the exporter may be reluctant to release the goods until he/ she is confident of receiving the payment.

Documentary collection: service provided by a bank whereby an exporter in one country obtains payment from an importer in another country. Documents against payment (D/P) mean that the bill is payable at sight by the importer.

Documents against acceptance (D/A) means that the exporter is allowing credit terms to the importer. The period of credit is the ‘term’ of the bill, also known as ‘Usance’. It is necessary for the importer to accept the bill to sign as a promise to pay it at a fixed date in the future.

Open account: trading is based on complete trust between the importer and the exporter. Under these terms of payment, the documents of title (Bill of lading) are sent directly to the importer. By endorsing the payments, the importer effectively agrees to pay after a specified credit period. There is at least one bank involved in settlement of trade financing and in enforcing the payment between the exporter and the importer.

Consignment basis: defined as the method in which the exporter receives the payment only after the goods have been sold by the importer to the end customer. It is based on a contractual agreement in which importer receives, manages and sells the goods for the exporter. The exporter retains the ownership of the goods until they are sold. If the goods are not sold, then the same is returned to the exporter. It is the riskiest and time consuming method for the exporter. One of the most common usages of such consignment basis method in Myanmar is when automobile trading companies need to buy cars from overseas.

2.5 The Role of Risk Management

Risk management is the means of identifying, assessing and controlling menace to an organization's capital and earnings. These menaces or risks, could originate from different types of source, including financial uncertainty, legal liabilities, strategic management errors, accidents and natural disasters.

A proactive management of the two sides of the balance sheet, with a special emphasis on the management of interest rate risk and liquidity risk is Asset-liability management. In the 1980s, risk management was expanded to include the bank's off-balance sheet operations, and the risks arising therein.

Bessis (2002) stated that risk management is the comprehensive set of risk management processes and models permitting banking institutions to put in place different risk-based procedures and practices. According to him, all the tools and methods necessary for measuring, monitoring and controlling different risks are contained in risk management.

Schroeck (2002) described the concept of risk management as an active, strategic, and integrated process that includes both the measurement and the mitigation of risk, with the final goal of maximizing the value of a bank, while minimizing the risk of bankruptcy.

According to the State Bank of Pakistan (2003), risk management in banks involves identification, measurement, monitoring and controlling risks to make sure that :

(i) All the persons who manage or take risks clearly understand different risks;
(ii) The risk exposure of the bank is within the limits set by the Board of Directors:
(iii) All the risk taking decisions are aligned with the objectives and business strategies established by the Board of Directors:
(iv) The wonted payoffs compensate for the risks taken by the bank;
(v) All the risk taking decisions are clear and explicit and
(vi) Adequate capital is available as a buffer to take risk.

All the aforesaid activities are usually taken to evaluate risk exposures, develop policies to deal with these exposures, limit positions to tolerable levels, and support decision makers to manage risk in order to achieve the goals and objectives of the banking institutions.

JC. Hull (2011) stated that the main responsibility of the risk management function is to understand the portfolio of risk that the company is presently taking and the risks it is prepared to take in the future. It must answer if the risks are acceptable and if they are not acceptable, what course of action should be taken." The traditional focus of risk management in banking was the management of interest rate risk and liquidity risk, with a separate department or division.

2.6 Types of Risks in Trade

Risks in trade are major hindrances for growth of business. There are three main types of risk such as micro risks, macro risks and product risks in trade.

2.6.1 Micro Risks

Micro risks are met at the individual customer level and are related to the credit risk and operational risk associated with their business.

Credit Risks: Credit risks involve borrower risk, industry risk and portfolio risk. It is also known as default risk which checks the inability of an industry, counterparty or a customer who are unable to meet the commitment of making settlement of financial transactions. Both internal and external factors affect credit risk of bank portfolio. Internal factors include lack of appraisal of borrower's financial status, improperly defined lending limits, absence of post sanctions surveillance, proper loan agreements or policies not defined. Trade restrictions, fluctuation in exchange rate and interest rate, fluctuation in commodities or equity prices, tax, government policies and political system etc. are included in external factor.

Operational Risk: Operational risk occurs when the bank suffers losses or even bankruptcy due to the factors such as system breakdown, use of obsolete technology, poor internal operating policies, structural changes and increase in volume of transactions. Operational risk is related to settlement of payments, legal and administrative risk. As Operational risk involves risk related to business interruption or problem that could result in the market or credit risks. Therefore, operational risk could be linked to credit or market risks.

Market Risk: Market risk occurs when change in market factors can negatively impact the value of a transaction. Two major types of market risk are Interest rate risk and Foreign exchange risk. Interest rate risk is the risk that occurs when rising interest rates reduce the present value of future interest and principal payments while foreign exchange risk is related to the possibility that an adverse change in foreign exchange rates can reduce the value of those payments when they are translated back into the base currency of the fund. The structure of many of the deals make it possible to reduce market risk exposure. Direct interest rate is inherently low since trade finance is dominated by short- maturity, floating-rate commitments,.

2.6.2 Macro Risks

External factors that tend to have adverse impact on a customer's international trade business are referred to as macro risks. A lack of appreciation of country risk, foreign exchange risk, industry risk and bank risk cause some of the more frequent problems in trade financing.

Country Risk: Country risk occurs when a bank fails to receive payment from overseas. The factors usually connected with country risk are the political and economic stability of a country, exchange controls, and the country's tendency for protectionism of domestic industry at short notice. These factors will determine whether the country can honor the payment commitment in time.

Foreign Exchange Risk: Foreign exchange risk is the risk that customers face when currency value goes up and down. This risk is minimal as virtually all elements of the transactions invested in are denominated in US dollars. There is no currency mismatch as the goods being financed in US dollars and the buyer pays in US dollars. In situations where the local currency in the borrower's country of origin comes under pressure, the hard currency earned by a trade transaction becomes even more valuable. Local governments tend to make significant efforts to ensure the performance of deals which bring hard currency into their country.

Industry Risk: Industry risk refers to the impact that the state's industrial policy can have on the performance of a specific industry.

Bank Risk: Bank risk is quite complicated and can be a sensitive issue most of the time, even more than country risk. Bank risk occurs when lack of checking the security of a backing document issued by another bank, be it a guarantee or a documentary credit, in the areas of having a history or delaying or actually reneging on payment; having a habit of rejecting documents citing tribal discrepancies; being domiciled in a country notorious for foreign exchange restrictions and moratoriums and being domiciled in a country classified as high risk. Various types of fraud like documentary fraud, counterparty fraud, insurance scams, cargo theft, scuttling and piracy are included in macro risk.

Product Risk: Product risk is the potential for losses related to the marketing of a product or service. Product risk is composed of several risk components such as demand risk, price risk, customer experience, quality risk, brand risk, inventory, and reputation.

2.6.3 Other Risks

Other risks include liquidity risk, business risk, reputational risk, risks related to financial crime, language and culture risk.

Liquidity risk: is a risk that occurs when banks suffer losses when it does not have enough cash to meet its short term obligations. This risk occurs when that bank does not have enough money to pay depositors, give loans, pay bills and salaries, unable to raise funds and unable to convert assets into cash.

Business risk: is the exposure of a company or organization has to face that will reduce its profits or lead it to fail. Business risk could be defined as any threat that hinders a company from meeting its target or achieving its financial objectives. Sales volume, per unit price, input costs, competition, and the overall economic climate and government regulations are some factors that influence business risk. With regards to risks related to financial crime,,Neil Chantry (2014) said that, reputational risk is involved in financial crime which includes terrorist financing that can have damaging effects, expanding beyond the financial implications to include people, communities and countries. A bank that becomes involved in a major money laundering or terrorist financing incident will suffer harm to its reputation that may prove more costly than any actual fines imposed. Moreover, the more a bank is perceived to be weak in its control of financial crime risks, the more attractive it becomes to criminals, and the less attractive it becomes to other banks as a correspondent.

Reputational risk: is a risk of loss resulting from damages to a bank's reputation .The loss may take in the form of decrease in revenue, increase in operating cost, increase in capital cost, increase in destruction in shareholder value. Moreover, banks exist and operate on the basis of public trust and confidence. When the banks lost the trust, the banks have to close down due to the following reasons: internal frauds-employees stealing bank's money, misappropriation of funds, corruption, and excessive claim on expenses, fraudulent payment under the table or commission, abuse of power by senior executives.

To mitigate the reputational risk, tightening policies and procedures on approving loan, reimbursing expenses and cash holding by bank employees, regular conduct of system operational and credit audits are required, implementing best practice guideline on enterprise-wide risk management on corporate governance, improving on recruitment and training of staff to avoid taking bad staff and using appropriate committees to decide on contract giving, instead of allowing a single person to decide. Legal risk is also involved in financial crime. The penalties for breaching regulations relating to financial crime can vary from fines to imprisonment. A bank must ensure that employees are informed of their obligations under the law. Each bank must have written policies and procedures for escalating suspicions related to financial crime. Practitioners must be aware of these and know to whom they must report the suspicions.

Financial crime is a global problem, and a number of international bodies have been created to pool resources in the fight against (FATF).These bodies promote a risk-based approach to managing financial crime. Applying a risk-based approach means that banks can ensure that their systems and controls will focus greater effort on high-risk areas.

Language and Culture Risk: while English is considered the standard language of international trade, its use is not general and the level of understanding will differ greatly from country to country and business to business. Cultural differences and sensitivities are equally likely to provide potential traps. (Causing offence for the name of the product or giving the wrong image)

2.7 Reducing Risks in Trade Financing

Trade finance can help to mitigate the risk in connection with global trade by reconciling the different needs of an exporter and importer. Ideally, an exporter would prefer the importer to pay upfront for an export shipment to avoid the risk when the importer takes the shipment but refuses to pay for the goods. However, if the importer pays the exporter upfront, there is a risk that the exporter may accept the payment but refuse to ship the goods.

A common solution to this problem is “issuing a letter of credit” from importer’s bank to exporter’s bank that provides for payment once the exporter presents documents that prove the shipment occurred, like a bill of lading. The letter of credit assures that once the issuing bank receives the evidence that the exporter has shipped the goods and the terms of the agreement have been met, it will issue the payment to the exporter.

With the LC, the buyer’s bank assumes the responsibility of paying the seller. The buyer’s bank would have to ensure the buyer was financially feasible enough to honor the transaction. Trade finance helps both importers and exporters to build trust in dealing with each other and thus facilitating trade.

Besides reducing the risk of non–payment and non-delivery of goods, trade financing has become an important instrument for companies to improve their efficiency and boost revenue. Trade financing ensures fewer delays in payments and shipments allowing both importers and exporters to run their business and plan their cash flow more efficiently. Trade financing is considered as using the shipment or trade of goods as collateral for financing the companies.

Reducing pressure on both importers and exporters is another benefit to trade financing because trade financing has bridged the financial gap between importers and exporters. An exporter does not have to be concerned about an importer’s default in payments and an importer feels assured that all the goods ordered have been sent by the exporter as verified by the trade financier.

CHAPTER III

PROFILE OF UAB AND RISK MANAGEMENT IN TRADE FINANCING

This chapter contains three different parts. The first parts describes the profile of UAB including their mission, products and services. The second part focuses on risk management practices of UAB in trade financing and the last part presents the possible risks of trade financing in UAB.

3.1 Profile of UAB

UAB Bank, a leading bank in Myanmar with a paid-up capital of 54 Billion MMK has its principal office at No.520, Kabaraye Pagoda Road, Bahan Township. Established in 2010, UAB is now serving customers from a growing network of over 78 branches with over 2000 employees in 47 townships across Myanmar.

The purpose of UAB is to lead the way towards a better Myanmar, humanizing banking, connecting people, creating opportunities and changing lives.

Mission

The mission of UAB is "to lead changes in financial services and to be an institution of strength built on sound principles and good governance, to deliver banking with a heart and to care for people and the communities of UAB, to connect people and build relationships to foster a stronger community spirit, to create opportunities and a better future for UAB's staffs and UAB customers and to be the charge that will empower the communities around UAB, and together enrich the lives of those UAB touches".

Policy on risk management

BOD's effective risk management of UAB is integral to the bank's business success. UAB's approach to risk management is to ensure that risks are managed within the levels established by the bank's senior management and approved by the board or its committee. To assist the managing of risks, there is a governance structure that ensures effective oversights of risks and internal control. The four board committees include:

(i) Board Committee

(ii) Board Advisory and Strategy Committee
(iii) Board Risk Committee
(iv) Board Credit Committee

Senior Management is responsible for implementing the board's policy and procedures to manage risk in accordance with the risk appetite set. Their roles include:

(i) Identify and evaluate risks relevant to the Bank's business.
(ii) Formulate and implement policies and procedures to manage these risks, as approved by the Board
(iii) Design, implement and monitor the effective implementation of risk management and internal control system
(iv) Report in a timely manner to the Board any changes to the risks and the corrective actions taken.

3.1.1 Product and services of UAB

UAB provides a variety of financial services including consumer banking, premier banking, SME banking, corporate banking, trade finance, fund transfer services, electronic services and cards and treasury services. The Central Bank of Myanmar has granted UAB an Authorized Dealer License to provide international banking services since 2012. Trade financing is one of the functions of International Banking which is accelerating a great momentum in UAB. UAB's core businesses include consumer banking, corporate banking, SME banking, UAB securities and Trade Finance. Among UAB's core businesses, Trade financing plays a major role. Trade financing has a risk exposure as any other business. In order for trade financing to be a success, it is critical to conduct risk management.

UAB also provides brokerage services, corporate and financial advisory, investment banking and capital market activities. UAB is managed by Board of Directors including Advisory & Strategy Committee, Risk Committee, Audit Committee and Credit Committee. UAB, being one of the leading Trade Finance banks in Myanmar, is committed to providing customized financing solutions. UAB is committed to minimizing risk related to their customers' import and export trade operations both in Myanmar and overseas by helping Corporate, Commercial and SME customers to focus on their businesses and compete globally.

Consumer banking: includes UAB deposit accounts, current account, savings account, call account, fixed deposit, foreign currency accounts (USD, EUR, SGD), foreign exchange services, hire purchase and vehicle financing, home loans, wedding package and giro payments.

Corporate banking: includes working capital financing, machinery financing, construction financing, receivable financing, export financing, import financing. SME financing includes SME loans and overdrafts and JICA 2 step loans. Fund Transfer Services include CBM Net interbank payments, International SWIFT Payments, Western Union money transfer and RIA money transfer service. Electronic Services include internet banking, mobile banking and ATMs. Card Department offers Visa Credit Cards and MPU Debit/ATM Cards.

Trade Services: with a wide range of correspondent bank partners globally, UAB Bank is able to provide Trade Services efficiently and provide a broad spectrum of import, export and international payment solutions. UAB is providing trade services that include issuance of import (Letter of Credit), advising export LCs, documentary collections, bills discounting, standby LCs, bank guarantees and other trade related services. UAB maintains over 100 RMA relationship with banks globally and 18 correspondent banks in 11 countries in order to facilitate international trade financing services for customers. The 18 correspondent banks are: four in Singapore, four in Thailand, two in Japan and one in each of the seven countries namely Germany, Malaysia, India, Taiwan, Sri Lanka, Turkey and China. In order to meet safe and sound communication to make payments from customer to the beneficiary or bank to bank, SWIFT System is activated in UAB with various massage types respectively.

3.1.2 Trade Financing Services in UAB

UAB provides Trade Financing Services to the traders for financing of Import TT/ Export TT and financing of Import L.C/ Export L.C. UAB provides Trade Facility for 3 months to 1 year with appropriate interest rate which will be paid on monthly basis. Trade settlement can be classified into two types: : Import settlement and Export Settlement. Import settlement accounts for 20 percent of total trade settlement (Survey data of UAB (2018)). UAB earns commission fees, service fees and interest for short term lending. By financing the trade, UAB can facilitate trade transactions in order to make payment across borders, and purchase of merchandise by open account method.

As the short- term loans are based on transactions, credit facility for Trade Financing are short- term loans based on the goods being delivered and proof of the transaction agreement. The most important documents the bank will need to review are the loan contract and other documents that proves the transaction. Like other types of loan, UAB has to take some margin in the borrowers account. There is a full margin (or) percentage margin UAB has to deposit in the respective borrowers account. UAB conducts customer due diligence before providing the loans.

Before providing trade facility, UAB prepares Credit Analysis Paper to assess borrower's credit worthiness including business analysis, security analysis and financial analysis. Regarding business analysis, the bank checks the profile of the borrower to evaluate the borrower's business overview, company's milestones, business pattern, position in the industry, competitive advantage, expansion strategy, characteristics of the company management and guarantors in details. Industry risk, regulatory risk, political risk, capital-raising risk, operational risk are main risks of the borrower's business. For security analysis process, UAB employees make site visits to inspect borrower's office and submit collateral approved by lawyer and assessor.

In financial analysis section, repayment capacity of the borrower and financial ratios are calculated to show borrower's liquidity positions, revenue and profit for borrower's debt obligation. Financial Analysis includes calculation of working capital ratio, operating account statement and borrowing statements of the borrower's business, related contracts, business photos and collateral photos as appendices. Relevant managers write down their reviews and recommendations in Credit Analysis Paper including credit rating marks defined by UAB. The maximum amount of fully secured trade financing is MMK 10 billion (in equivalent USD) at the interest rate of 8 percent and for unsecured trade financing, 9 percent to 10 percent interest rate for each customer or corporate.

Issuing Import letter of credit: is the most popular and acceptable method of import financing, because letter of credit is adaptable, secure and it can be used to finance any import transactions. Letter of credit, also known as documentary credit, is a letterer from a bank guaranteeing that a buyer's payment to a seller will be received on time and in the correct amount. In the event that the buyer is unable to make a payment on the purchase, the bank will be required to cover the full or remaining amount of the purchase. Import financing is a specialized Trade Finance solution used to finance the purchase of goods which are being exported from one country for the purpose of importing into another country. UAB provides financial assistance to businesses for the shipping of products outside a country or region.

Export Financing: enables exporters to expand its reach to a global audience. Pre -shipment financing takes place when UAB advances funds to a borrower based on proven orders from buyers. The borrower requires funds to produce and supply the goods. The exporter will arrange for the importer to send payment directly to the lender/ bank. The bank will send the money to the exporter having deducted the charges on the loans, that is prepayment financing.

UAB advances the loans for payment of post shipment. The exporter has sufficient money between shipping the goods and receiving the payment. If the exporter has obtained documentary letter of credit he then submitted the documents as mentioned in the LC to UAB. The bank negotiates them and sanctions the post-shipment financing to the exporter.

Bank Guarantee (B.G): is an agreement among 3 parties namely the bank, the beneficiary and the applicant. The beneficiary is the one to who takes the guarantee and the applicant is the party who applies for the bank guarantee from the bank.

Stand by LC: is a guarantee of payment by a bank on behalf of the client. It is a loan of last resort in which the bank fulfills payment obligations by the end of the contract if their client cannot.

Telegraphic Transfer: is a payment method via an international wire of funds from the buyer's bank to the seller's bank. When a Chinese supplier asks for a TT payment, it means they want a wire transfer. Outward TT is sending money to beneficiary outside Myanmar from your bank account. Inward TT is an electronic transfer of funds directly credited to your account from an overseas remitter.

Another form of short-term finance that is available to a business is invoice discounting. Short- term trade finance is generally accepted as it is a finance that is provided and repaid within one year. This type of finance generally covers the purchase and sale of consumer goods. Invoice discounting and factoring are applicable to fast-growing companies with good-quality debtors. The term of trade is simple, with no complex documentary requirements. With factoring, normally only open account terms will apply, although documentary collection could be appropriate for invoice discounting. The factor must approve the debtors. Debtors should be well spread, and a factor may be keener to cover the export business if the seller has a good spread of domestic business that is offered as well.

Invoice discounting: which means under an invoice discounting arrangement, the seller presents copies of the invoice to the invoice discounter against which finance is provided, usually for 80-90 per cent of the face value of the invoice. The use of the facility can be withheld from a buyer (i.e. will not be disclosed to the buyer), in which case it is known as a commercial invoice discounting facility where invoice discounting is offered on a without recourse basis.

Documentary Collection: is a less expensive but slightly riskier form of trade finance for importers. Settlement for the sale of goods is made by banks through the exchange of documents. The exporter furnishes documentary evidence, usually a bill of lading, to his bank that the goods have been shipped. When the exporter's bank sends the bill of lading to the importer's bank, in return, it receives payment in settlement of the invoice. Settlement can be either a fund transferred or a promise to pay, such as a bill of exchange. In documentary collection transaction the importer's bank does not guarantee payment. If the importer does not accept the goods, the bank won't pay. In documentary collections, ownership of the goods is not passed to the importer until payment has been made so the exporter can recover the goods.

The trust receipt: serves as a promissory note to the bank that the loan amount will be repaid upon sale of the goods. Trust Receipt (TR) or Import Invoice Financing is a type of short-term import loan for the buyer to settle goods imported under letter of Credit where title of goods is held by the bank. The Bank retains ownership of the goods but allows the buyer to take possession of the goods on trust for resale before paying the bank on TR due date.

3.2 Risk Management Practices on Trade Finance at UAB

Risks are managed in our daily lives both at work and in our personal lives. Risks are constantly assessed in mind to determine the steps that should be taken to try and prevent these risks from producing adverse effects. Every financial institution and business organization also have risks these are specific to their environment. There is a high risk exposure in trade financing as in any other businesses. In order for trade financing to be a success, it is critical to do risk management in UAB.

A Risk and Compliance Department was established with a senior leader appointed to drive a strong risk and compliance culture adoption. The compliance function was strengthened, anti-money laundering compliance was given greater attention and regular reports are made to Board of Risk Committee to enable better oversight. Internal Audit was up-graded with a new audit framework and methodology. A new risk rating model was introduced to enable risk-based audits. Several in-house training programs were conducted to upgrade banking knowledge including topic of risk management in order to apply risk management best practices in UAB.

Important Risk Management best practices: include involving stakeholders. At UAB, risk is effectively managed by involving stakeholders such as managers, clients, staff and shareholders. These individuals are key persons and are key to the risk management processes. Each of these individuals represent different roles and responsibilities within the bank and are giving UAB a holistic representation of all aspects of the bank's business and each risk that comes along with it.

Another practice is Tone from the Top. UAB creates a strong risk culture such as the values, beliefs and attitudes about risk by people who belong to the same group. Senior Management and Board of Directors of UAB are clearly communicating the bank's culture to practice Tone from the Top. UAB creates awareness of risks through communication in its entire bank. All departments of UAB emphasize in identifying and monitoring the key risks or risks that would have a high organizational impact.

At UAB, Risk Assessment Policy is clearly documented. The role and responsibilities are clearly defined. There are clear policies and procedures defining mitigation of all identified risks. UAB has a Business Continuity Plan and an Incident Response Plan in place that map out how the bank will handle and overcome any unforeseen risks. These policies are communicated effectively to all employees. Having these clear policies developed, UAB can identify all potential risks that could affect the business, the likelihood and impact of those risks, how UAB plan to mitigate and prevent those risks, how UAB will monitor and manage new risks.

After performing the bank's risk assessment and having put the proper control in place to mitigate and address these risks, UAB has established monitoring process to ensure that any and all risks mitigation efforts are working and are effective. Risk Management, the process of determining what the risks are to UAB and creating steps to mitigate those risks, is critical to UAB. It's a continuous and constantly evolving process.

UAB, being involved in international transactions, is subject to specific risks, including economic risks, political risks, conversion risks, transfer risk and other risks. Under economic risks there is a manufacture risk which occurs when the delivery of produced goods is unreasonable or impossible due to changed circumstances of the importer or in his country. In the event of Transport risk which is a loss of or damage to the product on the transport route, delay or dispatch fault and delivered goods are not removed by the importer or not in time. Quality or customer's complaints also belong to the acceptance risk which is called risks of non-acceptance. Risks of non-delivery can occur when the delivery period, goods quality/quantity are not met by the exporter. The main key risk is credit risks which include insolvency, unwillingness or delay in payment of the importer.

Another critical risk is foreign exchange risks. In international trading, FX risks have a notable importance. When companies operate cross-border business, they usually must exchange foreign currencies for local currencies when dealing with receivables and payables. Current exchange rate is applied between the two countries. Foreign exchange risk results from the situation where the exchange rate changes disadvantageously for the companies before the payment is made or received in the foreign currency. Political risks in the narrower meaning include international hostilities (war, boycott), domestic problems in the country of the importer (strike, disturbances, civil war), and payment bans or moratoria.

Although there are various risks defined in UAB's Trade Financing Services, UAB manages to systematically control the most vital risk which is credit risk to mitigate risk as much as possible. Credit analysis is a method to control by rating their customers as well as collaterals based on UAB specific rating. UAB takes into consideration a balance of both business and risk factors to make all decisions.

3.3 Major Risks of Trade Financing in UAB

In this study, the personal interviews are conducted with responsible persons of UAB. According to data and information from the interview, major risks arising from UAB transaction activities in the financial services industry comprise credit risk, operational risk, liquidity risk and market risk. The following section presents the risk management practices on trade financing based on interviews.

3.3.1 Credit Risk Management

UAB continuously monitors the operating environment to identify emerging risks and formulate mitigating actions. Credit Risks Governance and oversight is conducted by the management Credit Committee, Board Credit Committee and Board Risks Committee.

The Credit Management Department develops bank-wide Credit policies and guidelines and focuses on facilitating business development within a consistent and efficient credit risk management framework. UAB has established credit policies and processes to manage credit risk. To apply for trade facility, credit analysis paper is prepared. Credit Approval Process includes:

(i) the credit origination and approval functions are clearly segregated.

(ii) credit approval authority is delegated to officers based on their experience, seniority and track record

(iii) credit approval is based on the borrower's credit rating based on a credit rating system

Credit concentration risk is closely related to a single party large exposure or multiple exposures. This is managed by setting exposure limits on obligors, portfolios, borrowers, industries and geographical areas.

If an account is considered delinquent when payment is not received on the due date, delinquency monitoring is closely performed. Any delinquent accounts, including a revolving credit facility with excess to limit, is closely monitored and managed through a disciplined process by officers from business units and risk management function.

Categorization of loans is made in accordance with the guidelines of the Central Bank of Myanmar. Performing loans are classified against their credit ratings and categorized under "Standard", "Watch" and "Substandard" whilst non-performing loans are categorized as 'Doubtful' or 'Loss' in accordance with the bank's policy. Any account which is delinquent or in excess for a revolving credit facility such as an overdraft for more than 90 days will be categorized automatically as 'Non-Performing'.

Impairment provisions are based on CBM regulations where specific provisions are provided on impaired loans. In addition, a General Provision of 2% on all loans is required. By managing so, UAB is able to mitigate possible Credit risk for providing Trade Facilities.

3.3.2 Operational Risk Management

Operational risk could be defined as the risk of loss resulting from inadequate or failed internal processes, people and systems. It can cause financial loss or other damages, for example loss of reputation and public confidence that will impact the Bank's credibility and ability to transact, maintain liquidity and obtain new business.

In UAB, operational risk including fraud risk, legal risk, compliance risk, reputational risk, and technology risk are managed through a framework of policies and procedures by business and support units by properly identifying, assessing, monitoring, mitigating and reporting their risks. The strategy for managing operational risk in UAB is based on the three lines of defense which are as follows:

(i) 1st line of Defense - managing risks as part of their day-to-day activity by business units, departments and retail branches.

(ii) 2nd line of Defense - overseeing risks by Risk and Compliance Department and Finance Department.

(iii) 3rd line of Defense - providing independent assurance by internal audit and external audit.

To maintain a sound operating environment, risk mitigation policies and programmers are established by identifying the source of risk which may include people, policy, processes, procedure or platform and systems. The bank's compliance unit oversees the compliance risk which refers to the risk of non-compliance with laws, regulations, rules, standards and codes of conduct. Through a framework of guidelines maintained by the bank, this risk is identified, monitored and managed. The framework also manages the risk of breaches and sanctions relating to Anti-money Laundering and Countering the Financing of Terrorism. The Bank also manages fraud risks. A whistle-blowing program is in place and all employees are guided by the Code of conduct.

3.3.3 Liquidity Risk Management

United Amara Bank maintains ample liquidity to fund its day-to-day operations, to meet deposit withdrawals, to disburse loans, to repay borrowings and to make new investments. By managing in accordance with a frame work of policies, controls and limits, for liquidity risk, adequate sources of funds are available over a range of market conditions. In doing so, United Amara Bank can minimize excessive fund by diversifying the source of fund as well as maintain a portfolio of marketable liquid assets. In addition, UAB manages and monitors daily liquidity requirements (notification no.19/2017) set forth by CBM. UAB meets liquidity ratio of 20 percent.

With regards to liquidity management, the bank takes a cautious stance by continuing to gather core deposits, ensuring that liquidity limits are strictly adhered to and that there are enough liquid assets to meet cash shortfalls. Competitive pricing, proactive management of the bank's core deposits and the maintenance of customer confidence are important factors in ensuring liquidity.

3.3.4 Market Risk Management

Treasury and Marketing Department of UAB manages the market risk focusing on two main components meanly interest rate risk and foreign exchange risk. The major objective of interest rate risk management is to protect and enhance capital or economic net worth through adequate, stable and reliable growth to meet interest earnings under a broad range of possible economic conditions.

Foreign exchange risk is managed through the foreign exchange open position which measures the mismatch in the assets and liabilities of various currencies. UAB follows the instruction laid down by the Central Bank of Myanmar to set the foreign exchange rate which does not deviate much from the market rate for trade services and FX dealing.

CHAPTER IV

ANALYSIS OF THE EFFECT OF RISK MANAGEMENT ON TRADE FINANCING AT UAB

Myanmar trading businesses face with many risks in international trade and settlement. This analysis attempts to explore the risk of trade financing and the effect of risk management practices on trade financing in UAB. This chapter presents the analysis on trade financing in UAB bank and risk management practices of possible risks on International Trade Financing.

4.1 Analysis on Trade Financing of UAB

This study analyses the impact of the effort taken by UAB for the implementation of risk management practices to deal with significant risks in compliance with the UAB's risk management policy and guidelines

4.1.1 Number of Customers for Outward TT (Outgoing) and Inward TT (Incoming)

Regarding the trade remittances, there are two types of transaction in international remittance for trade in UAB. They are outward TT and inward TT.

Table 4.1 Number of Customers for Outward TT (Outgoing) and Inward TT (Incoming) in 2018

Sr. No.	Transaction Type	Number of Customers
1	Outward Remittance (TT)	540
2	Inward Remittance (TT)	590
	Total	1130

Source: UAB, 2019

Regarding Table (4.1) in International Remittance for trade payments 540 customers make payments for outward TT and 590 customers make payments for inward TT in 2018. The Inward TT is more than Outward TT.

4.1.2 Types of Trade Financing Products

Documentary Credit, Trust Receipt Financing, Pre-Shipment Financing, and Post-Shipment Financing are trade financing products in UAB bank.

Table 4.2 Types of Trade Financing Products

Sr.No.	Types of Trade	No. of Customers	Percent
1	Documentary Credit	450	65
2	Trust Receipt Financing	104	15
3	Pre-Shipment Financing	69	10
4	Post-Shipment Financing	69	10
Total		692	100

Source: UAB, 2019

In Table (4.2) states that in terms of percentage, out of total 692 customers, 450 customers or 65% apply for financing of documentary credit. Trust receipt accounts for 15% or 104 customers. Pre-shipment financing accounts for 10% or 69 customers and post shipment financing also accounts for 10% or 69. The Bank is trying to increase more export customers to meet pre-shipment and post-shipment funding requirements so that exporters and importers of Myanmar can have better trade financing facilities according to the needs of their businesses.

4.1.3 Total Trade Volume by Import TT and Export TT

Total Trade Volume by Import/Export TT and Import/Export are presented in Table (4.3) to Table (4.6).

Table 4.3 Total Trade Volume by Import TT (kyats in million)

Period	Total Trade Volume	TT	
		Import	
		Volume	Volume (%)

Jan- Dec 2017	1042,000,000	700,000,000	67
Jan-Dec 2018	710,000,000	300,000,000	42
Jan-June 2019	250,000,000	130,000,000	56

Source: UAB, 2019

Table (4.3) shows that for 2017(January to December) out of total trade volume of 1042 million MMK, import TT financing amount is 700 million MMK which is 67% and for 2018 (January to December) out of total trade volume of 710 million MMK, import TT financing amount is 300 million MMK or 42%.

Table 4.4 Total Trade Volume by Export TT (kyats in million)

Period	Total Trade Volume	TT	
		Export	
		Volume	Volume (%)
Jan-Dec2017	1042,000,000	165,000,000	16
Jan-Dec2018	710,000,000	150,000,000	21
Jan-June2019	250,000,000	50,000,000	23

Source: UAB, 2019

Table (4.4) shows that for 2017 (January to December) out of total trade volume of 1042 million MMK, export TT financing is 165 million MMK or 16% and for 2018 (January to December) out of total trade volume of 710 million MMK, export TT financing is 150 million MMK or 21 %

Table 4.5 Total Trade Volume by Import LC (kyats in million)

Period	Total Trade Volume	LC	
		Import	
		Volume(ABT)	Volume (%)
Jan- Dec 2017	1042,000,000	170,000,000	16
Jan-Dec 2018	710,000,000	220,000,000	31
Jan-June 2019	250,000,000	50,000,000	21

Source: UAB, 2019

Table (4.5) shows that out of total trade volume of 1042 million MMK, Import LC is 170 million MMK for 2017. Out of total trade volume of 710 million, Import LC is 220 million MMK in 2018.

Table 4.6 Total Trade Volume by Export LC (kyats in million)

Period	Total Trade Volume	LC	
		Export	
		Volume(ABT)	Volume (%)
Jan- -Dec 2017	1042,000,000	7,000,000	0.67
Jan- Dec 2018	710,000,000	15,500,000	2.2
Jan-June 2019	250,000,000	1,000,000	0.40

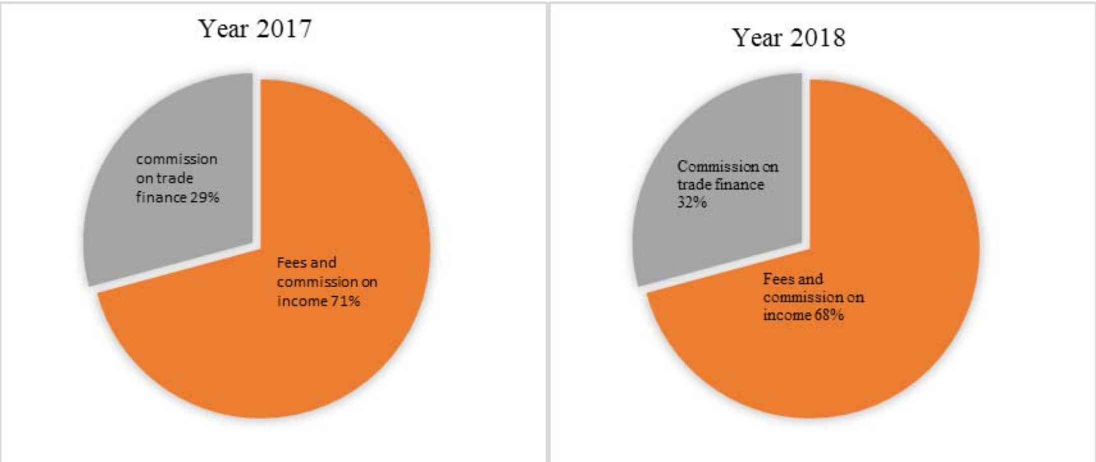
Source: UAB, 2019

Table (4.6) shows that out of total trade volume of 1042 million MMK, Export LC is 7 million MMK in the year 2017. In 2018, out of total trade volume of 710 million MMK, Export LC is 15.5 million MMK.

4.1.4 Fees and Commission Income

The percentage of commission on trade finance fees on total fees and commission income of UAB in 2017 and 2018 are presented in Figure 4.1.

Figure 4.1 Fees and Commission Income for 2017 and 2018



Source: UAB, 2019

According to Figure (4.1) it can be seen that out of the total fees and income, income earned by trade financing is 29 % for 2017 and 32 % for 2018 which indicates the increase in terms of percentage in the year 2018.

Table 4.7 Fees Commission Income

Account Head	The Bank	
	2018 (6 M)	2017 (6 M)
	MMK (000)	MMK (000)
Commission on payment order	32,315	24,738
Commission on remittance	178,509	201,176
Commission on card	189,789	63,449
Commission on others	26,867	52,717
Service charges (loans & advances and others)	1,001,751	1,027,312
Commission fees	298,601	220,724
Commission on trade finance	1,507,846	1,115,682
Commission on brokerage fees from trade	-	-
Commission on IB advisory fees	-	-
Total	3,235,677	2,705,799

Source: Annual report of UAB

With reference to Table (4.7), out of the total fees and commission income of 2.7 billion in 2017 (6 months), income earned by trade financing (as commission fees) is 1.1 billion MMK. In 2018 (6 months), out of the total fees and commission income of 3.2 billion MMK, income earned by trade financing (as commission fees) is 1.5 billion MMK. As such, it can be seen that income of trade financing has contributed a large portion to the fees and commission income of the Bank.

4.2 Profile of Respondents in UAB

Demographic characteristics of respondents in UAB such as gender, age, education, occupation and income are analyzed. Table 4.8 shows the results of analysis on the profile of respondents in UAB.

Table 4.8 Profile of Respondents in UAB

Variables	Number of respondents	Percent
Gender		
Male	29	36.3
Female	51	63.7
Total	80	100
Age		
Below 30	34	42.5
30-40	32	40.0
Above 40	14	17.5
Total	80	100
Education		
Graduate	49	61.3
Post graduate	5	6.3
Master Degree	23	28.7
Professional	3	3.7
Total	80	100
Occupation		
CEO	1	1.3
GM/ DGM	7	8.7
Manager	24	30.0
Staff	48	60.0
Total	80	100
Income (Kyats)		
Below 300000	29	36.2
300000-500000	21	26.3

Above 500000	30	37.5
Total	80	100

Source: Survey Data, 2019

According to Table (4.8), it is found that there are 29 males and 51 females. In term of percentage, female respondents account for 63% and male respondents account for 36%. Age of respondents is grouped into three such as below 30 years, 30 to 40 years and above 40 years. From the results of age, there are 34 respondents in the age group of below 30 years; 32 respondents in the age group of 30 to 40 years and 14 respondents in the age group of above 40 years. In terms of percentage, below 30 years account for the largest portion with 42% while above 40 years account for the smallest portion with 17% in the study.

Educational background of respondents is analyzed into four groups such as graduate degree, post graduate degree, master degree and professional. It is found that there are 49 respondents who have got graduate degree, 5 respondents who have got post graduate degree, 23 respondents who have got master degree and only 3 respondents who are professional. In term of percentage, graduate degree holders make up the largest portion with 61% while professional make up the lowest portion, 3%.

Occupation level of respondents in UAB is divided into four groups such as CEO, GM/DGM, manager and staff, respectively. The study there is one CEO, there are 7 GMs/DGMs, 24 managers and 48 staff. In terms of percentage, staff make up the largest portion with 60% while CEO makes up the smallest portion with only 1%.

Monthly income of respondents in UAB is classified into three groups: below 3 lakh, 3 to 5 lakh and above 5 lakh. It is found that 29 respondents earn below 3 lakh, 21 respondents earn 3 to 5 lakh and 30 respondents earn above 5 lakh. In terms of percentage, respondents who earn above 5 lakh constitute the largest portion with 37% while respondents who earn 3 to 5 lakh constitute the smallest portion with only 26%.

4.3 Analysis on the Risk Management of Trade Financing Services in UAB

This section is the Analysis on Risk Management Practices concerning Trade Finance Services in UAB.

1. Analysis on Types of Risks faced by UAB

2. Risk Management Practices of UAB

4.3.1 Analysis on Types of Risk Faced by UAB

Types of Risks generally faced by UAB are classified as follows; (a) Credit Risks (b) Market Risks (c) Operational Risks and (d) Liquidity Risks.

Credit Risks Management is supervised and controlled by Credit Risk Committee of UAB. Participants' responses on managing credit risk are presented by six statements.

Table 4.9 Credit Risk Management of UAB

No.	Particular	Mean	Standard Deviation
1	The credit risk strategy is approved by the BOD.	4.21	0.589
2	The credit risk strategy and credit policy are regularly examined by the Board.	4.19	0.658
3	Credit limit is determined in commensuration with the credit risk exposures of a single borrower or a group Financial Institution Law Section (59a).	4.20	0.736
4	The bank controls and monitors Credit risk on a comprehensive basis and regularly reports to the senior management.	4.24	0.621
5	At UAB a support system for measuring credit risk is in place.	4.09	0.750
6	An internal risk rating system, which is applied for credit approval and follow-up monitoring has been introduced at the bank.	4.28	0.675
	Overall mean score	4.20	0.671

Source: Survey Data, 2019

Table (4.9) shows that the result of the analysis of credit risk management in UAB. It is found that the overall mean score of credit risk management is 4.20. The sixth item has the highest mean 4.28 which indicates that UAB has introduced internal rating system for credit approval to make funds available to buyers to pay for goods or services purchased from overseas. And also follow-up monitoring is done if an account is considered as delinquent when payment is not received on due date. It is found that officials from Credit Department can perform their work according to credit risk strategy and policy. The Board's review of the credit risk strategy and policy is one of the controls of credit loss and to make sure that the staff have to follow the instructions related to credit risk strategy. Setting credit limit against credit risk exposure to a single borrower or a group indicates that officials concerned follow the Financial Institution Law, Section (59 a).

The score for item 4, the staff from credit department regularly report to Senior Management for controlling and monitoring of credit risk, is 4.24, above agree level 4. It is found that having a support system for measuring credit risk in trade department, staff can easily apply the support system before providing the credit facility to traders for measuring credit risk. It reveals that UAB is able to conduct credit risk management in providing trade finance efficiently.

Market Risk

The guidelines on Market Risk direct the Board of Directors to establish an adequate framework for the market risk management in order to deal with the potential losses due to undesirable change in the foreign exchange rates and commodity prices.

Table 4.10 Market Risk Management of UAB

No.	Particular	Mean	Standard Deviation
1	The market risk strategy is approved by the board.	4.11	0.656
2	There are clear, comprehensive and well-documented policies and procedural guidelines relating to market risk at UAB.	4.26	0.670
3	The market size and product liquidity determine the exposure limits.	4.14	0.689
4	These limits are consistent with the overall market risk management policy.	4.30	0.686
5	A support system to gather information which is necessary for risk management exists.	4.26	0.631

6	The trading transactions are separately monitored from other market transactions.	4.10	0.683
	Overall mean score	4.19	0.66

Source: Survey Data, 2019

Table (4.10) shows that the result of analysis on Market Risk Management of UAB. It is found that the mean overall score of the market risk management in UAB is 4.19, above agree level 4 and it indicates that the bank has clear, comprehensive and well documented policies and procedural guidelines for managing market risk. It is found that the bank sets exposure limits according to market size and product liquidity to protect the business against currency movements for exchange rate risks. The limits are consistent with overall market risk management policy. Moreover, the bank has the support system to gather information which is necessary for risk management. The average mean score of all six items is (4.19) and it is more than the midpoint so UAB is good in managing market risk.

Operational Risk

Operational Risk Management is performed by Senior Management to reduce the risk resulting from inadequate or failed internal processes, people and systems.

Table 4.11 Operational Risk Management of UAB

No.	Particular	Mean	Standard Deviation
1	The policy is capable of identifying and assessing the operational risk existing in all material products, activities, processes and systems.	4.03	0.779
2	The responsibilities of the compliance officer are clearly set forth.	4.10	0.628
3	The bank has Internal Audit Department.	4.29	0.732
4	The bank practices staff rotation and allows compulsory leave within a reasonable time.	4.29	0.623
5	The access to information regarding various transactions is restricted to authorized personnel only.	4.30	0.624

6	UAB has clearly defined roles and responsibilities regarding business operations and risk management.	4.34	0.625
	Overall mean score	4.22	0.55

Source: Survey Data, 2019

This study obtained responses of six questions from respondents to evaluate the management of operational risk. The mean and SD results of all these questions are presented in Table (4.11). The overall mean score of Operational Risk Management is 4.22 above agree level 4.The last item has the highest mean (4.34) which specifies that roles and responsibilities regarding business operations and risk management are clearly defined in UAB.

It is found that the policy is capable to identify and assess the operational risk inherent in all material products, activities, processes and systems thus, indicating that policy is effective. It is found that the responsibilities of the compliance officer are clearly narrated indicating that the compliance officer ensures the bank functions in a legal and ethical manner while meeting its operational goals. It is found that the bank has Internal Audit Department to ensure internal control. It is found that the bank also assigns staff on rotation basis and gives compulsory leave within a reasonable time in order to get job satisfaction. The average mean score of all six items is 4.22 which equals to midpoint.

This result reveals that UAB is good in managing operational risks.

Liquidity Risk

This study questionnaire has contained five questions to capture the managing liquidity risk. A brief summary of the mean and SD result of all the responses in provided in Table (4.12).

Table 4.12 Liquidity Risk Management of UAB

No.	Particular	Mean	Standard Deviation
1	A proper set of rules and guidelines for managing liquidity risk is in place.	3.84	.841
2	The Board of Directors formulated the liquidity risk strategies that are effectively transformed and communicated within the bank in the form of policies and procedures by the top management	3.91	.730
3	There is an effective risk management framework (infrastructure, process and policies) at UAB for managing liquidity risk.	4.10	.794
4	The periodic report of liquidity risk is regularly prepared by the bank.	4.02	.693
5	Costs or expected losses are reduced by the applications of liquidity risk management techniques.	3.83	.757
	Overall mean score	3.92	.532

Source: Survey Data, 2019

According to Table (4.12), the overall mean score of all responses is 3.92. However, the average response of each item shows different values and varies between 3.83 and 4.10. The third item has the highest mean score 4.10 while the fifth item has the lowest mean value 3.83. Whereas, the average mean 3.92 is a greater value than midpoint and indicates that UAB is good in liquidity risk management.

Therefore, the bank maintains sufficient liquidity to fund its daily operations, to meet deposit withdrawals, loan disbursements, repay borrowings and for new investments.

4.3.2 Risk Management Practices of UAB

Risk Management practices include: (a) Risk Identification (b) Risk Assessment and Analysis and (c) Risk Monitoring and Controlling.

Risk Identification

In order to measure the risk identification, five questions have been asked. Table 4.13 shows the summary of responses resulted in terms of mean and standard deviation (SD).

Table 4.13 Participants' Responses on Risk Identification

No	Particular	Mean	SD
1	A compressive and systematic identification of the bank's risks relating to its aims and objectives is carried out.	4.17	.628
2	Prioritizing the main risks is difficult for the bank.	3.96	.687
3	According to the bank's roles and responsibilities, changes in risks are recognized and identified.	4.15	.686
4	The bank is aware of the advantages and disadvantages of the risk management systems of other banks	4.14	.744
5	To apply the most sophisticated techniques for risk identification is crucial for UAB.	3.99	.741
	Overall mean score	4.07	.444

Source : Survey data ,2019

With reference to Table (4.13), it is found that the overall mean score is 4.07, above agree level 4 which indicates that the bank can carry out risk identification systematically according to its aims and objectives. But the bank faces difficulties to prioritize the main risks. It is found that the bank is fully aware of risk management system of other banks. The bank believes that the application of modern techniques to identify risks is of utmost importance.

Risk Assessment and Analysis of UAB

This study questionnaire has included nine questions about the risk assessment and analysis. Table (4.14) shows the results of means and SD of the responses to these questions.

Table 4.14 Participants' Responses on Risk Assessment and Analysis

Sr. No.	Particular	Mean	SD
1	UAB use quantitative analysis methods to assess the bank's risks.	3.95	0.639
2	For assessing the bank's risks, UAB is using qualitative analysis methods (e.g. high, moderate, low)	3.94	0.662
3	To achieve objectives, UAB analyses and evaluates opportunities.	4.17	0.732
4	An assessment of the costs and benefits of addressing risks is included in UAB's response to analysed risks.	4.05	0.728
5	Prioritizing and selecting of risks that need active management are included in the bank's response to analysed risks.	4.06	0.801
6	UAB carries out a credit worthiness analysis before disbursing loans or executing transactions	4.15	0.738
7	UAB carries out a credit worthiness analysis before disbursing loans or executing transactions	4.15	0.532
8	UAB estimates their earnings and risk management variability by using computerized support system.	4.00	0.658
9	The output of quantitative data with human judgment is relied on at UAB.	3.96	0.678
	Overall mean score	4.03	0.767

Source : Survey data ,2019

Regarding Table (4.14) it is found that the overall mean score of risk assessment in UAB is 4.03 which indicates the respondents give highly positive responses with regards to the bank's risk assessment and analysis. It is found that the bank analyses the possible risks by using both quantitative and qualitative analysis methods. Item three with the highest mean 4.17 indicates that UAB analyses and evaluates opportunities in order to achieve their objectives. The bank analyses its risks by active risk management and applies human judgment in the analysis of quantitative data.

UAB undertakes credit worthiness analysis as well as specific analysis before executing transactions

Risk Monitoring and Controlling of UAB

This research has used nine questions to measure the risk monitoring and controlling. The mean and SD results of all these responses are presented in Table 4.15.

Table 4.15 Participants' Responses on Risk Monitoring and Controlling

No	Particular	Mean	SD
1	The basic part of daily management reporting is monitoring the effectiveness of risk management.	4.03	.807
2	For the risks that UAB faces, the level of control is suitable.	4.05	.718
3	A standard reporting system from bottom to top management related to the risk management has been accepted by UAB.	4.16	.746
4	The effective management of risk is backed by the process of reporting and communication within UAB.	4.17	.665
5	An evaluation of the efficacy of the present controls and risk management responses is included in the bank's response to risk.	3.70	.940
6	Action plans in implementation decisions about identified risk are included in the bank's response to risk.	3.77	.906
7	The credit limit of counterparty is effectively monitored by the bank.	3.94	.801

8	For UAB's international trade facility, the bank reviews the country ratings on regular basis.	3.99	.796
9	For the extension of financing, UAB regularly observes business performance of the borrowers.	3.95	.724
	Overall mean score	3.97	.473

Source : Survey data ,2019

With reference to Table (4.15) it is found that the overall mean score of risk monitoring and controlling in UAB is 3.97 which indicates agree level 4. The bank monitors daily management reporting as well as controlling risk at different levels. The fourth item, the effective management of risk being supported by the reporting and communication processes within UAB, has the highest mean (4.17). The highest mean shows that the reporting and communication processes help the bank to improve the effective risk management of UAB. The bank monitors the credit limit, reviews the country rating and observes borrower's business performance. It indicates that existing control of risk is needed to evaluate and the bank make action plans to address identified risks. Therefore, it is found that the bank has adequate risk monitoring and controlling system.

It is found that the level of control by the bank is appropriate for the risks and it indicates that controlling of risk is important for banks.

4.4 The Effect of Risk Management Practices on Performance of UAB

UAB has a capacity to generate profitability by managing its major risks such as credit risk, market risk, operational risk and liquidity risk and to maintain the banks' performance in ongoing activities for the trade customers. It is important to control risks for good performance of UAB.

Table 4.16 Performance of UAB

No	Particular	Mean	SD
1	Trade Financing Services can boost income growth of the bank.	4.18	0.717
2	The efficiency of trade financing services promotes the reputation of the bank.	4.08	0.750
3	By managing credit risk in trade financing services, NPL can be reduced.	3.89	0.839

4	Good trade financing services like LC ensures to reduce the anxieties of exporters and importers.	3.84	0.916
	Overall mean score	4.00	0.80

Source: Survey Data, 2019

With reference to Table (4.16), the overall mean score of performance of trade financing services is 4 which indicates that trade financing services help both the bank and the beneficiary counterparties. Providing more trade financing services can increase income for banks while traders who get trade facility from banks can expand their businesses. The acclaimed trade financing services of a bank is one of the factors that boost the reputation of the bank.

4.4.1 Analysis on the Effect of Risk Management on Performance of Trade Financing at UAB

In this study, to evaluate the reliability of the scale, Cronbach's alpha coefficient is used. The values of Cronbach's alpha coefficient are presented in Table (4.17). According to Nunnally (1978), Cronbach's Alpha level of 0.60 or above can be considered to be acceptable for construct.

Table (4.17) Cronbach's Alpha Coefficient

Factors	No. of Items	Cronbach's Alpha
Risk Identification	5	0.737
Risk Assessment and Analysis	9	0.648
Risk Monitoring and Controlling	9	0.715
Performance of Trade Financing	4	0.731

Source: Survey Data (2019)

Regression analysis is used to assess the Effect of Risk Management on Performance of Trade Financing at UAB. Table (4.18) presents the statistical results of the effect of Risk Management and performance on Trade Financing at UAB.

Table (4.18) The Coefficients of Risk Management and Performance of Trade Financing

Variable	Unstandardized Coefficients		Standardized Coefficients	t	Significance
	B	Std. Error	Beta		

Constant	2.028	0.351		5.778	0.000
Risk Identification	0.427	0.051	0.398	1.217	0.004
Risk Assessment and Analysis	0.279	0.059	0.273	8.375	0.000
Risk Monitoring and Controlling	0.252	0.025	0.341	10.083	0.008
R Square	0.316				
Adjusted R Square	0.313				
F Value	19.938				

a. Dependent Variable: Performance of Trade Financing

b. Predictors: (Constant), Risk Identification, Risk Assessment and Analysis, Risk Monitoring and Controlling

Source: Survey Data (2019)

According to Table (4.17), the independent variables (Risk Identification, Risk Assessment and Analysis, Risk Monitoring and Controlling) significant affect the performance of Trade Financing at UAB. The statistical result shows that Risk Identification, Risk Assessment and Analysis, Risk Monitoring and Controlling have a relationship with Performance of Trade Financing.

According to Table (4.18) it can be found that 31% change in dependent variable (performance of trade financing at UAB), is due to their independent variables (risk identification, risk assessment and analysis, and risk monitoring and controlling).

Regression analysis showed that risk monitoring and controlling has the strongest effect on performance of trade financing at UAB at 1% significant level. In addition, risk identification has the second strongest effect on performance of trade financing at UAB followed by Risk assessment and analysis with standardized beta 0.273 and 0.398.

CHAPTER V

CONCLUSION

This chapter includes three parts. The first part deal with the findings that based on analysis presented in Chapter (4), the second part presents the suggestions and recommendations that based on findings, and the last part describes the need for further study.

5.1 Findings

The two main objectives of the study are to identify the risk in trade financing of UAB and to examine the effect of risk management practices on trade financing at UAB. The study found that UAB provides trade financing services to the exporters and importers. For Import financing, the trade financing products used are documentary credit and trust receipt financing. For export financing, products of pre-shipment financing and post-shipment financing are used according to the needs of the businesses of the clients. By providing trade financing services, UAB generates income such as commission fees, services charges and interest for short term trade facility. It can be seen that income earned by trade financing has contributed a large portion to the total fees and commission income of UAB.

Furthermore, UAB obtains benefits from providing trade financing such as, lowering Non-Performing loans, enhancing reputation of the bank, reducing anxieties of the exporters and importers. Concerning the risks, the study observed that the major risks faced by UAB are credit risk, market risk, operational risk and liquidity risk. The study observed that UAB can manage credit risks, because credit analysis has been conducted and approved by the Board Credit committee before lending to trade customers.

Concerning the risk management practices, the study found that risk identification has the highest mean scores, followed by risk assessment and analysis, risk monitoring and controlling. Regarding the risk identification, the bank has a compressive and systematic identification on risk of trade financing that carried out with its aims and objectives. In risk assessment and analysis, it can be seen that UAB analyzes and evaluate opportunities to achieve its objectives. With regard to risk monitoring and controlling, the study found that UAB has an effective management system on risk by using the process of reporting and communication. The practice that an evaluation of the efficacy of the existing controls and risk management responses is included in the bank's response to risk is slightly weaker than other practices.

With respect to the effect of risk management practices on performance of trade financing in UAB, it can be seen that risk monitoring and controlling has the strongest effect on the performance of trade financing. And then, it can be seen that risk identification and risk assessment and analysis also affect the performance of trade financing.

5.2 Suggestions

Since UAB'S trade financing contribute to a big portion to the Bank's income, the bank should more emphasize on trade financing. In additions, since export financing is considerably less than import financing in UAB, the bank should offer more favorable opportunities to exporters who are seeking export financing. Trade payments by letter of credit are safer in international trade settlement. As such UAB should more use L.C payments mechanism. As short-term lending in Trade Financing is considered to be safer, UAB needs to expend trade finance portfolio in a big way.

Regarding the different types of risk, UAB considers the fact that risk management is not the sole responsibility taken by the staff of Risk Management Department but everyone who works for UAB is responsible. Therefore, the good understanding about different risks related to trade and risk management among banking staff can improve the ability of the international trade department to manage its risks related to trade financing.

According to the statistical results, since risk monitoring and controlling has the strongest effect on performance, the bank needs to develop more systematic control and risk management responses to reduce the risk relating trade financing.

Moreover, since risk assessment and analysis and risk identification significantly affect the performance of trade financing, the bank should emphasize more on conducting training to be effective to judge the output of quantitative data and the bank should more use the modernized techniques such as Thomson Reutors Platform to improve the risk identification.

5.3 Needs for Further Study

Regarding the various types of international trade risk, this study only focuses on risks related to Trade Finance at UAB. Therefore, Risk Management of Trade Financing in Private Banks of Myanmar should be conducted. In addition, analysis on Investment Financing and Long Term Financing in the international business of other private banks should be made.

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Appendix

Questionnaires

on the Risk Management by Respondents at UAB

Section I

Demographic Profiles of Respondents

1. Gender

Male ☐

Female ☐

2. Age ----------------------

3. Education level

Graduate ☐

Post Graduate ☐

Master Degree ☐

Professional ☐

4. Occupation

CEO ☐

GM/DGM ☐

Manager ☐

Staff ☐

5. Monthly Income ------------------------

6. Ethnicity

Bamar	☐
Bamar-Chinese	☐
Bamar-Islam	☐
Others	☐

Section II

Discussion of performance at UAB in Trade Financing Services and various Risk Management Practices

Please indicate the extent to which you agree or disagree with each of the following statements.

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

No	**Performance of UAB**	1	2	3	4	5
1	Trade Financing Services can boost income growth of the bank.					
2	The efficiency of trade financing services promotes the reputation of the bank.					
3	By managing credit risk in trade financing services, NPL can be reduced.					
4	Good trade financing services like LC ensures to reduce the anxieties of exporters and importers.					

No	**Risk Identification**	1	2	3	4	5
1	A compressive and systematic identification of the bank's risks relating to its aims and objectives is carried out.					
2	Prioritizing the main risks is difficult for the bank.					

3	According to the bank's roles and responsibilities, changes in risks are recognized and identified.					
4	The bank is aware of the advantages and disadvantages of the risk management systems of other banks					
5	To apply the most sophisticated techniques for risk identification is crucial for UAB.					

Sr. No.	**Risk Assessment and Analysis**	1	2	3	4	5
1	UAB use quantitative analysis methods to assess the bank's risks.					
2	For assessing the bank's risks, UAB is using qualitative analysis methods (e.g. high, moderate, low)					
3	To achieve objectives, UAB analyses and evaluates opportunities.					
4	An assessment of the costs and benefits of addressing risks is included in UAB's response to analysed risks.					
5	Prioritizing and selecting of risks that need active management are included in the bank's response to analysed risks.					
6	UAB carries out a credit worthiness analysis before disbursing loans or executing transactions					
7	UAB carries out a credit worthiness analysis before disbursing loans or executing transactions					
8	UAB estimates their earnings and risk management variability by using computerized support system.					
9	The output of quantitative data with human judgment is relied on at UAB.					

No	**Risk Monitoring and Controlling**	1	2	3	4	5
1	The basic part of daily management reporting is monitoring the effectiveness of risk management.					
2	For the risks that UAB faces, the level of control is suitable.					
3	A standard reporting system from bottom to top management related to the risk management has been accepted by UAB.					
4	The effective management of risk is backed by the process of reporting and communication within UAB.					
5	An evaluation of the efficacy of the present controls and risk management responses is included in the bank's response to risk.					
6	Action plans in implementation decisions about identified risk are included in the bank's response to risk.					
7	The credit limit of counterparty is effectively monitored by the bank.					
8	For UAB's international trade facility, the bank reviews the country ratings on regular basis.					
9	For the extension of financing, UAB regularly observes business performance of the borrowers.					

No.	**Credit Risk Management**	1	2	3	4	5
1	The credit risk strategy is approved by the BOD.					
2	The credit risk strategy and credit policy are regularly examined by the Board.					
3	Credit limit is determined in commensuration with the credit risk exposures of a single borrower or a group.					
4	The bank controls and monitors Credit risk on a comprehensive basis and regularly reports to the senior management.					
5	At UAB a support system for measuring credit risk is in place.					
6	An internal risk rating system, which is applied for credit approval and follow-up monitoring has been introduced at the bank.					

No.	**Market Risk Management**	1	2	3	4	5
1	The market risk strategy is approved by the board.					
2	There are clear, comprehensive and well-documented policies and procedural guidelines relating to market risk at UAB.					
3	The market size and product liquidity determine the exposure limits.					
4	These limits are consistent with the overall market risk management policy.					
5	A support system to gather information which is necessary for risk management exists.					
6	The trading transactions are separately monitored from other market transactions.					

No.	**Operational Risk Management**	1	2	3	4	5
1	The policy is capable of identifying and assessing the operational risk existing in all material products, activities, processes and systems.					
2	The responsibilities of compliance officer are clearly set forth.					
3	The bank has Internal Audit Department.					
4	The bank practices staff rotation and allows compulsory leave within a reasonable time.					
5	The access to information regarding various transactions is restricted to authorized personnel only.					
6	UAB has clearly defined roles and responsibilities regarding business operations and risk management.					

No.	**Liquidity Risk Management**	1	2	3	4	5
1	A proper set of rules and guidelines for managing liquidity risk is in place.					
2	The Board of Directors formulated the liquidity risk strategies that are effectively transformed and communicated within the bank in the form of policies and procedures by the top management					
3	There is an effective risk management framework (infrastructure, process and policies) at UAB for managing liquidity risk.					
4	The periodic report of liquidity risk is regularly prepared by the bank.					
5	Costs or expected losses are reduced by the applications of liquidity risk management techniques.					