

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

**EMPLOYEE ATTITUDE TOWARDS CREDIT RISK  
MANAGEMENT OF SATHAPANA LIMITED**

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## **ABSTRACT**

This study attempts to identify the credit risk management activities of the SATHAPANA Limited and to explore the relationship between credit risk management and loan performance in the SATHAPANA Limited. To meet this objective, the primary data was collected by using structured questionnaires through interviews with 120 employees of SATHAPANA Limited and the secondary data was also used for financial data and other documents, record of SATHAPANA Limited, Yangon. This study only covers the credit risk management activities in terms of credit risk environment, credit appraisal process, credit administration and internal control over credit risk in SATHAPANA Limited, Yangon. This study applies correlation analysis to analyze the effects of credit risk management activities on loan performance of SATHAPANA Limited. The result of the study indicate that, SATHAPANA Limited of credit risk management activities of credit risk environment, credit appraisal process, credit administration and internal control over credit risk have positive correlation coefficient impact on loan performance. Among five credit risk management activities, internal control over credit risk have the highest and strong positive correlation relation with loan performance. Thus, the research shows that the internal control over credit risk of credit risk management activities was essential for the improvement of loan performance and organization gets more improve loan performance as the result of internal control over credit risk. However, credit risk environment, credit appraisal process, credit administration have positive correlation impact on loan performance in this study.

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# **CHAPTER (1)**

## **INTRODUCTION**

Risk management is identified in today's business world as a necessary and important part of good management practice. It involves the systematic utilization of management policies, procedures and practices to the functions of identifying, analyzing, assessing, treating and monitoring risk. Financial institutions are concerned to a variety of risks: interest rate risk, foreign exchange risk, political risk, market risk, liquidity risk, operational risk and credit risk. Credit risk on an increasing rate is becoming an area of concern to many people and institutions in the lending business globally. This kind of exposure leads to instability and poor financial performance of financial institutions.

All of financial institutions have approved decisions that are not vetted; there have been cases of loan defaults and nonperforming loans, massive extension of credit and directed lending. Policies to minimize on the negative effects have focused on mergers in banks and non-bank financial institutions (NBFIs), better banking practices but stringent lending, review of laws to be in line with the global standards, well capitalized banks which are expected to be profitable, liquid banks that are able to meet the demands of their depositors, and maintenance of required cash levels with the central bank which means less cash is available for lending. This has led to reduced interest income for the commercial banks and other financial institutions and by extension reduction in profits. Credit risk is the possibility that the actual return on an investment or loan extended will deviate from that, which was expected.

Credit risk is defined as losses from the refusal or inability of credit customers to pay what is owed in full and on time. Credit risk management is defined as identification, measurement, monitoring and control of risk arising from the possibility of default in loan repayments. There are various approaches available for microfinance institutions (MFIs) to manage credit risk. This study on the effect of credit risk management on loan performance of MFIs in Myanmar explored that whether the credit risk management influences the level of nonperforming assets which affects loan portfolio quality thus affecting the general performance of the MFIs.

## **1.1 Rationale for the Study**

Financial Institutions (FIs) are in the risky business. In the process of providing financial services, they assume various kinds of financial risks. The managers should take keen interest in risk management. This is because risk management is intended to help an organization meet its objectives such as the minimization of foreign exchange losses, reduction in the volatilities of cash flow, protection of earnings against fluctuations, and to promote the survival of the firm through growth and profitability. FIs use these deposits to generate credit for their borrowers, which in fact is a revenue generating activity for most FIs. This credit creation process exposes the FIs to high default risk which might lead to financial distress including bankruptcy.

The rationale of this study is to institute the correlation of credit risk management of MFIs in Myanmar in terms of their loan performance. According to the statistics, there are more than 170 MFIs in Myanmar. Microfinance institutions (MFIs) in Myanmar have lent more than K3.9 trillion to three million small-scale borrowers since the business of microfinance emerged in the country up until February 2018, according to Financial Regulatory Department under the Ministry of Planning and Finance. These MFIs may apply certain conventional risk management approaches to mitigate credit risk. Such approaches include setting loan limits to mitigate risk exposure especially from new clients that have no collateral, Standardized loan terms, zero tolerance to delinquency and group-based lending. Every financial institution bears a degree of risk when the institution lends to business and consumers and hence experiences some loan losses when certain borrowers fail to repay their loans as agreed.

This study therefore seek to bridge the literature gap in the vital area of credit risk management in Microfinance Institutions in Myanmar, exploring survey in the Sathapana Limited, one of the largest Microfinance Institutions in Myanmar. This Sathapana Limited is the merger between a bank (Maruhan Japan Bank Plc.) and a leading Microfinance Institution (Sathapana Limited, Cambodia). This was stood up the top 2 microfinance institution in terms of loan portfolio by the end of FY 2017-2018. Thus, this MFI was chosen to analyze about the credit risk management and loan performance of MFIs in Myanmar.

## **1.2 Objectives of the Study**

The detail objectives of this research paper are:

- (1) to explore the credit risk management activities of the Sathapana Limited;
- (2) to identify the relationship between credit risk management and loan performance in the Sathapana Limited;

## **1.3 Scope and Method of the Study**

This study focuses on the effects of credit risk management on loan performance in Sathapana Limited. This paper applies descriptive research method and it uses both primary data as well as secondary data. The primary data are collected by asking perception on the credit risk management on loan performance to the sample of employees in Sathapana Limited (sample 120 employees).

The interviews with related persons were conducted by using structured questionnaires. Their perceptions were measured using five-point Likert scale ranging from 1 to 5: 1 represents strongly disagree, 2 for disagree, 3 for uncertain, 4 for agree and 5 for strongly disagree respectively. The secondary data are collected by library research, desk research and records from respective government departments and related website.

## **1.4 Organization of the Study**

This research paper is organized into five chapters. Chapter one discusses the rationale for the study, the objectives of the study, the scope and method of the study, and the organization of the study. Chapter two presents the literature review that involves different approaches to define the credit risk management and loan performance, followed by discussing the summary of the previous case studies. Chapter three focuses on the profile of Sathapana Limited and the credit risk management activities of Sathapana Limited. Then chapter four describes the analysis on credit risk management and loan performance in Sathapana Limited that discusses the outcome from the data analyses both secondary data and primary data from questionnaire. In the end, chapter five is the conclusion and it will cover the summary of this study including the major findings of this analysis and recommendations based on these findings.

## **CHAPTER (2)**

### **LITERATURE REVIEW**

The study reviewed selected literature that summarizes a diverse spectrum of views on microfinance, credit risk management and loan performance. This includes theoretical review, conceptual framework and empirical studies.

#### **2.1 Importance of Microfinance Institutions (MFIs)**

A Microfinance institution is a financial institution specializing in banking services for low-income groups or individuals. A microfinance institution provides account services to small-balance accounts that would not normally be accepted by traditional banks, and offers transaction services for amounts that may be smaller than the average transaction fees charged by mainstream financial institutions (Ningshen & Boraian, 2014) Microfinance is defined as the provision of financial services to low-income clients, including consumers and the self-employed, who traditionally lack access to banking and related services (González-Vega, 2008).

Microfinance is a place for the poor and near poor clients to get access to a high quality financial service, which include not just credit but also savings, insurance and fund transfer. According to Ledger wood, Microfinance is a provision of a broad range of financial services such as savings, credit, insurance and payment services to the poor or low-income group who are excluded from the normal banking sectors

The roles of microfinance institutions remain central in financing economic activities. Therefore, its Failure can disrupt the economic development of the country as individuals in the country will be denied access to financial services to develop themselves high incidence of credit risk for microfinance institutions (MFIs) reflected in the high levels of losses in earnings and on profitability. This is partly as a result of poorly managed credit risks which lead to donors, investors, borrowers and savers to lose confidence in the institutions and closure for some institutions. Credit risk management offers a viable solution to such challenges.

However, exposure to credit risk continues to be a significant source of problems for lending businesses at both national and international levels. This problem is even more important to MFIs since they are involved in lending to the

low-income earners in the society. This group is considered as riskier in terms of the exposure to credit risk. Credit risk management is therefore a critical element in the success of these financial institutions which face a myriad of challenges in enhancing easy and affordable access to financial resources by the less fortunate of the societies (Modurch, 1999).

A well-functioning financial system for MFIs is essential for development. It mobilizes foreign and domestic resources and channels them to high-return investments, intermediate between savers and investors to reduce and allocate risk, and provide broad access to financial services, including for people on low margins of the economy. In so doing it facilitates competition, market integration, broadly based growth, and poverty reduction (World Bank, 2000). Additionally, MFIs play an important role in the financial sector by complementing the commercial bank through provision of financial services to the under-served rural consumers and small businesses often ignored by the traditional banking channels. Therefore, its failure can disrupt economic development of the country as the marginalized individuals in the country will be denied of access to financial services to develop themselves.

## **2.2 Credit Risk Management Practices**

Credit risk is most simply defined as the potential that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms. Credit risk is basically the risk faced by investor to lose money from borrower who fails to make payments. This may result in default or default risk. Investors may lose interest and principal that can result in increased cost of collection and decreased cash flows. Credit risk is most critical and expensive risk associated with financial institutions. Its impact is quite significant compared to any other risk associated to the banking sector as it is direct threat to solvency of the institution (Chijoriga, 2011). Credit risk is not only directly associated to solvency but it's magnitude as well as level of loss is severe compared to other risks. It may results in loan losses of high level and even failure of financial institution (Richard et al., 2008; Chijoriga, 2011).

Credit risk management is defined as identification, measurement, monitoring and control of risk arising from the possibility of default in loan repayments (Coyle, 2000). Nikolaidou & Vogiazas (2014) define credit risk management as the combination of coordinated tasks and activities for controlling and directing risks

confronted by an organization through the incorporation of key risk management tactics and processes in relation to the organization's objectives.

Credit risk management is a structured approach to managing uncertainties through risk assessment, developing strategies to manage it and mitigation of risk using managerial resources. Credit risk is the financial exposure resulting from a microfinance institution's dependence on another party (counterparty) to perform an obligation as agreed. It is the risk to earnings or capital due to borrowers late and non-repayment of loan obligation. Credit risk encompasses both the loss of income resulting from the MFI's inability to collect an anticipated interest earnings as well as the loss of principal resulting from loan defaults (Ahmed & Malik, 2015).

It is important to note that risk management practices are not developed and aimed to eliminate risks altogether but they aim at controlling opportunities and hazards that may result in risk (Frank et al., 2014). Moreover, Ross et al. (2008) contend that risk management practices also ensure that financial institutions must have strong and rational framework for decision making by which firm's objectives can be attained (Ross et al., 2008). García et al., (2013) on the other hand, note that effective credit risk management practices have never been successful to eliminate the human element in making decisions about controlling risk. The effective management of credit risk is a critical component of a comprehensive approach to risk management and essential to the long-term success of any banking organization.

### **Risk Identification**

Risk identification refers to the process of identifying dangerous or hazardous situations and trying to characterize it. It is a procedure to deliberately analyze, review and anticipate possible risks (Barton, 2002). The first step in organizing the implementation of the risk management function is to establish the crucial observation areas inside and outside the corporation (Kromschroder and Luck, 1998). The departments and the employees must be assigned with responsibilities to identify specific risks for example interest rate risks or foreign exchange risks are the main domain of the financial department. It is important to ensure that the risk management function is established throughout the whole corporation; apart from parent company, the subsidiaries too have to identify risks and analyze them.

Other approaches for risk identification include scenario analysis or risk mapping. An organization can identify the frequency and severity of the risks through risk mapping which could assist the organization to stay away from high frequency and low severity risks and instead focus more on the low frequency and high severity risk. Risk identification process includes risk- ranking components where these ranking are usually based on impact, severity or dollar effects (Barton, 2002). Accordingly, the analysis helps to sort risk according to their importance and assists the management to develop risk management strategy to allocate resources efficiently.

### **Risk Analysis**

This is the process of determining the likelihood that a specified negative event will occur investors and business managers use risk assessments to determine things like whether to undertake a particular venture, what rate of return they require to make a particular investment and how to mitigate an activity's potential losses. There are many conceptual studies made on risk analysis in reference to measurement and mitigation of risk. In practice, it is useful to classify the different risks according to the amount of damage they possibly cause (Fuser et al, 1999).

This classification enables the management to divide risks that are threatening the existence of the corporation from those which can cause slight damages. Frequently, there is an inverse relationship between the expected amount of loss and its corresponding likelihood, i.e. risks that will cause a high damage to corporation, like earthquakes or fire, occur seldom, while risks that occur daily, like interest rate or foreign exchange risks, often cause only relatively minor losses, although these risks can sometimes harm the corporations seriously.

A comprehensive risk analysis and mitigation methods for various risk arising from financing activities and from the nature of profit and loss sharing which is the source of funds are explained by Sundararajan (2007). He concludes that the application of modern approaches to risk analysis, particularly for credit and overall banking risks is important for Banks. Also, he suggests that the need to adopt new measures is particularly critical for Banks because of the role they play and the unique mix of risks in finance contracts. However, (Navajas and Tejerina, 2006) indicates that banks are perceived not to use the latest risk measurement techniques and

Shari'ah compliant risk mitigation techniques due to different Shari'ah interpretation of these techniques.

Also, appropriate measurement of credit and equity risks in various finance facilities can benefit from systematic data collection efforts, including establishing credit and equity registry. Moore (2007) suggests that bank need to start collecting data, and there can be significant advantages in pooling information and using common definitions, standards, and methodologies for credit risk which is argued can lead to significant losses in all financial institutions. Finally, he found out that risk analysis particularly on measuring risk in banking institutions is important for risk management practices.

### **2.3 Factors Influencing Loan Performance**

Loan performance refers to the financial soundness of a financial institution on the performance of their disbursed loans to various sectors. It also means how the loans are scheduled to act and how they are actually performing in terms of the schedule payment compared to the actual payments. It is closely associated with timely and steady repayment of interest and principal of a loan. Default on borrowed funds could arise from unfavorable circumstances that may affect the ability of the borrower to repay (Hull, 2007).

The determinants of bank performances can be classified into bank specific (internal) and macroeconomic (external) factors (Al-Tamimi, 2010). These are stochastic variables that determine the output. Internal factors are individual bank characteristics which affect the banks performance. These factors are basically influenced by internal decisions of management and the board. The external factors are sector-wide or country-wide factors which are beyond the control of the company and affect the profitability of banks. The overall financial performance of banks in Kenya in the last two decades has been improving.

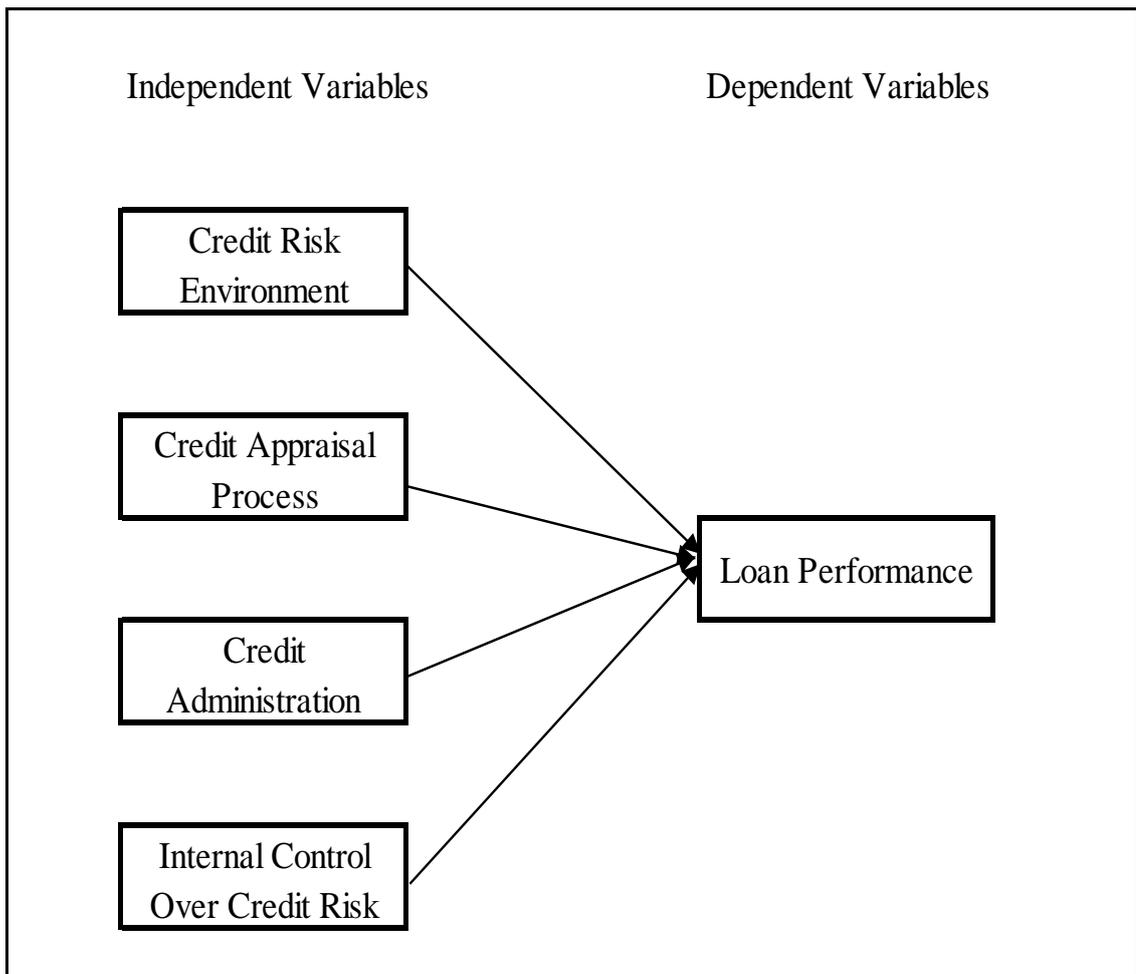
A nonperforming loan is either in default or close to being in default. Once a loan is nonperforming, the odds that it will be repaid in full are considered to be substantially lower. If the debtor starts making payments again on a nonperforming loan, it becomes a reperforming loan, even if the debtor has not caught up on all the missed payments. Institutions holding nonperforming loans in their portfolios may choose to sell them to other investors in order to get rid of risky assets and clean up

their balance sheets. Sales of nonperforming loans must be carefully considered since they can have numerous financial implications, including affecting the company's profit and loss, and tax situations (Akkizidis , 2008).

#### 2.4 Conceptual Framework of the Study

The conceptual framework indicates that credit risk management factors (credit risk environment, credit appraisal process, credit administration, measurement and monitoring and internal control over credit risk) constitute the independent variables. On the other hand, loan performance is the dependent variable. The study was guided by the assumption that credit risk management influences loan performance in Sathapana Limited in Myanmar.

Figure (2.1) Conceptual Framework of the Credit Risk Management



Source: Own compilation

According to the purposed of this conceptual framework, it explains that factors of credit risk management factors (credit risk environment, credit appraisal process, credit administration, measurement and monitoring and internal control over credit risk) are considered as loan performances which are the independent variables of this study. The relationship between credit risk management factors and loan performance was test by using primary data collected from employees with structured questionnaires. The study purpose that if positive outcome will be better loan performance activities and negative outcome will be face credit risk management problem and challenges in loan performance.

## **CHAPTER (3)**

### **CREDIT RISK MANAGEMENT ACTIVITIES OF SATHAPANA LIMITED**

This chapter aims to present credit risk management activities of Sathapana Limited in Myanmar. There are three sections in this chapter. The first section aims to present the organizational background and then services provided by Sathapana Limited. The third section explores the credit risk management activities of Sathapana Limited.

#### **3.1 Profile of SATHAPANA Limited**

Sathapana Limited is a private-owned business to serve and provide business loan, agricultural loan, consumption loan and saving to reliable and affordable financial services - the key driver in improving their customer living standards. Sathapana Limited was established in January 2015 with USD 15,000,000 authorized capital as a subsidiary of MARUHAN Investment Asia Pte., Limited for the purpose of conducting microfinance business in Myanmar. The company obtained a temporary license from Myanmar Microfinance Supervisory Committee under the Ministry of Planning and Finance in June 2015 and started its operations in August 2015. The company obtained a permanent license in July 2016. The name “Sathapana ”derived from Sathapana Bank Plc. which is one of the leading banks in Cambodia and engaged in commercial banking and microfinance business.

Sathapana Limited began its microfinance operations in Myanmar with four branches in Yangon, Bago, Mandalay and Ayeyarwady regions. The Sathapana Limited The Sathapana Limited owner and founder person is Mr. Han Ken who aims to better serve and to help Myanmar people in accessing to financial services to develop their small businesses and enhance their entrepreneurship and also the company was fully recognized the importance of complying to the laws and regulations by the relevant authorities in Myanmar.

Sathapana Limited is the authorized microfinance institution of comply and reliable company by the Financial Regulatory Department under the Ministry of Planning and Finance among the leading companies in the areas of microfinance institution or organization companies in Myanmar.

Nowadays, Sathapana Limited was open 3 main offices at Yangon, Mandalay and Nay Pyi Taw and also was open 34 branches all over Myanmar which aim to support and serve the interests of all stakeholders and provide their financial loan and saving customer with reliable and affordable financial services.

### **Location and Branch of SATHAPANA Limited**

The head office of Sathapana Limited is located in No.(97/B), Kabaraye Pagoda Road, Bahan Township, Yangon, Myanmar. The second office of Sathapana Limited is located in No. (Ta-7), Holding No. (Za-38), Thazin Street Between 71th and 72th Street Chanmyatharzi Township Mandalay Region. The third office of Sathapana Limited is located in No-171, Thiri Yadanar Shopping Complex, Nay Pyi Taw. Sathapana Limited was open 34 branches at all over Myanmar to servicing for loan and saving – business loan, agricultural loan, consumption loan and saving to their customers. This branch is located in Mandalay, Bago, Patheingyi, Hlegu, Kyaukse, Daik-U, Myaungmya, Monywa, Mawlamyine, Magway, Meiktila, Dala, Hinthada, Thaton, Taungdwingyi, Insein, Myingyan, Gyobingauk, Taunggyi, Aungban, Chaung-U, Indagaw, Pwint Phyu, Nyaunglein, Hpa-An, Waw, Madaya, Taikgyi, Tada-U, Kume, Phayon. Sathapana Limited well-trained on their employees to treat fairly and respectfully without discrimination, regardless of race, provide for their customer. Any type of loan and saving service for customer is available at above all locations throughout Myanmar.

### **Vision and Mission of SATHAPANA Limited**

Myanmar Government regulation system turned to democratic nation after March 30, 2011, extensive reforms and relaxations dramatically changed country's economic land scape. As a result, many foreign companies flow in under Foreign Direct Investment (FDI). Sathapana Limited has trained its workforce to be competent and high performing employees with company vision and mission to meet more market shares and competitive advantages within microfinance industry in Myanmar. The vision and mission are as follows;

Vision is Sathapana Limited was established vision statements as “To be the leading financial institution in entrepreneurship building in Myanmar”.

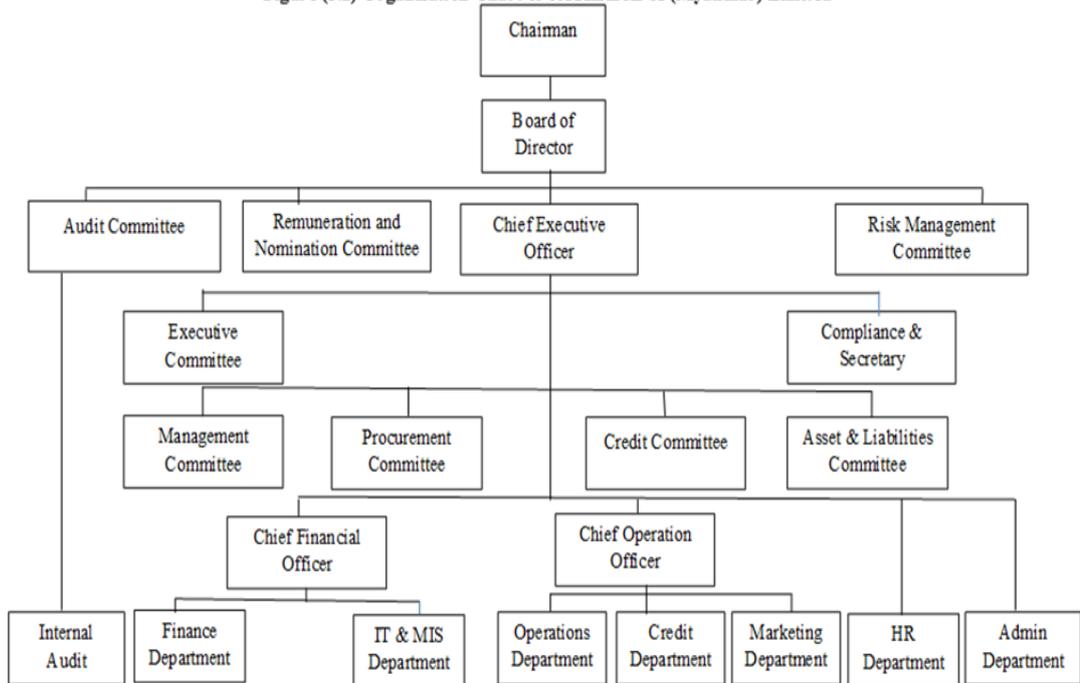
Mission is Sathapana Limited was established the following missions;

“To empower entrepreneurs and to generate employments in order to upgrade their living standard through access to financial services in sustainable manner “

### 3.2 Organization Structure of SATHAPANA (Myanmar) Limited

Sathapana Limited is organized with eight main departments which are Internal Audit Department, Finance & Account Department, IT & MIS Department, Operations Department, Credit Department, Marketing Department, HR Department and Admin Department. Under each department, the functional staffs are operating their tasks in line with the organization goals. Sathapana Limited is appointed with skill employees who are professional and accountability on their duty and responsibility in each of departments to meet organizational goal and objective.

Figure (3.1) Organization Chart of SATHAPANA (Myanmar) Limited



Source: SATHAPANA (Myanmar) Limited

According to Figure (3.1), organizational structure of Sathapana (Myanmar) Limited at the top level management person is Chairman, Board of Director (BOD) that they are main authority person to management wholes organization. Under the control of Chairman, Board of Director (BOD) has three committee (Audit Committee, Remuneration and Nomination Committee, Risk Management

Committee) and chief executive officer. In addition, under control of Chief Executive Officer have seven main department – Finance Department, IT & MIS Department, Operations Department, Credit Department, Marketing Department, Administration Department and Human Resources Department to operate organization performance with effective and efficiency for meet organization objective. Moreover, under the control of Audit Committee have the internal Audit department. The number of employees was appointed at Sathapana (Myanmar) Limited is altogether 476 employees. Each of department was appointed Manager to control, monitoring and guideline on their relative department employee performance. The following Table (3.1) is presented the number of employees and structure of departments of Sathapana (Myanmar) Limited.

**Table (3.1) Number of Employee Department of SATHAPANA Limited.**

Sr. No	Department	No. of Employee
1	Audit Committee	7
2	Remuneration and Nomination Committee	7
3	Risk Management Committee	7
4	Chief Executive Officer	1
5	Executive Committee	7
6	Compliance & Secretary	3
7	Management Committee	7
8	Procurement Committee	7
9	Credit Committee	7
10	Asset & Liabilities Committee	7
11	Chief Financial Officer	1
12	Chief Operation Officer	1
13	Finance Department	71
14	IT & MIS Department	47
15	Operations Department	44
16	Credit Department	67
17	Marketing Department	47
18	Administration Department	54
19	Human Resources Department	26
20	Internal Audit Department	58
	Total	476

Source: Survey Data, 2018

### **3.3 Services Provided by SATHAPANA (Myanmar) Limited.**

In this section was presented the services provided by Sathapana (Myanmar) Limited for their customer. Sathapana (Myanmar) Limited are strive to provide better services for their customers concern with financial problem or difficulty. Sathapana (Myanmar) Limited of all financial services can available any of their offices, no brokers or intermediaries required, no commission or charges to be paid other for their customer.

Sathapana (Myanmar) Limited was established rule and regulation to offer financial services for their customer but have under the following condition:

- Have over 18 years old
- Have own residential address
- Have sufficient repayment capacity
- Have good background, characteristic and willing to pay back
- Have no willing to move residential address

Sathapana (Myanmar) Limited was established rule and regulation to offer financial services for their customer but need to pay under the following required document:

- Copy of national registration card (NRC)
- Copy of household registration card
- Residential address acknowledgement letter
- Borrowers' photo (Optional)

The following table (3.2) shows types of all services (loan and saving) provided by Sathapana Limited.

#### **Types of Services Provided by SATHAPANA Limited.**

Survey Data, 2018 Sathapana (Myanmar) Limited was serving financial loan and financial servicing for Myanmar citizen. Where, Sathapana (Myanmar) Limited was divided into three categories - business loan, agricultural and consumption on their financial loan depend on customer. And also, Sathapana (Myanmar) Limited was classified on saving into one types such as compulsory saving for their customer can choose. Sathapana (Myanmar) Limited of available loan and saving are generally discuss and present below.

**(1) Business Loan**

Sathapana (Myanmar) Limited of business loan was aimed to their customer and new investments to maximize profit through realistic expansion plans on existing businesses or a viable start-up plan with always flexible reliability and convenience for any business needs. This organization of business loan will open opportunities for their customer business to leverage through solving its financial difficulties or investing in capital expenditures or working capital.

**Table (3.2) Types of Loan Size (Kyats), Period Interest Rate, Upfront Fee and Repayment Mode On Business Loan**

Sr. No	Particular	Loan Size (Kyats)	Period	Interest Rate	Upfront Fee	Repayment Mode
1.	Solidarity Group	Up to 1,000,000	12 months	2.5% per month	1% of disbursed amount	monthly
2.	Individual	Up to 10,000,000	24 months	2.5% per month	1% of disbursed amount	monthly & seasonal

Source: Survey Data, 2018

The table (3.3) shows types of loan size (kyats) , period ,interest rate, upfront fee, repayment mode on business loan for their customer. Their loan size is two types solidarity group and individual. For solidarity group , loan size is up to 1,000,000 and for individual, loan size is up to 10,000,000.Period is also two types 12months and 24 months.

**(2) Agriculture Loan**

Sathapana (Myanmar) Limited of Agriculture Loan was aimed to farmers with good plans are welcomed to buy seeds, fertilizer, modernizing agricultural machineries and equipment, or raising livestock, etc. to either diversify or improve agricultural activities for increasing their agricultural production. The loans are provided with flexible repayment methods based on real seasonal cash flows of the agricultural activities.

**Table (3.3) Types of Loan Size on Agriculture Loan**

Sr. No	Particulars	Loan Size (Kyats)	Period	Interest Rate	Upfront Fee	Repayment Mode
1.	Solidarity Group	Up to 1,000,000	12 months	2.5% per month	1% of disbursed amount	monthly
2.	Individual	Up to 10,000,000	24 months	2.5% per month	1% of disbursed amount	monthly & seasonal

Source: Survey Data, 2018

The table (3.4) shows types of loan size (kyats), period interest rate, upfront fee, repayment mode on agriculture loan for their customer. Their loan size is two types solidarity group and individual. For solidarity group , loan size is up to 1,000,000 and for individual, loan size is up to 10,000,000.Period is also two types 12months and 24 months.

### (3) Consumption Loan

Sathapana (Myanmar) Limited of Agriculture Loan was aimed to improve of household welfare for realize their customer dreams through access to the loan for improvement of their home, purchasing of car, motorbike, equipment and furniture etc. as well as for household healthcare and education purposes. The following table (3.5) shows types of Loan Size (Kyats), Period Interest Rate, Upfront Fee, Repayment Mode on Consumption Loan for their customer.

**Table (3.4) Types of Loan Size on Consumption Loan**

Sr. No	Particulars	Loan Size (Kyats)	Period	Interest Rate	Upfront Fee	Repayment Mode
1.	Solidarity Group	Up to 1,000,000	12 months	2.5% per month	1% of disbursed amount	monthly
2.	Individual	Up to 10,000,000	24 months	2.5% per month	1% of disbursed amount	monthly

Source: Survey Data, 2018

#### **(4) Compulsory Saving**

Sathapana (Myanmar) Limited of Compulsory Saving was aimed to improve living standards depends not only on the amount of loan the clients can borrow but also on the amount of money the client save over a period of time. Sathapana (Myanmar) Limited of compulsory saving is a product that allows clients to learn how to save money for particular purpose as well as for emergency needs.

**Table (3.5) Types of Saving Amount on Compulsory Saving**

Sr. No.	Particular	Saving Amount	Saving Period	Interest Rate
1.	Compulsory Saving	5% of Loan Amount	12 months	1.25% per month

Source: Survey Data, 2018

The table (3.6) shows the customer of saving amount, period and interest rate on customer saving money for compulsory saving. Their saving amount is 5% of loan amount, saving period is 12 months and interest rate is 1.25% per month.

### **3.4 Credit Risk Management Activities of SATHAPANA Limited**

In this section, the study on the credit risk management activities of Sathapana Limited is presented. Essentially for Sathapana Limited's credit risk management activities are required between the customers and the business in order to increase the transactions or to maximize reliability the loan performance. These activities aim to promote its business and servicing, considering the dynamics of its target markets, control, identification, measurement, monitoring and control of risk arising from the possibility of default in loan repayments. Sathapana Limited can get from the practices of credit risk management activities by managing and to adopt appropriate credit risk management techniques to minimize incidences of loan defaults to enhance loan performance. The credit risk management activities of Sathapana Limited have many advantages for employer by performing better identification on credit risk environment, credit appraisal process, credit administration and internal control over credit risk on customer borrow. Therefore, these credit risk management activities (credit risk environment, credit appraisal process, credit administration and internal control over credit risk) are generally discussed as below.

**(1) Credit Risk Environment**

Sathapana Limited's board of directors have involved and taken the responsibility of periodically reviewing the credit risk policies on this organization. In addition, the top-level management is then obligated to implement the credit strategy approved by the board for classifying, measuring, monitoring and regulating the credit risk. This organization has periodically monitored the inherent credit risks in all its services. This organization were found training program for their employee know customer request and company operation. Thus, this organization must be checked before and after disbursement on their customer, review to reasonable interest rate on their customer, monitoring of clients, and proper loan appraisal on their customer. It was recommended among others that Sathapana Limited's have clear and effective credit policies and procedures to ensure safety of clients' deposits and customers' confidence.

**(2) Credit Appraisal Process**

Sathapana Limited of credit appraisal process are takes into account various factors like income of the applicants, number of dependents, monthly expenditure, repayment capacity, employment history, number of years of service and other factors which affect credit rating of the borrower. In addition, Sathapana Limited of credit appraisal process was consider on regular customers repay loan, loan processing time, credit limits for borrowers and legal action on default payment customer. In addition, this organization was trained on their employee to become the best relationship between loan officers and customers.

**(3) Credit Administration**

Sathapana Limited has a system for monitoring, gathering, analyzing, the condition of individual and solidarity group credits to present the data and maintain files and databases for the administering credit processes and action plans. In addition, this organization of employee's was coordinated and managed the financial activities such as customer's loan and saving to provide the director of credit with all necessary information and operational support; organizes and oversees action plans and compliance credit policies, procedures, and processes, assures interface with other operating units.

**(4) Internal Control over Credit Risk**

Sathapana Limited has of internal control over credit risk are operated with the following five activities:

- Always check to be efficient and effective on their customer loan and saving operations.
- Always check to be recorded transactions are accurate.
- Always prepared financial reporting is reliable.
- Risk management systems are effective.
- Prepare to remedial action on deteriorating credits

## **CHAPTER (4)**

### **ANALYSIS ON THE EFFECTS OF CREDIT RISK MANAGEMENT IN SATHAPANA LIMITED**

The responses and answers of demographic information, descriptive statistics, reliability and correlation of the variables are presented in this chapter. The main purpose of this chapter is to explore the relationship between credit risk management activities and loan performance of in Sathapana Limited. To analysis on the relationship between credit risk management activities and loan performance of Sathapana Limited, the required data is obtained through survey data. The data are collected by using structured survey and in-depth questionnaires with employees of Sathapana Limited. The questionnaire were organized by five scales ranging from one to five; where 1 strongly disagree, 2 disagree, 3 neutral, 4 agree and 5 represents strongly agree. This collected data was analyzed by using SPSS 22 for the reason of justifying the research objectives.

#### **4.1 Demographic Profile of Respondents**

In this study, profile of customers is measured with five items: gender, age, education level, position, department, year of experience and income of the respondents. The study involved 120 respondents. For each question, the most possible answer is provided to respond and they can choice in relevant answer. This can be seen Table (4.1).

##### **Gender of Respondents**

According to the Table (4.1), gender of respondents is classified into two groups such as male and female. It was found that, the percentage of the gender of the respondents is found male respondents are 57.14 percent while female respondents are 42.85 percent the survey. Therefore, male respondents are the major distribution of the sample.

**Table (4.1) Demographic Profile of Respondents**

	<b>No. of Respondents</b>	<b>Percentage</b>
<b>Gender</b>		
Male	70	58.33
Female	50	41.67
<b>Age</b>		
18 - 25	9	7.50
26 - 39	65	54.17
40 - 54	39	32.50
55 and above	7	5.83
<b>Education Level</b>		
Graduated	101	84.17
Post Graduated	19	15.83
<b>Position Level</b>		
Manager	10	8.33
Assistant Manager	25	20.84
Executive	26	21.67
Supervisor	40	33.33
Staff	19	15.83
<b>Department of Respondents</b>		
	10	8.33
Admin & HR	15	12.5
IT & MIS Department	54	45
Finance & Account	41	34.17
Audit		
<b>Working Years</b>		
Less than 1 year	10	8.33
1 year - 3 years	86	71.67
3 years - 5 years	24	20

Source: Survey Data, 2018

### **Age of Respondents**

Age of respondents can be divided into four groups; between 18 and 25 years, between 26 and 39 years, between 40 and 55 years and 55 above.

According to Table (4.1), it was found that 9 respondents (7.5 %) are between 18 and 25 years, 65 respondents (54.17 %) are between 26 and 39 years, 39 respondents (32.5%) are between 40 and 55 years and 7 respondents (5.83 %) are 55 years and above. It is found that there are more respondents who have between 26 and 39 years old.

### **Education Level of Respondents**

Education level of respondents is classified into two groups. There are, graduate level and master degree. It was found that 101 respondents are graduated and 19 respondents are post graduated. As percentage, 84.17 percent of respondents are graduated and 15.83 percent of respondents are post guarded. It can be deducted that most of the respondents are graduated level

### **Position Level of Respondents**

Position level of respondents is classified into five groups. There are manager level, Assistant Manager, Executive, Supervisor and Staff. It was found that, 10 respondents (8.33%) are Manager Level, 25 respondents (20.83%) are Assistant Manager Level, 26 respondents (21.67 %) are Executive Level, 40 respondents (33.33%) are supervisor Level and 19 respondents (15.83%) are Staff level. It is found that there are more respondents who have Supervisor Level in this organization.

### **Department of Respondents**

According to Table (4.1), department of respondents is classified into seven groups. There are Admin & HR, Sale and Marketing, Operation Department, IT & MIS Department, Finance & Account, Audit and other. It was found that 10 respondents (8.33%) are Admin & HR Department, 15 respondents (12.5%) are IT & MIS Department, 54 respondents (45 %) are Finance & Account and 41 respondents (34.17 %) are Audit Department. It is found that there are more respondents who have worked at Finance & Accountant Department in this organization because of the

nature of this organization job are more proper and more appointed finance and accountant employee.

### **Working Years of Respondents**

Working years of respondents is classified into four groups: less than 1 year of experiences, between 1 and 3 years of experiences, between 3 and 5 years of experiences and above 5 years of experiences. The working years of respondents in their relative department is found that 10 respondents describing 8.33 percent are less than 1 year, 86 respondents describing 71.67 percent are between 1 year and 3 years, 24 respondents describing 20 percent are between 3 years and 5 years. It can be deducted that most of the respondents are 1 years and 3 years concern with their working years in this organization.

### **Monthly Income of Respondents**

Monthly income of respondents is classified into six groups: below 300,000 of monthly income, between 300,001 and 500,000 kyat of monthly income, between 500,001 and 800,000 kyat of monthly income, between 800,001 and 1, 200,000 kyat of monthly income, between 12,000,001 and 15,000,000 kyat of monthly income and above 15,000,000 kyat of monthly income.

As shown in Table (4.1), monthly income of respondents in their job is found that 19 respondents describing 15.83 percent are below 300,000 of monthly income, 30 respondents describing 25 percent are between 300,001 and 500,000 kyat of monthly income, 31 respondents describing 25.83 percent are between 500,001 and 800,000 kyat of monthly income, 16 respondents describing 13.33 percent are between 800,001 and 1, 200,000 kyat of monthly income, 14 respondents describing 11.67 percent are between 12,000,001 and 15,000,000 kyat of monthly income and 10 respondents describing 8.33 percent are above. It can be deducted that most of the respondents are received between 500,001 and 800,000 kyat of monthly income concern with their monthly income.

#### 4.2 Reliability Analysis of Variables

To measure the reliability of the instruments, Cronbach's coefficient alpha was calculated. This method has been recognized as an effective and widely-used approach to determine the internal consistency of study instruments. Generally an alpha value close to 1.0 indicates high internal consistency reliability, an alpha value less than 0.6 is considered to be poor, values of 0.7 are considered acceptable and values above 0.8 are deemed to be good (Sekaran, 2003). In this study, the alpha value for each of the variable is described in following Table (4.2).

**Table (4.2) Reliability of the Variables**

No.	Variables	Items	Cronbach's coefficient alpha
1	Credit Risk Environment	5	0.799
2	Credit Appraisal Process	5	0.727
3	Credit Administration	5	0.873
4	Internal Control over Credit Risk	5	0.820
5	Loan Performance	4	0.70
	Overall	5	0.751

Source: Survey Data, 2018

In Table (4.3), the alpha values for all of variable - each of the independent variables (credit risk environment, credit appraisal process, credit administration and internal control over credit risk) and dependent variable (loan performance) are demonstrated a high level of reliability because all of the alpha values of scale items are 0.70 and above. Therefore, scale items directed toward one dimension. It can be concluded that scale items of questionnaires are consistent and reliable.

#### 4.3 Analysis on Credit Risk Management Activities of SATHAPANA Limited

This section presents the analysis on credit risk management activities of Sathapana Limited. The credit risk environment, credit appraisal process, credit administration and internal control over credit risk that are regarded as the independent variables for the loan performance. The loan performance variable is regarded as the dependent variable according to the conceptual framework of the

study. This study prepared structured questionnaire and asked to the employees of Sathapana Limited. These questions are based on the five-point Likert Scale. (5 is strongly agreed, 4 is agreed, 3 is neural, 2 is disagreed and 1 is strongly disagreed). According to Bowling (1997), the mean value for Five Point Likert Scale items were interpreted as following:

- The score among 1.00 - 1.80 means strongly disagree
- The score among 1.81 - 2.60 means disagree
- The score among 2.61 - 3.40 means neither agree nor disagree
- The score among 3.41 - 4.20 means agree
- The score among 4.21 - 5.00 means strongly agree

### **Credit Risk Environment Factors**

Credit risk management activities of credit risk environment factors are measured with five factors. The mean and standard deviation values of these factors are shown in Table (4.3).

**Table (4.3) Credit Risk Environment Factors**

No	Particular	Mean	Standard Deviation
1	The board of directors approves the credit risk strategy and significant credit risk policies of the bank	3.64	0.73
2	The senior management in our bank strictly implements the credit risk strategy approved by the board of directors	3.66	0.64
3	The senior management in our bank develops policies and procedures for identifying, measuring, monitoring and controlling credit risk	3.64	0.73
4	The credit risk policies and procedures developed address credit risk in all the banks activities and at both the individual credit and solidarity group levels	3.50	0.73
5	This organization was recognized regularly customer who are most able to contribute to sustainable development, therefore enhancing the ability of the organization system	3.68	0.73
	Overall Mean	3.63	0.52

Source: Survey Data (October, 2018)

According to the results Table (4.3), the overall mean value is 3.63 because the organization was managed on credit risk environment factors to establish an appropriate credit risk environment.

According to the results, the factor for this organization was recognized regularly customer who are most able to contribute to sustainable development, therefore enhancing the ability of the organization system which mean value is 3.68, the maximum mean value among five factors of credit risk environment factors. This result means that the organization was known how to attach and enhance the customer relationship to reduce credit risk environment factors.

The minimum mean value of credit risk environment factors is 3.50. This result shows that the credit risk policies and procedures developed address credit risk in all the banks activities and at both the individual credit and solidarity group levels.

#### 4.4 Credit Appraisal Process

Credit risk management activities of credit appraisal process is measured with five factors. These are calculated and presented in Table (4.4).

**Table (4.4) Credit Appraisal Process**

No	Particular	Mean	Standard Deviation
1	Our organization are check detail information income, repayment capacity, employment history and etc., of the applicants for loans	3.65	0.68
2	Our organization operates within sound , well defined credit appraisal criteria.	3.68	0.75
3	Our organization always checked on regular customers repay loan, loan processing time, credit limits for borrowers and legal action on default payment customer to prevent credit risk factors.	3.64	0.73
4	Our organization has a clearly established process for approving new and refinancing of existing credits	3.50	0.73
5	Our organization has established overall credit limits both at individual borrowers and solidarity group borrowers	3.67	0.72
	Overall Mean	3.63	0.50

Source: Survey Data, 2018

According to the Table (4.4), the overall mean value is 3.63 because this organization always checked with well-defined credit-granting criteria which are the bank's target market, credit limits at the level of individual borrowers and counterparties.

The maximum mean value is 3.67 among five factors of credit appraisal process. This result means that this organization has established overall credit limits both at individual borrowers and solidarity group borrowers because of this criteria help who is eligible for credit and for how much, what types of credit are available, and under what terms and conditions the credits should be granted.

The minimum mean value of employee perception on the organization is 3.50 at this organization has a clearly established process for approving new and refinancing of existing credits paying.

#### 4.5 Credit administration

Credit risk management activities of credit administration is measured with seven factors as shown in Table (4.5).

No	Particular	Mean	Standard Deviation
1.	Our organization was gathering and analyzing according to this organization's policies and procedures for the process of client selection.	3.68	0.65
2	Our organization has clearly provisions on loan repayment, enforcement and litigation on their customer	3.56	0.73
3	Our organization has information systems and analytical techniques that enable management to measure the credit risk inherent in all on and off balance sheet activities	3.38	0.75
4	Our organization has a system for the ongoing administration of various credit risk bearing	3.32	0.77
5	Our organization has a system for monitoring the condition of individual credits, including determining the adequacy of the provisions and reserves	3.67	0.65
	Overall Mean	3.52	0.58

Source: Survey Data, 2018

According to Table (4.5), the overall mean value is 3.52. This result means that this organization have a disciplined and vigorous remedial management process that is administered through the credit administration and problem recognition systems.

The maximum mean value is 3.68 in credit administration activities of this organization this factor the organization was gathering and analyzing according to this organization's policies and procedures for the process of client selection.

The minimum mean value of employee perception on credit administration activities is 3.32. This result means that this organization has weak system for the ongoing administration of various credit risk bearing.

#### 4.6 Internal Control

Credit risk management activities of internal control are measured with five items. The mean value and standard deviation for each statement is presented in Table (4.6).

**Table (4.6) Internal Control**

No	Particular	Mean	SD
1	Our organization has strong internal control system for conducting ongoing assessment of the business's credit risk management process	3.63	0.81
2	Our organization was kept appropriate records ensures that documentation exists for each business transaction	3.63	0.79
3	Our organization made sure loan and saving documentation is complete, specific record and verification.	3.80	0.60
4	The internal control system ensures that the credit exposures that are exceptions to policies , procedures and limits are reported in timely manner to the management	3.63	0.81
5	Our organization has a system for early remedial action on deteriorating credits and managing problems credits	3.68	0.62
	Overall Mean	3.67	0.56

Source: Survey Data, 2018

According to the results of Table (4.6), the overall mean value is 3.67 which means that this organization was establish and enforced internal controls and other practices to ensure that exceptions to policies, procedures and limits are reported in a timely manner to the appropriate level of management for action.

The maximum mean value is 3.80 among five factors of internal control. This result describes that this organization made sure loan and saving documentation is complete, specific record and verification.

The minimum mean value of employee perception on internal control is 3.63 in three factors. This means that this organization has strong internal control system for conducting ongoing assessment of the business’s credit risk management process and this organization was kept appropriate records ensures that documentation exists for each business transaction. In addition, this organization of the internal control system ensures that the credit exposures that are exceptions to policies, procedures and limits are reported in timely manner to the management.

#### **4.7 Summary of Credit Risk Management Activities of SATHAPANA Limited**

Summary of credit risk management activities of Sathapana Limited is measured with four factors in this study. They credit risk environment, credit appraisal process, credit administration and internal control over credit risk. The mean and standard deviation values for each factor are presented in Table (4.7).

**Table (4.7) Summary of Credit Risk Management Activities of SATHAPANA**

No	Particular	Mean Value
1	credit risk environment	3.63
2	credit appraisal process	3.63
3	credit administration	3.52
4	internal control over credit risk	3.67

Source: Survey Data, 2018

According to the Table (4.7), internal control over credit risk factor has the maximum mean value 3.67 among four variables of credit risk management activities

factors of this organization. This means that Sathapana limited is well managed for its internal control over credit risk, made sure loan and saving documentation, specific record and verification for its customers and to reduce credit risk management activities.

On the other hand, credit administration has the minimum mean value 3.52 among four variables of credit risk management activities of this organization. This means that this organization need to be managed on their credit administration operations, including monitoring documentation, contractual requirements, legal covenants, collateral, etc.

#### 4.8 Analysis on Loan Performance

In this section was presented the analysis on loan performance concern with credit risk management activities of Sathapana Limited are measured with four items. The mean and standard deviation values are presented in Table (4.8).

**Table (4.8) Loan Performance**

No	Particular	Mean	SD
1	This organization of better management on credit risk environment system lead to improve loan performance	3.68	0.72
2	This organization of better management on credit appraisal process lead to improve loan performance	3.69	0.69
3	This organization of better management on credit administration process lead to improve loan performance	3.68	0.73
4	This organization of better management on internal control over credit risk lead to improve loan performance	3.87	0.59
	Overall Mean	3.76	0.49

Source: Survey Data, 2018

According to the Table (4.8), the employee perception on loan performance of the overall mean values is 3.76. This means that this organization well managed on credit risk environment, credit appraisal process, credit administration and internal control over credit risk to reduce credit risk management activities.

The maximum mean score level of employee perception on loan performance is that this organization of better management on internal control over credit risk lead

to improve loan performance because mean value is 3.87. It means that this organization has will managed on internal control over credit risk to the individual customer and to improved loan performance from their customers.

On the other hand, the minimum mean value of loan performance is 3.68 on the organization of better management on credit risk environment system lead to improve loan performance scholarship sponsors of this organization and this organization of better management on credit administration process lead to improve loan performance.

#### **4.9 Analysis on the Relationship between Credit Risk Management Activities and Loan Performance**

After the reliability test and mean and standard deviation the correlation of the credit risk management activities; credit risk environment, credit appraisal process, credit administration and internal control over credit risk were tested to show their correlation with loan performance. The results of the correlations of the measured variables are shown in Table (4.9).

The correlation analysis is the statistical tool used to study the closeness of the relationship between two or more variables. Correlation coefficient range is the between +1 and -1 that +1 indicates the strongest positive correlation possible, and -1 indicates the strongest negative correlation possible. If the value of positive, it means that one variable gets larger, other will also be larger. If value is negative, it means that one variable gets larger, the other gets smaller.

**Table (4.9) Correlation of Credit Risk Management and Loan Performance**

Sr. No	Description	Person Correlation Coefficient	P-value
1	Credit Risk Environment	0.305 <sup>**</sup>	0.001
2	Credit Appraisal Process	0.458 <sup>**</sup>	0.000
3	Credit Administration	0.371 <sup>**</sup>	0.000
4	Internal Control	0.630 <sup>**</sup>	0.000

Source: Survey Data, 2018

\*\* Correlation is significant at the 0.01 level (2-tailed).

Dependent Variable: Loan Performance

According to the results, the credit risk management factors; credit risk environment, credit appraisal process, credit administration and internal control over credit risk with the loan performance factor at 0.01 level (2-tailed). The correlation coefficient between 0.305 and loan performances is 0.305 at the 0.01 level (2-tailed). This result shows that credit risk environment has moderate positive correlation to influence on loan performance. The moderate correlation coefficient between credit appraisal process and loan performance is 0.458 at the 0.01 level (2-tailed). Then, the correlation coefficient between credit administration and loan performance has moderate positive relationship with it value is 0.371 at the 0.01 level. Furthermore, internal control has the strong positive correlation coefficient with loan performance is 0.630 at the 0.01 level.

According to the correlation analysis, the results show that the credit risk management activities are widely managed by Sathapana Limited. Therefore, the credit risk management activities are supported to gain the higher level of the loan performance for Sathapana Limited.

## **CHAPTER (5)**

### **CONCLUSION**

This chapter is the conclusion which is discussed based on the results of the statistical analysis. It consists of findings and discussions, suggestions and recommendation, and limitation and need for future research. This study analyzed the relationship between the credit risk management activities and loan performance of Sathapana Limited.

#### **5.1 Findings and Discussion**

The findings of the study supported the importance of credit risk management activities in enhancing the loan performance of Sathapana Limited. The main objectives of this study are to test the relationship between the credit risk management activities and loan performance to yield the higher level of loan performance based on credit risk management activities factors. Therefore, it is found that credit risk management activities factors and loan performance factors effect in the working environment.

According to the survey data, in gender group, male respondents are more than female respondents. The major age group of age respondents is between 26 and 39 years. This is an effective workforce because this kind of age is active, strong and mature enough to do job. The most of respondents are graduated. The position of respondent survey data was found supervisor level almost respondent than other position level. The department of respondents survey data was found Finance & Accountant Department almost respondent than other department because of the nature of this organization job are more proper and more appointed finance and accountant employee.

In length of services, the majority of respondents have services year between 1 year and 3 years in this organization. According to the survey data, the monthly salary of most respondents are the got between 500,001 and 800,000 kyat.

In this study, the credit risk management activities (credit risk environment, credit appraisal process, credit administration and internal control over credit risk) of organization were regarded as the independent variables. The loan performance variable was regarded as the dependent variable.

For first objectives of the study, there was explored the credit risk management activities factors – credit risk environment, credit appraisal process, credit administration and internal control over credit risk of Sathapana Limited. For credit risk environment, it is found that Sathapana Limited's board of directors have involved and taken the responsibility of periodically reviewing the credit risk policies on this organization. In addition, Sathapana Limited of credit appraisal process are takes into account various factors like income of the applicants, number of dependents, monthly expenditure, repayment capacity, employment history, number of years of service and other factors which affect credit rating of the borrower.

For credit administration process, Sathapana Limited well managed on their operation such as monitoring, gathering, analyzing, the condition of individual and solidarity group credits to present the data and maintain files and databases for the administering credit processes and action plans. In addition, an internal control over credit risk process of Sathapana limited was established and enforced internal controls and other practices to ensure that exceptions to policies, procedures and limits are reported in a timely manner to the appropriate level of management for action.

Among the credit risk management activities factors including four factors (credit risk environment, credit appraisal process, credit administration and internal control over credit risk), credit administration is the lowest mean value and internal control over credit risk are highest mean value. The overall mean value of credit risk management activities showed the agree level of the respondents. Thus, the employee perception of credit risk management activities factor is essential for loan performance improvement from their borrower for their organization.

Among the credit risk management factors, internal control over credit risk has the largest mean value according to mean value analysis. This is indicated that Sathapana limited can create effective internal control system by checking efficient and effective on their customer loan and saving operations, recording transactions to accurate, preparing reliable financial reporting and preparing to remedial action on deteriorating credits.

Credit administration has the lowest mean value among the credit risk management factors of Sathapana limited. This is indicated that this organization have weak created or managed in credit administration process such as monitoring, gathering, analyzing, the condition of individual and solidarity group credits to

present the data and maintain files and databases for the administering credit processes and action plans. But, the overall credit risk management factors show the agreement level of the respondent because of this organization of loan performance was improved base on well managed of their organization credit risk management factors.

According to the result of the reliability test on credit risk management activities, credit administration factor is largest alpha value and good reliability among all variables (dependent and independent variable). On the other hand, result found that the loan performance variable is lowest alpha value among all variable (dependent and independent variable). But, the overall variables (depended and independent) result is founded as a reliability coefficient.

In this study, the correlation analysis was used to test correlation between dependent variable and independent variable. The correlation coefficient analysis of this study is to test correlation of credit risk management activities and loan performance.

According to the results, the credit risk management factors; credit risk environment, credit appraisal process, credit administration and internal control over credit risk with the loan performance factor at 0.01 level (2-tailed). The correlation coefficient between credit risk environment and loan performances is 0.305 at the 0.01 level (2-tailed). This result shows that credit risk environment has moderate positive correlation to influence on loan performance. The moderate correlation coefficient between credit appraisal process and loan performance is 0.458 at the 0.01 level (2-tailed). Then, the correlation coefficient between credit administration and loan performance has moderate positive relationship with it value is 0.371 at the 0.01 level. Furthermore, internal control has the strong positive correlation coefficient with loan performance is 0.630 at the 0.01 level.

This result shows that credit risk management activities has influenced on loan performance. Among these credit risk management activities, the internal control over credit risk is the highest correlation coefficient with loan performance. This is why Sathapana limited was managed and control on its internal control activities by making sure loan for borrower and saving documentation, specific record and verification for its customers because of sound internal controls systems are essential to the prudent operation of microfinance institution and promotes stability in the

financial system. This result shows that internal control has many factors to influence on loan performance.

On the other hand, credit risk environment is the lowest value result in coefficient with loan performance. This means that the organization of credit risk environment factors weak effect on their organization of loan performance. Therefore, this organization of board of directors should have responsibility for approving and periodically (at least annually) reviewing the credit risk strategy and significant credit risk policies of the bank. And, senior management person should have responsibility for implementing the credit risk strategy approved by the board of directors and for developing policies and procedures for identifying, measuring, monitoring and controlling credit risk. Such policies and procedures should address credit risk in all of the bank's activities and at both the individual credit and portfolio levels.

Finally, the practices of credit risk management activities is significantly importance for Sathapana limited to recognize the loan performance which can lead to improve customer credibility, increase profits lines, better customer service, reduce credit risk activities and improved financial performance. Thus, credit risk management activities factors have many advantaged to improve company's loan performance by measuring, monitoring and controlling loan repayments on borrower that organization needed to specially practice.

## **5.2 Suggestion and Recommendations**

The suggestion and recommendation of this study are aimed for the advantages of Sathapana limited. This study helps the employer and employee of Sathapana limited to realize whether the four credit risk management activities can influence on loan performance.

Sathapana limited of credit risk management activities showed that internal control over credit risk is the most important for loan performance because of this activity has the largest mean value among four credit risk management activities. Thus, Sathapana limited of the credit risk management activities is successfully created by internal control over credit risk factor. Therefore, organization need to manage or maintain its credit risk management activities to improved its loan performance.

Sathapana limited should be more emphasized on credit administration activities because of its activities has the smallest mean value among four credit risk management activities. Sathapana limited should have sound credit administration system for monitoring the condition of individual credits, including determining the adequacy of provisions and reserves. And, this organization should have information systems which provide adequate information on the composition of the credit portfolio, including identification of any concentrations of risk. Sathapana limited should have sound credit administration to take into consideration potential future changes in economic conditions when assessing individual credits and their credit portfolios.

According to the correlation analysis, the credit risk management activities factors – credit risk environment, credit appraisal process, credit administration and internal control over credit risk showed the positive correlation relationship with loan performance. Therefore, credit risk environment, credit appraisal process, credit administration and internal control over credit risk are strongest factor to build the relationship with the loan performance. Sathapana should focus on credit risk environment, credit appraisal process, credit administration and internal control over credit risk which is essential required for the loan performance improved as a consequences.

Sathapana limited should be more emphasized on credit risk environment activities because of its activities has the showed the weak value result in correlation analysis with loan performance among four credit risk management activities. Therefore, Sathapana limited was needed to effective in follow up and supervising the borrowers, in identifying in the area of the repayments history of borrowers, in encouraging the training program, in the area of credit risk, in designed credit administration and loan documentation procedures, in setting appropriate plan and procedures to manage credit risk environment, in designing detailed and formalized credit evaluation process, and in implementing sound principle to identify measure, monitor and control credit risk.

For credit appraisal process, the Sathapana limited should establish overall credit limits both at individual borrowers and counterparties level since this is critical in credit appraisal process. The Sathapana limited should have a system for

monitoring the condition of individual credits, including determining the adequacy of the provisions.

For credit administration, organization should more develop a credit risk strategy or plan and adopt the necessary policies and procedures for conducting credit environment. In addition, Sathapana limited of senior management should develop policies and procedures for identifying, measuring, monitoring and controlling credit risk.

For internal control system, Sathapana should have a sound internal control system for conducting ongoing assessment of the organization's credit risk management process. The Sathapana limited seeks to minimize the exposure of their losses emanating from loan delinquencies and defaults. Thus, this organization of credit risk management activities can be exposure of their losses emanating from loan delinquencies and defaults because the credits risk management methods are loss control, loss financing and internal risk reduction.

It can be provided suggestions regarding credit risk management activities that employer or employee need ability to find and keep better credit risk management policy that is the key driver to improve its loan performance. Therefore, organization's board of directors should approve the bank's strategy for selecting risks and maximizing profits. Moreover, the board of director and senior management should periodically review the financial results of the organization and, based on these results, determine if changes need to be made to the strategy. The board of director must also determine that the organization's capital level is adequate for the risks assumed throughout the entire organization.

Generally, to reduce and protect of credit risk environment for Sathapana limited, this organization is no organize credit risk management committee at branch level. Therefore, this organization need to organize this committee at branch level, it is better for the institution to have this committee since the committee is useful in implementation of the credit risk implementation of the credit risk policy, in monitor credit risk environment and in deciding delegation of credit approving powers that in turn result good credit risk management in the institutions.

If, Sathapana limited to give enough loans to the borrowers in order to keep/prevent the borrowers to seek additional loans that increase liability on borrowers and reduce the capacity of repayment. In addition, the Sathapana limited

should work more on creating of awareness to their clients about awareness make the client to use loan effectively and help the institutions to minimize credit risk. Sathapana limited should be supported or provided for the unsuitable repayment period since the majority of borrowers were farmers that depend on climate condition for their productivity. Finally, it is better for the institutions to focus on recruitment of qualified employees since those people are with better understanding about credit risk.

### **5.3 Limitation and Need for Further Research**

This study mainly analyzed on the relationship between credit risk management activities and loan performance of Sathapana limited according to the available data. The data were collected from Sathapana limited of employees totally 120 staffs using sampling methods. This study only sampled Sathapana limited. The main limitation of study was inability to include more organizations. The study also faces challenges of time resources limiting the study from collecting information for the study particularly where the respondent delay in filling the questionnaire and travelling for collection the filled questionnaire. The respondents were found to be uncooperative from the respondents because of the sensitivity of the information required for the study. Some respondents may have confused question to answer and some respondents have given false information and response related with their job. The researchers explained to the respondents that the information they provided was to be held confidential and was only for academic purpose only.

The study investigated the impact of credit risk management activities on loan performance of Sathapana limited in Myanmar. A further research should be carried to determine the effects of credit risk management activities on loan performance of the banking institution or other microfinance organization in Myanmar. The study also recommends that a further study should be carried out to determine the effects credit risk management activities on financial performance in other microfinance institution or bank.

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## APPENDIX

### QUESTIONNAIRE

Dear Respondent,

I am a MBF candidate in Yangon University of Economics. I am working on my research thesis regarding credit risk management on loan performance. The main purpose of this research is to investigate measures the effect of credit risk management on loan performance of SATHAPANA (Myanmar) Limited. The reason I send this questionnaire for conducting a surveyed study. I would appreciate if you could fill out the questionnaire. I hope that you will find the time to participate in this test. Based on your feedback, the questionnaires will be interpreted.

The survey is likely to take about 10 minutes. All of the questions are of the tick box variety and so are easy to complete. I ensure your anonymity and will not share your information with any other organization.

#### Section (A) General Information

*Please tick (✓) at the appropriate box/column (or) write in your answers where appropriate items.*

##### 1. Demographic profiles of respondent

###### Gender

Male  Female

###### Age

Under 20  21-30  
 31-40  41-50  51 and over

###### Marital status

Single  Married  Other

###### Education Level

High School Level  College or University Student (Studying)  
 Graduate  Master  
 Ph.D  Other

**Yours' Position Level in Company**

- Manager                       Assistant Manager
- Executive                       Supervisor
- Staff

**Yours' Department in Company**

- Admin & HR                       Finance & Account
- Sales & Marketing                       IT & MIS Department
- Audit                       Operation Department
- Credit Department                       Other

**Years of experience**

- Less than 1 year                       1 to 3 years
- 3 to 5 Years                       Above 5 Years

**Income level (Kyat)**

- Below 300,000                       300,001 – 500,000
- 500,001 – 800,000                       800,001 – 1, 200,000
- 12,000,001 – 15,000,000                       Above 15,000,000

**Section (B) Credit Risk Management Activities and Loan Performance  
Questions**

The following questionnaires are designed to analysis the effect of credit risk management activities on loan performance of SATHAPANA (Myanmar) Limited. There, 5 is strongly agreed, 4 agreed, 3 is normal, 2 is disagreed and 1 is strongly disagreed.

**(1) Credit Risk Environment**

Sr. No	Description	1	2	3	4	5
1	The board of directors approves the credit risk strategy and significant credit risk policies of the bank					
2	The senior management in our bank strictly implements the credit risk strategy approved by the board of directors					
3	The senior management in our bank develops policies and procedures for identifying, measuring, monitoring and controlling credit risk					
4	The credit risk policies and procedures developed address credit risk in all the banks activities and at both the individual credit and solidarity group levels					
5	This organization was recognized regularly customer who are most able to contribute to sustainable development, therefore enhancing the ability of the organization system					

(2) Credit Appraisal Process

Sr. No	Description	1	2	3	4	5
1	Our organization are check detail information income, repayment capacity, employment history and etc., of the applicants for loans					
2	Our organization operates within sound ,well defined credit appraisal criteria					
3	Our organization always checked on regular customers repay loan, loan processing time, credit limits for borrowers and legal action on default payment customer to prevent credit risk factors.					
4	Our organization has a clearly established process for approving new and refinancing of existing credits					
5	Our organization has established overall credit limits both at individual borrowers and solidarity group borrowers					

(3) Credit administration

Sr. No	Description	1	2	3	4	5
1	Our organization was gathering and analyzing according to this organization's policies and procedures for the process of client selection.					
2	Our organization has clearly provisions on loan repayment, enforcement and litigation on their customer					
3	Our organization has information systems and analytical techniques that enable management to measure the credit risk inherent in all on and off balance sheet activities					
4	Our organization has a system for the ongoing administration of various credit risk bearing					
5	Our organization has a system for monitoring the condition of individual credits, including determining the adequacy of the provisions and reserves					

(4) Internal Control

Sr. No	Description	1	2	3	4	5
1	Our organization has strong internal control system for conducting ongoing assessment of the business's credit risk management process					
2	Our organization was kept appropriate records ensures that documentation exists for each business transaction					
3	Our organization made sure loan and saving documentation is complete, specific record and verification.					
4	The internal control system ensures that the credit exposures that are exceptions to policies , procedures and limits are reported in timely manner to the management					
5	Our organization has a system for early remedial action on deteriorating credits and managing problems credits					

(5) Loan Performance

Sr. No	Description	1	2	3	4	5
1	This organization of better management on credit risk environment system lead to improve loan performance					
2	This organization of better management on credit appraisal process lead to improve loan performance					
3	This organization of better management on credit administration process lead to improve loan performance					
4	This organization of better management on internal control over credit risk lead to improve loan performance					