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THE EFFECT OF CREDIT ASSESSMENT PRACTICES ON SMEs LOAN PERFORMANCE AT KBZ BANK

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THE EFFECT OF CREDIT ASSESSMENT PRACTICES ON SMEs LOAN PERFORMANCE AT KBZ BANK

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ABSTRACT

This study aimed to identify the credit assessment practices of SMEs loan at KBZ Bank, analyze the effect of credit assessment practices on SMEs loan performance at KBZ Bank and analyze the moderating effect of loan tenure on the relationship between credit assessment practices and SMEs loan performance at KBZ Bank. Simple random sampling method is used to select 115 bank staff out of 135 staff working in SME credit function at KBZ Head Office. The descriptive statistics and multiple linear regression were used in the study. Secondary data were collected from various sources such as textbooks, previous research papers, journals, and relevant documents of KBZ Bank official websites. The study found that credit risk identification and credit risk monitoring had significantly and positively effect on SMEs loan performance in the analysis of the effect of credit assessment practices on SMEs loan performance. There was no effect of credit risk analysis and appraisal and credit approval on SMEs loan performance at KBZ Bank. When the moderating effect of loan tenure on the relationship between credit assessment practices and SMEs loan performance at KBZ Bank was analyzed, there was positive significant moderating effect of loan tenure on relationship between two credit assessment practices (credit risk analysis and appraisal and credit risk monitoring) and SMEs loan performance. The study recommended that KBZ Bank should review its credit assessment practices to ensure they are thoroughly and consistently applied in all SME loan applications. This will help to reduce the risk of non-performing loans and improve loan performance.

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LIST OF ABBREVIATIONS

ADL	- Authorized Dealer License
ALCO	- Assets and Liability Committee
BARC	- Board Audit and Risk Committee
BCC	- Board Credit Committee
BNRC	- Board Nomination and Remuneration Committee
BOD	- Board of Directors
CB	- Cooperative Bank
CBM	- Central Bank of Myanmar
CGI	- Credit Guarantee Insurance
CSR	- Corporate Social Responsibility
DICA	- Directorate of Investment and Company Administration
JICA	- Japan International Cooperation Agency
KBZ	- Kanbawza
KCB	- Kenya Commercial Bank
KYC	- Know Your Customer
MPT	- Modern Portfolio Theory
OD	- Overdraft
RM	- Relationship Manager
SMIDB	- Small & Medium Industrial Development Bank
SMEs	- Small and medium-sized businesses
SPIPC	- Social Purpose and Impact Partnership Committee

CHAPTER 1
INTRODUCTION

Small and Medium Enterprises (SMEs) play a significant role in fostering economic growth, creating job opportunities, and promoting innovation in developing countries like Myanmar. However, access to financing is a persistent challenge that hinders the growth and development of SMEs. According to the World Bank (2020), an estimated 66 percent of SMEs in Myanmar cited access to finance as a significant constraint to their operations, highlighting the need for effective credit assessment practices to enhance SMEs' loan performance.

Access to finance remains a major obstacle for SMEs, hindering their growth prospects. SMEs often face difficulty accessing loans from conventional financial institutions due to factors such as insufficient collateral, lack of credit history and perceived high risk. However, financing is crucial for SMEs to invest in infrastructure, purchase equipment, expand production, and develop new products or services. The financing of SMEs is a critical aspect of promoting economic development in Myanmar.

Banks play a critical role in providing financial assistance to SMEs. They serve as intermediaries that bridge the gap between the surplus funds of savers and the financing needs of borrowers, including SMEs. Through proper credit assessment practices, banks evaluate the creditworthiness and risk profile of SME borrowers, thereby ensuring responsible lending. Additionally, banks can offer advisory services, training programs, and other value-added support to enhance the overall competitiveness and financial literacy of SMEs.

KanBawZa Bank is a prominent financial institution dedicated to supporting SMEs in Myanmar. Understanding the unique challenges and financial requirements faced by SMEs, KBZ Bank has developed specialized loan products and services tailored to their needs. These loan products encompass a range of financing options, including business term loans, trade financing and working capital loans. By offering these solutions, KBZ Bank aims to empower SMEs and contribute to Myanmar's economic growth and development. Understanding the effect of credit assessment practices on SMEs loan performance at KBZ Bank will provide valuable insights into the factors that contribute to the success of SMEs in Myanmar's business landscape.

1.1 Rationale of the Study

Small and medium-sized enterprises (SMEs) are crucial in driving economic growth, job creation, and innovation in many developing countries. However, they often struggle to access financing due to limited assets and high risk. KBZ Bank is a leading financial institution in Myanmar, playing a significant role in serving SMEs. Therefore, it is essential to explore how KBZ assesses creditworthiness and factors it considers in granting loans to SMEs.

Since loan performance in Myanmar's banking industry is reliant on credit assessment practices, financial institutions must evaluate loan applications carefully. Assessing the borrower's capacity and willingness to fulfill payment obligations, including interest and principal, is of utmost importance. Credit assessment practices also investigate the source of funds from which the borrower will access, ensuring informed decision-making and minimizing the credit risk of SME loans. Out of the 28 domestic banks operating in Myanmar, most provide SME loans to businesses as the sector is a significant driver of the country's economic growth. KBZ Bank provides the loans into three broad classes; defined by the purpose of the loans and based on the loan amount, namely Corporate Loans, SME Loans and Home Loan.

KBZ Bank is recognized for its excellent financial services and serves as a reliable source of funding for SMEs. KBZ Bank offers business term loans to SMEs, enabling them to finance a variety of business-related expenditures. Whether it be working capital requirements, expansion plans, or investment in machinery and equipment, this loan product accommodates the diverse needs of SMEs.

SMEs loan performance of KBZ Bank also depends on credit assessment practices. The credit assessment practices are undertaken to review credit applications and determine whether a loan will be granted to the applicant. The practices seek to determine the borrower’s ability and willingness to honor payment obligations (including interest and principal) on time and in full. The practices also investigate the source of funds from which the borrower will make to make an informed decision. To minimize the credit risk of SMEs loans, to increase the loan performance, assessing creditworthiness of borrowers by evaluating capacity of borrower's ability to meet the loan payments of interest and principal.

The credit assessment practices are the main role to improve SMEs loan performance of KBZ Bank. If the SMEs credit loan can be assessed systematically, the loan performance will be good. The loan tenure as a moderating factor will be one of the factors that provides to be good at loan performance of the bank in assessing credit loan. Loan tenure are recognized carefully after assessing underlying on the aim of taking SMEs loan, nature of SMEs business, financial analysis and repayment capacity. Effective models in credit assessment practices can improve credit processing, enhance the quality of SME loans, and provide a competitive advantage for KBZ Bank. Poor credit assessment practices can lead to loan default and non-performing loans, creating a burden for SMEs and banks and increasing the risk of court intervention.

By identifying the key credit assessment practices, the study intends to provide insights that can help improve the bank's lending policies and enhance its SME loan performance. Insights from this study can help policymakers and other financial institutions understand the best practices for assessing creditworthiness and making loan decisions for SMEs. Ultimately, such understanding can help improve SMEs' access to finance, which, in turn, can spur economic growth and development in developing countries.

1.2 Objectives of the Study

The main objectives of the study are as follows:

1. To identify the credit assessment practices of SMEs loan at KBZ Bank.
2. To analyze the effect of credit assessment practices on SMEs loan performance at KBZ Bank.
3. To analyze the moderating effect of loan tenure on the relationship between credit assessment practices and SMEs loan performance at KBZ Bank.

1.3 Scope and Methods of the Study

This study focuses on credit assessment practices of SMEs loan performance at KBZ Bank. This study gives more emphasis for credit assessment practices such as credit risk identification, credit risk analysis and appraisal, credit approval and credit risk monitoring. The data are collected from 115 bank staff out of 135 staff from SME credit function at KBZ Head Office selected by using simple random sampling method. This sample represents 85% of the staff in the SME credit function. The data collection period is in May, 2023. A quantitative research method is used in this study. The descriptive statistics and multiple linear regression are used to analyze the collected data. Both primary data and secondary data are used to achieve the objectives of this study. The primary data is collected by using structured questionnaires with a 5-point Likert scale. The secondary data is collected from documents and websites such as textbooks, previous international research papers, periodical journals, relevant documents of KBZ Bank official reports and websites.

1.4 Organization of the Study

This study is composed of five different chapters. Chapter one presents introduction of the study, and it includes rationale of the study, objectives of the study, scope and methods of the study, and organization of the paper. Chapter two consists of about theoretical background. Chapter three presents Profile of KBZ Bank and credit assessments practices at KBZ. Chapter four presents analysis on the effect of credit assessment practices on SMEs loan performance at KBZ Bank. Finally, chapter five describes the findings and discussions, suggestions, recommendations, and the need for future study.

CHAPTER 2
THEORETICAL BACKGROUND

This chapter provides a comprehensive overview of the theoretical background related to credit assessment practices. It discusses the 5 C's model for credit, credit scoring, modern portfolio theory, credit assessment practices, credit assessment practices and loan performance of commercial banks, previous studies, and presents the conceptual framework of the study.

2.1 Credit Assessment

Credit assessment is the practice of examining the ability of a loan applicant and making a conclusion as to whether to approve their loan application or decline. Omara (2007) asserts that if bank lending is not properly assessed, the level of repayment risk exposure increases because the loan beneficiary may not be having repayment capabilities. The financial wellbeing of any financial institution depends substantially in the process of determining those who have a high probability of loan defaulting, while, selecting those with high chances of repaying the loan. According to Derban et al. (2005), loan applicants need to be screened by banks carefully to determine their ability to repay the advanced principal together with the interest as and when they fall due. He further notes that a compelling credit analysis should include qualitative and quantitative techniques when assessing the borrowers. And that serving borrowers requires robust loan appraisal and monitoring systems. A sound credit policy in a banking institution helps in the issuance of better quality loans which get fully repaid hence lowering the credit risk exposure. They need to set minimum standards for loan applicants who qualify regarding the points awarded in the assessment process. The policy must be applied equally across all loan applicants.

The decision of granting a loan is arrived at after an analysis has been carried out by a committee of more than one person, thus reducing the risk of one person abusing the authority granted (Simson & Hampel, 1999). There are various methods of assessing the creditworthiness of borrowers, which includes; the 5 C’s Model for Credit, Credit Scoring, and the Modern Portfolio Theory (MPT).

2.2 Model and Theory Related for Credit Assessment Practices

This section presents the model and theory related to credit assessment practices as follows.

2.2.1 The 5 C’s Model for Credit

The 5 C’s Model for Credit has been proposed as a framework for financial institutions to formulate credit policies for their transactions (MacDonald et al., 2006). The model encompasses five crucial factors that commercial banks utilize in their credit management, ultimately leading to enhanced loan performance. These five factors are borrower's character, capacity to repay, collateral, capital, and economic conditions (MacDonald et al., 2006).

Specifically, character reflects the borrower's level of commitment in fulfilling loan obligations, capacity denotes the borrower's capability to make regular payments and repay debt without significant challenges, and capital reflects the borrower's wealth position in terms of market standing and capital adequacy. Collateral serves as security for loan disbursements in case of defaults, while economic conditions capture the external environment factors that influence loan recovery but are not under the lenders' control. By employing the 5 C’s Model for Credit, banks conduct client appraisals to limit non-performing loans, and practice effective risk management by lending only to creditworthy customers who can easily repay their loans. As a result, bank loan performance can improve by minimizing cases of default loan repayments.

2.2.2 Credit Scoring

Credit scoring models are statistical tools utilized by credit institutions such as banks to evaluate the creditworthiness of potential creditors and assess credit risks. Such models predict the likelihood of future undesirable behavior from a borrower by using demographic characteristics, historical data, and statistical techniques. Unlike the traditional judgmental approach based on 3C’s, 4C’s or 5Cs, a credit scoring model classifies a potential credit as either good or bad based on a mathematical calculation of credit factors. These factors are based on information such as age, previous loan history, etc. (John et al., 2016).

The credit score provided by a credit scoring model is an estimate of the possibility of a customer’s default, and a higher score denotes a lower default probability (Wah et al., 2011). The model, which allocates a rating for the credit quality of a loan request, is adaptable to many areas of interest and is commonly used by financial institutions to adjust their risks and monitor their portfolio (Deloitte, 2016).

2.2.3 Modern Portfolio Theory (MPT)

According to Francis and Kim (2013), Modern Portfolio Theory (MPT) was first published by Harry Markowitz in 1952 in his journal of Finance. Although Markowitz is associated with the theory, he was not the first to appreciate the power of diversification. The core principle of MPT is to achieve maximum returns on investment with minimal market risk. This theory suggests that investors should select the lowest risk allocation to achieve specific returns. In order to minimize risk, financial institutions such as banks should apply MPT in their investment portfolio to achieve maximum returns (Elton, 2010).

A portfolio should include multiple investments to minimize general risk. The assets within the portfolio should be less correlated to each other to reduce net risk (Picerno, 2010). This diversification approach balances both return and risk to achieve maximum returns and minimize risks. The concept of MPT is also valuable in the credit assessment process in the banking system. Saunders and Allen (2010) suggest that banks and other financial institutions should have a clear framework strategy for monitoring credit advanced and for deciding when to apply workout strategies when credit performance starts to deteriorate. Efficient management of credit facilities enables full and orderly payment of loans and enhances the bank's chances of success.

2.3 Credit Assessment Practices

The followings are credit assessment practices which effect loan performance in banking.

2.3.1 Credit Risk Identification

Credit risk identification is the first step of credit assessment practices, and also is the basis of the whole credit assessment practices, because it determines the direction and scope for risk assessment.

For risk identification, there are so many methods and techniques for loan managers to identify potential losses. At least basic three techniques are available to supplement the analysis. These methods include Business analysis, field investigation and statistical analysis of losses.

(a) Business Analysis.

Loan managers in commercial banks can research and analyze business situation of enterprises to find out the potential risks and they can also discover future exposures with financial forecast and financial budgets. Financial information reflects the valid evidence for the company, and it can reveal information for public, so loan managers can get information easily.

(b) Method of Field Investigation.

Loan managers can understand the way they are conducted, how to do for each link, and learn much about the activities, so they can immediately and sufficiently find out mistakes during the activities which may cause the potential risks.

(c) Statistical Analysis of Losses.

It is a method of loan managers try to verify risks from available records of losses. Credit risk managers need collect information and get the statistical data on past losses to predict costs. According to this method, credit risk managers merely consider existing risks, so the company should be careful about these risks.

2.3.2 Credit Risk Analysis and Appraisal

Credit risk analysis and appraisal are critical components of credit assessment in banking. Credit risk analysis refers to a comprehensive process of understanding creditworthiness of a potential borrower or a loan portfolio through evaluating various risk factors such as financial, economic, and behavioral constraints. Appraisal, on the other hand, is an assessment of the value or worth of a collateral by a qualified appraiser.

Analyzing credit risk involves gathering and assessing a wide range of information about the borrower, such as financial statements, credit history, and market trends. The goal is to identify potential risks that may cause an increased likelihood of default on the loan. According to Eichner and Yaniv (2021), credit risk analysis is a dynamic process that includes monitoring and managing the risk of existing loan portfolios throughout the life of the loan. Institutions apply a range of quantitative and qualitative techniques to identify and mitigate risk factors in credit risk analysis.

Appraisal is an essential part of credit assessment. It helps assess the value of assets put up for collateral to determine their worth and how much value they can provide as security for a loan. Appraisal is vital in cases where the borrower fails to repay loans, and the lender needs to liquidate the assets to recover the funds. The value of the collateral can result in the amount the bank approves on a loan and ultimately help mitigate the credit risk the bank faces. According to Bhattacharya (2019), accurate appraisal of collateral is crucial in assessing creditworthiness and determining the profitability of lending.

Credit risk analysis and appraisal are essential components in the assessment of credit worthiness of borrowers. Proper credit risk analysis identifies the risks associated with loan portfolios and helps minimize them. On the other hand, appraisal ensures that the collateral is assessed accurately, which mitigates the credit risk and helps lenders recover the loan amounts if the borrower defaults. Therefore, financial institutions need to apply effective credit risk analysis and appraisal aimed at minimizing the risk of loan repayment and default.

2.3.3 Credit Approval

Every lending institution should have sound credit approval authorities that would analyze each application and objectively approve or decline the application based on facts. Approval authorities sanctioned by the board of directors are prudent credit practitioner. The approval practice should be based on a system of checks and balances. The practice of credit approvals ensures that all the due process of loan assessment has been adhered to before the loan is advanced to the borrower. This includes approval of documents and other securities before money is availed to the borrower. For proper credit management, a financial institution should ensure that there is adequate collateral, documentation and trusted guarantees. Zimbalchew (2015) stated that proper disbursement practice will also help the bank to have appropriate resources to take legal action in case the borrower fails to pay, thus reducing incidences of bad loans.

(a) Internal Documentation and Credit Agreements

Documentation comprises the internal compilation of files as well as the preparation and conclusion of credit agreements. The credit file is the central instrument of documentation. It should include all documents and decisions relevant for the credit approval so that it is possible to review the credit approval process at any time.

(b) Credit Disbursement Check

In order to ensure the proper disbursement of credit, it is recommended to conduct a final check on the individual credit exposure before funds are released. The comprehensive check should cover internal guidelines compliance, completeness of the credit application, receipt of confirmation that the credit applicant has complied with the imposed conditions, and signing of the credit and collateral agreements according to the decision-making structure. There are various models available for executing the credit disbursement check; centralizing the check for segments with a large number of similarities may yield greater efficiency. Alternatively, immediate superiors of the employees responsible for the credit exposure may also perform the credit disbursement check in many instances (KPMG, 2009).

2.3.4 Credit Risk Monitoring

It is critical for commercial banks to conduct regular monitoring of borrowers' status and re-evaluate their credits and commitments, as well as their ratings, to ensure the health of their credit portfolio. Dependence on unreviewed credits can result in the unnoticed and severe deterioration of the bank's credit portfolio. Given that credit officers have frequent contact with borrowers, they are well-positioned to detect shifts in their financial condition or operations. Therefore, to maintain credit quality, credit review systems must mandate the monitoring of credit quality by credit officers, where appropriate.

(a) Monitoring of credit exposures and borrowers

The credit department have to monitor all outstanding amounts and limits under their credit facilities. Whether borrower and collateral remain in line with the credit risk policies and conditions set at the point of origination should be monitored. Monitor and assess the quality of credit exposures and borrowers’ financial situations need to be monitored and assessed. All outstanding amounts under their credit facilities are monitored and regular reviews on borrowers' payment performance should be made.

(b) Credit review of professionals

The credit officer is responsible for conducting regular credit reviews of loan recipients, aimed at identifying any changes in their creditworthiness compared to the original loan acquisition process. If the credit or asset quality of a recipient deteriorates, the credit officer conducts more frequent reviews. The credit officer examines whether credit reviews are executed in line with the credit risk policies and procedures of the lender. To identify early warning signals of declining credit quality, the credit officer updates relevant financial data periodically and evaluates it against creditworthiness criteria. Additionally, the ability of borrowers to repay or refinance their debts is monitored, while guarantors' creditworthiness and enforceability of their guarantees, along with the time required to enforce them, are also reviewed.

(c) Monitoring of covenants

The monitoring of collateral insurance requirements is a crucial aspect in ensuring compliance with credit agreements. Covenants, which include adherence to specific financial ratios and the timely submission of required information, serve as early warning signals for any potential deviations by borrowers. Jackson (2011) emphasized that the monitoring of covenants is one of the most effective ways to assess the creditworthiness of a borrower. Using warning signals such as deviations from financial ratios or late submission of information, lenders can take necessary actions to mitigate risks and prevent potential loan defaults.

2.4 Loan Tenure

Loan refers to a financial arrangement in which monetary assistance is provided to borrowers and repaid through regular installment payments over a predetermined period. The length of time it takes for the borrower to repay the loan is commonly known as the loan duration or term. Loan tenure refers to the specified duration within which the loan principal, as well as interest, is fully paid off through regular payments. In other words, it is a period from the date of disbursement of loan to the last payment or closure of loan (Roslan & Karim, 2009). Loan tenure usually last between one and five years, but it can last as long as 20 years in some cases.

2.5 Loan Performance

Loan performance refers to the ability of borrowers to make timely and full payments on their loans. A high loan performance indicates that the borrower has the financial capability to repay the loan as agreed and that the risk of default is low. Loan performance is a crucial aspect of financial stability for both borrowers and lenders. It is necessary to assess the borrower's ability to make the timely and full repayment of the loan amount. Various factors affect loan performance, such as economic conditions, interest rates, repayment history, etc. According to Grais and Pellegrini (2006), there is a direct relationship between economic conditions and loan performance, where a decline in economic conditions leads to poor loan performance.

Loan performance of bank is measured in terms of loan defaults of borrowers. A non-performing loan refers to the sum of advanced money that a borrower has failed to make at least a scheduled payment within a period of ninety days (Mulyungi & Mulyungi, 2020). It also involves the unsettlement of scheduled principal and interest payments. Non-performing loans are considered defaulted or almost default and such loans are repaid substantially lower amounts in full settlement. Loan defaults emanate from unfavorable circumstances affecting the ability of the borrower to make repayments. According to Absanto and Aikaruwa (2013), common reasons for loan defaults are varied and include borrowers' reluctance to make repayments, lack of regular follow-ups by financial institutions, unforeseen events like death, illness or lay-offs on the part of a borrower, poor business performance, misdirecting the loan to unintended use, as well as inadequacies in monitoring loan performance. Application of credit assessment practices is crucial as they help in the prudent valuation of loans as well as ascertaining appropriate loan provisions.

2.6 Credit Assessment Practices and Loan Performance of Commercial Banks

The evaluation of borrowers' creditworthiness and credit quality is the main focus of credit assessment. The process involves analyzing information provided by borrowers to determine their position, as noted by Holton (2003). Credit assessment relies on the borrower's character, collateral, capability, and capacity. Factors taken into account during this process include the borrower's income, dependents, monthly expenditure, repayment capability, employment history, length of service, and other elements that can impact their credit rating, as indicated by Kithinji (2010).

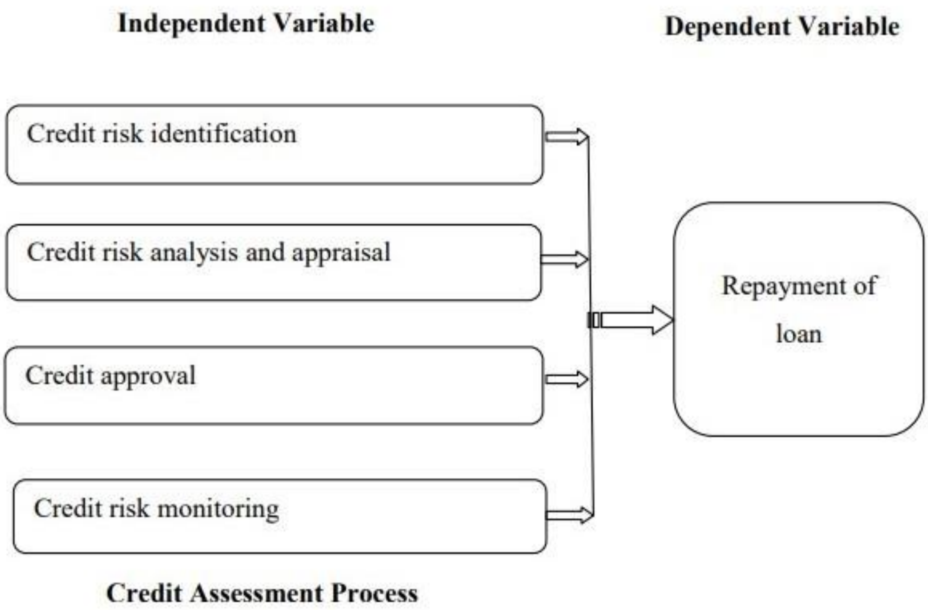
Credit appraisal is the assessment of various risks that can impact loan repayment (Ndyagyenda, 2020). The appraisal process may range from simple to elaborate depending on the loan's purpose and quantum. For small personal loans, credit scoring techniques based on income and lifestyle may be adequate. Nevertheless, for project financing loans, technical, commercial, marketing, financial, managerial appraisals are essential, as well as implementation schedules and abilities (Ndyagyenda, 2020). The main goal of credit assessment is to provide comprehensive information about potential risks and to minimize their negative impact by either avoiding them, reducing their likelihood and impact, accepting their occurrence, or creating contingency plans (Maliisa, 2013).

From a managerial perspective, accurate credit assessment serves two critical purposes. Firstly, it helps exclude borrowers who pose excessive credit risk from consideration. Secondly, for those borrowers who pass the initial screening, it helps determine the appropriate credit limit and pricing for the extension of credit. In this way, credit assessment assists institutions in aligning their expectations of risk and return with portfolio performance constraints (Cole, Glenn, & Brent 2005). According to Mallisa (2013), credit assessment offers lenders detailed information about a particular risk, outlines how to avoid or reduce its likelihood and prepares contingency plans to accommodate it. One method of improving credit assessment, according to Masheta (2018), is to use credit scores. The practice of credit assessment aids in evaluating credit and supplier risk, making smart and informed credit decisions, mitigating risk, and maintaining excellent loan performance.

2.7 Previous Studies

In 2017, Khamis Sila Francis conducted a study titled "Influence of Credit Assessment Process on Repayment of Kenya Commercial Bank Loans in South Sudan" to evaluate the impact of credit assessment procedures on loan repayment rates at Kenya Commercial Bank (KCB) South Sudan Limited. The non-performing loans of KCB South Sudan Ltd exceeded the approved levels, influencing the overall business performance of the group. The research employed a descriptive research design, focusing on KCB South Sudan Limited. Secondary and primary data were utilized in this research. Data was analyzed and the descriptive statistics was done by the use of percentages, frequencies, means and standard deviations. Inferential statistics were computed with the aid of regression analysis.

Figure (2.1) Conceptual Framework of Credit Assessment Process on Repayment of Loan

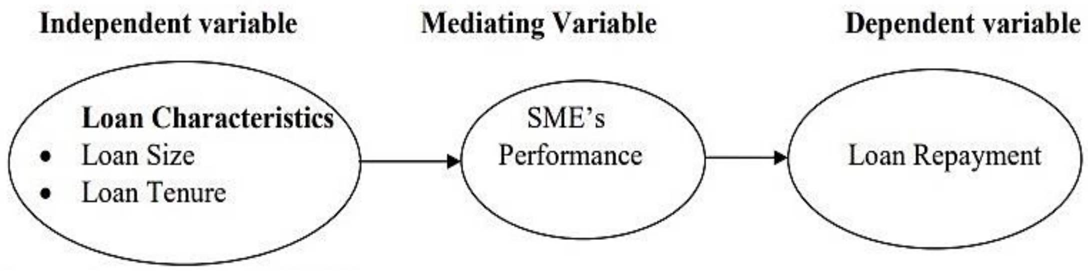


Source: Francis (2017)

From the regression analysis, it indicated that all the factors had an influence on repayment of loans with credit approval, credit risk monitoring, credit risk analysis and appraisal and credit risk identification. The study also found out that 62.2% of the repayment of bank loans at Kenya Commercial Bank South Sudan Limited was explained by the independent variables while only 37.8% of the variations were due to other factors. The study found out that in order to assess the credit risk of a loan advanced the lending institution needs to check the borrowers‟ economic and legal situation, assessing the environmental situation.

In a study conducted by Bala et al. (2019), loan characteristics, loan repayment, and performance of small and medium enterprises (SMEs) in Kano Metropolitan were analyzed using a mediating model. SMEs play a vital role in the development of both developing and developed nations. The research focused on loan size and loan tenure as proxies for loan characteristics. Data was collected from 108 respondents using a structured questionnaire, and a simple random sampling technique was employed. The collected data was analyzed using correlation and multiple regression analysis.

Figure (2.2) Conceptual Framework of Loan Characteristics, Loan Repayment and Small and Medium Enterprises

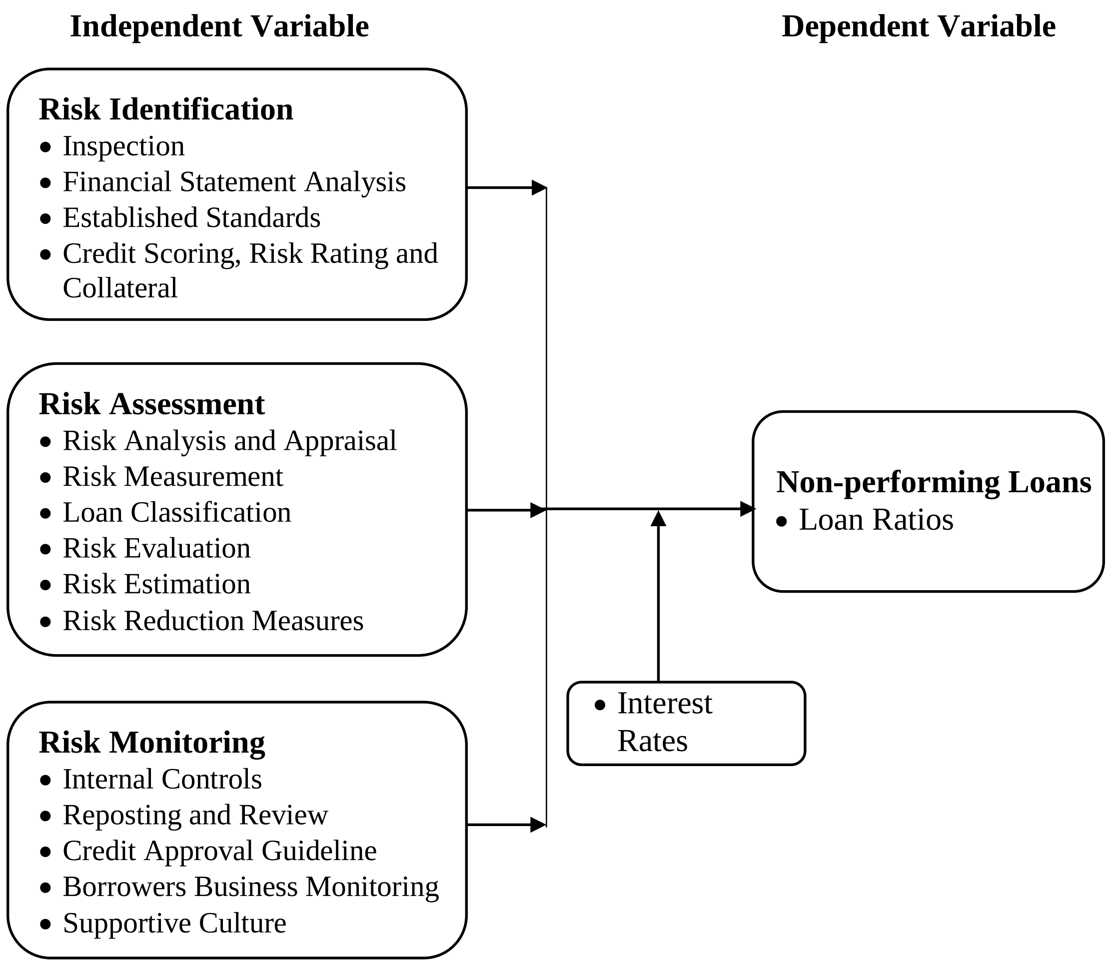


Source: Bala et al. (2019)

According to the findings of the study, there was a significant positive correlation between loan repayment and both loan size and loan tenure. Moreover, the study revealed that the performance of small and medium enterprises mediated the relationship between loan size, loan tenure and loan repayment. As a result, it was recommended that financial institutions should maintain an average loan size and loan tenure while granting loans. It is also suggested that adjustments should be made based on the borrower's cash flow, in order to improve the repayment performance of small and medium enterprises.

According to Makori (2012), a study was conducted to investigate the relationship between credit risk management practices implemented by commercial banks in Kenya and the performance of their loans. The study utilized primary and secondary data collection methods with a questionnaire containing both closed and open-ended questions being used to collect primary data. The collected secondary data emanated from annual reports of the commercial banks from the 2011-2016 period. Data on credit amounts, non-performing loans, total loans, and their values were collected. To measure credit risk management, the study employed credit risk identification, risk assessment, and risk monitoring approaches. Descriptive and inferential statistics were used to analyze the collected data.

Figure (2.3) Conceptual Framework of Credit Risk Management and Non-Performing Loans



Source: Makori (2012)

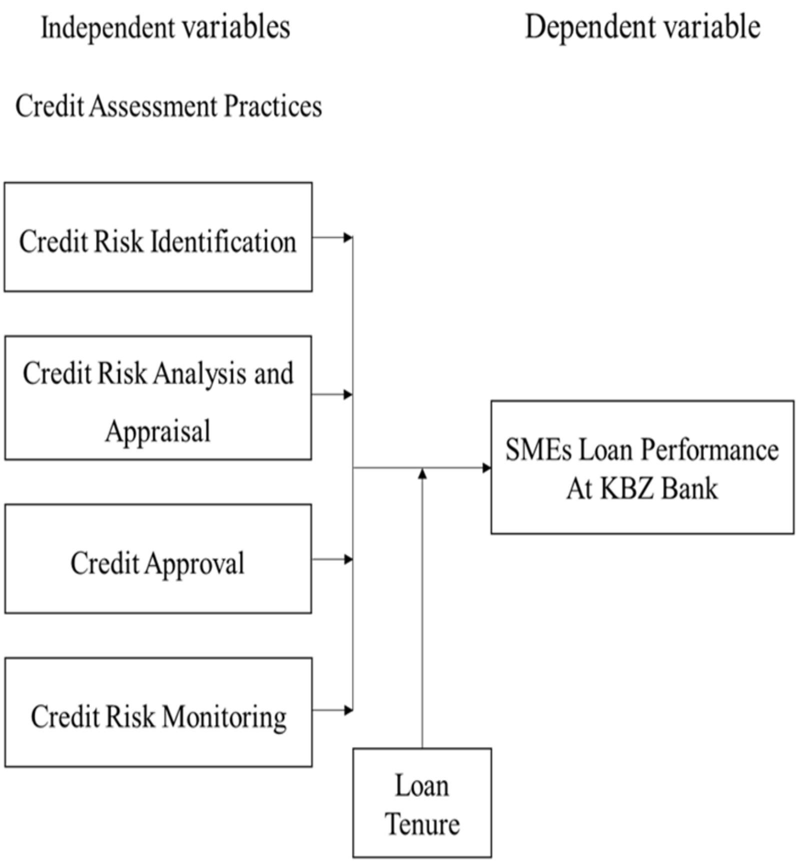
According to the study, it was determined that loan performance is positively affected by credit risk identification, credit risk assessment, and credit risk monitoring. The results suggested a significant correlation between the predictor variables of the credit risk identification, credit risk assessment, and credit risk monitoring and the response variable of loan performance, considering a P value of less than 0.05. These findings indicated a robust relationship between the study variables.

2.8 Conceptual Framework of the Study

The loan tenure, or the period for which the loan is provided, is an important factor that impacts both the credit assessment practices of banks and the SMEs loan performance. Understanding the relationship between loan tenure and credit assessment practices is important for banks to design effective credit evaluation models and lending practices that assess the loan tenure's impact on loan performance. Loan tenure also impacts the credit assessment practices of banks. Banks must evaluate the SMEs' capacity to generate sufficient cash flows to meet the repayment requirements over an extended period, using appropriate metrics and models to assess the SMEs' creditworthiness. Therefore, loan tenure is used as a moderating factor in this study.

The conceptual framework is developed based on previous studies to analyze the relationship between dependent variables and independent variables. The independent variables are credit assessment practices and whereas dependent variable is SMEs loan performance at KBZ Bank. The moderating variable of loan tenure is used to analyze the moderating effect on the relationship between credit assessment practices and SMEs loan performance at KBZ Bank.

Figure (2.4) Conceptual Framework of the Study



Source: Own Compilation

Credit risk identification refers to the practice of assessing the risk of default or payment delinquency by a borrower. Credit risk identification practice includes evaluating client integrity, reviewing client credit history, analyzing business nature, and site inspection of collateral and business.

Credit risk analysis refers to the evaluation of a borrower's creditworthiness, which involves assessing their financial history, income, debt, and overall financial health. Credit risk appraisal helps to determine the appropriate interest rate, loan terms, and collateral requirements for a loan.

Credit approval refers to the practice of approving or denying a loan or line of credit to a borrower based on their credit risk identification, credit risk analysis and appraisal.

Credit risk monitoring involves regularly reviewing cash flow check, keep track of business and collateral conditions to detect any signs of credit risk. By monitoring credit risk, banks can assess the performance of their credit portfolios, identify potential problems, and take proactive steps to minimize the risk of loss.

Loan tenure refers to the duration or length of time over which a borrower is required to repay a loan. It is the period from the disbursal of the loan to the maturity of the loan, during which the borrower must make regular payments to the lender to pay off the principal amount of the loan and the applicable interest.

Loan performance of a bank refers to how well the bank's loans are performing in terms of repayment and default rates. A bank with a high loan performance enjoys lower risk and is likely to have a stable source of income from interest on the loans.

Next chapter will discuss the profile of KBZ Bank, the credit assessment practices of KBZ Bank.

CHAPTER 3
CREDIT ASSESSMENT PRACTICES AT KBZ BANK

This chapter provides an overview of KBZ Bank, one of the largest financial institutions in Myanmar. This chapter focuses on KBZ Bank's SME loan offerings and the various products and services that the bank provides to Myanmar's small and medium-sized enterprises. In addition, the credit assessment practices that KBZ Bank employs to evaluate the creditworthiness of its SME clients are described.

3.1 Profile of KBZ Bank

Kanbawza Bank (KBZ Bank) is a privately owned commercial bank that operates in the country of Myanmar. It was established on July 1, 1994, and given permission to operate under Myanmar's Central Bank Law and the Financial Institution of Myanmar Bank Law in Taunggyi, a city located in Southern Shan State. The name "Kanbawza" is a tribute to the traditional name of the Shan State, an ethnic minority state of the Republic of the Union of Myanmar. Under the guidance of CBM, the bank's chairman manages and executes its banking operations.

In 1999, the present management took over the organization and facilitated its progression into one of the top private commercial banks in Myanmar. In 2000, KBZ Bank's headquarters was shifted to Kamayut Township in Yangon. Myanmar's Central bank granted the bank an Authorized Dealer License (ADL) in November 2011, enabling it to operate foreign banking business. Currently, KBZ Bank is the largest privately-owned bank in Myanmar, with over 500 branches.

KBZ Bank is at the forefront of Myanmar's financial services industry, especially in the areas of digital and technology. The bank's approach not only recognizes the potential of innovation but also takes into consideration the needs of the local people and the country's economic environment. KBZ Bank aims to elevate the quality of life for individuals and businesses in Myanmar by enabling them to access a wider range of financial products and services.

There are three board committees: Board Credit Committee (BCC), Board Audit and Risk Committee (BARC) and Board Nomination and Remuneration Committee (BNRC). There are four management level committees – Management Credit Committee, Assets and Liability Committee (ALCO), Fraud Committee and Social Purpose and Impact Partnership Committee (SPIPC), which are working together to manage the bank. KBZ Bank comprises of many departments and branches. There is a head in each department and a branch manager in each branch. KBZ Bank Limited is established with Board of Director and senior management team.

Across the nation, there are more than 500 branches offering bank services. It has been active in the financial industry for 29 years, offering both retail and corporate banking in Myanmar. Kanbawza Bank was also famous for its generous donations to society in many areas including CSR activities, Brighter Future Foundation and sponsorships. It has other business lines such as Jades and Gems, Banking, Trading (Export and Import), Agriculture, Air Lines, Hotel and Insurance.

3.2 SME Loans

Small and medium-sized enterprises (SMEs) make up over 90 percent of businesses in Myanmar and play a key role in driving the country's future economic development. To support the growth of these businesses, KBZ Bank provides a range of SME loan options, including financing for short-term needs, as well as long-term investment and expansion plans. Ultimately, these loan services aim to create opportunities for development and growth for Myanmar's SMEs.

For these KBZ Bank SMEs mean permanent employees minimum 5 up to 600, initial capital minimum 50 million kyats up to 1,000 million kyats and the loan amount is defined as including all loans from the proposed lower limit 10 Million kyats to 1 Billion kyats. SME Lending method is a cash flow base.

The required documents are business license form which is a valid license issued by the relevant ministry must be submitted together, company registration form, export and import license, company extract from DICA, BOD resolution, company profile (for exceptional case), receipts of income tax for the last three years (if applicable), financial statements for the last three years, personal’s documents, copy of National ID, household registration, letter of recommendation clearly stating that the business owners are living in shared quarters, guarantee that they are single. Special requirements for business are the business presented for the loan must have at least (2) years of experience. The business must be an operating business. The business must get a valid business license issued by relevant Ministry and Department. The business must pay income tax based on the profit at least three years. As collateral, the land is owned by the applicant. The land must be freehold land and grant land are within 10, 20, 25, 30, 60, and 90. The land must be Lana-39 land, 3-B land and 30-A/30-B .If a borrower don't have any collateral, banks are lending with CGI lending method to SME Business. One of the lending policies of banks is to include CGI. When a borrower lacks any collateral, banks utilize CGI as a lending method for SME businesses. Under this system, SME businessmen can opt for an SME CGI loan after purchasing guarantees from Myanmar Insurance.

As personal, the person who takes loans must be able to repay for principal and pay for interest as proposed loan tenor. The person must use KBZ bank as the principal bank. In general terms, a business loan can be categorized into three broad classes; defined by the purpose of the loan (i) SME Term Loan for capital investment, (ii) SME Overdraft for working capital and (iii) Two Steps Loan. For OD and Term-Loan Products, banks are lending from their own fund and Two Steps loans are lending from another fund (JICA Fund).

3.3 SME Products by KBZ Bank

The products related to SMEs provided by KBZ Bank are as follows:

3.3.1 SME Term Loan

SME Term Loan is suited for business entrepreneur who want to expand their own business by looking for capital financing with loan tenure 1-3 years for financing amount of MMK 10-1,000 Million. KBZ's SME Term Loan accelerates the business expansion with capital investment assistance. Term Loan (Business Expansion loan) is to provide financing for investment in fixed assets such as purchasing new machineries, factory construction, factory renovation, restaurant expansion and more. It manages better cash flow due to the flexible loan repayment schedule based on business nature and cash flow cycle. SME Term Loan can help to reduce the final lump sum repayment burden, as needs monthly principal and interest repayment. The kind of businesses which are eligible to apply for the loan are businesses that need fixed asset acquisition, infrastructures development companies (e.g: factories and warehouses), machineries and industrial vehicles purchasing companies, companies with service expansion plans.

3.3.2 SME Overdraft

SME OD is suited for business entrepreneur who is looking for working capital requirement and short-term liquidity with the loan tenure up to one year for financing amount of MMK 10-1,000 Million. Working capital needs for business operations can apply SME (OD) in KBZ Bank. For example, purchasing raw material. The business process can be better and smoother as SME (OD) needs only monthly interest repayment upon the actual principal amount used, and the principal repayment needs at the end of maturity. The processing is faster for the renewal. It helps to get better liquidity management and effective cash management. One can establish a favorable track record by maintaining a healthy cash flow through the use of an OD Account.

3.3.3 Two Steps Loan

Two Steps Loan is suited for business entrepreneur who is looking for financing to invest the capital expenditures (e.g. building factories, warehouses, shops, purchasing machineries and industry vehicles).This kind of loan can get longer-term (up to 5 years) with a lower interest rate, borrowers can implement their Business Plan and Expansion Plan for their business growth. JICA Two-Step Loan can be applied for capital Investment needs such as building a manufacturing plant, warehouse, buying machinery and vehicles.

Customers are able to apply for a JICA Loan through Kanbawza Bank to obtain the necessary capital for purchasing fixed assets and to enhance the success of their businesses. The loan of the credit tenure is up to 5 years and with low-interest rate .If the business owners take the loan with low interest rate and longer loan tenure, their business will be expanded and grown. This kind of loan helps the business owners' capital investment improve efficiency and productivity of the business. Since there is less burden on repayment schedule with monthly interest repayment and annual partial (%) principal repayment proportionately, the business growth will be faster. JICA Two-step Loans with maximum loan amount up to 500 Million to SMEs Business.

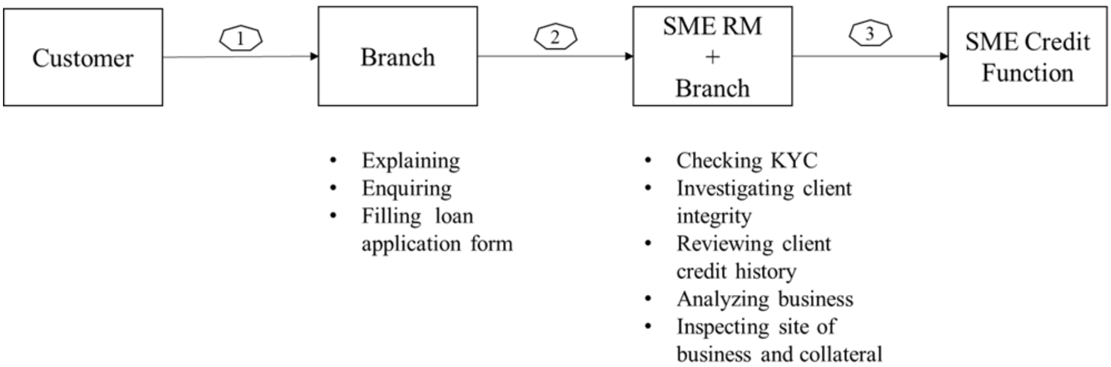
3.4 Credit Assessment Practices of KBZ Bank

As a leading bank in Myanmar, KBZ Bank has a well-established credit assessment practices for SMEs. This practices include credit risk identification, credit analysis and appraisal, credit approval, and credit risk monitoring. In this section, each of these practices and how they help KBZ Bank make informed correct credit decisions are discussed.

(a) Credit Risk Identification

At KBZ Bank, credit risk identification is the first step in the credit assessment process. This involves identifying and assessing the risks associated with lending to SMEs. KBZ Bank has a dedicated team of experts who analyze various factors that could pose risks, including market risks, liquidity risks, and credit risks. They also look at the borrower's credit history, their financial standing, and the industry in which they operate. This allows KBZ Bank to make an informed credit decision.

Figure (3.1) SMEs Loan Process at Origination Stage

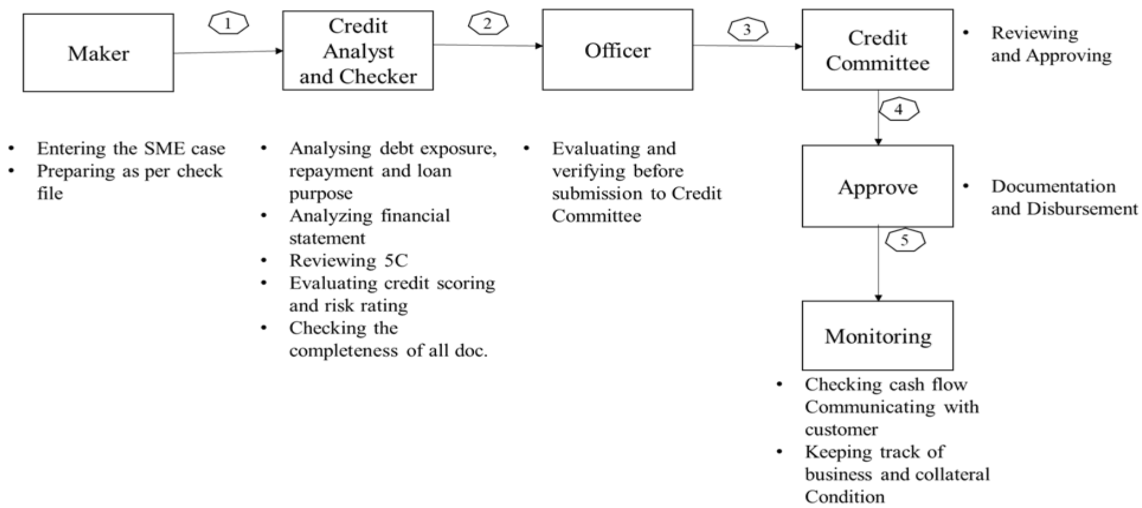


Source: KBZ (2022)

According to Figure (3.1), there are three steps at SMEs Loan’s origination stage as above. At step one, customers request their SME loan along with all necessary documents to KBZ Bank. Credit officers provide a detailed explanation of the required documents for SME loan procedures and enquire about the type of SME loan the customers require, the nature of their business, expansion plans, and objectives, among others. If all the relevant information can provided, customers can fill and sign the SME loan application form and proceed to step two.

At step two, KBZ SME RM and credit officers assess the risk of the loan application, check KYC, investigate the client integrity, evaluate the ability and willingness of customers to repay the loan, and conduct a client credit history review. And then, the credit officer conducts a business analysis to understand the borrower's operations, management, and competitive advantage. This includes understanding the market trends, growth potential, competitors, and regulatory environment impacting the business. Furthermore, the site of collateral and the nature of the business are thoroughly inspected, counterchecked, and evaluated based on the state of business. And then the expertise of bank lawyers is also sought to validate the clearance report for the possession of collateral land and a collateral assessment report is obtained from bank assessors. Upon successfully passing these three careful steps, the complete file of SME loan is sent to the SMEs credit function.

Figure (3.2) SMEs Loan Process



Source: KBZ (2022)

According to Figure (3.2), there are five steps including Credit Risk Analysis and Appraisal, Credit Approval and Credit Risk Monitoring.

(b) Credit Risk Analysis and Appraisal

After identifying the credit risk associated with a borrower, KBZ Bank conducts a credit analysis and appraisal. This is the most crucial step in the credit assessment process at KBZ Bank involve the following:

(i) Financial Analysis: KBZ Bank reviews the financial statements of the borrower, along with their previous tax returns, cash flow, and balance sheets. This helps determine the borrower's cash flow, working capital, debt-to-equity ratio, and other financial metrics.

(ii) Business Analysis: KBZ Bank also conducts a business analysis to understand the borrower's operations, management, and competitive advantage. This includes understanding the market trends, growth potential, competitors, and regulatory environment impacting the business.

(iii) Collateral Evaluation: KBZ Bank also evaluates the collateral offered by the borrower. Collateral could be in the form of property, plant and machinery, inventory and account receivables, or personal guarantee. This ensures the bank is adequately secured in case of default.

The process commences with the maker entering the SME case into the pipeline tracking file. After checking the availability of all documents, the SME loan application file is prepared and transmitted to the credit analyst and checker for scrutiny. The credit analyst methodically appraises the customer's debt exposure, repayment history, loan purpose and reviewing as per 5C. Moreover, the credit score, comprising 18 risk indicators, is accurately evaluated. A high credit score indicates lower risk, and a low credit score suggests higher risk. KBZ Bank's assessor also appraise the collateral offered by the borrower. Appraisal ensures that the collateral is assessed accurately, which mitigates the credit risk and helps lenders recover the loan amounts if the borrower defaults. Recommendation and comment have to be written based on the findings of credit analyst. And then the checker checks the completeness of all documents and send to the officer. The officer has to evaluate and verify the whole SME case before submission to the credit committee.

(c) Credit Approval

After the credit analysis and appraisal process, KBZ Bank decides whether or not to approve the credit application.

There are three members of credit committee who have to assess the loan suitability, loan amount, and tenure and make the decisions to allow the loan. The Credit Committees review and approve requests for customers' credit based on the requested amounts and criteria set by the credit policies of the bank upon evaluation of credit assessment of the applications done by SME credit function. Documentation and Disbursement take place after the loans were approved by credit committee. In documentation, the loan agreement is finalized, and the customer must obtain fire insurance coverage. Once all obligations have been fulfilled, the loan is issued.

(d) Credit Risk Monitoring

Finally, KBZ Bank continuously monitors the credit risk associated with its lending portfolio. This involves tracking the financial health of the borrower regularly, assessing their ability to pay back the loan, and ensuring the collateral securing the loan is in good standing. KBZ Bank also maintains a proactive approach, being one step ahead of events and anticipating changes in the market structure. Lastly, constant monitoring of loan performance is indispensable by analyzing cash flow, business progress, and collateral. Regular customer communication is also essential.

KBZ Bank has a robust credit assessment practice that focuses on credit risk identification, credit risk analysis and appraisal, credit approval, and credit risk monitoring. This helps KBZ Bank make informed credit decisions, mitigate risks associated with lending to SMEs, and ensure the financial stability of the bank and good loan performance. A good loan performance means that bank has a low rate of loan defaults and preventing occurrence of NPL and loan loss.

Next chapter will present about the interpretation of results that were gathered from the questionnaire concerning with the effect of credit assessment practices on SMEs loan performance of KBZ Bank.

CHAPTER 4
THE EFFECT OF CREDIT ASSESSMENT PRACTICES ON SMEs LOAN PERFORMANCE OF KBZ BANK

This chapter of the study is dedicated to the interpretation of results that were gathered from the questionnaire. It contains research design, respondents' profile, descriptive analysis on credit assessment practices, loan tenure and SMEs loan performance of KBZ Bank, validity and reliability test, effect of credit assessment practices on SMEs loan performance and moderating effect of loan tenure on the relationship between credit assessment practices and SMEs loan performance.

4.1 Research Design

This study analyses the effect of credit assessment practices on SMEs loan performance at KBZ Bank and the moderating effect of loan tenure on the relationship between credit assessment practices and SMEs loan performance at KBZ Bank. Quantitative research method is used in this study. Descriptive statistics and multiple linear regression are used to analyze data. Primary and secondary data are used in this study. Primary data is collected from 115 bank staff out of 135 staff from SME credit function at KBZ Head Office selected by using simple random sampling method. This sample represents 85% of the staff in the SME credit function. The survey is conducted in May, 2023.

Five-point Likert scale is used in the structured questionnaire for measuring and it contains three parts; Part A is demographic factors of respondents, Part B relates credit assessment practices and Part C associates SMEs loan performance at KBZ Bank. Five Likert scale survey question, which are given numerical values ranging from strongly disagree to strongly agree (rating are on 5-point scale; strongly disagree = 1, disagree = 2, neutral = 3, agree = 4, and strongly agree = 5) are utilized in this study.

4.2 Demographic Profile of Respondents

The initial phase of analysis is to determine the characteristics of the respondents involved in the study. Firstly, the demographic profile of respondents such as gender, age, education, position in the bank, work experience in the bank are identified. Each characteristic has been analyzed in terms of absolute value and percentage, and the summary table of demographic characteristics is used to display these data more clearly. Table (4.1) indicates the summary table of demographic characteristics of respondents.

Table (4.1) Demographic Profile of Respondents

Sr. No.	Particular	Number	Percentage
1	**Gender**		
	Male	23	20
	Female	92	80
	Total	115	100
2	**Age (Years)**		
	21-30	31	27.0
	31-40	57	49.6
	41-50	20	17.4
	51-60	7	6.0
	Total	115	100
3	**Educational level**		
	Diploma	9	7.8
	Bachelor	88	76.6
	Master	18	15.6
	Total	115	100
4	**Position in the bank**		
	Maker (Junior Assistant)	29	25.2
	Checker (Senior Assistant to Supervisor)	35	30.4
	Credit Analyst	11	9.6
	Relationship Manager	15	13.1
	Officer	25	21.7
	Total	115	100
5	**Work experience in the bank**		
	< 1 year	6	5.2
	1 - 5 years	20	17.4
	6 - 10 years	39	33.9
	11-15 years	46	40.0
	> 15 years	4	3.5
	Total	115	100

Source: Survey Data, 2023

For gender, out of the 115 respondents, 80% were female and 20% are male. In the age group, most of the respondents were aged between thirty-one and forty years. In addition, majority of the respondents have Bachelor's degree, there are some respondents who have master. Most of the respondents are checker (Senior Assistant to Supervisor) and maker (Junior Assistant) of SME Credit Function and most respondents are between eleven and fifteen years work experience in bank.

4.3 Credit Assessment Practices, Loan Tenure and SMEs Loan Performance of KBZ Bank

In this study credit assessment practices are credit risk identification, credit risk analysis and appraisal, credit approval, and credit risk monitoring.

Each factors of credit assessment practices are measured by credit assessment practices factors five or six items (statements), loan tenure with five items (statements), and SMEs loan performance with ten items (statements). The mean scores and standard deviations of the statements of each variable in credit assessment practices are presented in detail in the following Table (4.3) to Table (4.9). The range of mean scores is shown in the following Table (4.2).

Table (4.2) Rule about Mean Score

No.	Mean Score	Interpretation
1	4.30 – 5.00	Very high
2	3.50 – 4.29	High
3	2.70 – 3.49	Moderate
4	1.90 – 2.69	Low
5	1.00 – 1.89	Very Low

Source: Zaki and Ahmad (2017).

4.3.1 Descriptive Analysis on Credit Assessment Practices and Loan Tenure

The mean scores and standard deviations of the statements of each variable in credit assessment practices and loan tenure are described as follows:

(a) Credit Risk Identification

In this study, one of the credit assessment practices of SMEs loan, credit risk identification includes five items. According to 5-point Likert type scale with respect to credit risk identification, the result of mean values is as shown in Table (4.3).

Table (4.3) Credit Risk Identification

Sr. No.	Description	Mean	Standard Deviation
1	Identifying the customer's willingness to repay SMEs loan with specified criteria.	4.01	.538
2	Inspecting SMEs loan borrowers' information about credit history as it will reduce chances of giving loans to risky customers.	4.02	.725
3	Analyzing the business ability to generate sufficient cash flows from operations carefully.	4.04	.598
4	Identifying SMEs loan borrowers' potential risks associated to the industry thoroughly.	3.93	.659
5	Inspecting the business environment of SMEs loan borrowers in details by SMEs relationship manager and authorized staff.	4.17	.634
	Overall Mean	**4.03**	

Source: Survey data, 2023

The Table (4.3) shows the mean scores of different criteria used by KBZ Bank to assess SME loan borrowers' willingness and ability to repay the loan. The highest mean score of 4.17 was obtained for "inspection of the business environment of SMEs loan borrowers in details by SMEs relationship manager and authorized staff," indicating that this criterion is rated as high. The lowest mean score of 3.93 was obtained for "identifying SMEs loan borrowers' potential risks associated to the industry thoroughly," indicating that this criterion is rated as high. The overall mean score of 4.03 suggests that the respondents rated the criteria as high, indicating that they consider these criteria as essential in assessing the willingness and ability of SME loan borrowers to repay the loan.

(b) Credit Risk Analysis and Appraisal

Credit risk analysis and appraisal of credit assessment practices of SMEs loan contains five items. The values of mean are measured by 5-point Likert scale as follows:

Table (4.4) Credit Risk Analysis and Appraisal

Sr. No.	Description	Mean	Standard Deviation
1	Considering of information like financial status, past payment record, public filings and SMEs industry comparative data as credit assessment of SMEs loan.	4.07	.617
2	Considering of important selection criteria such as character, integrity, and morality of SMEs loan borrowers and its top management.	3.93	.722
3	Considering essentially about cash flow projections of a given project of SMEs business and its collateral before rendering a loan.	4.15	.566
4	Undertaking effective credit scoring schedule on SMEs business as officers and staff.	4.12	.623
5	Quantifying risk through risk rating schedule on SMEs business as the bank.	4.01	.669
	Overall Mean	**4.06**	

Source: Survey data, 2023

The highest mean score in the table is 4.15, which falls under the "high" category, showing that considering cash flow projections of a given project of SMEs business and its collateral before rendering a loan is of utmost importance in credit assessment. The lowest mean score is 3.93, which is still categorized as "high," showing that considering important selection criteria such as character, integrity, and morality of SMEs loan borrowers and its top management is significant in credit assessment. The overall mean score of the table is 4.06, which is categorized as "high," indicating that all the selection criteria mentioned in the table are important when assessing credit for SMEs.

(c) Credit Approval

In this study, there are six items regarding credit approval of credit assessment practices when SMEs businesses take a loan from KBZ Bank. The survey was conducted by the questionnaire to find out means value shown in Table (4.5).

Table (4.5) Credit Approval

Sr. No.	Description	Mean	Standard Deviation
1	Having reasonable guidelines on credit approval practice of SMEs loan at KBZ Bank.	4.10	.612
2	Having clear established process for approving new SMEs loans and extending the existing SMEs loans.	4.03	.584
3	Not keeping in touch with SMEs loan customers as officers from credit approval authority body to ensure that they only focus credit assessment practices.	3.77	.787
4	Having well documented about credit applications and approval letter in which loan agreements, guarantees and collaterals are included.	4.14	.712
5	Issuing loans to only the well-deserved SMEs loan customers as per the bank's credit policy.	4.03	.606
6	Having effective disbursement only after completion of loan agreement, and receipt of fire insurance which covers 125% of limit amount.	4.16	.615
	Overall Mean	**4.04**	

Source: Survey data, 2023

As presented in Table (4.5), the highest mean score is 4.16 for having effective disbursement only after completion of loan agreement, and receipt of fire insurance which covers 125% of limit amount. This falls under the "high" mean score level. The lowest mean score is 3.77 for not keeping in touch with SMEs loan customers as officers from credit approval authority body to ensure that they only focus credit assessment practices. This falls under the "high" mean score level. The overall mean score for all the factors is 4.04, which falls under the "high" mean score level. This indicates that, overall, the credit approval practice for SMEs loan at KBZ Bank is considered to be high.

(d) Credit Risk Monitoring

Credit risk monitoring of credit assessment practices in rendering of SMEs loan from SME Credit Function of KBZ Bank contains five items. The values of mean are measured by 5-point Likert scale as follows:

Table (4.6) Credit Risk Monitoring

Sr. No.	Description	Mean	Standard Deviation
1	Monitoring usually the cash flow of SMEs loan borrower's business through the related bank's account as SMEs credit function of KBZ Bank.	4.00	.649
2	Doing credit risk monitoring continuously to ensure whether there is repayment or not about SMEs loan with interest and it's principal.	4.09	.656
3	Building constructive relationship with SMEs loan customers as SMEs relationship managers.	4.20	.624
4	Monitoring SMEs loan provided by KBZ whether it is really used only for the intended purpose described in the credit application form.	3.94	.597
5	Conducting quarterly review borrowers' business and collateral conditions as SMEs credit function's officer and staff.	4.03	.628
	Overall Mean	**4.05**	

Source: Survey data, 2023

The Table (4.6) shows the mean scores for different aspects related to SMEs loan management by KBZ Bank. The highest mean score is 4.20, which indicates a" high" level of importance for building a constructive relationship with SMEs loan customers as SMEs relationship managers. The lowest mean score is 3.94, which indicates a "high" level of importance for monitoring SMEs loan provided by KBZ whether it is really used only for the intended purpose described in the credit application form. The overall mean score is 4.05, which is also in the " high" level. Therefore, it can be inferred that all the aspects mentioned in the table are considered important for effective SMEs loan management by KBZ Bank, with building a constructive relationship with customers being the most important.

The summary of overall mean value of credit assessment practices are presented in Table (4.7).

Table (4.7) Summary of Overall Mean Value

No	Items	Overall Mean
1	Credit Risk Identification	4.03
2	Credit Risk Analysis and Appraisal	4.06
3	Credit Approval	4.04
4	Credit Risk Monitoring	4.05

Source: Survey Data ,2023

The highest mean score in the Table (4.7) is for "credit risk analysis and appraisal" with a score of 4.06. The lowest mean score is for "credit risk identification" with a score of 4.03. Therefore, the scores for " "credit approval," and "credit risk monitoring," are all considered high (between 3.50 and 4.29).

(e) Loan Tenure

In this study, there are five items regarding loan tenure when SMEs business take a loan from SME Credit Function of KBZ Bank. The survey was conducted by the questionnaire to find out means value shown in Table (4.8).

Table (4.8) Loan Tenure

Sr. No.	Description	Mean	Standard Deviation
1	Having the different tenure of SMEs loan depending on the purpose of SMEs borrowers and the repayment capacity of the SMEs business.	4.00	.577
2	One year for the loan tenure of SMEs Overdraft for working capital.	4.21	.628
3	Getting one to three years of loan tenure as the capital investment loan of SMEs business.	4.01	.600
4	Applying the two-steps loan from JICA, not KBZ	4.09	.615

	own fund with a low interest rate and one to five years of loan tenure as SMEs loan borrowers.		
5	Having timely repayments of SMEs loan at KBZ Bank if the loan tenure systematically and properly is determined.	3.97	.599
	Overall Mean	**4.06**	

Source: Survey data, 2023

The Table (4.8) shows the mean scores for different types of SMEs loans based on loan tenure, purpose, and repayment capacity. The highest mean score is for "one year for the loan tenure of SMEs overdraft for working capital" at 4.21 which falls under the "high" category according to the mean score level table. The lowest mean score is for "having timely repayments of SMEs loan at KBZ Bank if the loan tenure is systematically and properly determined" at 3.97 which falls under the "high" category. The overall mean score for all the SMEs loans is 4.06 which also falls under the "high" category.

4.3.2 Descriptive Analysis on SMEs Loan Performance at KBZ Bank

SMEs loan performance at KBZ Bank consists of ten items. In relation to 5-point Likert scale, almost all measured variables indicate high-level results. The mean values are shown as below.

Table (4.9) SMEs Loan Performance at KBZ Bank

Sr. No.	Description	Mean	Standard Deviation
1	Minimizing SMEs loan losses, reducing bad debt and ensuring the stability and success of a bank with effective SMEs credit assessment practices.	3.95	.527
2	Measuring the level of risk involvement in respective SMEs loan case with credit scoring and risk rating.	4.03	.599
3	Identification of the good outcomes in loan performance in effective credit risk identification of SMEs loan.	3.95	.527
4	Knowing the current condition of business and	4.07	.603

	collateral, regular contact with customer that make reduction of bad debt with credit risk monitoring practices.		
5	Providing adequate and effective training to SMEs relationship officers and staffs in order to properly perform credit assessment practices as KBZ Bank.	3.90	.536
6	Predicting accurately a borrower's current and future financial health that can decrease the default credit in the future as credit risk analysis practices.	3.83	.620
7	Being enough for the intended purpose as per the clients' request as the loan approval amount.	3.90	.621
8	Being convenient to the client's business as the loan repayment duration that may affect the loan performance.	3.90	.662
9	Knowing a borrower's ability to meet their debt obligations that prevent occurrence of NPL and loan loss by using credit risk analysis and appraisal.	4.03	.599
10	Conducting SMEs credit assessment practices effectively for SMEs loan performance of KBZ.	4.11	.558
	Overall Mean	**3.96**	

Source: Survey data, 2023

The highest mean score in the Table (4.9) is 4.11, which falls under the "high" category in the mean score level table. This score pertains to the effective implementation of SMEs credit assessment practices for the performance of KBZ Bank's SMEs loans. The lowest mean score in the table is 3.83, which falls under the "high" category. This pertains to the process of accurately predicting a borrower's financial health to decrease default credit through credit risk analysis practices. The overall mean value of all the scores in the table is 3.96, which also falls under the "high" category. This means that the mean level of the table is high, indicating that the majority of the scores are relatively high.

4.4 Validity and Reliability Test

The reliability of a measure is established by testing for both consistency and stability. Consistency indicates how well the items measuring a concept hang together as a set. Cronbach’s alpha is a reliability coefficient that indicates how closely related a set of items. The range of coefficient of Cronbach’s alpha and its reliability level is as shown in Table (4.10).

Table (4.10) Rule about Cronbach's Coefficient Alpha

No.	Coefficient of Cronbach’s Alpha	Reliability Level
1	More than 0.9	Excellent
2	0.80 – 0.89	Good
3	0.70 – 0.79	Acceptable
4	0.60 – 0.69	Questionable
5	0.50 – 0.59	Poor
6	Less than 0.59	Unacceptable

Source: Sekaran and Bougie (2009)

Table (4.11) shows that the validity test results of all items including credit assessment practices factors, loan tenure and SMEs loan performance of KBZ Bank.

Table (4.11) Reliability Test

No.	Factors	Number of Items	Cronbach's Alpha
1	Credit Risk Identification	5	.821
2	Credit Risk Analysis and Appraisal	5	.841
3	Credit Approval	6	.817
4	Credit Risk Monitoring	5	.841
5	Loan Tenure	5	.826
6	SMEs Loan Performance	10	.914

Source: Survey data, 2023

The alpha coefficient for all items between .817 and .914, suggesting that the items have relatively high internal consistency then the questionnaire is acceptable.

4.5 Effect of Credit Assessment Practices on SMEs Loan Performance

Before linear regression analysis, correlation coefficient is calculated firstly.

Table (4.12) Relationship between Credit Assessment Practices and Loan Performance

Practices		Loan Performance
Credit Risk Identification	Pearson Correlation	0.749**
	Sig. (2-tailed)	.000
Credit Risk Analysis and Appraisal	Pearson Correlation	0.746**
	Sig. (2-tailed)	.000
Credit Approval	Pearson Correlation	0.758**
	Sig. (2-tailed)	.000
Credit Risk Monitoring	Pearson Correlation	0.834**
	Sig. (2-tailed)	.000

Source: Survey data, 2023

Table (4.12) shows that the correlation between credit assessment practices and loan performance. According to correlation analysis, there are correlation among credit risk identification, credit risk analysis and appraisal, credit approval, credit risk monitoring and SMEs loan performance at 0.01 significant level.

Multiple linear regression analysis is performed to reveal the effect of the independent variable (credit assessment practices) on dependent variable (SMEs loan performance). The result of the linear regression is illustrated in the following Table (4.13).

The result in Table (4.13) indicates that the value of F is 86.936 with a highly significant level. The significant level is at 1% (p-value = 0.000). The multicollinearity statistics were measured by using variance inflation factors (VIF) and multicollinearity does not exist among independent variables in this study because VIF values are less than 10.

Table (4.13) Effect of Credit Assessment Practices on SMEs Loan Performance

Dependent Variable: SMEs Loan Performance	Unstandardized Coefficients		ß	T	Sig.	VIF
	B	Std. Error				
(Constant)	.524	.181		2.890	.005	
Credit Risk Identification	.263***	.069	.299	3.818	.000	2.801
Credit Risk Analysis and Appraisal	.115	.076	.125	1.517	.132	3.104
Credit Approval	-.030	.095	-.031	-.320	.750	4.415
Credit Risk Monitoring	.532***	.084	.559	6.308	.000	3.596
R Square	.760					
Adjusted R Square	.751					
F Value	86.936***					
Statistically significant indicate *** at 1%, ** at 5%, and * at 10% level						

Source: Survey data, 2023

In this study, the value of adjusted R square represents that 75.1 % of the observed variability in SMEs loan performance at KBZ Bank can be explained by credit assessment practices. The rest, 24.9% of the variance do not describe by credit assessment practices. It means that the rest, 24.9% of the variation in loan performance is related to other factors which are not considered in this study. The F value exhibits the variance that is highly significant with F = 86.936.

According to the result of regression analysis shown in Table (4.13), two factors, namely; credit risk identification and credit risk monitoring have significantly and positively effect on SMEs loan performance. However, statistical analysis shows that other factors have no significant effect on SMEs loan performance. Particularly, regression analysis revealed that credit risk analysis and appraisal and credit approval do not associate with SMEs loan performance of KBZ Bank. Based on the results, SMEs loan performance of KBZ Bank is effected by credit risk identification and credit risk monitoring. The study reveals that credit risk identification and credit risk monitoring lead to SMEs loan performance of KBZ Bank. Among these two factors, credit risk monitoring is the most significant effect of credit assessment practices on SMEs loan performance because of its standardized coefficient.

4.6 Moderating Effect of Loan Tenure on the Relationship between Credit Assessment Practices and SMEs Loan Performance

Table (4.14) shows the effect of moderating variable (loan tenure) on the relationship between independent variable (credit assessment practices) and dependent variable (SMEs loan performance).

Table (4.14) Moderating Effect of Loan Tenure on the Relationship between Credit Assessment Practices and SMEs Loan Performance

Variables	Model 1				Model 2			
	Unstandardized Coefficients		Standardized Coefficients (Beta)	Sig	Unstandardized Coefficients		Standardized Coefficients (Beta)	Sig
	B	Std. Error			B	Std. Error		
Constant	.746	.174		.000	-1.714	.948		.073
CRI	.301***	.064	.342	.000	1.459	.703	1.659	.040
CRA	.149	.070	.163	.035	2.101	.616	2.286	.001
CA	.030	.089	.030	.740	0.281	.886	.289	.752
CRM	.638***	.081	.671	.000	2.235	.761	2.350	.004
LoanT	.306***	.067	.304	.000	2.434	.870	2.431	.000
CRI* LT					-0.317	.197	-2.369	.110
CRA* LT					0.558***	.176	4.051	.002
CA * LT					-0.080	.243	-.572	.741
CRM * LT					0.806***	.212	5.807	.000
R Square	.798				.846			
Adjusted R Square	.789				.833			
Durbin Watson	2.150							
F Value	86.261***				63.964***			

Statistically significant indicate *** at 1%, ** at 5%, and * at 10% level

Source: Survey Data (2023)

According to multiple regression results in Model 2, among four factors studied here, there is significant moderating effect of loan tenure on the relationship between two credit assessment practices (credit risk analysis and appraisal and credit risk monitoring) and SMEs loan performance.

A positive moderating effect is observed where loan tenure strengthens the positive relationship between credit risk monitoring and SMEs loan performance. For each 1 unit increased in the factor of credit risk monitoring will strengthen further of the relationship with SMEs loan performance by 0.806 when loan tenure has introduced into the mix as a moderating factor. This is because SMEs relationship managers at KBZ Bank build constructive relationship with SMEs loan customers to ensure whether there is repayment or not about SMEs loan with interest and its principal by doing credit risk monitoring continuously.

A positive moderating effect is observed where loan tenure strengthens the relationship between credit risk analysis and appraisal and SMEs loan performance. Hence it can be stated that loan tenure will strengthen the relationship between credit risk analysis and appraisal and SMEs loan performance by strengthening loan performance by 0.558 units for each increase in between credit risk analysis and appraisal by 1 unit. KBZ Bank staffs and officers always consider cash flow projections of a given project of SMEs business and its collateral and undertake effective credit scoring schedule on SMEs business. Next chapter will present about conclusion which includes finding and discussion, recommendation and suggestion and the needs for further studies.

CHAPTER V
CONCLUSION

This conclusion section presents finding and discussion drawn from the results of data analysis regarding the effect of credit assessment practices on SMEs loan performance of KBZ Bank. Then, the recommendation section presents the suggestion and the needs for further studies.

5.1 Findings and Discussions

The aims of this study are to identify the credit assessment practices of SMEs loan at KBZ Bank, to analyze the effect of credit assessment practices on SMEs loan performance at KBZ Bank and to analyze the moderating effect of loan tenure between the relationship of credit assessment practices and SMEs loan performance at KBZ Bank.

The findings reveal that most of the respondents are female and most respondents are between thirty-one and forty years who got Bachelor’s degree but some respondents got Master degree. Most of the respondents are checker and maker of SME credit function and most respondents are between eleven and fifteen years work experience in bank.

The findings for the first objective, identifying the credit assessment practices of SMEs loans at KBZ Bank, indicate that the selection criteria used by the bank are considered essential for assessing the willingness and ability of borrowers to repay the loan. Among these selection criteria, the highest mean score was obtained for the "inspection of the business environment of SME borrowers in detail by SME relationship managers and authorized staff." This indicates that thoroughly understanding the business environment in which the SME operates is highly valued by KBZ Bank. On the other hand, the lowest mean score was obtained for "identifying potential risks associated with the industry thoroughly." This represents that KBZ Bank may not prioritize thoroughly assessing the risks specific to the industry in which an SME operates when considering loan applications.

Moving on to the management of SME loans, building a constructive relationship with customers was rated as the most important aspect. This indicates that KBZ Bank recognizes the importance of establishing a positive and collaborative relationship with SME borrowers. In contrast, monitoring whether the loan is used for the intended purpose ranked the lowest. This states that KBZ Bank may not place significant emphasis on closely monitoring the utilization of SME loans to ensure that they are being used for their intended purpose.

When considering the types of SME loans offered by KBZ Bank, the highest mean score was obtained for "one year for the loan tenure of SME overdraft for working capital." This shows that SME borrowers highly value the flexibility of having an overdraft facility for their working capital needs with a loan tenure of one year. In contrast, the lowest mean score was obtained for "having timely repayments of SME loans at KBZ Bank if the loan tenure is systematically and properly determined." This indicates that there may be concerns among SME borrowers about the effectiveness of determining the loan tenure in ensuring timely repayments.

In terms of the overall effectiveness of the credit assessment practices for KBZ Bank's SME loans, the findings indicate that the implementation is rated as very high. This states that the credit assessment practices are successfully implemented by the bank. Additionally, accurately predicting a borrower's financial health to decrease default credit through credit risk analysis practices was rated as high. This indicates that KBZ Bank places importance on using credit risk analysis practices to assess the financial health of borrowers and minimize the risk of default.

Relating to second objective, when the effect of credit assessment practices on SMEs loan performance is analyzed, credit risk identification and credit risk monitoring have significantly and positively influence on SMEs loan performance because relationship managers and authorized staff inspect the business environment of SMEs loan borrowers in details and SMEs relationship managers build a constructive relationship with SMEs loan customers. There is no significant effect of credit risk analysis and appraisal and credit approval on SMEs loan performance at KBZ Bank.

For the third objective, the moderating effect of loan tenure on the relationship between credit assessment practices and SMEs loan performance at KBZ Bank is analyzed, there is significant moderating effect of loan tenure on the relationship between two credit assessment practices (credit risk analysis and appraisal and credit risk monitoring) and SMEs loan performance. A positive moderating effect of loan tenure is observed between credit risk monitoring and SMEs loan performance. This implies that as the loan tenure increases, the positive impact of credit risk monitoring on SMEs loan performance also increases significantly. It can be inferred that long-term monitoring of credit risks is crucial for ensuring SMEs' long-term financial stability.

Similarly, a positive moderating effect of loan tenure is observed between credit risk analysis and appraisal and SMEs loan performance. This indicates that as the loan tenure increases, the positive impact of credit risk analysis and appraisal on SMEs loan performance also increases significantly. The study highlights that the mean scores for loan tenure and credit analysis and appraisal, as well as credit risk monitoring, are high. This implies that KBZ Bank emphasizes credit quality and risk management, which is crucial in supporting SMEs. The emphasis on long-term credit monitoring and analysis and appraisal of credit risks can contribute to SMEs' financial stability and overall performance. The study highlights the importance of considering loan tenure when assessing SMEs' creditworthiness, which can help banks manage credit risks efficiently.

5.2 Suggestions and Recommendations

Based on the findings and discussions, to improve credit assessment practices, KBZ Bank should enhance its credit assessment practices by identifying potential risks associated with different industries. A thorough analysis of market trends, competitors, and economic factors should be done to asses borrowers' repayment capacity. Providing training to its SMEs relationship managers and authorized staff in risk identification and management can help achieve this goal. To monitor loan usage, it is suggested that KBZ Bank implement a monitoring system to ensure that loans are used for the intended purpose. Regular progress reporting by the borrowers, along with site visits to verify the information provided, can help minimize the risk of default and ensure that the loan is used to expand the business and generate additional revenue.

As the improvement of credit risk analysis practices, KBZ Bank tries to focus on improving its credit risk analysis practices to accurately predict borrowers' financial health and decrease default credit. Advanced analytical tools and models that consider the broader macroeconomic environment, along with borrower's financial performance, can help achieve this.

To maintain constructive relationships with customers, KBZ Bank should continue to focus on building constructive relationships with customers by providing additional training to SMEs relationship managers to enhance their communication and negotiation skills. This will improve customer satisfaction, increase the likelihood of loan repayment, and reduce the risk of default. To make periodic review of lending processes, KBZ Bank should conduct an in-depth review of its credit assessment practices to improve its SMEs loan performance and maintain its position as a leader in the industry. The review process should cover all stages of the lending process, including initial assessment, approval, monitoring, and collection. To update credit assessment practices, KBZ Bank should review and update its credit assessment practices to ensure they are thoroughly and consistently applied to all SME loan applications. A more robust credit risk identification process that takes into account not only the borrower's financial history but also their overall business plan and potential market risks should be implemented. KBZ Bank should continue to focus on credit approval practice that ensures sound lending decisions are made, including adequate collateral and repayment terms, as well as accurate and reliable credit analysis.

5.3 Needs for Further Studies

This study focuses credit risk identification, credit risk analysis and approval, credit approval and credit risk monitoring of credit assessment practices for SMEs loan performance of KBZ Bank. As the business environment is continually evolving, identifying new avenues for comprehensive credit assessments is vital to mitigate the risk of default. Therefore, it is crucial to conduct further studies to improve the accuracy of credit assessments and ensure the optimal utilization of credit facilities for the SME sector. Additional research can also look into the impact of external factors, such as economic and political factors, on the credit risks in banks. Additionally, these findings can contribute immensely to the development of the financial industry in Myanmar by enabling banks to make informed decisions while simultaneously reducing credit risk exposure.

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APPENDIX A

QUESTIONNAIRE

Yangon University of Economics

Department of Commerce

Executive Master of Banking and Finance Programme

Survey Questionnaire

This questionnaire will be used to study the effect of credit assessment process on SMEs loan performance at KBZ Bank. This research is carried out on the partial fulfilment of the requirements for the completion of a master degree in Banking and Finance Programme of Yangon University of Economics. All data will be confidential since it is restricted for the proper conduct of the study and I express my gratitude to every respondent of my questionnaire.

SECTION (A) Demographic Factors of Respondent

Below are some questions to get a better overall view of the respondent. Please note that all data remains anonymous.

Respondent's Details

1. Gender

☐ Male ☐ Female

2. Age

☐ 21 - 30 years ☐ 31-40years

☐ 41-50years ☐ 51-60 years ☐ > 60 years

3. What is your educational level?

☐ Diploma ☐ Bachelor's Degree ☐ Master's Degree

☐ Others (specify)

4. **What is your position in the bank?**

☐ Maker ☐ Checker ☐ Credit Analyst

☐ Relationship Manager ☐ Officer

5. Your work experience in the bank

☐ < 1 year ☐ 1 - 5 years

☐ 6 - 10 years ☐ > 10 years

SECTION (B) Credit Assessment Practices

Please tick (√) in the box to indicate how agreeable you are with the following.

1 = Strongly Disagree 2 = Disagree 3 = Neutral

4 = Agree 5 = Strongly Agree

Credit Risk Identification

No.	Credit Risk Identification	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
		1	2	3	4	5
1	The customer's willingness to repay SMEs loan is identified with specified criteria.					
2	SMEs loan borrowers' information about credit history is inspected as it will reduce chances of giving loans to risky customers.					
3	The business ability to generate sufficient cash flows from operations is carefully analyzed.					
4	SMEs loan borrowers' potential risks associated to the industry are thoroughly identified.					
5	The business environment of SMEs loan borrowers is inspected in details by SMEs RM and Authorized Staff.					

Credit Risk Analysis and Appraisal

No.	Credit Risk Analysis and Appraisal	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
		1	2	3	4	5
1	Information like financial status, past payment record, public filings and SMEs industry comparative data are considered for credit assessment of SMEs loan.					
2	Important selection criteria such as character, integrity, and morality of SMEs loan borrowers and its top management are considered.					
3	Cash flow projections of a given project of SMEs business and its collateral are essentially considered before rendering a loan.					
4	Officers and staff of SMEs undertake effective credit scoring schedule on SMEs business.					
5	The bank quantifies risk through risk rating schedule on SMEs business.					

Credit Approval

No.	Credit Approval	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
		1	2	3	4	5
1	KBZ Bank has in place reasonable guidelines on credit approval practice of SMEs loan.					
2	KBZ Bank has clear established process for approving new SMEs loans and extending the existing SMEs loans.					
3	Officers from credit approval authority body should not keep in touch with SMEs loan customers ensuring that they only focus credit assessment practice.					
4	Credit applications and approval letter in which loan agreements, guarantees and collaterals are included must be well documented.					
5	Only the well-deserved and able SMEs loan customers are issued loans as per the bank's credit policy.					
6	Disbursement should be effective only after completion of loan agreement, and receipt of fire insurance which covers 125% of limit amount.					

Credit Risk Monitoring

No.	Credit Risk Monitoring	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
		1	2	3	4	5
1	SMEs credit function of KBZ Bank usually monitors the cash flow of SMEs loan borrower's business through the related bank's account.					
2	Credit risk monitoring is continuously done to ensure whether there is repayment or not about SMEs loan with interest and its principal.					
3	SMEs relationship managers need to build constructive relationship with SMEs loan customers.					
4	SMEs loan provided by KBZ is monitored whether it is really used only for the intended purpose described in the credit application form.					
5	SMEs credit function's officer and staff conduct quarterly review borrowers' business and collateral conditions.					

Loan Tenure

No.	Loan Tenure	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
		1	**2**	**3**	**4**	**5**
1	The different tenure of SMEs loan will depend on the purpose of SMEs borrowers and the repayment capacity of the SMEs business.					
2	The loan tenure of SMEs Overdraft for working capital might be one year.					
3	The capital investment loan of SMEs business gets one to three years of loan tenure.					
4	SMEs loan borrowers can apply the two-steps loan from JICA, not KBZ own fund with a low interest rate and one to five years of loan tenure.					
5	The loan tenure systematically and properly determined by KBZ Bank helps timely repayments of SMEs loan at KBZ Bank.					

SECTION (C)   SMEs Loan Performance at KBZ Bank

SMEs Loan Performance

No.	SMEs Loan Performance	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
		1	2	3	4	5
1	Effective SMEs credit assessment practice can help to minimize SMEs loan losses, reduce bad debt and ensure the stability and success of a bank.					
2	Credit scoring and risk rating can be measured the level of risk involvement in respective SMEs loan case.					
3	Effective credit risk identification of SMEs loan comprises identification of the good outcomes in loan performance.					
4	Credit risk monitoring practice helps the bank know the current condition of business and collateral, regular contact with customer that make reduction of bad debt.					
5	KBZ Bank provides adequate and effective training to SMEs relationship officers and staffs in order to properly perform credit assessment practices.					
6	Credit risk analysis practice can predict accurately a borrower's current and future financial health that can decrease the default credit in the future.					

No.	SMEs Loan Performance	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
		1	**2**	**3**	**4**	**5**
7	The loan approval amount should be enough for the intended purpose as per the clients' request.					
8	The loan repayment duration should be convenient to the client's business that may affect the loan performance.					
9	By using credit risk analysis and appraisal, the bank knows a borrower's ability to meet their debt obligations that prevent occurrence of NPL and loan loss.					
10	SMEs loan performance of KBZ depends upon conducting SMEs credit assessment practices effectively.					

APPENDIX B

SPSS OUTPUT

1. Gender of Respondents

Table 1 Number of Respondents by Gender

Gender	Frequency	Percentage
Male	23	20
Female	92	80
Total	115	100

2. Number of Respondents by Age

Table 2 Number of Respondents by Age

Age (in Years)	Frequency	Percentage
21 – 30	31	27.0
31 – 40	57	49.6
41 – 50	20	17.4
51 – 60	7	6.0
Total	115	100.0

3. Number of Respondents by Education Level

Table 3 Number of Respondents by Education Level

Education Level	Frequency	Percentage
Diploma	9	7.8
Bachelor	88	76.6
Master	18	15.6
Total	115	100.0

4. Number of Respondents by Position

Position	Frequency	Percentage
Maker (JA)	29	25.2
Checker(SA to Super)	35	30.4
Credit Analyst	11	9.6
Relationship Manager	15	13.1
Officer	25	21.7
Total	115	100.0

5. Number of Respondents by Work Experience

Table 5 Number of Respondents by Work Experience

Work Experience	Frequency	Percentage
< 1 year	6	5.2
1 - 5 years	20	17.4
6 - 10 years	39	33.9
11-15 years	46	40
> 15 years	4	3.5
Total	115	100.0

Results of Cronbach's Alpha Value

Scale	Type of Scale	No. of Items	Cronbach's Alpha
Risk Identification	5-point Likert	5	0.821
Risk Analysis and Appraisal	5-point Likert	5	0.841
Credit Approval	5-point Likert	6	0.817
Risk Monitoring	5-point Likert	5	0.841
Loan Tenure	5-point Likert	5	0.826
Loan Performance	5-point Likert	10	0.914

Source: Survey Results, 2023

Descriptive Statistics

Risk Identification

No.	Statement	Mean	Std. Dev
1	Risk Identification 1	4.01	.538
2	Risk Identification 2	4.02	.725
3	Risk Identification 3	4.04	.598
4	Risk Identification 4	3.93	.659
5	Risk Identification 5	4.17	.634
Total Average Scores		**4.03**	

Risk Analysis and Appraisal

No.	Statement	Mean	Std. Dev
1	Risk Analysis and Appraisal 1	4.07	.617
2	Risk Analysis and Appraisal 2	3.93	.722
3	Risk Analysis and Appraisal 3	4.15	.566
4	Risk Analysis and Appraisal 4	4.12	.623
5	Risk Analysis and Appraisal 5	4.01	.669
Total Average Scores		**4.06**	

Credit Approval

No.	Statement	Mean	Std. Dev
1	Credit Approval 1	4.10	.612
2	Credit Approval 2	4.03	.584
3	Credit Approval 3	3.77	.787
4	Credit Approval 4	4.14	.712
5	Credit Approval 5	4.03	.606
6	Credit Approval 6	4.16	.615
Total Average Scores		**4.04**	

Risk Monitoring

No.	Statement	Mean	Std. Dev
1	Risk Monitoring 1	4.00	.649
2	Risk Monitoring 2	4.09	.656
3	Risk Monitoring 3	4.20	.624
4	Risk Monitoring 4	3.94	.597
5	Risk Monitoring 5	4.03	.628
Total Average Scores		**4.05**	

Loan Tenure

No.	Statement	Mean	Std. Dev
1	Loan Tenure 1	4.00	.577
2	Loan Tenure 2	4.21	.628
3	Loan Tenure 3	4.01	.600
4	Loan Tenure 4	4.09	.615
5	Loan Tenure 5	3.97	.599
Total Average Scores		**4.06**	

Loan Performance

No.	Statement	Mean	Std. Dev
1	Loan Performance1	3.95	.527
2	Loan Performance2	4.03	.599
3	Loan Performance3	3.95	.527
4	Loan Performance4	4.07	.603
5	Loan Performance5	3.90	.536
6	Loan Performance6	3.83	.620
7	Loan Performance7	3.90	.621
8	Loan Performance8	3.90	.662
9	Loan Performance9	4.03	.599
10	Loan Performance10	4.11	.558
Total Average Scores		**3.96**	

Relationship between Credit Assessment Practices and Loan Performance

Practices		**Loan Performance**
Risk Identification	Pearson Correlation	0.749**
	Sig. (2-tailed)	.000
Risk Analysis and Appraisal	Pearson Correlation	0.746**
	Sig. (2-tailed)	.000
Credit Approval	Pearson Correlation	0.758**
	Sig. (2-tailed)	.000
Risk Monitoring	Pearson Correlation	0.834**
	Sig. (2-tailed)	.000

Source: Survey Results

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

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.872[a]	.760	.751	.23769	2.159

a. Predictors: (Constant), Monitoring, Identification, Analysis and Appraisal, Credit Approval

b. Dependent Variable: Loan Performance

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	19.646	4	4.912	86.936	.000[b]
	Residual	6.215	110	.056		
	Total	25.861	114			

a. Dependent Variable: Loan Performance

b. Predictors: (Constant), Monitoring, Identification, Analysis and Appraisal, Credit Approval

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.524	.181		2.890	.005		
	Identification	.263	.069	.299	3.818	.000	.357	2.801
	Analysis and Appraisal	.115	.076	.125	1.517	.132	.322	3.104
	Credit Approval	-.030	.095	-.031	-.320	.750	.226	4.415
	Monitoring	.532	.084	.559	6.308	.000	.278	3.596

Model Summary[c]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.893[a]	.798	.789	.21878	.798	86.261	5	109	.000	
2	.920[b]	.846	.833	.19492	.047	8.079	4	105	.000	2.150

a. Predictors: (Constant), Loan Tenure, Identification, Analysis and Appraisal, Monitoring, Credit Approval
b. Predictors: (Constant), Loan Tenure, Identification, Analysis and Appraisal, Monitoring, Credit Approval, Tenure and Identification, Tenure and Monitoring, Tenure and Analysis, Tenure and Approval
c. Dependent Variable: Loan Performance

Residuals Statistics[a]

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	3.0312	4.9001	3.7990	.41514	115
Residual	-.56699	.49769	.00000	.23348	115
Std. Predicted Value	-1.850	2.652	.000	1.000	115
Std. Residual	-2.385	2.094	.000	.982	115

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	20.644	5	4.129	86.261	.000[b]
	Residual	5.217	109	.048		
	Total	25.861	114			
2	Regression	21.872	9	2.430	63.964	.000[c]
	Residual	3.989	105	.038		
	Total	25.861	114			

a. Dependent Variable: Loan Performance

b. Predictors: (Constant), Loan Tenure, Identification, Analysis and Appraisal, Monitoring, Credit Approval

c. Predictors: (Constant), Loan Tenure, Identification, Analysis and Appraisal, Monitoring, Credit Approval, Tenure and Identification, Tenure and Monitoring, Tenure and Analysis, Tenure and Approval

Coefficients[a]

Model		Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	.746	.174		4.290	.000
	Identification	.301	.064	.342	4.705	.000
	Analysis and Appraisal	.149	.070	.163	2.132	.035
	Credit Approval	.030	.089	.030	.333	.740
	Monitoring	.638	.081	.671	7.875	.000
	Loan Tenure	.306	.067	.304	4.565	.000
2	(Constant)	-1.714	.948		-1.808	.073
	Identification	1.459	.703	1.659	2.076	.040
	Analysis and Appraisal	2.101	.616	2.286	3.411	.001
	Credit Approval	0.281	.886	.289	.317	.752
	Monitoring	2.235	.761	2.350	2.939	.004
	Loan Tenure	2.434	.870	2.431	2.798	.000
	Tenure and Identification	-0.317	.197	-2.369	-1.613	.110
	Tenure and Analysis	0.558	.176	4.051	3.176	.002
	Tenure and Approval	-0.080	.243	-.572	-.331	.741
	Tenure and Monitoring	0.806	.212	5.807	3.803	.000