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EFFECT OF CREDIT ASSESSMENT PRACTICES ON SME LOAN PERFORMANCE AT MYANMA TOURISM BANK

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EFFECT OF CREDIT ASSESSMENT PRACTICES ON SME LOAN PERFORMANCE AT MYANMA TOURISM BANK

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ABSTRACT

Examining the credit risk assessment procedures utilized on loans from MTB Bank and their outcomes was the main goal of the thesis. This research aims to determine MTB Bank's credit evaluation procedures for small-business loans and examine the effects of such procedures on the performance of small-business loans. Both primary and secondary data sources are used in the research. Q&A surveys are used to collect primary data. One hundred and two of the one hundred and twenty workers managing MTB Bank's credit evaluation procedures were identified using the Yamane (1967) methodology. Simple random sampling was used to choose these samples. The MTB Bank website, textbooks, lesson notes, and internet websites are the sources of secondary data. The five aspects of credit policy, credit risk identification, credit preview, credit appraisal and analysis, and credit risk monitoring are used to gauge the impact of credit assessment methods. In this work, various linear regression techniques and descriptive statistics are used. According to the research, loan performance is significantly impacted by credit policy, credit risk identification, credit preview, credit appraisal and analysis, and credit risk monitoring. MTB should emphasize continuing to enhance its effective credit assessment practices to further improve loan performance. It is recommended that effective credit risk assessment and management are crucial for the bank's success and financial stability, and understanding these practices helps mitigate potential losses.

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LIST OF ABBREVIATIONS

MTB	Myanmar Tourism Bank
CBM	Central Bank of Myanmar
SME	Small & Medium Enterprise
CGI	Credit Guarantee Insurance
FI Law	Financial Institution Law
BOD	Board of Director
DMD	Deputy Managing Director
CEO	Chief Executive Officer
CC	Credit Committee
HP	Hire Purchase
ICT	Information and Communication Technology
CAMPARI	Character, Ability, Margin, Purpose, Amount, Repayment, and Insurance
KCB	Kenya Commercial Bank
IBD	International Business Department
HR	Human Resources
FI	Financial Institutions
NPL	Non-performing loan

CHAPTER I
INTRODUCTION

Credit is an essential component for banks, a crucial asset that contributes significantly to their financial well-being. The Latin word "Credo," which means "I believe," is where the word "credit" originates. It is the faith of a lender in the capacity, prospective ability, and purpose of an individual, business, or enterprise to repay. Credit serves as a bank's primary source of income, but improper usage of it may have disastrous effects on the economy as a whole as well as the bank (Mishkin, 2015). In addition to helping banks thrive in the cutthroat world of finance, this revenue stream satisfies the demands of borrowers by supplying necessary financial resources (Saunders & Cornett, 2018). Furthermore, it is anticipated that the banking industry's capacity to distribute credit effectively would benefit economic expansion (Levine, 2005). The banks utilize the money they receive from depositors to make loans. As per Allen and Santomero (1997), banks function as mediators in the financial system.

Access to credit plays an important role in driving economic growth and development at both national and local levels. By providing individuals and businesses with the means to invest, expand, and innovate, credit fosters entrepreneurship, stimulates consumption, and encourages investment (Stiglitz & Weiss, 1981). Small and medium enterprises (SMEs) benefit immensely from access to credit, as it empowers them to create jobs, drive innovation, and contribute to economic diversification (Beck, Demirgüç-Kunt, & Levine, 2005).

Careful assessment of credit is essential for minimizing defaults and ensuring the successful operation of businesses. By evaluating the creditworthiness of borrowers and their ability to repay loans, banks can mitigate risks and maintain healthy loan portfolios (Altman, 1968). This, in turn, leads to better cash flow for both the bank and its borrowers, fostering financial stability and growth.

Credit assessment practices, such as the 5C model (character, capacity, capital, condition, and collateral principles) (Kasmir, 2008; Dheeraj, 2017), enable banks to make informed lending decisions, reduce default rates, and enhance overall business performance. The 5Cs model offers a concise yet comprehensive framework for evaluating creditworthiness. By assessing 5Cs, this model provides lenders with a clear understanding of the borrower's ability to repay loans. Its simplicity and versatility make it a valuable tool for minimizing risks and maintaining healthy loan portfolios.

Myanma Tourism Bank (MTB Bank) in Myanmar focuses on providing banking services to the tourism sector. It offers loans, deposits, and specialized banking solutions for individuals and businesses in tourism. Effective credit assessment for SME loans is crucial for both the bank and the economy, as it helps promote economic growth, job creation, and innovation. By providing credit to SMEs, MTB Bank supports these vital businesses, which are key to economic development. Good credit assessment ensures that loans are given to businesses likely to repay, reducing default risks. This involves analyzing the financial health and plans of SMEs. Access to credit helps businesses manage risks, invest in new projects, and grow. By examining MTB Bank’s credit policies, assessment practices, and the financial health of its loan portfolio, the study aims to determine the bank’s ability to manage credit risk and support economic growth, thereby contributing to the overall prosperity of the economy.

1.1 Rationale of the Study

The banking sector is fundamental to global economic stability and growth, acting as a mediator of funds between savers and borrowers, facilitating seamless transactions, and supporting the implementation of monetary policies. Banks also play a key role in promoting financial inclusion, developing financial markets, and maintaining financial stability through effective risk management (World Bank, 2020). However, Myanmar's banking sector faces significant challenges despite recent reforms aimed at modernization. Political instability and regulatory uncertainties continue to hinder the sector's progress and impact its ability to contribute to the nation's development (International Monetary Fund, 2019).

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The banking sector in Myanmar comprises 31 banks, including 27 private and 4 government-owned banks, which are crucial for facilitating financial transactions and driving economic growth (Central Bank of Myanmar, 2021). SME loans are particularly important as they support entrepreneurship, SME growth, and economic development by providing necessary financing for business operations, expansion, and job creation (Asian Development Bank, 2021). However, effective credit assessment practices are essential to mitigate the risk of defaults and maintain healthy loan portfolios. MTB Bank, a key player in this sector, offers both corporate and SME loans, with strict credit assessment criteria to ensure loan repayment and reduce non-performing loans (MTB Bank, 2023).

In accordance with the Financial Institution of Myanmar Bank Law and the Central Bank Law of Myanmar, MTB Bank was founded as a public commercial bank on May 6, 2019. Headquartered strategically on Sule Pagoda Road, Kyauktada Township, MTB Bank operates 17 branches nationwide, serving various sectors including tourism, SMEs, and other businesses. MTB Bank has 476 employees across 23 departments. The number of staff in the head office and branch loan department is 120, which accounts for 25% of MTB Bank's total workforce. There are (29) types of loan products. These are Construction Loans, Home Loans, Tender Loans, CGI Loans, Hire Purchase, Corporate Loan and SME Loans, etc. A loan amount of 500 million kyat and below is classified as an SME Loan, while amounts exceeding 500 million kyat are classified as Corporate Loans. SME loan tenures range from 1 to 3 years, facilitating diverse business expenditures such as working capital, expansion, and equipment investment. According to MTB Bank's Annual Report, SME lending is cash flow-based, with 7.93% of total loans dedicated to SMEs, while only 0.25% is classified as Non-Performing Loans (NPL) (MTB Bank, 2023).

Credit assessment is important for SME loans to ensure the borrower's repayment capacity, thus minimizing default risk. At MTB Bank, which has extended 17 billion kyats in SME loans, thorough credit assessment practices are indispensable. These practices involve evaluating the financial health and repayment ability of SMEs, helping the bank to sustain a robust loan portfolio. Effective credit assessment also facilitates early risk identification, allowing the bank to implement mitigating strategies promptly. This not only safeguards the bank's financial stability but also supports broader economic growth by fostering sustainable SME development. Loan decisions are made by the Credit Committee at the head office, consisting of ten senior management members who meet bi-weekly to review applications. Credit scores are determined based on factors such as collateral, financial ratio analysis and credit repayment history. Based on these evaluations, the committee decides whether to approve the loan.

Despite these efforts, 66% of SMEs in Myanmar face challenges in accessing finance, highlighting the need for more accurate and efficient credit assessment practices (World Bank, 2020). Poor credit assessment can lead to increased defaults and legal risks, adversely affecting both SMEs and the overall economy. Identifying and implementing best practices in credit assessment is critical for enhancing loan performance and supporting sustainable economic growth. Studies on credit assessment practices can provide valuable insights for policymakers and financial institutions, ultimately improving SME access to finance and fostering economic development in developing countries.

The SME loan repayment performance is a critical factor in maintaining the financial stability of banking institutions. Various studies have identified key determinants influencing loan repayment performance, including the quality of credit assessment practices, the borrower's financial literacy, and the economic environment. For instance, Chepkoech (2014) highlighted that weaknesses in policy adherence and coordination among credit appraisal techniques contribute significantly to poor loan repayment. Despite the importance of effective credit assessment, a gap remains in understanding how specific credit assessment practices impact the repayment performance of SME loans. This study aims to address this gap by evaluating the current credit assessment practices at MTB Bank and their influence on the loan repayment performance of SMEs. By identifying specific deficiencies and areas for improvement, this research seeks to enhance the effectiveness of credit assessment processes and, consequently, the loan repayment performance of SMEs.

1.2 Objectives of the Study

The main objectives of this study are as follows:

1. To identify the credit assessment practices on SME loans at Myanma Tourism Bank (MTB Bank).
2. To analyze the effect of credit risk assessment practices on SME loan performance at Myanma Tourism Bank (MTB Bank).

1.3 Scope and Method of the Study

This research focuses on how MTB Bank's credit evaluation procedures affect the performance of SME loans. The procedures of credit evaluation, including credit policy, credit risk identification, credit preview, credit appraisal and analysis, and credit risk monitoring, are given additional weight in this research. This study adopted the simple random sampling method. MTB Bank operates 17 branches and employs 476 individuals across 23 departments. Data collected from a total of 102 employees from the credit functions of MTB Bank were obtained using the Yamane (1967) formula.

In this study, both the quantitative research approach and descriptive statistics were used. Primary data was collected using structured questionnaires with a 5-point Likert scale. The goals of this research were met by using both primary and secondary data. An online survey was developed for the purpose of collecting data efficiently throughout the June 2024 data collection session. Furthermore, secondary data were gathered from the MTB Bank Annual Report, journal publications, international research papers, web resources, and reference textbooks.

1.4 Organization of the Study

This research consists of five distinct chapters. The study's introduction is covered in Chapter 1 along with the paper's structure, goals, methodology, scope, and excuse for the investigation. The second chapter discusses the theoretical backdrop. The profile of MTB Bank and its credit evaluation procedures are presented in Chapter 3. An examination of how MTB Bank's SME loan performance is impacted by credit assessment processes is presented in Chapter 4. Lastly, chapter five discusses the conclusions and deliberations as well as the necessity for further research.

CHAPTER II
THEORETICAL FRAMEWORK OF STUDY

A thorough summary of the theoretical underpinnings of credit evaluation procedures is given in this chapter. Credit assessment definition, credit scoring theory, credit assessment methods and loan performance, prior research, the 5C's model for credit, the 5P's of credit, the CAMPARI of credit, and the conceptual framework of the study are all covered.

2.1 Concept of Credit Assessment

Credit assessment is the process of determining whether or not to grant a loan application by analyzing the applicant's financial capabilities and coming to a decision on whether or not to agree to the loan request. Omara (2007) said that the amount of repayment risk exposure rises when bank lending is not adequately analyzed. This is due to the fact that the loan recipient may not have the ability to repay the loan. There is a significant relationship between the process of identifying individuals who have a high likelihood of defaulting on a loan and the selection of individuals who have a high likelihood of repaying the loan. This relationship is essential to the financial health of any financial institution. According to Derban (2005), banks are required to conduct thorough screenings of individuals who are applying for loans in order to ascertain whether or not they are able to return the principle amount of the loan together with the interest by the time the loan is due. In addition, he emphasizes that a convincing credit analysis should use both qualitative and quantitative methods when evaluating the borrowers. Furthermore, in order to effectively serve borrowers, comprehensive loan evaluation and monitoring systems are required. It is possible for a financial organization to reduce its exposure to credit risk by implementing a credit policy that is sound. This strategy helps the institution issue loans of higher quality that are completely repaid. It is necessary for them to establish minimal requirements for loan applicants who meet the requirements in terms of the points provided throughout the evaluation process. The policy must be enforced uniformly to each and every person who applies for a loan.

Furthermore, credit assessment plays a pivotal role in maintaining the overall health of financial institutions. According to Basel III guidelines, rigorous credit assessment procedures are essential to ensure that banks maintain adequate capital buffers to absorb potential losses from loan defaults Lee, E. (2014). This regulatory framework emphasizes the importance of robust credit assessment practices to enhance financial stability and mitigate systemic risks. Additionally, Strischek (2000) highlights that effective credit assessment involves not only evaluating the borrower's financial statements but also understanding their business model, market conditions, and management capabilities. This comprehensive approach enables lenders to make informed decisions that balance risk and return, ultimately contributing to the sustainability and profitability of the banking sector.

The possibility of one individual misusing the power conferred is decreased since the decision to issue a loan is made only after an analysis has been completed by a committee consisting of many people. The 5 C's Model for Credit and Credit Scoring are two of the many techniques used to evaluate borrowers' creditworthiness. According to Thomas, Edelman, and Crook (2002), credit scoring systems provide different borrower characteristics numerical values that serve as an objective and standardized way to evaluate credit risk. This quantitative technique, combined with the qualitative judgment of the credit committee, ensures a balanced and thorough assessment process. The 5 C's Model (Character, Capacity, Capital, Collateral, and Conditions) offers a holistic framework for evaluating the creditworthiness of borrowers, addressing both qualitative and quantitative factors. Implementing these comprehensive credit assessment methods helps banks in minimizing default rates and enhancing overall loan performance.

2.2 Related Theories for Credit Assessment Practices

Credit assessment practices are grounded in various models and theories that provide structured frameworks for evaluating borrowers' creditworthiness and mitigating credit risks. These theoretical frameworks are crucial for financial institutions to develop effective credit policies and enhance loan performance. The following sections outline key models and theories related to credit assessment practices.

2.2.1 The 5C's of Credit

Financial organizations may create credit rules for their transactions using the framework provided by the 5 C's Model for Credit (MacDonald, 2006). The model includes five key components that commercial banks use to manage credit, which improves loan performance in the end. The borrower's character, ability to repay, collateral, capital, and economic circumstances are these five elements (MacDonald, 2006).

The borrower's commitment to meeting loan obligations is reflected in their character, their ability to make regular payments and repay debt without major obstacles is indicated by their capacity, and their wealth position in terms of market standing and capital adequacy is reflected in their capital. In the event of default, collateral acts as security for loan disbursements, while economic circumstances represent aspects of the external environment that affect loan recovery but are not within the lenders' control. Banks use the 5 C's Model for Credit to evaluate their clients in order to reduce the amount of non-performing loans they make and to effectively manage risk by only making loans to well-repayable borrowers. Therefore, by reducing the number of instances of loan repayment failure, bank loan performance may be improved.

2.2.2 The 5P's of Credit

The 5P's of Credit theory, proposed by John Carville, offers a comprehensive framework for understanding the factors influencing SME loan performance. According to Carville, the 5P's include People, Purpose, Payment, Protection, and Prospective, which play crucial roles in shaping the outcome of credit transactions (Carville, 2009). People refer to the borrower's character, competency, and credibility, while Purpose denotes the intended use of the loan funds and the viability of the borrower's business plan. Payment assesses the borrower's capacity to repay the loan, considering factors such as cash flow, profitability, and debt service coverage ratio. Protection evaluates the adequacy of collateral or guarantees provided to mitigate credit risks, while Prospective analyzes the borrower's future prospects and market conditions.

By examining each of the 5P's, Banks can gain valuable insights into the creditworthiness and repayment potential of SME borrowers. Through a holistic evaluation of the borrower's character, business purpose, repayment capacity, collateral coverage, and market outlook, the bank can make informed lending decisions and optimize SME loan performance. Implementing Carville's 5P's framework ensures a systematic approach to credit assessment, enabling banks to mitigate risks effectively and support the growth and sustainability of SME in Myanmar's dynamic business landscape.

2.2.3 The CAMPARI of Credit

The CAMPARI of Credit theory, introduced by Martin Evans, offers a structured approach to credit analysis and risk assessment. According to Nurdin (2017), the acronym CAMPARI stands for Character, Ability, Margin, Purpose, Amount, Repayment, and Insurance. Each element represents a critical aspect of evaluating a borrower's creditworthiness and loan performance. Character pertains to the borrower's integrity, reliability, and past repayment behavior, while Ability assesses their financial capacity to repay the loan based on income, assets, and debt obligations.

Margin reflects the cushion available to cover unexpected expenses or downturns in the borrower's financial situation, ensuring sufficient safety in the loan arrangement. Purpose evaluates the intended use of the loan proceeds and its alignment with the borrower's business objectives. Amount considers the appropriateness of the loan size relative to the borrower's needs and repayment capacity. Repayment analyzes the feasibility of the proposed repayment schedule and the borrower's track record in meeting financial obligations. Finally, Insurance examines the availability and adequacy of risk mitigation measures, such as collateral or insurance coverage, to protect the lender against default risk. By applying the CAMPARI framework, Myanma Tourism Bank can conduct a thorough credit assessment, identify potential risks, and make informed decisions to optimize SME loan performance and mitigate credit losses.

2.2.4 Credit Scoring Theory

Credit agencies, like banks, use credit scoring models as statistical tools to determine a prospective creditor's creditworthiness and credit risk. These models provide predictions about a borrower's future propensity for bad conduct based on statistical methods, historical data, and demographic traits. A credit scoring model uses a mathematical computation of credit criteria to determine if a possible credit is good or poor, in contrast to the conventional judgmental method based on the 3Cs, 4Cs, or 5Cs. Based on data like age and prior loan history, among other things, these considerations are made (John, 2016).

According to Wah (2011), a credit scoring model's credit score indicates the likelihood of a client defaulting; a higher score indicates a lower default risk. Financial institutions often use the model, which provides a grade for a loan request's credit quality and is flexible enough to accommodate a wide range of topics, to manage their risks and keep an eye on their portfolio (Deloitte, 2016).

2.3 Credit Assessment Practices

Credit assessment practices are crucial for the financial stability and profitability of banking institutions, encompassing processes such as credit policy formulation, credit risk identification, credit preview, credit appraisal and analysis, credit risk monitoring, and loan repayment performance. Research, including work by Omara (2007) and Derban (2005), has highlighted the importance of effective credit policies and systematic risk identification to prevent financial losses. Techniques such as credit preview involve detailed appraisal of financial statements, business plans, and market conditions, ensuring prudent lending decisions. Comprehensive credit appraisal and analysis, as discussed by MacDonald (2006) through the 5 C's Model, evaluate borrower creditworthiness and loan request appropriateness. Continuous credit risk monitoring and evaluation of loan repayment performance are vital for managing risks and ensuring consistent borrower repayment behaviour. Frameworks like Carville's (2009) 5 P's of Credit and Evans' (2015) CAMPARI model provide valuable insights into enhancing credit risk management.

2.3.1 Credit Policy

Credit policy is another crucial independent variable that shapes credit assessment practices at banks. According to Chepkoech (2014), credit policy refers to the set of guidelines governing credit extension across sectors, outlining criteria for borrower evaluation, loan terms, risk management, and lending strategy. A bank's credit policy ensures consistency and transparency in lending operations, providing a comprehensive framework to evaluate borrowers, determine terms, and manage risks effectively. Regular review and updates to the credit policy reflect current economic conditions and market dynamics, ensuring its relevance and effectiveness in mitigating credit risks.

A well-defined credit policy includes several key components. It specifies criteria for borrower evaluation, such as credit scores, income levels, and collateral requirements (Chepkoech, 2014). Loan terms, including interest rates, repayment schedules, and loan durations, are detailed to ensure fairness and transparency. The policy also outlines risk management strategies, including guidelines for risk assessment, collateral valuation, and loan monitoring (Chepkoech, 2014). Additionally, the credit policy provides a framework for addressing delinquent loans, including procedures for loan restructuring, collection efforts, and legal actions (Chepkoech, 2014). By following a robust credit policy, banks can mitigate credit risks, enhance loan portfolio performance, and support economic development initiatives.

2.3.2 Credit Risk Identification

Credit risk identification is a fundamental aspect of credit assessment practices at banks. This involves the systematic assessment of potential risks associated with extending credit, aiming to identify and mitigate these risks before they lead to financial losses. As emphasized by various researchers, effective credit risk identification involves evaluating various risk factors such as borrower creditworthiness, market conditions, economic factors, and external influences (Francis, 2017; Chepkoech, 2014). By analyzing these factors, banks can anticipate and manage potential risks effectively, ensuring the stability and success of their lending operations.

The process of credit risk identification includes several methods and techniques. Business analysis involves researching and analyzing the borrower's business situation to identify potential risks. This includes reviewing financial forecasts and budgets to uncover future exposures. Field investigation allows loan managers to understand the borrower's operations, identify potential mistakes, and discover risks during activities. Statistical analysis of losses involves analyzing past losses to predict future costs and identify existing risks (Francis, 2017). By using these strategies, banks may protect their loan portfolios and preserve financial stability by proactively identifying possible credit risks and mitigating them.

2.3.3 Credit Preview

One of the key independent variables influencing credit assessment practices at banks is the credit preview. The credit preview involves three appraisal techniques to systematically and comprehensively assess the financial viability, risks, and potential returns of extending credit across sectors. As highlighted by Francis (2017), a thorough credit appraisal technique involves rigorous financial analysis, market research, risk evaluation, and project feasibility analysis. By examining factors such as financial statements, business plans, collateral, market conditions, and management competency, banks ensure that lending decisions are well-informed and aligned with the bank's objectives.

The credit evaluation method includes a number of important components. Examining the borrower's financial accounts in-depth in order to evaluate their solvency, liquidity, profitability, and overall financial health is known as financial analysis. Francis (2017). This analysis helps in understanding the borrower's ability to repay the loan. Market research evaluates the external environment, including industry trends, market conditions, and competitive landscape, which can impact the borrower’s business operations and financial performance (Francis, 2017). Risk evaluation identifies potential risks that could affect the borrower's ability to repay the loan, such as market risk, operational risk, and financial risk (Francis, 2017). Project feasibility analysis assesses the viability of the borrower’s business plan or project, considering factors like projected cash flows, capital expenditure, and return on investment (Francis, 2017). By incorporating these elements, the credit appraisal technique provides a comprehensive evaluation of the borrower’s creditworthiness, ensuring that the bank makes prudent lending decisions.

2.3.4 Credit Appraisal and Analysis

Credit appraisal and analysis is another independent variable that influences credit assessment practices at banks. This involves a comprehensive assessment of a borrower's creditworthiness and the appropriateness of their loan request. As highlighted by Francis (2017), credit appraisal includes factors such as financial statements, business plans, collateral, market conditions, and management capability. Banks utilize thorough financial analysis, market research, risk assessment, and project feasibility studies to inform their lending decisions, ensuring that loans are extended to reliable and capable borrowers.

The credit appraisal process involves several key steps. First, financial statements are analyzed to assess the borrower’s financial health, profitability, and liquidity. This helps in determining the borrower’s ability to generate sufficient cash flows to repay the loan. Second, the borrower’s business plan is evaluated to understand the purpose of the loan, the projected use of funds, and the expected outcomes. Third, collateral is assessed to determine its value and adequacy as security for the loan. Fourth, market conditions are analyzed to evaluate external factors that could impact the borrower’s business. Finally, the management capability of the borrower is assessed to ensure that they have the skills and experience to successfully manage their business and repay the loan. By conducting a comprehensive credit appraisal, banks can make informed lending decisions, mitigate credit risks, and ensure the sustainability of their loan portfolios.

2.3.5 Credit Risk Monitoring

Credit risk monitoring plays a critical role in credit assessment practices at banks. This involves continuous surveillance and management of credit facilities post-disbursement to ensure compliance with loan terms, timely repayment, and early detection of risks or delinquencies. According to various researchers, including Francis (2017) and Chepkoech (2014), effective credit risk monitoring involves systematic tracking and assessment of clients' financial performance, risk exposure, and adherence to loan agreements. Regular review of credit monitoring reports by senior management ensures effective oversight and proactive risk management, safeguarding assets and optimizing loan performance.

Credit risk monitoring includes several essential activities. Continuous monitoring of credit exposures ensures that borrowers comply with loan terms and make timely payments. Regular site visits to borrowers' operations help verify that businesses are operating as stated in their loan applications and identify any early signs of financial distress. Collateral revaluation ensures that collateral remains sufficient to cover outstanding loan amounts. Implementing a risk rating system allows banks to update risk assessments based on borrowers' performance and market conditions. Collecting borrower feedback helps identify potential issues and improve credit monitoring practices. By conducting these activities, banks can detect and address potential risks early, maintain the quality of their loan portfolios, and ensure the financial stability and profitability of their lending operations.

2.4 Loan Performance

Loan performance, especially in terms of repayment, is a critical dependent variable significantly influenced by various credit assessment practices in banking (Thomas, Edelman, & Crook, 2002). It reflects the ability of borrowers to meet their repayment obligations timely and complete. High loan performance indicates consistent on-time payments by borrowers, while poor performance points to frequent late payments or defaults. This performance is vital for banks as it directly impacts their profitability, liquidity, and risk management. Effective credit assessment practices are crucial for ensuring robust loan performance. When banks apply rigorous credit appraisal techniques, develop comprehensive credit policies, accurately identify credit risks, conduct thorough credit appraisals, and implement continuous credit risk monitoring, they can significantly enhance loan repayment performance (Omara, 2007; Strischek, 2000). Each of these practices contributes to a comprehensive understanding of the borrower's ability and willingness to repay the loan, thus reducing the likelihood of defaults and delinquencies.

Several factors influence loan performance. A thorough credit appraisal technique ensures that only creditworthy borrowers receive loans, increasing the likelihood of timely repayments due to a stable financial position and viable repayment plan (Thomas, 2002). A well-defined credit policy provides clear lending guidelines, ensuring consistency and transparency, and helps select borrowers who are more likely to meet repayment obligations. Early and accurate credit risk identification allows banks to take preemptive measures to mitigate risks, maintain a healthy loan portfolio, and achieve higher successful repayment rates (Strischek, 2000). Comprehensive credit appraisal evaluates all aspects of the borrower's creditworthiness, reducing the risk of defaults and enhancing overall loan performance. Continuous credit risk monitoring detects early signs of financial distress in borrowers, enabling banks to take corrective actions promptly, manage risks effectively, and maintain high loan repayment rates (Omara, 2007).

Loan performance is a critical metric for banks as it directly impacts their financial stability and operational efficiency. High loan performance indicates effective credit assessment practices, leading to lower default rates and reduced credit losses, thereby enhancing profitability and strengthening the bank's reputation and credibility in the market (Thomas, 2002). It also ensures better liquidity management, allowing banks to reinvest funds in new lending opportunities and support continuous business growth and expansion. Moreover, high loan performance helps in maintaining regulatory compliance, as banks must meet specific capital adequacy and risk management standards. Conversely, poor loan performance can lead to significant financial losses, increased provisioning for bad debts, higher operational costs associated with loan recovery and legal actions, reputational damage, and decreased investor and customer confidence (Strischek, 2000). Therefore, maintaining high loan performance through effective credit assessment practices is essential for the sustainable growth and success of banks (Omara, 2007).

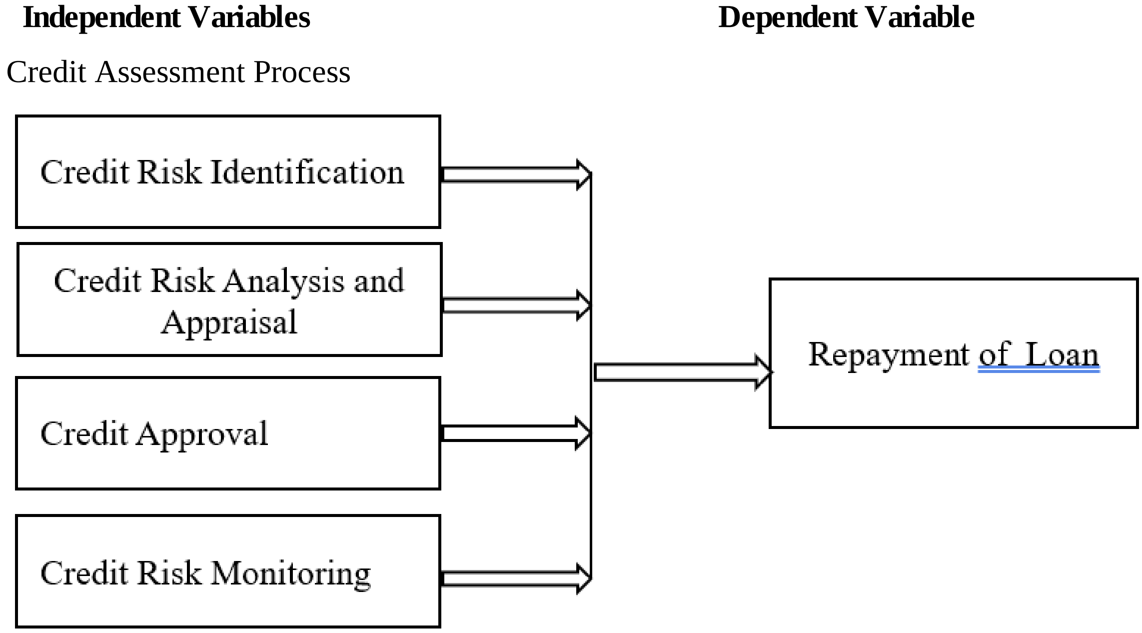
2.5 Previous Studies

A growing body of research is focusing on the impact of the credit evaluation procedure on SME loan performance. Among these, a few scientific publications are highlighted as follows.

Francis (2017) investigated the effects of credit assessment practices on loan repayment rates at Kenya Commercial Bank (KCB) South Sudan Limited in a paper titled Influence of Credit Assessment Process on Repayment of Kenya Commercial Bank Loans in South Sudan. According to the report, KCB South Sudan Ltd.'s non-performing loan portfolio beyond allowed limits, which had a detrimental effect on the group's overall business performance. Using secondary and primary data, a descriptive study approach was used with an emphasis on KCB South Sudan Limited.

With a sample size of 72 respondents, or 40% of the target demographic, the survey comprised branch managers, operations managers, credit officers, credit analysts, and personal bankers from 16 KCB South Sudan branches. In order to guarantee variation within the research, seven branches were randomly selected from a total of 16. Descriptive statistics like percentages, frequencies, means, and standard deviations were used in data analysis in addition to inferential statistics like regression analysis. The conceptual framework for this research in Kenya is shown in Figure (2.1).

Figure (2.1) Conceptual Framework of Influence of Credit Assessment Process on Repayment of Kenya Commercial Bank Loans at Kenya

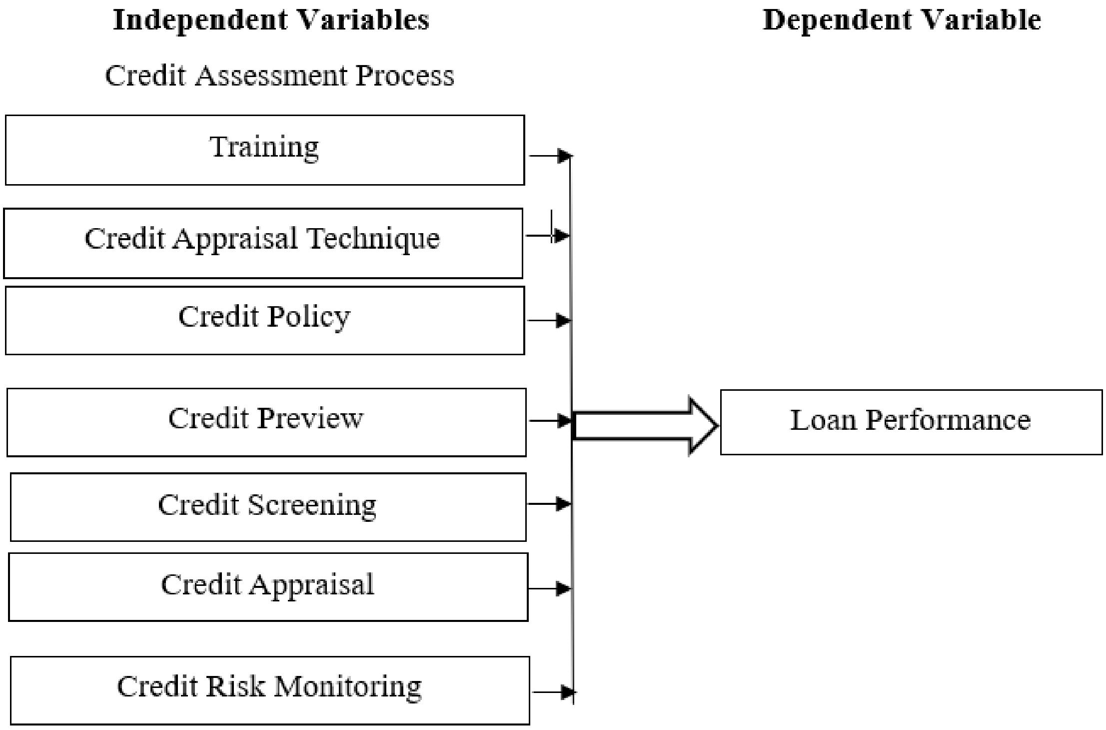


Source: Francis (2017)

The study's conclusions showed that a number of variables, including credit approval, credit risk monitoring, credit risk identification, analysis, and appraisal, had a big impact on how much people repaid their loans. Furthermore, these characteristics accounted for 62.2% of the variation in loan repayment at Kenya Commercial Bank South Sudan Limited, with other factors accounting for the remaining 37.8%. The study emphasized the importance of assessing borrowers' economic, legal, and environmental situations to evaluate credit risk effectively.

Chepkoech (2014) conducted a study titled The Effect of Credit Assessment Process on Repayment of Bank Loans in Commercial Banks in Kenya to examine the correlation between loan repayment and the credit assessment process in Kenyan commercial banks, employing a descriptive census survey design and targeting sample unit is 85 credit managers from all 43 banks, data was obtained from 75 managers as of December 2013. It combined primary data from structured questionnaires with secondary data from financial statements. The study revealed that prevalent credit assessment techniques included the 5Cs and 5Ps processes. It highlighted concerns such as staff overwork affecting productivity and borrowers providing falsified information to obtain larger loans they couldn't repay. Weaknesses in policy adherence and coordination among credit appraisal techniques were identified as contributing factors to poor loan repayment. Figure (2.2) presents the conceptual framework of this study in Kenya.

Figure (2.2) Conceptual Framework of the Effect of Credit Assessment Process on Repayment of Bank Loans in Commercial Banks in Kenya



Source: Chepkoech, D. (2014)

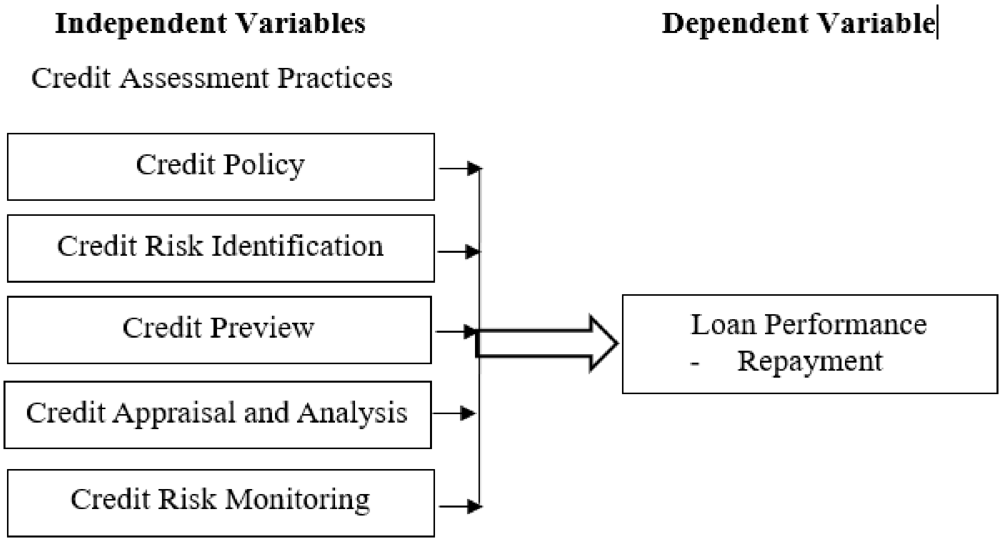
The findings of the study revealed that in Kenyan commercial banks, the 5Cs and 5Ps processes are predominantly used for credit assessment. It highlighted issues such as staff overwork and borrower misinformation, contributing to poor loan repayment. Recommendations included policy revisions, training enhancements, and improved coordination among departments. Suggestions for further research focused on microfinance institutions, credit monitoring's impact, and the effectiveness of the 5Cs appraisal technique. These findings provide valuable insights for policy-making and future research endeavours in the banking sector.

2.6 Conceptual Framework of the Study

The conceptual foundation of this study was implemented via citations of other research, namely studies looking at how credit assessment processes affect small and medium-sized enterprise loan performance. Similar elements in their frameworks were highlighted in earlier studies by Khamis Sila Francis (2017) and Dorothy Chepkoech (2014), showing a strong impact on loan repayment and performance in financial institutions. Francis emphasized the significance of credit risk monitoring as well as credit risk assessment and analysis. Chepkoech focused on appraisal techniques, credit policy, credit analysis, and credit risk monitoring, showcasing their impact on loan repayment and performance.

This study focuses on four key dimensions: credit appraisal technique, credit policy, credit risk identification, credit appraisal, and credit risk monitoring. These critical dimensions are important for assessing and evaluating their specific impact on SMEs' loan performance and repayment. Consequently, it is necessary to investigate these four elements, which were done in this research and are shown in Figure (2.3).

Figure (2.3) Conceptual Framework of the Study



Source: Own Compilation (2024)

Figure (2.3) shows the relationship between credit assessment on credit policy, credit risk identification, credit preview, credit appraisal and analysis, credit risk monitoring as independent variables and loan repayment performance as a dependent variable. The definitions listed below have been prepared in preparation for the questionnaire and working definitions for the research questionary.

Working Definitions

Credit Policy

The credit policy refers to sets of guidelines for extending credit, evaluating borrowers, determining loan terms, managing risks, and ensuring adherence to best lending practices at MTB Bank.

Credit Risk Identification

Credit risk identification entails systematically assessing and mitigating potential risks in extending credit by analyzing borrower creditworthiness, market conditions, economic factors, and external influences to ensure MTB Bank's lending stability and success.

Credit Preview

The credit preview involves a thorough appraisal technique that includes financial analysis, market research, and risk evaluation to make prudent lending decisions, mitigate credit risks, and enhance economic development and portfolio performance.

Credit Appraisal and Analysis

Credit appraisal and analysis involves a comprehensive assessment of a borrower's creditworthiness and loan request by evaluating financial statements, business plans, collateral, market conditions, and management capability through thorough financial analysis, market research, risk assessment, and project feasibility studies.

Loan Repayment Performance

Loan repayment performance involves evaluating borrowers' consistency in meeting repayment obligations, including timely and complete payments of principal and interest, to assess creditworthiness, manage risks, and ensure financial stability, profitability, and sustainable economic development in Myanmar.

CHAPTER III

PROFILE AND CREDIT ASSESSMENT PRACTICES AT MTB BANK

This chapter provides a profile of MTB Bank and distinguishes the practices of credit assessment at MTB Bank. This chapter includes (4) sections, which are the profile of MTB Bank, the organizational structure of MTB Bank, SME loan products by MTB Bank, credit policy of MTB Bank, and credit assessment practices of MTB Bank.

3.1 Profile of Myanma Tourism Bank (MTB)

MTB Bank, the Myanma Tourism Bank! MTB Bank, one of the top commercial banks in Myanmar, was founded in 2018 and is licensed by the Central Bank of Myanmar under the Financial Institutions Law (FI Law). With 17 offices around the country, the main office is ideally situated on Sule Pagoda Road in Kyauktada Township, guaranteeing accessibility and convenience for cherished clients. The organization employs a nationwide workforce of 500 individuals and offers financial services to various industries and businesses.

MTB Bank specializes in catering to the needs of the tourism industry, providing tailored financial solutions and services that support the growth and development of businesses in this vital sector. Understanding the unique challenges and opportunities that the tourism industry presents, MTB Bank is committed to being the preferred financial partner for tourism-related enterprises.

In addition to a focus on the tourism sector, a range of services extends to SME and businesses in various other sectors. Small and medium enterprises are considered the backbone of the economy, and MTB Bank is dedicated to empowering them with the financial resources and expertise needed to thrive and succeed.

The comprehensive suite of financial products and services includes deposit accounts, personal and business loans, trade financing, cash management, foreign exchange, treasury services, and more. Leveraging cutting-edge technology, MTB Bank delivers seamless and convenient banking experiences, ensuring that customers can easily manage their finances and access services via digital channels.

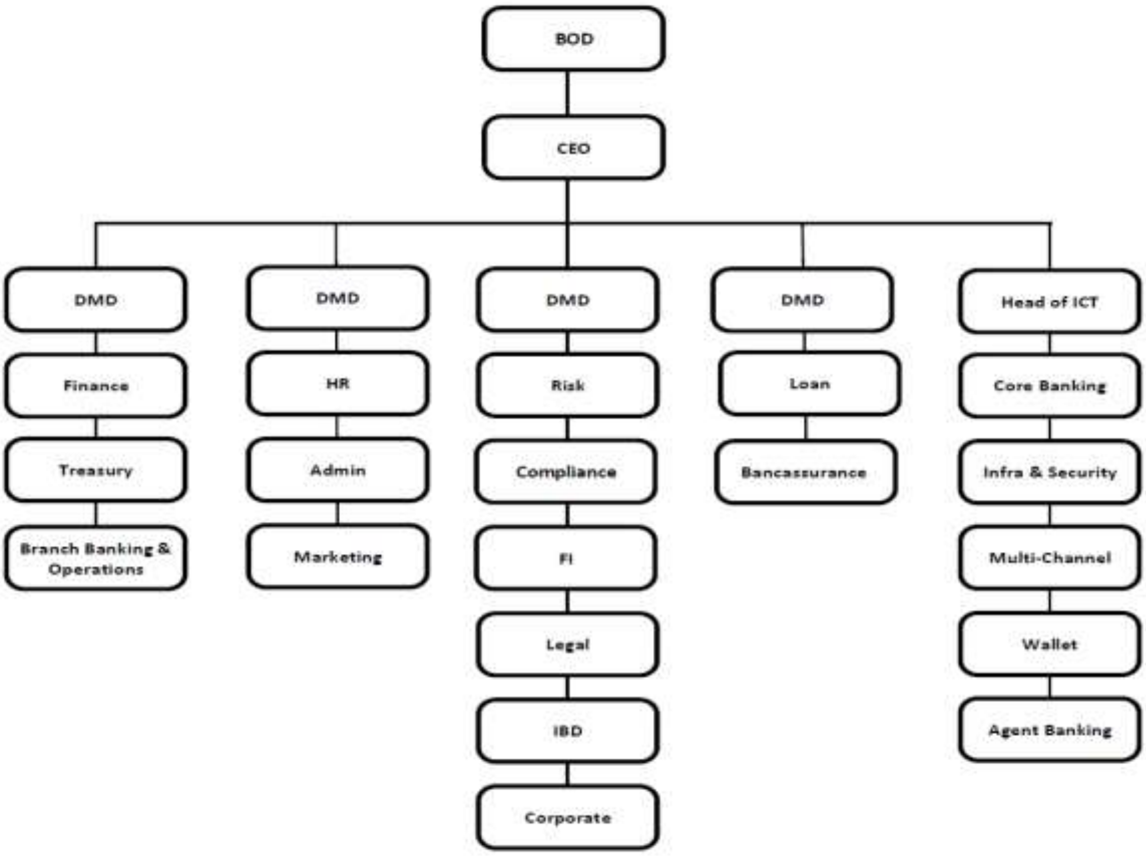
At MTB Bank, customer satisfaction is prioritized, and exceeding expectations with a personalized approach and responsive customer support is the norm. The team of experienced professionals is committed to understanding customers' unique requirements and providing tailored solutions that meet their specific needs.

MTB Bank is steadfast in its commitment to advancing Myanmar's socioeconomic development as a responsible business entity. Initiatives that advance community development, environmental sustainability, and financial inclusion get active support. Whether operating in the tourism sector, as an SME, or in any other business seeking reliable financial support, MTB Bank is ready to partner on the journey toward success.

3.2 Organizational Structure of MTB Bank

Myanma Tourism Bank's (MTB Bank) organizational structure is set up to guarantee effective administration and operation across all of its divisions. The Board of Directors (BOD) and the Chief Executive Officer (CEO) are at the top of the hierarchy. The Myanma Tourism Bank's organizational structure is shown in Figure (3.1).

Figure (3.1) Organizational Structure of MTB Bank



Source: MTB Bank, 2024

According to Figure (3.1), the CEO oversees several Deputy Managing Directors (DMDs) and the Head of ICT who are in charge of different key functions. Each department within these divisions plays a critical role in achieving MTB Bank's strategic goals, providing specialized services to meet the needs of its diverse customer base. The structure supports MTB Bank's mission to drive growth and development in the tourism sector and beyond, emphasizing financial inclusion and innovative solutions.

Finance, Treasury, and Branch Banking & Operations: The DMD responsible for these areas manages the bank's financial health, overseeing financial planning, budgeting, and reporting. This DMD also oversees treasury functions, including liquidity management, investment strategies, and financial risk management. Additionally, they ensure smooth operations across all branches, optimizing operational efficiency and customer service.

Human Resources (HR), Administration, and Marketing: This DMD handles HR functions, including recruitment, training, and employee welfare, as well as administrative tasks that support the bank's daily operations. The marketing division is in charge of creating and carrying out marketing plans, managing advertising and promotional activities, managing market research, upholding the bank's reputation, and making sure that stakeholders and consumers are effectively communicated with.

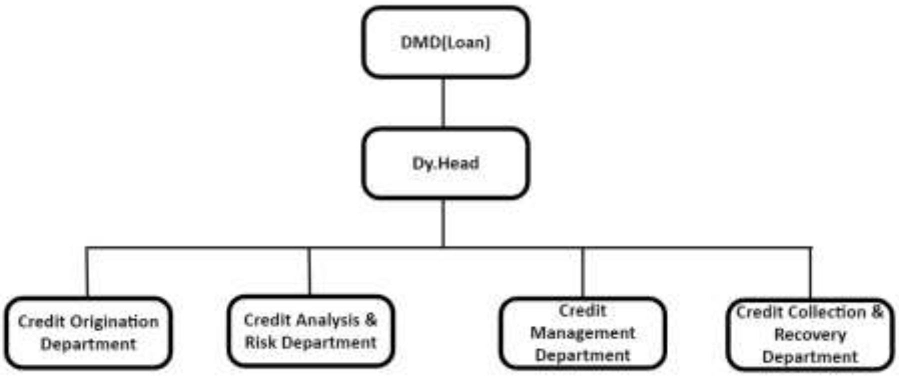
Risk, Compliance, Financial Institutions (FI), Legal, IBD, and Corporate: The DMD for this sector oversees the identification, assessment, and mitigation of risks, ensuring the bank's stability and security. The Compliance department ensures adherence to all applicable laws and regulations. The FI department manages relationships with other financial institutions, fostering strategic partnerships. The Legal department handles all legal matters, providing essential support for the bank's operations. The International Business Department (IBD) manages international banking operations, expanding the bank's global reach and capabilities.

Loan and Bancassurance: This DMD oversees the bank's lending activities, ensuring effective and efficient loan processing and management. Additionally, the DMD manages partnerships with insurance companies (bancassurance), integrating insurance products with banking services to offer comprehensive financial solutions to customers.

Core Banking, Infra & Security, Multi-Channel, Wallet, and Agent Banking: The head of ICT is responsible for overseeing core banking systems, and ensuring robust infrastructure and security measures. This role includes managing multi-channel operations, wallet services, and agent banking, all aimed at leveraging technology to enhance the efficiency and quality of service delivery.

Figure 3.2 presents the organizational structure of the loan department as follows:

Figure (3.2) Organizational Structure of Loan Department



Source: MTB Bank, 2024

According to Figure (3.2), The Loan Origination Department is responsible for processing loan applications, verifying borrower information, assessing creditworthiness, and ensuring compliance with regulatory requirements to approve loans efficiently. The Credit Management Department oversees the credit risk policies and procedures, monitoring borrower accounts to ensure timely repayments, managing credit limits, and analyzing financial data to mitigate potential risks. The Credit Collection & Recovery Department focuses on handling delinquent accounts by developing and implementing strategies for effective debt recovery, negotiating repayment plans with borrowers, and taking legal actions if necessary to recover outstanding debts.

The Credit Analysis & Risk department plays a critical role within financial institutions by conducting thorough credit assessments to evaluate the creditworthiness of individuals, businesses, or entities seeking financial services. This department employs a systematic approach to assess various factors influencing credit risk, aiming to ensure prudent lending practices and mitigate potential financial losses. Credit assessment practices involve gathering and analyzing financial information such as income statements, balance sheets, and cash flow statements to gauge financial stability, repayment capability, and regulatory compliance. Analysts also assess qualitative factors like industry trends and management competency to provide comprehensive risk assessments. They use quantitative models to calculate credit scores, determine credit limits, and recommend interest rates based on risk profiles.

Additionally, the Credit Analysis & Risk department collaborates closely with legal and compliance departments to uphold internal policies and regulatory guidelines. They prepare detailed credit reports, presenting findings to senior management or credit committees to support informed decision-making on loan approvals and extensions. Continuous monitoring of credit exposures and periodic reviews are also integral, allowing timely identification and mitigation of potential risks. Ultimately, the Credit Analysis & Risk department serves as a crucial safeguard against credit losses, employing rigorous assessment practices to maintain the institution's financial health and uphold stakeholder trust. Their efforts contribute significantly to maintaining a balanced portfolio and fostering sustainable financial relationships with clients.

3.3 SME Loan Products & Services by MTB Bank

Myanma Tourism Bank offers SME loan products such as short-term loans, medium-term loans, overdrafts, installment loans, and hire purchase loans, etc. The products related to SME provided by MTB Bank are as follows:

(i) **Short -Term Loan:** These loans have a maturity period of up to 1 year, providing businesses with quick access to capital for immediate operational expenses and short-term projects.

(ii) **Medium -Term Loan:** MTB Bank provides medium-term loans with a maturity period of up to 3 years. These loans are suitable for businesses seeking funding for expansion, equipment purchase, or other medium-term investment needs.

(iii) **Overdraft Facility:** MTB Bank’s overdraft facility allows businesses to withdraw funds up to a predetermined limit, typically for up to 1 year. Interest is charged on the amount utilized, offering flexibility in managing cash flow. The Central Bank regulates that only 20% of the total disbursed loans can be extended under this facility.

(iv) **Installment Loan:** Businesses can opt for installment loans where the principal amount borrowed is repaid in regular installments, typically monthly or quarterly. Interest is calculated based on the outstanding loan balance, providing predictable repayment schedules.

(v) **Hire Purchase Loan:** MTB Bank’s Hire Purchase Loan allows businesses to acquire assets such as vehicles or equipment by purchasing them from an authorized dealer and leasing them to the customer. Monthly rental payments cover both principal and interest. At the end of the specified term, ownership of the asset is transferred to the customer, making this an attractive option for businesses looking to acquire essential assets while managing cash flow effectively.

MTB Bank supports individuals and businesses in achieving their financial objectives through a range of loan services. MTB Bank provides the aforementioned five loan categories, each offering specific loans that align with customers' aspirations.

3.4 Credit Assessment Practices at MTB Bank

As a top bank in Myanmar, MTB Bank has solid practices for assessing the creditworthiness of small and medium enterprises (SME). These practices cover several areas, such as setting credit policies, identifying credit risks, credit preview, credit appraisal and analysis, and monitoring credit risk. In this section, each of these practices is explained, showing how they help MTB Bank make smart and accurate credit decisions.

(i) Credit Policy

MTB Bank's credit policy is integral to its risk management framework, ensuring that lending decisions are both prudent and aligned with the bank's strategic goals. At the core of this policy is a robust credit assessment process that involves detailed evaluations of potential borrowers' financial health, credit history, and repayment capacity. The bank utilizes credit reference bureaus extensively to gather accurate data on applicants, which helps mitigate the risk of lending to individuals with a history of defaults. This use of external credit data is crucial in maintaining the accuracy and reliability of the bank's lending decisions. Furthermore, the policy emphasizes the importance of transparency and thoroughness in the credit evaluation process, ensuring that all relevant financial and non-financial factors are considered before a loan is approved.

In addition to rigorous credit assessments, MTB Bank's credit policy also includes comprehensive training programs for its credit officers. These programs are designed to equip staff with the necessary skills and knowledge to perform their duties effectively. Regular training sessions, seminars, and workshops are mandated to keep the credit officers updated on the latest industry practices and regulatory requirements. This focus on continuous professional development ensures that the bank's credit assessment processes are not only current but also capable of adapting to changing market conditions. Overall, MTB Bank's credit policy aims to balance risk and reward by making informed lending decisions that support both the bank's growth objectives and the financial well-being of its clients. Table (3.1) presents loan terms for SMEs included in the credit policy as follows.

Table (3.1) Loan Terms for SMEs at MTB Bank

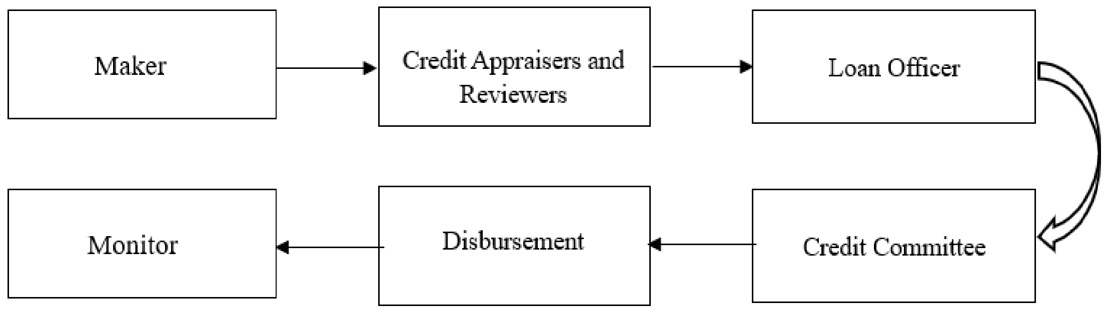
No	SME Loans	
1	Loan Amount	Less than (500) Million Kyats
2	Collateral	Land & Building Land & Building + (Condo, Apartment, Automobile)
3	Interest Rate	(Secure Loan) Term Loan - 10% OD - 9% (Unsecured Loan) Term Loan - 14.5% OD - 13.5%
4	Service Charges	1% for OD
5	Penalty Fee	(Interest + 3)% P.a
6	Maturity	Loan - Up to 3 Years OD - 1 Year
7	Repayment	Customer Choice e.g(30+30+40)%
8	Lending Method	Term Loan, OD

Source: MTB Bank, 2024

(ii) Credit Risk Identification

The first step in the credit evaluation procedure at MTB Bank is determining credit risk. In this stage, possible risks associated with lending to small and medium-sized businesses (SME) are identified and evaluated. A dedicated group of professionals at MTB Bank examines a range of risk indicators, including credit, liquidity, and market risks. In addition, they evaluate the borrower's financial standing, credit history, and sector of business. Because of this thorough study, MTB Bank is able to make wise lending selections. The SME lending procedure is shown in Figure 3.3 as follows:

Figure (3.3) SME Loan Process



Source: MTB Bank, 2024

The originator engages with the SME case, aligning it with the checklist. Credit appraisers and reviewers assess debt exposure, repayment capacity, and loan objectives, scrutinize financial statements, evaluate the 5 Cs, conduct credit scoring and risk assessment, and ensure document completeness. The deputy head of loan conducts further evaluation and validation before presenting to the credit committee. The credit committee then undertakes review and approval. Post-approval, documentation, and disbursement follow. Ongoing monitoring involves reviewing cash flow, communicating with customers, and tracking business and collateral conditions.

(iii) Credit Preview

At MTB Bank, the credit review integrates the comprehensive frameworks of 5C, 5P, and CAMPARI to meticulously assess the creditworthiness of applicants. The 5C framework evaluates Character, Capacity, Capital, Collateral, and Conditions, providing a holistic view of the borrower's integrity, financial capability, asset coverage, and economic environment. Concurrently, the 5P approach scrutinizes Purpose, Profitability, Prospects, Payment, and Protection to assess the viability and sustainability of the proposed loan. Additionally, the CAMPARI methodology guides through Credit Analysis, Mitigation, Proposal, Appraisal, Risk Management, and Implementation phases, ensuring rigorous analysis, risk mitigation strategies, and effective credit decision implementation. This integrated approach at MTB Bank underscores its commitment to prudent lending practices, supporting informed decisions that align with both the bank's strategic objectives and the financial stability of its clientele.

(iv) Credit Appraisal and Analysis

Credit appraisal and analysis, the pivotal stage in MTB Bank's credit assessment process, encompasses several critical components.

(a) Financial analysis involves scrutinizing the borrower's financial statements, tax returns, cash flow, and balance sheets to evaluate metrics such as cash flow dynamics, working capital adequacy, and debt-to-equity ratio.

(b) Business analysis delves into understanding the borrower's operational strategies, management practices, competitive positioning, and market dynamics, assessing growth potential and regulatory impacts.

(c) Collateral evaluation ensures a thorough assessment of assets offered as security, which
may include property, machinery, inventory, receivables, or personal guarantees, aiming to secure the bank's interests in the event of default.

The process initiates with the SME case entry into the pipeline tracking system, followed by meticulous document review and preparation by the maker, scrutiny by credit analysts and checkers focusing on debt exposure, repayment history, loan purpose, and adherence to the 5C framework. Additionally, credit scoring, utilizing 13 risk indicators, determines the borrower's risk profile. MTB Bank's rigorous collateral assessment further mitigates credit risk, facilitating loan recovery in case of default. Recommendations derived from these assessments guide subsequent actions, ensuring completeness before submission to the credit committee. The Credit Committees assess and authorize customer credit requests according to specified amounts and criteria outlined in the bank's credit policies. This evaluation is based on the credit assessments conducted by the SME credit function. Following approval by the credit committee, the process proceeds to Documentation and Disbursement. During Documentation, the loan agreement is finalized, and the customer is required to secure fire insurance coverage. Once all requirements are met, the loan is disbursed to the customer.

(v) Credit Risk Monitoring

MTB Bank maintains rigorous oversight of the credit risk within its lending portfolio. This involves regularly evaluating the financial health of borrowers, assessing their ability to repay loans, and ensuring the collateral securing those loans remains adequate. The bank adopts a proactive stance, anticipating market changes and staying ahead of potential risks. Continuous monitoring of loan performance is crucial, analyzing factors such as cash flow, business development, and collateral value. Regular communication with customers is also prioritized.

The credit assessment process used by MTB Bank includes the identification, evaluation, and analysis of credit risks. This comprehensive procedure encourages the bank's financial stability and loan performance, supports well-informed decision-making, and helps reduce the risks connected with lending to SMEs. Minimizing non-performing loans (NPLs), lowering loan losses, and ensuring low rates of loan default are all achieved via effective credit management. A bank that has good loan performance makes timely loan repayments, has a low loan default rate, and avoids non-performing loans (NPL) and loan losses.

CHAPTER IV
ANALYSIS OF THE EFFECT OF CREDIT ASSESSMENT PRACTICES ON SME LOAN PERFORMANCE

This chapter presents the study's analysis and interpretations. It includes the study methodology, the respondents' demographic profile, the credit assessment procedures and SME loan performance of MTB Bank, a reliability test, and a regression analysis showing how credit management techniques affect MTB Bank loans.

4.1 Research Design

Using a quantitative research approach, this paper examines how MTB Bank's SME loan performance is impacted by its credit evaluation procedures. Multiple linear regression and descriptive statistics are used in the analysis to go over the information gathered. In academic research, primary and secondary data are often used. 102 people in the credit department of MTB were discovered after a total of 137 employees were analyzed using the Yamane Formula (1967). The simple random sampling approach is used to choose the people that make up the sample size. The following is the Yamane sample size formula:

$$n = \frac{N}{1 + N (e)2}$$

$$n = \frac{137}{1 + 137 (0.05)2} =102$$

The variables in this formula are:

n = the sample size

N = the population of the study

e = the margin error in the calculation

For the collection of primary data, a structured questionnaire with a 5-point Likert scale was used for measurement, consisting of three parts. Part A focused on the demographic factors of respondents, Part B related to respondents' experience, and Part C covered credit assessment practices. The survey was conducted in June 2024 using a Google form. The five-point Likert scale survey questions assigned numerical values from strongly disagree to strongly agree (1 = strongly disagree, 2 = disagree, 3 = neutral, 4 = agree, 5 = strongly agree) are utilized in this study.

4.2 Demographic Data of Respondents

Finding out the characteristics of the study's respondents is the first step in the analytic process. The first step was identifying the respondents' demographic profile, which included information on their gender, age, education, employment history, bank position, and income. A summary table of demographic features was utilized to better clearly convey the data, which was examined for each attribute in terms of percentage and absolute value. The summary table of respondents' demographic data is shown in Table (4.1).

Table (4.1) Demographic Profile of Respondents

Sr. No.	Particulars	Number	Percentage (%)
1	**Gender**		
	Male	50	49
	Female	52	51
2	**Age (Years)**		
	18 - 24	4	3.9
	25 - 34	51	50.0
	35 - 44	34	33.3
	45 – 54	13	12.7
3	**Educational Qualifications**		
	Undergraduate	1	1
	Graduate	65	63.7
	Diploma	4	3.9
	Master Degree	32	31.4
4	**Working Experience**		
	Less than 1 year	3	2.9
	1 – 2 years	14	13.7
	3 – 4 years	8	7.8
	5 years and above	77	75.5

Sr. No.	Particulars	Number	Percentage (%)
5	**Designation of Respondents**		
	Assistant Supervisor	25	24.5
	Supervisor	19	18.6
	Manager	41	40.2
	Senior Manager	9	8.8
	AGM and above	8	7.8
6	**Monthly Income Level**		
	300,001 to 500,000	27	26.5
	500,001 to 700,000	27	26.5
	700,001 to 900,000	17	1.6.7
	900,001 Kyat to 1,000,000	4	3.9
	1,000,001 to 1,500,000	9	8.8
	Above 1,500,000	18	17.6
Total		102	100

Source: Survey Data, 2024

Regarding gender, 51% of the 102 respondents were female, while 49% were male. The majority of respondents were aged between 25 and 34 years. In terms of education, most respondents were graduates, with some holding master's degrees. Additionally, most respondents had over five years of banking experience. The majority of the respondents held positions as checkers (managers) and makers (assistant supervisors) in the SME credit department. Furthermore, most respondents had a monthly income exceeding one million and five thousand kyats.

4.3 Reliability Test

A measure's consistency and stability over time are evaluated in order to determine its dependability. The degree to which a group of elements measuring a notion are cohesively related is referred to as consistency. As a reliability coefficient, Cronbach's alpha shows how closely related a set of items are to one another. The range of Cronbach's alpha coefficients and the associated dependability levels are shown in table (4.2).

Table (4.2) 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 (4.3) shows the validity test results of all items including credit assessment practices factors and SME loan performance at MTB Bank.

Table (4.3) Reliability Test

No.	Factors	Number of Items	Cronbach's Alpha
1	Credit Policy	6	0.839
2	Credit Risk Identification	5	0.847
3	Credit Preview	5	0.823
4	Credit Appraisal and analysis	5	0.881
5	Credit Risk Monitoring	5	0.833
6	SME Loan Performance	5	0.875

Source: Survey data, 2024

All of the items' alpha coefficients fall between.823 and.881, indicating that the questionnaire is appropriate if the items' internal consistency is quite good.

4.4 Descriptive Analysis of Credit Assessment Practices and SME Loan Performance of MTB Bank

Credit policy, credit risk identification, credit preview, credit appraisal and analysis, and credit risk monitoring are examples of credit assessment procedures used in this research. While SME loan performance is assessed using six items (statements), each aspect of credit assessment processes is measured using five or six items (statements). For this investigation, a 5-point Likert scale and Zaki and Ahmad (2017) were used. Table (4.12) shows the mean score range. The mean scores and standard deviations for each variable related to credit assessment practices are summarized below:

Table (4. 4) 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)

4.4.1 Respondents' Perception on Credit Policy

A key component of successful credit policy involves effective credit assessment practices. This section includes findings aimed at preventing fraud, reducing risk, and minimizing the impact of credit assessment practices on bank loan performance. the result shown in Table (4.5).

Table (4.5) Credit Policy

Sr. No.	Description	Mean	Standard Deviation
1	MTB Bank maintains a consistent and transparent credit policy to guide lending and mitigate risks.	4.25	.481
2	The credit policy includes anti-fraud measures.	4.28	.495
3	Policies are in place to manage loan defaults and reduce associated risks.	4.28	.453
4	The credit policy is regularly updated to reflect current economic conditions.	4.15	.383
5	Staff input is considered in formulating credit policies.	4.23	.486
6	Fully aware of the organization's credit policy.	5.00	.000
Overall Mean		**4.36**	

Source: Survey Data, 2024

According to the results in Table (4.5), the highest mean score was achieved for fully aware of the organization's credit policy, indicating unanimous agreement among respondents. The lowest mean score, though still high, pertained to the regular review and updating of the credit policy to reflect current economic conditions. With a mean score of 4.36 overall across all variables, it is below the extremely high mean score threshold. This suggests that MTB Bank's credit policy practice for SME loan performance is generally regarded as high.

4.4.2 Respondents' Perception on Credit Risk Identification

Effective credit assessment practices rely heavily on the accurate identification of credit risks to ensure sound lending decisions and mitigate potential financial losses; the results of respondents regarding credit risk identification is presented in Table (4.6).

Table (4.6) Credit Risk Identification

Sr. No.	Description	Mean	Standard Deviation
1	Identifying credit risks reduces loan delinquency and default.	**3.71**	**.590**
2	Lenders assess credit risk using borrower's finances and collateral.	**3.97**	**.571**
3	SME loan applicants' credit history is checked to minimize lending risks.	**3.98**	**.675**
4	Credit risks are promptly identified during loan assessments.	**3.94**	**.627**
5	The credit risk identification process at MTB Bank is accurate and reliable.	**3.85**	**.737**
Overall Mean		**3.89**	

Source: Survey Data, 2024

According to the results in Table (4.6), the highest mean score of 3.98 was achieved for checking SME loan applicants' credit history to minimize lending risks, indicating a notable level of agreement among respondents. The lowest mean score, though still substantial at 3.71, was associated with identifying credit risks affecting delinquency and default in loan repayment. The respondents gave the criteria an overall mean score of 3.89, suggesting that they thought highly of them and that they were important in determining whether or not SME loan applicants would be able to repay the loan.

4.4.3 Respondents' Perception on Credit Preview

Thorough credit previews are crucial for effective credit assessment practices, enabling accurate evaluation of borrowers' financial health and risk profiles prior to making lending decisions; the result of mean values is presented in Table (4.7).

Table (4.7) Credit Preview

Sr. No.	Description	Mean	Standard Deviation
1	The 5C dimensions greatly impact loan approval and repayment at MTB Bank.	3.97	.710
2	Each of the 5Ps evaluates MTB Bank loan products for borrower suitability.	3.94	.715
3	Expertise in CAMPARI is essential.	3.77	.730
4	MTB Bank uses credit scoring to adjust to market changes and borrower habits.	3.87	.624
5	MTB Bank ensures fairness and accuracy in its credit scoring models.	3.73	.632
Overall Mean		**3.85**	

Source: Survey Data, 2024

According to the results in Table (4.7), the highest mean score of 3.97 was achieved for the influence of the five dimensions of creditworthiness (5C) on loan approval and repayment performance at MTB Bank, indicating substantial agreement among respondents. This underscores the perceived importance of assessing multiple facets of creditworthiness in loan decision-making processes. Conversely, the lowest mean score, though still notable at 3.73, pertained to MTB Bank's commitment to maintaining fairness and precision in its credit scoring models, suggesting a potential area for improvement. With a mean score of 3.85 overall across all variables, it is below the high mean score threshold. This suggests that MTB Bank's credit preview for loan performance is generally regarded as high.

4.4.4 Respondents' Perception on Credit Appraisal and Analysis

Credit Appraisal and Analysis are essential for effective credit assessment practices, enabling accurate evaluation of borrower risk profiles and financial viability, thus ensuring prudent lending decisions; the result of mean values is presented in Table (4.8).

Table (4.8) Credit Appraisal and Analysis

Sr. No.	Description	Mean	Standard Deviation
1	The collateral valuation process is fair and transparent for SME borrowers.	3.91	.691
2	MTB Bank ensures the fairness and accuracy of its credit scoring models.	3.86	.690
3	Credit appraisers need thorough grasp of financial ratios and reports.	4.09	.705
4	The Business plan must be included when doing a credit appraisal.	4.06	.657
5	The work experience of the person applying for the loan is important.	3.98	.717
Overall Mean		**3.98**	

Source: Survey Data, 2024

According to the results in Table (4.8), the highest mean score of 4.09 was achieved for credit appraisers needing a comprehensive understanding of financial ratios and reports, highlighting strong agreement among respondents on the importance of financial expertise in credit assessments. The lowest mean score, though still solid at 3.86, related to MTB Bank's efforts to ensure fairness and accuracy in its credit scoring models, indicating potential areas for refinement. When evaluating credit for SMEs, all of the selection factors included in the table are significant, as shown by the total mean score of 3.98, which is classified as high.

4.4.5 Respondents' Perception on Credit Risk Monitoring

Credit Risk Monitoring is crucial for effective credit assessment practices, ensuring ongoing evaluation and management of borrower risk profiles to mitigate potential financial losses; the result of mean values is presented in Table (4.9).

Table (4.9) Credit Risk Monitoring

Sr. No.	Description	Mean	Standard Deviation
1	Continuous monitoring ensures timely payments for SME loan interest and principal.	3.91	.646
2	Regular site visits verify SME operations align with the loan application.	3.86	.598
3	The bank needs a new risk rating system reflecting SME performance and market conditions.	3.81	.700
4	Regular borrower feedback enhances credit monitoring by spotting issues early.	3.84	.625
5	Senior management must regularly review credit monitoring reports for effective oversight.	3.94	.657
	Overall Mean	**3.87**	

Source: Survey Data, 2024

According to the results in Table (4.9), the highest mean score of 3.94 was achieved for the regular review of credit monitoring reports by senior management to ensure effective oversight, indicating strong support for robust oversight practices. The lowest mean score, though still solid at 3.81, related to the implementation of a risk rating system regularly updated based on SME performance and market conditions, suggesting areas for enhancement in adaptive risk management strategies. 3.87 is the entire mean score, which is also quite high. Thus, it follows that all of the factors listed in the table are seen to be crucial for MTB Bank to handle SME loans well, with developing positive client relationships being the most crucial.

4.4.6 Respondents' Perception on SME Loan Performance at MTB Bank

The performance of SME loans at MTB Bank is crucial for effective credit assessment practices, ensuring accurate evaluation of lending strategies and risk management to maintain financial stability; the result of mean values is presented in Table (4.10).

Table (4.10) SME Loan Performance

Sr. No.	Description	Mean	Standard Deviation
1		3.87	.685
2	Ensuring SMEs use loan funds as intended can improve their repayment ability.	3.90	.605
3	Analyzing SME business plans improves loan repayment predictions.	3.83	.615
4	Good collateral management boosts recovery rates for SME loan defaults.	3.88	.664
5	Updating credit policies based on market conditions can enhance SME loan repayment performance.	4.00	.660
Overall Mean		**3.89**	

Source: Survey Data, 2024

According to the results in Table (4.10), the highest mean score of 4.00 was achieved for regular updates to credit policies based on market conditions to improve SME loan repayment performance, indicating strong support for adaptive policy frameworks. The lowest mean score, though still robust at 3.83, related to the comprehensive analysis of SME business plans to enhance loan repayment predictions, highlighting the importance of detailed business scrutiny. 3.89 is the average score for all the scores in the table, placing it in the high category as well. This indicates that the bulk of the scores are rather high, as seen by the high mean level of the table.

Table (4.11) provides an overview of the total mean value of credit evaluation procedures.

Table (4.11) Summary of Overall Mean Value

No.	Items	Overall Mean
1	Credit Policy	4.36
2	Credit Risk Identification	3.89
3	Credit Appraisal Technique	3.85
4	Credit Appraisal and Analysis	3.98
5	Credit Risk Monitoring	3.87

Source: Survey Data, 2024

In Table (4.11), the criterion "credit policy" received the highest mean score of 4.36, indicating strong endorsement. Conversely, in Table (4.5), the criterion "credit appraisal technique" received the lowest mean score of 3.85, suggesting a positive but comparatively lower rating. Thus, the scores for "credit policy" and "credit appraisal technique" both fall within the high range, ranging from 3.85 to 4.36.

4.5 Effect of Credit Assessment Practices on SME Loan Performance

The statistical method known as multiple regression analysis seeks to determine a quantifiable link between independent and dependent variables. The dependent variable in this research is SME loan repayment performance, whereas the independent variable is credit assessment processes. Predictor factors, including credit policy, credit risk identification, credit preview, credit appraisal and analysis, and credit risk monitoring, were examined in this study.

The research employed multiple linear regression analysis to investigate how credit assessment measures influence loan performance at MTB Bank. A comprehensive evaluation of five key parameters crucially enhances understanding of loan performance within MTB Bank's credit assessment approaches. The analysis's conclusions are shown in Table (4.12).

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

Practices	Loan Performance
Credit Policy	0.788**
Credit Risk Identification	0.798**
Credit Preview	0.770**
Credit Appraisal and Analysis	0.878**
Credit Risk Monitoring	0.809**

Source: Survey data, 2024

The relationship between different credit evaluation methods and loan performance is shown in Table (4.12). Credit policy, credit risk identification, credit assessment process, credit appraisal and analysis, credit risk monitoring, and SME loan performance are shown to have significant relationships at the 0.01 level. To find out how the independent variables—credit assessment procedures—affect the dependent variable—SME loan performance—multiple linear regression analysis is used. Table 4.13 provides an illustration of the findings.

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

Dependent Variable: SME Loan Performance	Unstandardized Coefficients		B	t	Sig.	VIF
	B	Std. Error				
(Constant)	.077	.51		.151	.881	
Credit Policy	.004	.123	.002	.035	.972	1.19
Credit Risk Identification	.204**	.085	.196	2.395	.019	3.79
Credit Preview	.053	.078	.053	.681	.497	3.43
Credit Appraisal and Analysis	.491***	.069	.531	7.136	.001	3.14
Credit Risk Monitoring	.218***	.082	.207	2.653	.009	3.45
R Square	.831					
Adjusted R Square	.822					
F Value	94.251***					
Statistically significant indicate *** at 1%, ** at 5%, and * at 10% level						

Source: Survey data, 2024

The results in Table (4.13) in Table (4.13) explore how credit assessment practices relate to SME loan performance. The model shows strong explanatory power, with an Adjusted R Square of 0.822, meaning about 82.2% of the differences in SME loan performance can be explained by the variables studied. This is supported by a significant F-value of 94.251 ($p < 0.001$), indicating the model's reliability in studying how credit assessment practices affect loan performance. The variance inflation factor (VIF) values show no issues with variables being too closely related, as all VIF values are below 10.

In the regression analysis, three variables stand out as important for SME loan performance. Specifically, credit appraisal and analysis have the highest beta coefficient of 0.531 ($p < 0.001$), indicating a strong positive impact on loan performance. Similarly, credit risk monitoring is significantly associated with SME loan performance, with a beta coefficient of 0.207 ($p = 0.009$). Credit risk identification also positively affects loan performance, with a beta coefficient of 0.196 ($p = 0.019$). These findings underscore the importance of thorough credit assessment practices, effective monitoring of credit risks, and accurate identification of credit risks in improving SME loan performance. Increasing these variables leads to proportional improvements in loan performance, highlighting their crucial role in achieving better lending outcomes for small and medium-sized enterprises.

CHAPTER V
CONCLUSION

The results of data analysis on the effect of credit assessment procedures on SME loan performance at MTB Bank are presented in this part along with comments and conclusions. The section of recommendations that follows makes recommendations and emphasizes the need for further research.

5.1 Finding and Discussion

This study was conducted with two primary objectives. The research focuses on five key factors: credit policy, credit risk identification, credit review, credit appraisal and analysis, and credit risk monitoring all critical aspects of credit assessment. Data were collected from 102 employees handling the credit assessment practices of MTB Bank, selected through simple random sampling. Correlation analysis assesses the positive relationship of each variable to loan performance. The descriptive statistics show generally positive assessments for factors influencing SME performance and related credit policies, with credit policy standing out as particularly well-regarded and consistent. The study found that the majority of respondents were female, aged between twenty-five and thirty-four, and most held graduate or master's degrees. Respondents generally had extensive work experience, with over five years at MTB Bank, primarily in managerial roles. Additionally, a significant portion earned a stable monthly income, suggesting financial stability among those involved in SME credit assessment.

The results for the first aim, which was to determine Myanma Tourism Bank's credit evaluation procedures for SME loans, showed that all variables had mean values that were higher, which implies efficacy on loan performance. Respondents highlighted that MTB Bank emphasizes and reinforces staff awareness of credit policies. Additionally, enhancing credit risk identification, monitoring practices, and refining credit appraisal techniques are crucial for effectively evaluating the creditworthiness of SME borrowers. Overall, the findings suggest that MTB Bank has a strong foundation in credit policy adherence and awareness among staff. The high ratings for credit risk identification, monitoring practices, and credit appraisal techniques underscore their critical roles in assessing and managing credit risks effectively in SME lending.

The second objective of the study is to analyze the effect of credit assessment practices on the performance of SME loans at MTB Bank. Correlation analysis revealed significant positive relationships between loan performance and all aspects of credit assessment practices. Credit appraisal and analysis had the strongest correlation with loan performance, underscoring its critical influence on ensuring loan repayment and minimizing defaults. Credit Assessment Practices improved loan performance by using the 5’C model as a standard framework for evaluating creditworthiness. Overall, the findings highlight that effective credit assessment practices are integral to maintaining high loan performance levels at MTB Bank.

The credit evaluation procedures for SME loans at MTB Bank were identified and their impact on SME loan performance was examined using the results of multiple linear regression analysis. The results show that credit evaluation procedures are essential for enhancing loan performance. In particular, credit appraisal and analysis, credit risk identification, and credit risk monitorin. MTB should mainly take the collateral. Collateral is a critical component of credit appraisal as it provides security for the loan and reduces the risk of loss for the lender. Credit analysis and appraisal should be carefully conducted right from the initiation of loan cases. Employing the 5C method (Character, Capacity, Capital, Collateral, and Conditions) is recommended as it is the most effective technique among the appraisal methods. MTB Bank should regularly assess borrower profiles, monitor economic conditions, use advanced risk models, conduct stress tests, and closely oversee credit exposures. Employing early warning systems and ongoing risk metric evaluations is crucial for promptly identifying and managing emerging credit risks. Effective implementation of these practices can lead to better credit risk management and enhanced financial stability for MTB Bank.

5.2 Suggestions and Recommendations

Based on the research findings of the study, MTB Bank should enhance its credit assessment practices to improve their effectiveness. MTB Bank is currently evaluating loan applications by carefully reviewing applicants' financial information and credit history. The bank analyzes how much individuals or businesses can afford to borrow based on their income and existing debts. MTB Bank should prioritize standardizing credit appraisal methods to ensure consistency and fairness in evaluating SME loan applications. This involves implementing thorough collateral valuation, detailed business plan analysis, and comprehensive financial ratio assessments. Moreover, providing regular training to credit appraisers on the latest appraisal techniques and financial analysis methods will be essential to maintaining high appraisal standards and ensuring accurate evaluations.

MTB Bank is currently using advanced technology to identify credit risks, which helps them predict whether borrowers may have difficulty repaying loans. The bank analyzes financial data and customer history to assess the likelihood of default, aiming to minimize financial losses. MTB Bank should prioritize implementing a more comprehensive risk assessment approach for credit risk identification. This includes adopting rigorous processes that thoroughly evaluate the financial situation, collateral, and credit history of SME borrowers to detect potential risks early and implement preventive measures. Additionally, MTB Bank should prioritize continuous training programs for staff on advanced credit risk assessment techniques. Such training will enhance their capability to identify and mitigate risks effectively, ensuring proactive management of potential issues.

MTB Bank is actively monitoring credit risks through regular assessments of borrowers' loan repayment abilities. Detailed financial analyses are used to evaluate health and predict potential defaults, ensuring stable lending operations and risk management. MTB Bank should implement continuous credit risk monitoring systems to track the performance of SME loans and ensure regular follow-ups with borrowers. This practice is vital for identifying and addressing potential issues early on. Additionally, developing and maintaining a dynamic risk rating system that is regularly updated based on SME performance and market conditions will enhance the monitoring process, providing a more accurate risk assessment over time.

MTB Bank is currently focusing solely on its credit policy, which dictates how money is lent to customers. The bank is concentrating all efforts on managing who qualifies for loans and under what conditions. MTB Bank should be should be regularly review and update its credit policy to reflect current economic conditions and emerging risks. This practice ensures the policy remains relevant and effective in mitigating credit risks. In addition, MTB Bank should consider involving staff in the formulation and revision of credit policies. Their insights and experiences can contribute to a more comprehensive and practical credit policy framework, making the policy more robust and applicable to real-world scenarios. Regular audits and compliance checks should be conducted to maintain high standards and ensure that the policies are adhered to consistently, preventing deviations that could increase credit risks.

The 5Cs (Character, Capacity, Capital, Collateral, and Conditions), 5Ps (People, Purpose, Payment, Protection, and Perspective), and CAMPARI (Character, Ability, Means, Purpose, Amount, Repayment, and Insurance), which are vital, should all be improved in order to improve MTB Bank's credit preview. These guidelines guarantee a careful assessment of loan applications from SMEs. Furthermore, the use of sophisticated credit scoring algorithms and data analytics technologies may enhance the fairness and accuracy of the credit assessment process, resulting in more informed loan choices.

MTB Bank should prioritize developing strong relationships with SME clients through regular engagement and support. Providing financial advice, business management training, and other value-added services can significantly enhance their business performance and loan repayment capacity. This approach fosters a mutually beneficial relationship between the bank and its clients, improving credit assessment practices, reducing credit defaults, and enhancing the overall performance of SME loans.

5.3 Needs for Further Study

In relation to MTB Bank's SME loan performance, this research looks at a number of credit assessment methods, including credit policy, credit risk identification, credit preview, credit appraisal and analysis, and credit risk monitoring. In light of the ever-changing business landscape, it is essential to consistently investigate novel approaches for thorough credit evaluations in order to efficiently reduce the risk of default. To improve the precision of credit evaluations and maximize the use of loan facilities in the SME sector, further research is thus necessary. Subsequent research endeavors may additionally examine the influence of exogenous variables, such as political and economic circumstances, on credit risks in banking establishments. These insights are critical to the development of Myanmar's financial sector because they enable banks to make educated choices while reducing their exposure to credit risks.

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APPENDIX-A

"EFFECT OF CREDIT ASSESSMENT PRACTICES ON SME LOAN PERFORMANCE AT MTB BANK"

PART I

Dear Respondents,

I will be very pleased and thankful if your answered my questions. The purpose of this question is "Effect of Credit Assessment Practices on SME Loan Performance at MTB Bank". This questionnaire is a part of the special study, which is the curricular requirement of the student from Master of Banking and Finance, Yangon University of Economics, Myanmar. All the information you provide will be kept confidential and used only for academic purpose. Please kindly answer all the questions in below survey questionnaire spread sheet. Your response is very important. I would, in advance, like to thank you for sharing your valuable time in filling this questionnaire.

Part (A): Demographic Information

1. Gender

Male ◻
Female ◻

2. Age

18 - 24 years ◻
25 - 34 years ◻
35 - 44 years ◻
45 - 54 years ◻
55+ years ◻

3. Educational Qualifications

Undergraduate ◻
Graduate ◻
Diploma ◻
Master Degree ◻

4. Working Experience

Less than 1 year ◻

1 - 2 years ◻

3 - 4 years ◻

5 years ◻

5. Designation of Respondents

Assistant Supervisor ◻

Supervisor ◻

Manager ◻

Senior Manager ◻

AGM and above ◻

6. Monthly Income Level

300,001 to 500,000 ◻

500,001 to 700,000 ◻

700,001 to 900,000 ◻

900,001 to 1,000,000 ◻

1,000,001 to 1,500,000 ◻

Above 1,500,000 ◻

PART (B) Respondent's Experience

1. Do you know the following appraisal techniques?
    - 5Cs (Capacity, Capital, Collateral, Conditions, Character)
    - 5Ps (P = People, Purpose, Payment, Protection, Prospective)
    - CAMPAR (C = Character, A = Ability, M = Margin, P = Purpose, A = Amount, R = Repayment, I = Insurance)
    - All of above

    -

2. How does your organization share credit policy? Through:

- Meetings
- Instructions
- Training sessions
- Workshops

3. Is credit risk identification fully utilized in your organization?

- ▫ Yes
- ▫ No

4. Does the repayment schedule of customers need to be closely monitored?

- ▫ Yes
- ▫ No

Part II

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 Policy

Credit Policy	1	2	3	4	5
1. MTB BANK makes sure its credit policy is consistent and transparent to guide lending operations and mitigate credit risks effectively.					
2. The credit policy includes measures to prevent fraud and financial misconduct.					
3. Policies have been established to manage loan defaults and reduce the risks connected with them.					
4. The credit policy is regularly reviewed and updated to reflect current economic conditions.					
5. Staff input is always considered in the formulation of credit policies.					
6. You are fully aware of your organization's credit policy.					

Credit Risk Identification

Credit Risk Identification	1	2	3	4	5
1. Identifying credit risks affects the incidence of delinquency and default in loan repayment.					
2. To evaluate credit risk, lenders collect information like the financial situation and collateral of the borrower.					
3. SME loan applicants' credit history is checked to minimize lending risks.					
4. Potential credit risks are detected in a timely manner during the loan assessment process.					
5. The credit risk identification process at MTB BANK is accurate and reliable.					

Credit Preview

Credit Review	1	2	3	4	5
1. The five dimensions of creditworthiness (5C) significantly influence loan approval and repayment performance at MTB Bank.					
2. Each of the 5Ps assesses MTB Bank loan product suitability for borrowers' needs and goals.					
3. Expertise in CAMPARI is essential.					
4. MTB Bank uses credit scoring to adjust to market changes and borrower habits.					
5. MTB Bank is committed to maintaining fairness and precision in its credit scoring models.					

Credit Appraisal and Analysis

Credit Appraisal and Analysis	1	2	3	4	5
1. The collateral valuation process is fair and transparent for SME borrowers.					
2. MTB Bank ensures the fairness and accuracy of its credit scoring models.					
3. Credit appraisers must possess a comprehensive understanding of financial ratios and reports.					
4. The Business plan must be included when doing a credit appraisal.					
5. The work experience of the person applying for the loan is important.					

Credit Risk Monitoring

Credit Risk Monitoring	1	2	3	4	5
1. Continuous credit risk monitoring ensures that payments for SME loans, both interest and principal, are being made regularly.					
2. Regular site visits to the SME's operations are necessary to ensure that the business is operating as stated in the loan application.					
3. The bank should implement a risk rating system that is regularly updated based on the SME's performance and market conditions.					
4. Borrower feedback should be collected periodically to identify potential issues and improve credit monitoring practices.					
5. Credit monitoring reports should be regularly reviewed by senior management to ensure effective oversight.					

SME Loan Performance

SME Loan Performance	1	2	3	4	5
1. Ensuring that SME use loan funds for the intended purposes can positively affect their repayment capabilities.					
2. Regular follow-ups with SME borrowers can improve their loan repayment performance and reduce default rates.					
3. Comprehensive analysis of SME' business plans can enhance the accuracy of loan repayment predictions.					
4. Effective collateral management can ensure better recovery rates in case of loan defaults by SME.					
5. Regular updates to credit policies based on market conditions can improve SME' loan repayment performance.					
6. SME loan repayment performance depends upon conducting SME credit assessment practices effectively.					

Thanks for time to complete the questionnaires.

APPENDIX -B

SPSS OUTPUT

1. Demographic Characteristics

Gender of Respondents					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Female	52	51.0	51.0	51.0
	Male	50	49.0	49.0	100.0
	Total	102	100.0	100.0	

Age of Respondents					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	18 to 24	4	3.9	3.9	3.9
	25 to 34	51	50.0	50.0	53.9
	35 to 44	34	33.3	33.3	87.3
	45 to 54	13	12.7	12.7	100.0
	Total	102	100.0	100.0	

Educational Qualifications of Respondents					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Undergraduate	4	3.9	3.9	3.9
	Diploma	65	63.7	63.7	67.6
	Graduate	32	31.4	31.4	99.0
	Master Degree	1	1.0	1.0	100.0
	Total	102	100.0	100.0	

Working Experience of Respondents					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than 1 year	3	2.9	2.9	100.0
	1 to 2	14	13.7	13.7	13.7
	3 to 4	8	7.8	7.8	21.6
	5 years and above	77	75.5	75.5	97.1
	Total	102	100.0	100.0	

Designation of Respondents					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Assistant Supervisor	25	24.5	24.5	32.4
	Supervisor	19	18.6	18.6	100.0
	Manager	41	40.2	40.2	72.5
	Senior Manager	9	8.8	8.8	81.4
	AGM and above	8	7.8	7.8	7.8
	Total	102	100.0	100.0	

Monthly Income Level of Respondents

		Freque ncy	Percent	Valid Percent	Cumulative Percent
Valid	300,001 to 500,000	27	26.5	26.5	35.3
	500,001 to 700,000	27	26.5	26.5	61.8
	700,001 to 900,000	17	16.7	16.7	78.4
	900,001 to 1,000,000	4	3.9	3.9	82.4
	1,000,001 to 1,500,000	9	8.8	8.8	8.8
	Above 1,500,000	18	17.6	17.6	100.0
	Total	102	100.0	100.0	

2. Cronbach's Alpha Reliability Test

Credit Policy

Cronbach's Alpha	N of Items
.279	6

Credit Risk Identification

Cronbach's Alpha	N of Items
.847	5

Credit Preview

Cronbach's Alpha	N of Items
.823	5

Credit Appraisal and Analysis

Cronbach's Alpha	N of Items
.881	5

Credit Risk Monitoring

Cronbach's Alpha	N of Items
.833	5

SME Loan Performance

Cronbach's Alpha	N of Items
.875	5

Descriptive Statistics

Variable	Mean	Std. Deviation	N
Credit Policy	4.3660	.19628	102
Credit Risk Identification	3.8902	.50630	102
Credit Preview	3.8569	.52304	102
Credit Appraisal and Analysis	3.9804	.57022	102
Credit Risk Monitoring	3.8745	.50023	102
SME Loan Performance	3.8980	.52784	102

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	911[a]	.831	.822	.22273

a. Predictors: (Constant), Credit Policy, Credit Risk Identification, Credit Preview, Credit Appraisal and Analysis, Credit Risk Monitoring

b. Dependent Variable: SME Loan Performance

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	23.377	5	4.675	94.251	<.000[b]
	Residual	4.762	96	.050		
	Total	28.140	101			

a. Dependent Variable: SME Loan Performance

b. Predictors: (Constant), Credit Policy, Credit Risk Identification, Credit Preview, Credit Appraisal and Analysis, Credit Risk Monitoring

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	VIF
		B	Std. Error	Beta			
1	(Constant)	.077	.51		.151	.881	
	Credit Policy	.004	.123	.002	.035	.972	1.19
	Credit Risk Identification	.204**	.085	.196	2.395	.019	3.79
	Credit Preview	.053	.078	.053	.681	.497	3.43
	Credit Appraisal and Analysis	.491***	.069	.531	7.136	.001	3.14
	Credit Risk Monitoring	.218***	.082	.207	2.653	.009	3.45

a. Dependent Variable: SME Loan Performance

Correlations

		SME Performance	Credit Policy	Risk Identification	Preview	Credit Appraisal	Risk monitoring
Pearson Correlation	SME Performance	1.000	.284	.798	.770	.878	.809
	Credit Policy	.788	1.000	.369	.245	.286	.220
	Risk Identification	.798	.369	1.000	.790	.750	.782
	Credit Preview	.770	.245	.790	1.000	.761	.765
	Credit Appraisal	.878	.286	.750	.761	1.000	.769
	Risk Monitoring	.809	.220	.782	.765	.769	1.000
Sig. (1-tailed)	SME Performance		.002	<.001	<.001	<.001	<.001
	Credit Policy	.002		.000	.006	.002	.013
	Risk Identification	.000	.000		.000	.000	.000
	Credit Preview	.000	.006	.000		.000	.000
	Credit Appraisal	.000	.002	.000	.000		.000
	Risk Monitoring	.000	.013	.000	.000	.000	
N	SME Performance	102	102	102	102	102	102
	Credit Policy	102	102	102	102	102	102
	Risk Identification	102	102	102	102	102	102
	Credit Preview	102	102	102	102	102	102
	Credit Appraisal	102	102	102	102	102	102
	Risk Monitoring	102	102	102	102	102	102