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**CREDIT LOSS RISK ASSESSMENT IN
RUSSIAN SME LENDING
Case Sovcombank**

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Abstract		
<p>The most critical problem for bankers (lenders) is to minimize the risk of credit loss. This thesis aimed to define the main difficulties in credit risk assessments of an SME in Russia and find solutions to the research problem.</p> <p>This thesis focused on analysing how lending techniques could be applied in developing the Russian economy and what contracting solutions and control mechanisms could be used with the bank to reduce credit loss risk on the stage of decision making and in the duration of loans.</p> <p>The research included interviews with commercial bank managers to outline their vision on the issue of credit loss risk and how they manage and prevent it. Interaction with the owners of SMEs to understand their opinion on the relation with other banks and the possibility of satisfying banking requirements were explored.</p> <p>The conclusions highlighted the most effective techniques for the Russian bank in its economic environment in its SME credit risk assessment models to eliminate obstacles and minimize credit loss risks like Informational opacity, collateral insufficiency, and low equity.</p> <p>Moreover, relying on research, Russian banks will make recommendations in their credit risk assessment. Following these recommendations, the Russian bank could keep its SME bad debts at a low level.</p>		
Keywords		
Credit risk, assessment technique, assessment model, lending technology, credit loss risk.		

CONTENTS

1	INTRODUCTION	5
1.1	Background.....	5
1.2	Problem and aim.....	8
1.3	Research methods.....	9
1.4	Framework of the study	11
2	SME LENDING	11
2.1	Limitations.....	11
2.2	SME lending techniques	12
2.3	Transactional techniques for lending decision.....	14
2.4	Relationship lending decision making	17
2.5	Comparison of credit scoring technique and relationship lending technique.....	19
2.6	Credit risk assessment models employed in Finnish bank.....	23
2.7	Credit risk assessment models employed in Russian bank.	31
2.8	Comparing Basel II and Russian approaches on SME credit risk and reserves ..	33
3	DATA COLLECTION AND ANALYSIS	35
3.1	Development process	35
3.2	Data collection	35
3.3	Survey evidence on ability SME to satisfy bank's requirement in order to manage credit risk.	36
3.4	Survey evidence on managing credit loss risk by banks in SME lending.....	37
4	RESULTS	38
5	CONCLUSIONS	44
5.1	Key results and findings	44
5.2	Reliability discussion and future development.....	47
	REFERENCES	49

APPENDICES

Appendix 1. Interview guide

Appendix 2. Interview transcripts (SME owners)

Appendix 3. Interview transcripts (Bank's managers)

1 INTRODUCTION

1.1 Background

Small businesses nowadays are an important part of the economy of virtually every nation. In the Russian Federation small businesses account for about half of all non-state sector employment and 1/6 gross of domestic product according to the report of (The trade-Industry Chamber of Russian Federation, 2022). The role of small and medium-sized businesses (SMEs) in the development of the Russian economy is becoming very large since without small and medium-sized enterprises it is impossible to ensure economic growth in the country, achieve a shift from the economy's dependence on raw materials, create large enterprises, increase employment, and create a core middle class. Among the main problems hindering the development of small and medium-sized businesses, the problem of financing stands out especially strongly.

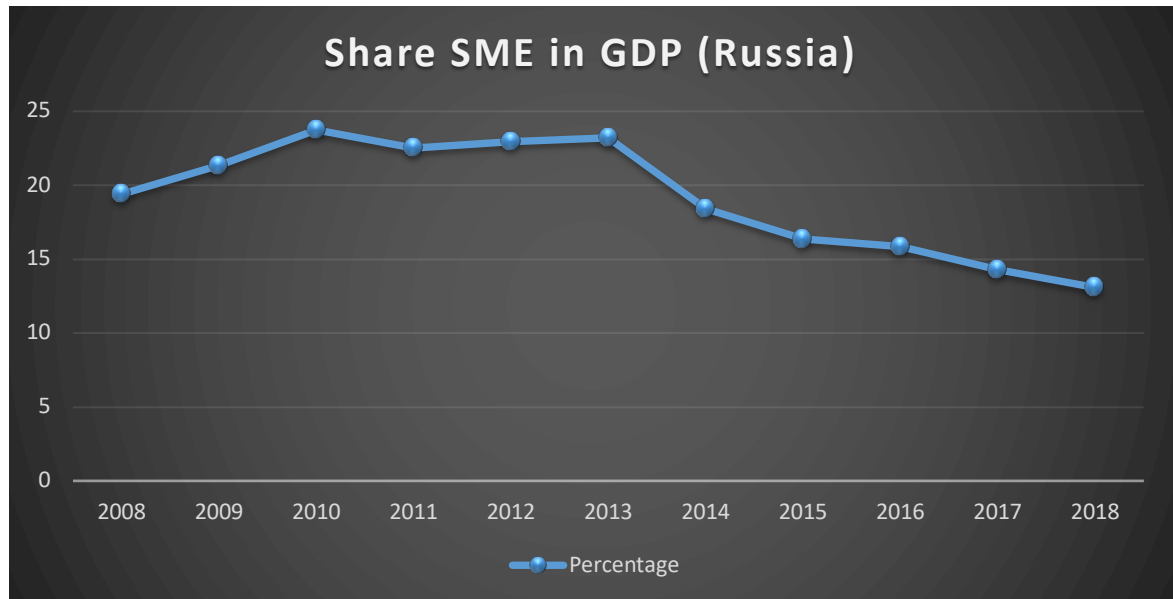


Figure 1 - Share SME in GDP (Russia) Source: Financing SMEs and Entrepreneurs 2020: An OECD Scoreboard

Small firms have faced significant difficulties in accessing funding due to a lack of credible information about them by potential lenders.

Currently, to stimulate the development of SMEs, state financial support programs are being implemented with the help of institutional investors (the Russian Development Bank, the Russian SME Support Bank, the SME Lending Assistance Fund) through partner banks. The purpose of such programs is to facilitate access for small businesses to financial resources throughout the Russian Federation.

A refinancing mechanism is used, in which investors provide an interbank loan to partner banks secured by rights of claim on loans issued by these banks to SMEs. In turn, investors use the resources received from the Bank of Russia to implement SME lending programs. Lending to partner banks is carried out within lending limits set on regional conditions: the number of SMEs in the region, the volume of lending to small and medium-sized enterprises by banks operating in the region, etc.

Partner banks must have reliability ratings from international and national agencies, as well as performance indicators that meet certain requirements such as the amount and adequacy of capital, the degree of risk of assets, and the level of overdue debt on the loan portfolio). The provision of long-term loans by banks for investment purposes (up to 10 years), a significant increase in the size of loans, and lower rates were possibly largely due to the implementation of lending programs through institutional investors.

The development of the above-mentioned SME lending programs in Russia is hampered by the following factors:

- (1) Low information content of the official reporting of borrowers - the traditional reporting system is not informational for the bank, because serves for taxation purposes (the single tax system on imputed income or the simplified taxation system). According to banks, it is possible to evaluate a business only on the basis of official reports only in 40% of cases.
- (2) The presence of related enterprises in small businesses (45% of enterprises have more than two related structures).
- (3) Close connection of business flows with the family budget.

(4) Borrowers' lack of experience in attracting loans and collateral that meets the requirements of creditors.

(5) High credit risks of banks, an insufficient amount of accumulated statistics on loans issued for the use of scoring systems.

(Orekhov, 2014)

Small and young firms often have difficulty in signalling their creditworthiness. Consequently, small firms tend to be disadvantaged over the large business in terms of access to bank loans and they are very limited in the potential to issue stock. Small businesses are typically much more informationally opaque than large corporations because they often do not have certified audited financial statements to yield credible financial information on a regular basis. Also, these firms do not have publicly traded equity or debt.

Although the emergence of the SMEs sector in the Russian Federation has certainly been one of the good news stories of the transition process, it is a sector that remains undeveloped. SMEs are considered the main engines for job-creation in Russian Federation. Developing of SMEs sector is one of the most important aims of the young developing Russian economy. Because SMEs usually do not have access to organized capital markets, bank financing often remains the only alternative. As a result, bank financing is the predominant source of external financing for small and medium-sized enterprises (SMEs).

At the time of this writing, the Russian banking system is facing serious problems amid the conflict between Russia and Ukraine. In connection with the introduction of new Western sanctions, the country will be isolated from all European countries. Every day, several large international companies leave the Russian market, which will undoubtedly hit the country's economy in the long term. If we talk about countersanctions related to the blocking of international payments, then they directly pose a threat to Russian export companies and their foreign partners. On the other hand, this situation will help strengthen Russian companies in the domestic market, which will be able to find alternative sources of products/services instead of European colleagues.

The bank for which I am writing this paper is one of the top ten largest Russian banks in terms of capital. At the moment, the bank is very much interested in issuing short-term loans to SMEs to increase influence and market share. Therefore, the bank needs to decide how it is most profitable to lend to companies and at the same time have minimal risks.

Because of these three reasons (informational opacity, lack of collateral and the small size of equity) banks find SME as too risky for lending. At the same time, commercial banks in Russian Federation consider SMEs as a very attractive part of the business to be financed. The majority of banks aim the lending to SME in the diversification of the credit portfolio (historically, banks specialized in consumer lending and large corporate lending) and to earn an extra profit (interest rates are considerably more than in large corporate lending).

1.2 Problem and aim

As mentioned above, commercial banks in Russia do not have enough experience in corporate business credit assessment.

High credit loss risk restrains banks in the dynamic development of SME lending. Because of the high credit loss risk the most important problem in SME lending is the necessity for Russian banks to adapt their credit risk assessment models (find out special techniques) in order to minimize credit loss risk.

So, the major purpose for Russian banks in SME lending is to minimize credit loss risk in the way of prompt development of SME lending.

Russian banks should solve following major issues in order to minimize credit loss risk in SME lending:

- informational opacity of SME.
- collateral's insufficiency.
- SME's low equity.

To solve these issues, financial institutions use a few different credit risk assessment techniques.

The primary purpose of the thesis is to find out the techniques for credit risk assessment models to solve the following issues to minimize credit loss risk for Russian Banks in SME lending:

- Overcoming financial secrecy issues for SMEs when considering lending.
- Determine the need in some cases for collateral for SMEs.
- Examine the credit requirements of banks in the context of the capital level of SMEs.

Different credit risk assessment technologies/techniques are critically discussed in the thesis to achieve the primary purpose. It will be found out drawbacks and advantages of employed with Russian bank credit risk assessment models and will focus on one of the credit risk assessment models.

The outline of this paper is as follows. In Chapter 2 outlined the theoretical framework while in Chapter 3 discussed methodology and data. Results presented in Chapter 4 and conclusion in the last Chapter 5.

1.3 Research methods

Talking about philosophical research based on thesis topic, then the most appropriate concept might be pragmatism. The research philosophy of pragmatism can combine several research approaches and research strategies in one research. Moreover, research based on the research philosophy of pragmatism may involve the use of multiple research methods, such as qualitative, quantitative, and practical research methods.

More precisely, following methods for obtaining information will be used:

Interviews. Conducting Empirical evidence analysis will be determined primary features of the behaviour of the Russian financial institution (called “Sovcombank”) while employing different lending technologies. It will be made interviews of managers of commercial banks to define their vision on issue of

credit loss risk and how they manage this risk and find out their requirements to potential SME borrowers (terms of loan agreement, interest rate, duration, and collateral).

So, investigating three sources of information (practical experience of Russian banks, empirical evidence from interviews with banks managers and SME owners) in order to find out the most appropriate ways in Russian economic environment to solve 3 above mentioned problems in current situation and perspectives in future.

All interviews will compose with the purpose to find out the features of Russian SME lending and applicable tools of minimizing 3 major issues to Russian economic environment.

Secondary data analysis (research articles and various literature related to the problem of my research to understand the various methods for resolving certain problems in similar situations).

The main purpose of research is to assess credit loss risks between banks and SMEs, understand the main problems in their communications and find the most relevant solutions for it. It seems that thesis requires an inductive approach. In this approach to research, the researcher begins by collecting data relevant to his topic of interest. Once a significant amount of data has been collected, the researcher will then take a break from collecting the data, stepping back to thoroughly analyse all the collected data. At this stage, the researcher looks for patterns in the data, working to develop a theory that could explain these patterns.

1.4 Framework of the study

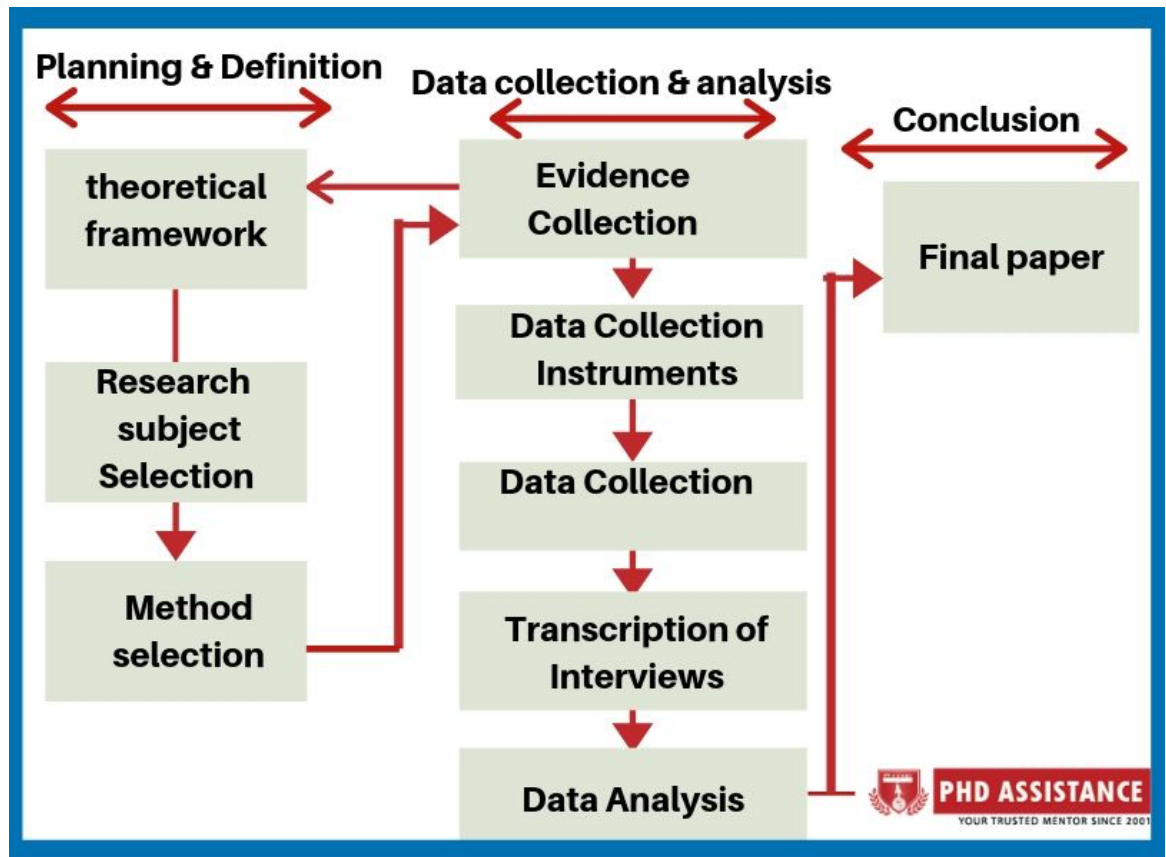


Figure 2 - Theoretical Framework

The outline of this paper is as follows. In Chapter 2 will be outlined the theoretical framework while in Chapter 3 will be discussed methodology and data. Results will be presented in Chapter 4 and conclusions in the last Chapter 5.

2 SME LENDING

2.1 Limitations

(1) In this thesis I assume to apply credit risk assessment model to short-term lending only.

(2) In fact, banks considered in my thesis have different definitions of SME in respect of volume of annual revenue, size of loans and so on (SME loans in Russia are less than 10 mln. Rubles – equivalent of 150 thousand EURO. SME loans in

Finland and according to Basel II are less than 1mln. EURO). Independently from mentioned definitions I assume the same demands to SME.

(3) I assume that all considered models were designed before Russian crisis and I suppose they will be employed after it. It is obviously that during crunch all banks modify their models and make it more severe in order to minimize potential risk. I don't consider in my work these current temporary changes.

2.2 SME lending techniques

This paper focuses on SME lending techniques used by many financial institutions in Russia over the last five years to evaluate applicants for “micro credit” under two mln. RUB and “small credits” under ten mln. RUB.

Credit risk assessment is a critical activity for any lender. Before granting the loan to any borrower, bank should assess their credit risk to determine the borrower's likelihood of default on the loan.

In practice credit evaluation methods of banks typically distinguish themselves on the basis of how much of the evaluation is based on opinion and impression versus how much is determined by the results of computer-generated risk analysis report.

Banks accommodate elements essential to its production of banking services, such as information, monitoring, risk, and the joint production. In order to illuminate the importance of these different elements within banking activity, different forms of bank lending decision making are elaborated. Such an example is important, as lending decision making is central to the operation SME banking services and relies on a number of different lending technologies. Equally, banks make lending decisions using a wide range of criteria or data and through employing a number of distinct methods for processing such data. (Ashton & Keasey, 2005)

Mostly two lending technologies are described in literature – relationship lending and transaction-based lending. For my purpose, I follow Berger and Udell (2002), a bank-based view with four techniques: financial statement lending, asset-based

lending, credit scoring and relationship lending, rather than the broader six techniques view in Udell (2004) who includes factoring and trade credit. (Baas & Schrooten, 2006)

This thesis does not consider trade credit because this is non-bank source of financing.

There is no significant attention to factoring as lending technique because it doesn't have wide employment of factoring in SME's financing in Russia. Factoring as a service for funding of working capital is considered by consumers only as the opportunity to get an "easy" money without providing collateral. At the same time Russian banks offer factoring mainly for large companies with rigid restrictions on the number of customer accounts receivable and accounts receivable diversification. So Russian SMEs couldn't afford to have wide diversification of debtors and as a result to satisfy banking requirements. Banks set such requirements because of high credit loss risk of SMEs.

In general, lending can be categorized into at least four distinct lending techniques. These practices differ mainly by the usage and generation of information (Table 1):

1. Financial statement lending
2. Asset based lending
3. Credit scoring
4. Relationship lending

The first three techniques are termed transactional or arm's length lending techniques. The fourth technology of lending decision making relies upon a relationship between the bank and SME.

Table 1 Lending techniques

Type of lending	Efficiency	Type of information
Financial statement lending Standardized financial reporting data	Depends on the quality of the available data	"hard" information

<i>Asset based lending</i> Credit collateral	No credit loss if credit volume is in the limit of collateral value	“hard” information
Credit scoring Standardized financial data of owner and firm	Depends on the quality of the available data but can be only a proxy of financial insight	“hard” information
Relationship lending Private information about the firm and the owner	Depends on the tightness of banking relationship	“soft” information

(Baas & Schrooten, 2006)

2.3 Transactional techniques for lending decision

There are three transactions techniques for lending decision. These are financial statements, asset based and credit scoring (CS) method. This section will explain these techniques:

- (1) Financial statement lending is based on evaluating information from the firm’s financial statements. The decision to lend depends largely on the strength of income statements and the firm’s balance sheet. Such a lending technology requires firms to have suitably audited and transparent accounts. This technique is more suited to large firms with long histories and may not be an appropriate technique for SME lending decision-making.
- (2) Asset based lending decisions are based on the quality of available collateral for a loan, such as the firm’s inventory, equipment, or more preferably real estate. This type of lending is available to all firms yet requires a high level to collateral to be pledged. Such lending is often expensive for banks which have to monitor the on-going value of collateral. That is why it is generally used as a substitute for relationship lending if the term of the relationship is short.
- (3) “Credit scoring (CS) is a method for making lending decisions which uses statistical techniques to analyse appropriate data. This technique requires a lot of data both about the firm and the firm owner, and it also needs to factor in the experience gained from lending to other firms. While this technology

is widely used for consumer lending, this data intensive technique is relatively new for SME lending”. (Ashton & Keasey, 2005)

In practice, small business credit scoring is mostly used for micro enterprises and is substitute for financial statement lending with few monitoring costs. The main disadvantage of this method in Russia is the lack of information about the company itself, namely, banks can see mainly the previous history of lending to firms and make decisions solely on this.

Transactional lending technologies based primarily on «hard» quantitative information used by financial institutions to address the opacity problem. The hard data for transactions technologies are relatively quickly gathered without need for prior contact with the firm and can be relatively easily observed, verified, and transmitted to others.

It is posited that due to cost, data and collateral or security reasons that “a” and “b” transactional methods of lending decision making are not best suited to new or risky SME lending decisions. It is proposed that these transactional methods may be best suited to lending generally larger quantities of capital to firms with long financial histories and high level of collateral. Conversely, SMEs may often only have short, continuous histories of financial data, little collateral and require relatively small amounts of lending. As such, «a» and «b» transactional methods of lending decision making may not be suited to all forms of banking lending to SMEs.

For CS, the hard information is primarily personal consumer data on the owner obtained from consumer credit bureaus, data on business collected by the financial institution from financial statements, and in some cases, information on the firm from commercial credit bureaus. Though CS is often used to evaluate opaque small businesses, it may also be used for relatively transparent borrowers to reduce underwriting costs.

CS is a statistical approach to predicting the probability that a credit applicant will default or become delinquent. Though this underwriting method is well established in consumer credit markets, it has only been widely applied to small commercial credits for about the last decade. The primary reason for the delayed response is the significant heterogeneity among borrowers (making prediction difficult) and significant variation in the underwriting approaches both within and across banks and for credits of various sizes (reducing the ability of banks to pool data). The change occurred when analysts determined – particularly for the very smallest credits – that credit information for the principal owner explains a significant amount of the variation in the performance of SME. This may reflect, in part, a correlation between personal and business success and, in part, a commingling of the finances of the business and the owner. Incorporating this information directly into CS models improved prediction and encouraged greater underwriting standardization. (Berger & Udell, 2007)

There may be several motivations for lenders to use CS. Cost savings is likely a key incentive. In practice I could find out 2 types of credit scoring: so, called «rules» and “discretion”.

Some banks use scores for automated accept or reject decisions and setting credit terms. This implementation of the small business CS technique is considered to be following «rules» because the bank essentially leaves relatively little discretion available for its loan officers. This is the lowest-cost method of using the technology and it is likely significantly cheaper than any other transactions or relationship lending techniques that might be employed to evaluate the applicants. However, the use of «rules» may exacerbate the opacity problem, yield in efficient credit terms, and potentially result in greater future loss. Nonetheless, it still may be profitable to underwrite credits this way because of the cost savings. Banks use CS in this low-cost way to expand their lending the most and fast.

But the aim of the research is to find out the techniques for credit risk assessment models to solve problems in order to minimize credit loss risk but not to maximize profit or to capture the market.

For other banks, the key incentives may be to reduce the opacity problem and to set the contract terms more accurately to reduce future credit loss and improve expected revenues on their credits. These improvements may be most likely when credit scoring is used in conjunction with another lending technique – that is, through adding the scores to information gathered using one or more of the other techniques noted previously. This implementation of CS is considered to be using «discretion» because the bank leaves more discretion for its loan officers to weight different types of information in approving or rejecting potential credits and setting terms on the approved loans. This strategy is likely to increase underwriting costs as the bank bears the expense for the credit score in addition to the cost of the other lending technique. Banks using CS in this way tend to have relatively low risk, consistent with the «discretion» strategy for some institutions.

2.4 Relationship lending decision making

As an alternative to the transactional lending techniques, financial institutions also attack the opacity problems using relationship lending. «Relationship lending relies on both financial and «soft» qualitative information or personal data about the firm owner and the firm's local reputation. The relationship, built through repeated contacts between a dedicated bank official and the firm owner, allows the bank to gain exclusive access to firm level financial data. This relationship lending technology provides expensive, yet often good, information, to help underpin lending decisions to SMEs. (Ashton & Keasey 2005)

The soft information generally takes significant time to accumulate and is not easily observed, verified, or transmitted to others.

The dimensions of a banking relationship include the scope or number of products and the duration or quality of the relationship. When relationship lending technology is employed, it is often expected that the firm gives the bank exclusive access to data and provides deposits at low cost. Thus, the longer the relationship, the greater the incentive for banks to invest in developing SME banking data into useful information for lending decision making. Equally, through the development

of firm data within a long-term relationship, bank lending may be made which would not have been granted under different bank lending technologies.

(Ashton & Keasey 2005)

Bank-firm relationship for banks tend to:

- Have a longer duration
- Reflect a shorter distance between borrower and lender
- Be more personal (more face-to-face interaction) and be more exclusive (more likely be associated with a sole lender).

As mentioned above banks require a significant amount of detailed information about the business concerned for the purposes of evaluation and monitoring. Evaluation refers to the information which is required to ascertain the quality of the management and the realism and credibility of the business plan. This information is required prior to any decision as to whether to advance funding or not.

(Binks & Ennew 1997)

If the assessment process satisfies the various performance and assurance criteria required by the bank, then further information is required on a regular basis for monitoring purposes. Monitoring information is required to ensure that risk of behaviour change in management and ownership doesn't occur or threaten materially the predicted progression of events that satisfied the assessment process.

Information is the key to the more accurate measurement of risk and the more efficient allocation of finance to SMEs. SMEs should provide the information to the banks in order that they are able better to evaluate the risks involved. The better informed the banks the more they will be able and confident to apply prospects-based lending methods (without collateral) rather than using collateral as the main source of security. I have mentioned already that majority of SMEs don't have sufficient collateral to be pledged for obtaining the loan.

Banks could acquire information through permanent contacts with the SME's owner and through provision of other services such as deposit accounts, current settlements, salary payments through banks cards and so on. From the one side provision of these services allows to bank to monitor significant deviation (changes) in behaviour of client but from the other side it gives banks chance to earn extra fees (settlements, payments, currency transactions and so on) and to attract additional funds (deposit accounts, rests on banks card accounts, rests on corporate accounts).

Information for assessment and monitoring purposes is costly to collect both in terms of time and money. As a result of these information costs there is a threshold below which most banks will not consider loan application. It is estimated that this threshold refers to a funding level of around € 100,000-150,000 in Finland and RUB 5,300,000 (equivalent of € 50,000) in Russian Federation.

For many small and some medium sized enterprises this threshold means, in effect, that financing by the banks employing relationship-based lending technique is not available for them.

2.5 Comparison of credit scoring technique and relationship lending technique

In this chapter It will be discussed and detect drawbacks and worth of CS and relationship lending techniques employing with banks respecting to decision-making procedure and managing the credit risk.

As mentioned before CS implies standardized computer-based decision making.

To develop a model, creditor selects a random sample of its customers or sample of similar customers and analyses it statistically to identify characteristics that relate to creditworthiness (personal data of owner of business, financial situation of applicant and its owner, credit history and so on). Each of these factors carries a personal weight. Each creditor may use its own credit scoring model.

Credit scoring models are complex and often vary among creditors and different types of credit. If one factor changes, score may be changed – but improvement generally depends on how factor relates to other factors considered by the model. Only the creditor can explain what might improve score under the particular model used to evaluate application.

Nevertheless, scoring models generally evaluate the following types of information:

- *Payment history* (both firms and owner) is typically a significant factor.
- Many scoring models evaluate the *amount of debt compared to credit limits*.
- Many scoring models consider *whether applicant applied for credit recently* by looking at inquiries in credit bureaus.
- *How many and what types of credit limits* (accounts) applicant has.
- *Financial ratios of the firm*.

Scoring models may consider other information from the application and supplement information on demand.

Computer calculates score which based on inputs and make a decision to grant loan or reject it.

Classical CS technique implies combining risk assessment and decision-making into a single process.

It could be distinguished following drawbacks of CS in Russia:

- a) Because of new history of banking in Russia credit bureaus have poor database on credit history. Banks even could not get an access to databases to determine outstanding debts of owners for utilities, different types of taxes and fees and so on. As a result, it could lead to doubtful information.
- b) Banks employing “rules” type of CS generally don’t consider applications individually. Many applications could be rejected because of imperfection of particular model, even if essentially it could be really potentially strong customers.

- c) CS relies on so called class-based approach with strong focus only on current financial situation and past development of SME. While relationship lending technique tends to use so called case-based approach oriented toward the quality of management, the future potential of the SME and forecast on the market. It leads to additional risk because of lack of information to be analysed in CS lending.
- d) To prevent potential fraud or to meet fast changes in economic environment bank should modify his CS model permanently.
- e) CS implies fast processing of information gotten mainly by potential client that could lead to high level fraud and false information. As a result, such process could lead to high credit loss risk.

It could be distinguished following worth of CS in Russia:

- (1) CS computer-based loan assessment is not hampered by too much bureaucracy as relationship lending could be.
- (2) CS is a lowest-cost risk assessment technique comparing with other transactional and relationship lending techniques.
- (3) CS computer-based loan assessment allows bank to process inputs of applications considerably quicker than relationship lending does.

As mentioned above relationship lending technique relies on both financial and “soft” qualitative information or personal data about the firm owner and the firm’s local reputation. As a rule, it takes a lot of time to gather all necessary information and to process it. It could be distinguished 3 major information categories: finance, customer, and collateral. Before providing companies with bank loans, it should be long-term relationships between banks and their customers.

Usually, banks ask their customers to put deposits on banking account and banks render different types of banking services. Loan officers visit customer’s office (warehouse, manufactory, shop and so on – the place where customer’s business is conducted) to get more detailed information about its customer. At the same time loan officer analyses previous financial statement and finds out the perspectives of customers business. It is common in such relations that customer provides bank with regular and timely management information.

“Such type of relationship is called arm-length relationship”.

(Baas & Schrooten, 2006)

Relationship lending allows bank to reduce the information asymmetry in the bank-customer relationship and as result to manage risk of default effectively.

Classical relationship lending technique implies hierarchical structure and based on the idea of separating information gathering, evaluation procedures and final making-decision from each other.

It could be distinguished following drawbacks of relationship lending technique in Russia:

- (1) RL couldn't consider young SME because of the lack of any data excepting owner's data. It narrows the quantity of potential customers.
- (2) Generally, RL implies a bureaucratization of the decision-making process through a separation between customer acquisition and credit control, double checking, and sequential decision-making.
- (3) Reluctance from the part of potential customer to disclose all necessary for bank information. As a rule, this leads to stopping any relationship.
- (4) High cost of gathering and processing information. It is not applicable to small amount lending.

Also, it could be distinguished following worth of relationship lending technique in Russia:

Almost perfect recognition of particular customer's business condition, its features, and outlooks of further development. This is determinant in minimizing credit loss risk.

In fact, there are many different modifications of employed risk assessment techniques by banks. Generally, banks constitute their models as combinations of different techniques depending on the major aim of credit strategy of particular bank.

Further it will be considered models employed by Finnish “OP” bank and models employed by Russian bank. It was determined and discussed primary features of managing credit loss risk of all these banks. After that I analyse quizzes of bank managers and representatives of SME in order to constitute the optimal model for minimizing credit loss risk considering all gotten results.

2.6 Credit risk assessment models employed in Finnish bank.

In this section It will be analysed in more detail the models of Finnish bank employed to assess credit risk in SME lending.

First of all, it will be made a detailed comparison of accounting rules in Russia and Finland and illuminate the major features of accounting approaches concerning to SME's.

Finland and Russia employ Continental model of bookkeeping. Continental model implies active state's participation in formation and regulation of financial statements.

A distinctive feature of the continental accounting model is the high degree of state intervention in the accounting system in organizations. All accounting in such countries is regulated by the state: the state develops principles and norms that organizations must use. Unlike the Anglo-American model, in which the securities market has a great influence on the accounting system, the continental model is characterized by a strong influence of tax legislation.

The main users of financial statements in the continental model are the state and banks. Such a high role of the state is due to the historical aspect - the centuries-old tradition of centralization of management and the desire of entrepreneurs to enlist the support of the state. It follows from this that the accounting system in the continental model is primarily focused on meeting the needs of the state.

Orientation to the management requests of creditors and investors is not a priority task of accounting.

At the same time, there are significant differences in methodology of bookkeeping. It means that in Finland, financial and tax bookkeeping take place in one form but in Russia these two types of bookkeeping have different forms. So, in order to charge taxes companies and state authorities in Russia apply Tax bookkeeping but in order to conduct business they apply financial bookkeeping.

Other important differences were found in variety of approaches of SME's accounting in Russia and in Finland. In Finland was found classic or standard approach of accounting for SME – all operations lead to two-side accounting transactions which then are organized in balance sheet. And financial results appear in form of income statement. So, from financial statement It could be assessed financial position of any company and to charge taxes.

In Russia in addition to standard approach It was found two alternative approaches: Reductive and accounting with taxation on imputed earnings. These two approaches were set specially for SME to simplify accounting for small business and base for tax charging. Both Reductive and with taxation on imputed earnings don't require to constitute balance sheet and income statement.

Reductive approach requires SME to fill "The book of income and expenses" only. SME employing such accounting approach must pay only one type of tax which is charged from revenue (6%) or from net profit (15%). SMEs present declaration to tax authority quarterly.

Accounting with taxation on imputed earnings doesn't require to fill any statements on any permanent base. SMEs present declaration to tax authority quarterly. Taxes are charged on fixed cost base from quantity of staff (any producing company), from the actual exploited area (rent), from the engine's power (transportation) and so on.

Here could be concluded that opacity problem in Finland and in Russia have distinct assumptions:

- In Finland opacity appears in mixing of corporate and individual cash property flows.
- In Russia opacity appears in lack of transparency of financial statements and significant distinction between management accounting and official accounting (financial statements) or even it lacks.

Analysed model employed by “OP” bank that performs its activity in Helsinki, Turku, Tampere and other more cities.

Interviewed with the managers of SME’s credit department of “OP” bank on their visit to Saint-Petersburg and asked some questions via telephone communications.

It was asked information about structure and features of models employed by this bank in SMEs lending. I got to know what the most important obstacles are hampering Finnish bank in their credit risk minimization.

Undoubtedly, I ask for techniques employed by this bank in order to overcome issues of informational opacity of SME; collateral’s insufficiency; SME’s low equity. All this information was used in our further comparative analysis and probable applicability of worth to Russian bank’s risk assessment models.

“OP was born in 1902 to fulfil the needs of local communities by, for example, providing small loans to people living on limited means in the countryside. In the post-war years, cooperative credit societies played a major role as financiers of reconstruction and the housing of the displaced populations in Finland. In just a few years, OP’s market share increased by 10 percentage points. OP Financial Group’s role as the supporter of its customers and society at large has always been pivotal during crises.” (OP Financial Group, 2020)

Historically “OP” bank was described as an autonomous savings bank mainly dealing with household deposit taking and consumer lending, but my close look confirms that this bank is one of the major players for SME sector lending in whole Finland in its new history.

The evaluation procedures rely principally on loan officer producing risk assessment. The evaluation procedure of any particular firm is based on points system: 50% of the points are awarded according to the evaluation of financial statements (trend in sales over the past year, the firms current situation of debt and leverage, interest coverage, liquidity ratios, the size of own capital, profitability and so on) and the other 50% are awarded on the basis of judgments for quality of management (firm’s reputation, staff and so on), market position, potential for firm development and reputation of owner. The second 50% is definitely no less important than the first 50% is, but bank’s loan officers acknowledge the difficulty of judging such qualities especially with smaller firms.

It could be marked out following crucial financial ratios calculated by loan officer:

- *Financial stability (Capital structure ratios):*

- Equity-assets ratio = equity/total assets, $0,4 \leq \text{ESR} \leq 0,7$ is awarded with maximum points. ESR is the most important ratio between ratios of this group (has a maximum weight in evaluation process);

- *Liquidity:*

- Quick ratio = (cash+accounts receivable less than 1 year)/ (short-term loans+accounts payable less than 1 year). Following range of Quick ratio ($0,5 \leq \text{QR} \leq 1$) should be awarded with maximum points.
- Current ratio = current assets/current liabilities. Following range of Current ratio ($1,3 \leq \text{QR} \leq 1,5$) should be awarded with maximum points.

- *Profitability:*

- Gross profit margin= gross profit/sales
- ROE= Net profit/Equity

All these ratios should be positive.

-*Business activity:*

- Current assets turnover period = (current assets/sales) *number of days in period
- Current assets turnover = sales/current assets
- *Trend in sales.* (Trend in sales should be positive.)

Ratios marked out with bold face are considered as the most important ones and have maximum weight in evaluation process.

It should be marked out an important feature of calculating Equity of SME by “OP” bank. Because of compulsory requirement of personal guarantee of SME’s owner to repay loan OP’s loan officer could add the most valuable property (vehicles, land, real estate) of SME’s owner to equity of SMEs.

A scoring mechanism of these factors allows loan officers to assign the client a final evaluation A, B, C or D. Scores of A, B, C correlate directly to credit limits, interest rates, duration of the loan and necessity of collateral to be pledged. A score of D represents a risk level unacceptable to the bank. All scores include particular range of numerical results (from ... to ...) that could compensate possible insignificant mistaken deviation in information and ratios.

The evaluation methods used by “OP” bank provide little room for the opinion of the loan officer, instead relying on a numerically based system of credit risk evaluation. The scoring system used by this bank to assign a letter of A, B, C or D as an evaluation which also dictates the terms of a credit facility, eliminates much of the decision process where discretion often plays a role. The pre-determined nature of the decision as simply an extension of the evaluation process effectively renders the evaluation the final decision.

“OP” bank developed its assessment/decision process to eliminate the discretionary powers of bank loan officers and decision-making individuals. The pre-structured mechanisms were designed to provide specific evaluations for SME whose past activities indicate future activities within the reaches of the bank’s preferences for predictable risk. The predetermined nature of decisions and lack

of decision-making apparatus also reduce the fixed costs associated with consideration of credit applications. Combining risk assessment and decision into a single process portrayed as a cost-effective policy for engaging with the SME sector.

But it should be paid attention primarily to managing credit loss risk a little bit.

Abovementioned assessment/decision process is organized well. But It should be looked at the way how “OP” bank solves one of the most important issues in interaction between any bank and SME and that could lead to increasing of credit loss risk exposure.

It meant how “OP” bank confronts problems of information gathering and information asymmetry that this bank foresees as potential credit loss risk.

The procedures instituted by “OP” bank to counteract informational problems rely mainly on the use of third-party information. The procedures for checking a reputation use of banking industry blacklists, false document and fraud lists, inquiries to potential client’s previous bank, inquiries made to potential client’s suppliers and customers, business histories, efforts to obtain sense of general reputation of the potential client in the market where it interacts, reputation of the owner of business and his/her outstanding debts (taxes, utilities and so on) and his/her relations to personal debts.

This list of methods for gathering information suggests that “OP” bank perceives its ability to participate fruitfully in this market as very dependent on its ability to gather information about the SME, their background, their reputation, and the possibility of previous acts of fraud. Moreover, the information is solicited mainly from sources other than the potential client. By the way it is the primary distinction in information gathering from common CS model where banks process mainly information gotten from potential customer.

This outsourcing, both in checking fraud lists and reputation according to others that the firm interacts with, suggests that this bank perceives limits to its own capacity to assess trustworthiness and potential.

These activities are performed by the Economical Security department of "OP" bank simultaneously with the assessment process performed by the loan officer.

The obligatory term in this model is that the loan has to be pledged with a personal guarantee of the owner. This requirement is aimed to compensate the usual low equity of SME. It implies that the personal guarantee of the SME's owner compensates the low equity with all property of its owner.

The share of bad loss varies from 1,8 to 2,2% of SME's portfolio.

This model is employed by all branches of "OP" bank but is amended only in the head office.

As a result, "OP" bank employs a risk assessment model based mainly on the CS technique.

It could be made the following conclusions to how "OP" bank manages its credit loss risk:

1. It considers applications of potential customers with a history no less than 1 year.
2. It exerts significant efforts to gather and check information concerning the potential client, its business and its owner completely using sources of third parties.
3. Credit limits, interest rates, duration of the loan and necessity of collateral to be pledged are set automatically depending on the score A, B or C. All scores include a particular range of numerical results (from ... to ...) that could compensate possible insignificant mistaken deviation in information and ratios.
4. The loan is pledged with a personal guarantee of the owner of the business who ensures the repayment of the loan with his/her personal property.

This model is designed in the head office of “OP” bank and has the same approaches in risk assessment in all offices of this bank. So, the features of conducting business, sources of information and so on in different offices in other towns and regions are not taken into consideration. For instance, company from the same industry/field of business but from different regions could have significant distinctions in value of the same financial ratios because of the features of conducting business in specific region. This fact – ignorance of regional features - could lead to additional credit loss risk. So, in my opinion credit risk assessment models, especially credit scoring based (without discretion approach), should be modified and take into consideration features of business location of potential borrowers. Such statement is especially actual for banks with wide net of branches.

In addition to analysis of models I should conclude following techniques to solve indicated issues.

Table 3 - Finnish bank analysis

	Informational opacity	Collateral insufficiency	Low equity
“OP” bank	Overcoming through gathering and checking information about client and its owner from variety of trustworthy third sources other than potential client	Overcoming through sharing credit risk in SME lending with Government Loan Guarantee Fund	Overcoming through asking for personal guarantee of SME’s owner in order to compensate low equity. SME’s owner is responsible for loan repayment with his/her personal property.

The first issue is solved by “OP” bank in good way. “OP” bank solves issue of informational opacity through close permanent communication with representatives of SME.

The second issue is solved by “OP” bank almost in the safe way. “OP Financial Group has an agreement with the European Investment Fund (EIF) for the Initiative risk-sharing guarantee facility. For the loan, they will obtain from the EIF a 50% risk-sharing guarantee that facilitates the availability of financing to SMEs.”
(OP Financial Group, 2021)

SMEs apply for loan guarantee when they are unable to provide the necessary collateral or when they are charged by the bank a very high interest rate because of low equity in order to make interest rate lower (Loan Guarantee Fund compensates a part of interest rate).

“OP” bank asks for personal guarantee of SME’s owner in order to compensate low equity.

2.7 Credit risk assessment models employed in Russian bank.

While analysing practical methods, it was focus exclusively on the following bank with which directly signed a document on writing a thesis.

Sovcombank

The main bank's services are corporate finance transactions and M&A, mortgages, lending to SMEs. Bank’s equity – RUB 2,000 billion (according to IFRS), Fitch and S&P rating – B.

In 2002, when Sovcombank (Buoykombank at the time) was acquired, it had one branch, 17 employees and ₺2 million equity. By the end of 2021, Sovcombank had become the No.3 largest privately-owned bank in Russia by total assets according

to Interfax ranking based on RAS, had a branch network of 2 334 offices in 1 thousand Russian towns and employed 17 thousand people, whilst the Group reported ₱188 billion total equity demonstrating its ability to grow over time.

Bank's evaluation is limited to at least half year-old companies (for commercial areas of activity - 3 months old). Lack of collateral is the reason for the credit application to be denied.

The evaluation mechanisms of Sovcombank relies on information gathering activities by bank loan officer and series of communications of loan officer with managers of SME, its owner in bank office and in firm's office, at place of conducting business and in location of owner.

The size of interest rate directly depends on how close contact between bank and client is established. It means that if a company is rendered different bank services (currency transactions, deposits, banking cards for salary and so on) it could be offered lower interest rate by the bank. In this way bank encourages clients to take different bank services beyond lending. Additional fees and commissions enhance banking total revenue.

Economical Security officers of Commercial bank check information presented by potential client through applying to credit history bureaus, potential client's previous bank simultaneously with assessment process performed by loan officer. In most cases, such clarification is haphazard for above-mentioned reasons. Thus, communications of loan officer with managers of SME becomes paramount.

Loan officer processes all the information and financial statements he/she gathered and generates a credit memo, in which reflects his/her view of the possibility of lending, the value of credit limit and interest rate, as well as opportunities for further bank services applying.

All applications pass to the considering on credit committee at the regional branch where the loan officer works. The committee is able to exercise a fair degree of

discretion in its decisions. The committee is considered as being able to use specialized knowledge of regional business.

Advantages

1. Decisions are made in regional branch so regional specific of conducting business are taken into consideration.
2. Additional bank services rendered by bank to lending clients allow him/her to monitor the client's stability through consuming services permanently.
3. Close contact motivates loan officer of SVC to compose individual contract terms including schedule of loan repayment depending on seasonal features of conducting specific business.
4. Separation of evaluation from decision.

Drawbacks

1. The subjective work of the loan officer is a critical point – mistaken opinion of one loan officer could lead to high credit loss risk.
2. The low size of equity ratio problem and a problem of collateral insufficient is not solved because of the bank's requirement for marketable tangible collateral in the situation of poor government support for small businesses.

2.8 Comparing Basel II and Russian approaches to SME credit risk and reserves

According to Basel II Small business loans are included in retail portfolio with absolute threshold of EUR one mln. «Small business exposures below EUR one mln. may be treated as retail exposures if the bank treats such exposures in its internal risk management systems consistently over time and in the same manner as other retail exposures. Furthermore, it must not be managed individually in a way comparable to corporate exposure, but rather as part of portfolio segment or pool of exposures with similar risk characteristic for purposes of risk assessment and qualifications. However, this doesn't preclude small business exposures from being treated individually at some stages of risk management process. The fact

that an exposure is rated individually doesn't by itself deny the eligibility as retail exposure». (BCBS, 2006)

The reserves on SME lending according to Basel II in distinction of corporate business are calculated on the rate of reserves of retail portfolio. In case of collateralized loan, the reserve rate should be decreased.

In Russia, banks have almost the same approach with insignificant distinctions. «Small business loans are included in small business portfolio with absolute threshold of EUR 1 mln. but no more than 5% of specific bank's capital. The reserves on specific SME loans are calculated on the rate of reserves of small business portfolio. Moreover, small business portfolios are divided in to two parts – 1. secured with collateral and 2. unsecured».

(Russian Federation Central Bank, 2017)

The reserve rate for first one portfolio as a rule is twice less than for the second one. I would make some preliminary conclusions based on results of analysis of practical experience conducted in this Chapter:

Great difference in accounting rules for SMEs in Finland and in Russia is the cause of distinct definition of informational opacity of SMEs. In Finland where financial statements could reflect real business position informational opacity appears in mixing corporate and individual cash property flows. So Finnish bank is faced with the necessity to consolidate overall information about SME's owner and its business. As for Russia in previous section (2.5.) I mentioned that accounting rules allow SME to choose following bookkeeping approaches: Reductive and accounting with taxation on imputed earnings. These two approaches imply no one financial statement at all besides declaration. So Russian bank couldn't get any important information from this declaration. As a result, Russian bank predominantly employ relationship lending technique gathering and checking information through permanent contact with SME's owner in place of conducting business, SME's office and so on. So, in Russia informational opacity appears first of all in lack of transparency of financial statement and secondary in mixing

corporate and individual cash property flows. Financial ratios calculated by Russian and Finnish banks are almost the same.

As see from analysis of models of Russian bank it doesn't have any concrete techniques to solve collateral insufficiency and low equity problems in SME lending. It all requires for tangible collateral in order to secure probable credit loss.

Finnish financial market is mature in contrast to Russian one. As a result, I see well organized different types of bureaus (credit, business) and databases in Finland which are the major source of primary information for application's consideration. Because of short history of Russian financial market there are no sufficient and overall bureaus and databases for using by banks as a source of information in Russia.

The share of bad loan debts doesn't vary considerably in Finnish and Russian banks. Although the volume of SME loan portfolios in Finland is significantly more than Russian one.

3 DATA COLLECTION AND ANALYSIS

3.1 Development process

The previous section discussed the credit risk assessment models used by a Finnish bank and a Russian bank for SME lending. Moreover, the shortcomings and advantages of the models of each bank were identified. Problems that hinder banks in the dynamic development of SME lending due to high credit risk were also identified. The analysis of these banks helped to see how the techniques that were studied based on the literature read in the process of writing thesis really work.

3.2 Data collection

This chapter will present data obtained from interviews with bank executives and SME owners on prepared questions. These interviews provide with open ended answers to questions about credit risk management from the point of view of a bank manager and the ability of SMEs to meet banks' requirements in this way.

The results of these conversations could help overcome some of the shortcomings mentioned at the beginning of the study to the mutual benefit of banks and customers.

The instrument chosen for data collection in this study was interviews with SME owners and bank managers to understand the big picture and the feasibility of implementing certain lending techniques for a Russian bank. Comments received in response to open-ended questions can add a human voice to the objective numbers and trends in the collected results. In many cases, they help to find out how respondents describe the situation in their own words in order to reveal hidden pain points. All interviews were designed to find out the peculiarities of lending to Russian small and medium-sized businesses and how applicable the Finnish bank's methods are to overcome 3 main obstacles in the Russian economic environment.

Data analysis began by reading each response several times and then reading each line of the response thoroughly. The author then noted the most important findings from the data for further decision-making. The author then described why the information he focused on was important to the study. The author then studied additional information that seemed important to him. As a result, this interview was made, and the main information was revealed that influenced the further understanding of the development of the previously put forward theoretical assumptions.

3.3 Survey evidence on ability SME to satisfy bank's requirement in order to manage credit risk.

The primary source of information comes from a personal communication conducted by me in the middle of February of 2022 in Saint-Petersburg. This survey queried the 45 owners of SME who has positive experience in obtaining SME loans.

All companies were established more than 3 years ago. All interviewed companies have positive credit histories in 3 banks (where we work/worked for) but at the same time they all have unsuccessful attempts to obtain loan in other banks. So, they have experienced the requirements of different banks.

The aim is to find out whether SME are able to satisfy bank's requirements in order to manage credit loss risk employed specific risk assessment model

3.4 Survey evidence on managing credit loss risk by banks in SME lending.

Another one survey queried the representatives of 8 banks, located in Saint-Petersburg, who is active in SMEs lending. We interviewed the Heads of SME credit departments and members of credit committees.

Interviewees represent banks each of them has being lending SME for more than 3 years. Some of them take part in designing/revising credit risk assessment models of their banks. All interviews were conducted in oral form, and we got interviewee's comments immediately. Interviews were conducted in the February of 2022.

All the obtained results are very important for achieving the main goal of the study. Some questions to SME owners and bank managers were linked to each other to confirm or disprove the assumptions put forward earlier.

All respondents are known to be borrowers of banks or colleagues from partner banks, so there is a high probability of open and honest answers.

Most of the interviewees commented on the answers so that a more specific and precise analysis of the results could be made in the next chapter.

Empirical data and comparative analysis were chosen because, in my opinion, previous results, the progressive experience of banks with mature financial

markets, and the specifics of the economic environment significantly influence the evolution of risk assessment methods in Russia.

4 RESULTS

In Chapter 2 were analysed different risk assessment models employed by banks in Finland and in Russia. There I could find out the drawbacks and worth of all analysed models.

In previous section were presented data on survey conducted to owners of SME in order to understand whether SME are able to satisfy bank's requirements in managing and minimizing credit loss risk.

It was composed questionnaire in order to find out specific features of Russian small business and how applicable the Finnish bank techniques of overcoming 3 major obstacles to Russian economic environment:

While analysing model of "OP" bank it was determined that personal guarantee of owner of SME is considered as the most reliable security of repayment loan. We know that as a rule the worth of property of owner of SME is significantly higher than size of equity of specific SME. So, the first question is aimed to understand whether Russian owners of SME are ready to present personal guarantee as a security for repayment of loan. In my opinion while presenting personal guarantee owners of SME would be more responsible for loan repayment. Significance of personal guarantee could be supplementary explained with usual opacity of financial position of SME and low equity of SME while SME owner's welfare could be additional indirect evidence of good financial position of SME.

Results of responses on first question show that majority of interviewees is able to present their personal guarantee as a security for loan repayment. Personal guarantee of SME's owner ensures loan repayment with all his property. This fact is very important psychologically.

As a result, Russian banks should widely employ in their managing credit loss risk in SME lending the requirement of personal guarantee of SME's owners.

While analysing risk assessment models employed by different bank, it was found out that model based on credit scoring ("OP" bank) doesn't imply any individual terms of contract including schedule of loan repayment. This fact narrows the range of potentially qualitative clients whose business exposed to seasonal factors. And on the contrary other analysed models ("Sovcombank") based on relationship lending could compose individual contract terms including schedule of loan repayment.

Results of responses on second question show that a little bit less than a half of interviewees have business exposed to seasonal factor.

Such results allow to make a conclusion that majority of respondents don't need in setting individual schedule of loan repayment depending on seasonal factor. So, I could apply credit scoring based model as well as relationship lending based model without great dependence on seasonal factor.

It is well-known that because of informational opacity of SME banks consider tangible collateral as an additional (as a rule the major) security from credit loss risk. Responses on third question show that only small part (about ¼ half) of interviewees confirms an ability to present tangible collateral for secure the bank from probable credit loss. As a result, banks couldn't require SME to present tangible collateral on compulsory base. Otherwise, banks narrow the range of potential good clients considerably. So, asset-based lending technique or any other models based on compulsory requirement of tangible collateral couldn't be widely spread in SME lending in Russia.

Such results confirm the necessity for Russian banks to modify lending techniques without obligatory requirement for tangible collateral as the security. So Russian bank should make overall analyses of SME business and use alternative techniques to compensate collateral insufficiency (personal guarantee of SME's owner, guarantee of Government Loan Guarantee Fund).

In the second section It was mentioned that informational opacity is one of the most important issues in SME lending. And results of responses confirm that almost all interviewees have so-called double accounting:

- for current management and
- for official authorities.

It means that majority of interviewed SMEs use special bookkeeping approach (reductive or accounting with taxation on imputed earnings). So, it can be concluded that because of lack of official financial statements only close and permanent contact between loan officer and SME manager could disclose real financial situation of particular SME.

It confirms that in contrast to Finnish bank Russian bank couldn't disclose real financial position of potential SME-borrower from financial statements only. At the same time, I find out in previous chapter that both Finnish and Russian banks use almost the same financial ratios to assess financial position of potential borrower.

These results together with the lack of development credit/business bureaus/databases in Russia suggests that only close permanent contact of banking officer with SME's owner/manager/business could allow Russian bank to overcome informational opacity of SME.

The primary aim of fifth question is to find out priorities of SME according to which they choose the potential lender/creditor. These responses are based on experience of SME in their relations with banks. Results show which factors in lending relations are the most important for SME and could be a good advice for banks to adapt their lending terms in order to meet SME's needs. It was found out that the most important factor for SME is availability of loan then follow the realistic collateral and the least important factor is interest rate.

So Russian banks should consider that in spite of collateral insufficiency, availability of loan (the quantity of required documents, the volume of information to be disclosed, the speed of decision-making, minimal threshold of duration of business existence, tailoring contract term to borrower's opportunities and so on)

is the most important factor for client. At the same time banks should still manage credit loss risk qualitatively.

Despite of results of responses on the third question where I find out that only small share of interviewees confirm ability to present tangible collateral, the requirement of banks to present collateral is not the most important factor for SME when they apply for the loan.

These results suggest that banks should adapt their lending terms to meet SME's needs and that SMEs are ready to pay high interest (extra fee) rate for qualitative lending services and for collateral insufficiency.

In previous investigations of foreign economists, it was empirically found out that majority of SME have low equity. This fact together with informational opacity and collateral insufficiency are the main limitations in SME lending and as a result in their dynamic development. While asking owners of SMEs we aimed to understand whether Russian SME have the same issues with equity.

Results showed that Russian SMEs have not any significant deviation from the foreign SME. More than 2/3 of interviewees confirm their current equity ratio in scope from 25% to 40%. Such a size of equity is considered as below common norm (50%).

Results confirm that Russian banks are faced with SME's low equity as well and should overcome this obstacle in lending.

The second questionnaire was composed for Russian bank's managers in order to understand priorities to which they follow in managing credit loss risk.

While asking first to question I tried to find out determinants characterizing potential SME borrower from the point of Russian bank manager's view. Results show that the most important factor for bank in assessment of potential SME borrower is

collateral and after that readiness of SME to pay high interest rate follows. And only on the third place I find work experience and results achieved.

Results confirm that instead of solving problem of informational opacity by means of special techniques Russian bank try to minimize credit loss risk through requiring collateral and try to compensate probable loss through charging high interest rate.

Russian banks should elaborate special technique to overcome informational opacity of SME in order to make SME's financial position clear. This gives Russian banks the opportunity to make lending decision basing on financial position instead of simple collateral.

Asking second question I aimed to recognize whether Russian banks consider credit applications of clients who has not had even short-term relation with a bank previously (deposit account, salary on bank cards, regular settlements and so on). Such limitation (granting loan only for clients with long-term relationship) is one of the relationship lending techniques for overcoming SME's informational opacity in order to minimize credit risk.

And results state that majority of banks is ready to consider the lending applications from absolutely new clients for banks.

This result together with results of previous question confirm that in current situation the majority of Russian banks don't use any special techniques in order to overcome informational opacity and to make business position of specific SME clearer for decision making.

As was found out in previous chapter Finnish bank accept guaranties of Finnish Government Loan Guarantee Fund as a security for loan repayment in order to overcome collateral insufficiency.

Results of responses on third question suggest us that in contrast to Finnish bank interviewed Russian bank partly cooperate with Government Loan Guarantee Fund.

Considering high credit rating of State guarantees Russian banks should accept such type of State Guarantee in order to overcome collateral insufficiency and as a result to reduce credit loss risk.

Responses of bank's managers on fourth question completely confirm and conform to responses on fourth question of SME's owners. Unfortunately, considerable distinction between SME's official accounting and management accounting is a specific feature of conducting small business in Russia. Such distinction reflects significant informational opacity of Russian SME. As I mentioned above opacity is the most important issue for Russian banks in process of managing credit loss risk.

As a result, Russian bank should employ specific techniques to overcome informational opacity – close and permanent communications with SME's representatives; visiting a location of business; setting of vital limitations for consideration of application (requirement to consuming banking services before lending); setting limitations in credit agreements (requirement to get revenue through accounts in bank-creditor) and so on.

Frankly speaking last question is interesting for me in comparing the factors influencing on reducing credit loss risk. Responses on previous questions suggested about importance of collateral and state guarantee for banks. But it was very surprised with such a little share of «owner's personal guarantee» responses. While in Finnish bank consider owner's personal guarantee as one of the most important factors especially because of low level of equity and very complex and bureaucratic procedure of selling collateral in Russia.

Russian bank should ask for personal guarantee of SME's owner overall. It allows them to compensate low equity. Our empirical analysis suggests that this is the most effective motivation for SME's owner to repay loan.

5 CONCLUSIONS

5.1 Key results and findings

Practical experience, the arguments and evidence presented above suggest that Finnish bank and Russian bank in their SME lending on the way to minimize credit loss risk are forced to overcome the same following issues:

- a) informational opacity of SME.
- b) insufficient collateral.
- c) low level of equity of SME.

First of all, I should mention that opacity problem in Finland and in Russia have distinct assumptions:

- In Finland opacity appears in mixing of corporate and individual cash property flows.
- In Russia opacity appears in lack of transparency of financial statements and significant distinction between management accounting and official accounting (financial statements).

It was found out two alternative ways of overcoming informational opacity of SME:

Through gathering information about SME and its owner from third party sources (business history, credit history, property and so on).

I can say that Russian banks are not able to solve opacity problem in this way in current situation. Because of too young system of credit history bureaus, it takes several years to complete database of such bureaus with necessary information. Only after that in several years banks using information from this source could be sure in its completeness.

Another side of this issue is that majority of Russian retail and foreign-owned banks don't send information about credit history of their borrowers to any credit history

bureau yet at all. As a result, credit history bureaus couldn't ensure banks the completeness of their database.

Through close and permanent communication of loan officer with manager and owner of SME and *visiting a location of business*.

This way of overcoming informational opacity in Russian reality is more applicable. Moreover, it was found out that some Russian banks have already employed such way of gathering information successfully.

This way of gathering information restrains dynamic development of SME lending because of constraining banks with regions where banks have their offices. Obviously, SME clients located in regions with limited quantity of banks could suffer of lack the banks employing such technology of gathering information.

Such technology of gathering information through permanent close communication with SME is high cost for banks. But evidence of our interviews shows that availability of loan is most important for SME and so SMEs are ready to pay high interest rate for availability of loan.

As a result, can be concluded that nowadays It was found that this technology of gathering information by Russian banks as the most effective and applicable in Russia in order to overcome informational opacity issue and to minimize credit loss risk. And this technique overcoming informational opacity in SME lending should be employed by Russian Bank in their credit risk assessment models.

Moreover, together with close contact and visit of business location banks should set of vital limitations for consideration of application (requirement to consuming banking services before lending); setting limitations in credit agreements (requirement to get revenue through accounts in bank-creditor) on a stage of permanent monitoring.

It was found out that Finnish bank try to solve problem of insufficiency of collateral through sharing credit loss risk with Loan Guarantee Public Fund.

In Russia such Funds were set up 1-2 years ago and just now are located only in 8 large regional centres and in Moscow and Saint-Petersburg. These Funds have state authorities as shareholders. Such Funds could compensate a part of interest rate for SME and present a guarantee in case of insufficiency of tangible collateral. Compensation of interest rate is important for SME because banks charge interest rates for SME loans significantly higher than large corporate business as a rule because of higher credit loss risk.

In Russia the development of relations between SMEs, banks, and State authorities in the right way. This could enhance the volume of SME lending on the one hand and to minimize the credit loss risk on another hand.

As a result, sharing credit loss risk with the Government Loan Guarantee Fund almost is the only one effective way of overcoming problem of SME's collateral insufficiency in Russia.

It was found out that emergence of interactions between banks and Government Loan Guarantee Fund could solve problem of the lack of tangible collateral in near future.

So Russian banks should cooperate with the Government Loan Guarantee Fund in order to overcome SME's collateral insufficiency overall.

Practical experience and empirical evidence show that low level of equity ratio concerns to both Finnish and Russian SMEs.

It was found out the way of overcoming this issue by Finnish bank. They ask for personal guarantee of SME's owner. So, SME's owner accounts for repayment of

loan with his equity in SME and with his all-personal property and reputation. It is a very important psychological pressure on SME owner.

Russian banks nowadays don't use such opportunity overall and prefer to require tangible collateral. And as mentioned above this decline a big range of potential customers.

It could be concluded that Russian bank should employ such opportunity to get personal guarantee of SME's owner more often in order to overcome the problem of SME's low equity.

This guarantee could be considered by banks as extra equity in their credit risk assessment models.

5.2 Reliability discussion and future development

Undoubtedly Russian market system has own features distinct from any others. Russian economy is too young and developing. So Russian banks can't employ all techniques and limitations as banks from developed countries do. For instance, "OP" bank limits SME's applications with 3 years business history. In current situation the majority of SMEs have business history less than 3 years. And this point absolutely is not applicable to Russian SME.

In addition to abovementioned techniques of solving three important issues in order to minimize credit loss risk I should note that models employed by Finnish bank designed to solve these issues simultaneously while every analyzed model of Russian bank nowadays employs only part of techniques to solve such issues effectively. It is drawback of developing period of SME lending. It is very important for Russian bank employ techniques of overcoming issues in their models in complex. It could solve issues overall.

Nevertheless, it was found out that Russian bank and Russian State Authorities try to follow progressive experience of economically developed countries. If

Russian bank will follow abovementioned recommendations, it could increase their SME credit portfolio considerably with low level of bad loan debts.

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The interview guide for SME's owners

The primary source of information comes from a personal communication conducted by me in the middle of February of 2022 in Saint-Petersburg. This survey queried the 45 owners of SME who has positive experience in obtaining SME loans.

Representatives of trade/commercial companies (25), confectionary (5), manufacturing (10) and construction (5) SMEs took part in our interviews. All companies were established more than 3 years ago. All interviewed companies have positive credit histories in 3 banks (where we work/worked for) but at the same time they all have unsuccessful attempts to obtain loan in other banks. So, they have experienced the requirements of different banks.

The aim is to find out whether SME are able to satisfy bank's requirements in order to manage credit loss risk employed specific risk assessment model.

I have following questions to interviewers:

1. How can you score your ready to render your personal guarantee for loan for your company?
2. Is your business really exposed to seasonal factor?
3. Does your company have collateral (real estate, equipment, vehicle, raw material, goods and so on) to pledge obtained loan?
4. Does your company have management accounting distinct from official financial report and how often do you practice this method?
5. Could you call factor which you think the most important in SME's lending offer?
6. Equity ratio (equity/total assets) of your company is?

The interview guide for bank's managers

Another one survey queried the representatives of 8 banks, located in Saint-Petersburgh, who is active in SMEs lending. We interviewed the Heads of SME credit departments and members of credit committees.

Interviewees represent banks each of them has been lending SME for more than 3 years. Some of them take part in designing/revising credit risk assessment models of their banks. All interviews were conducted in oral form, and we got interviewee's comments immediately. Interviews were conducted in the February of 2022.

All the obtained results are very important for achieving the main goal of the study. Some questions to SME owners and bank managers were linked to each other to confirm or disprove the assumptions put forward earlier.

All respondents are known to be borrowers of banks or colleagues from partner banks, so there is a high probability of open and honest answers.

Most of the interviewees commented on the answers so that a more specific and precise analysis of the results could be made in the next chapter.

Empirical data and comparative analysis were chosen because, in my opinion, previous results, the progressive experience of banks with mature financial markets, and the specifics of the economic environment significantly influence the evolution of risk assessment methods in Russia.

I have following questions to interviewers:

1. Could you mention the importance different levels of factors that characterize the client you would grant a loan?
2. In your opinion, is it normal that banks work with enterprises that have not even had a short-term relationship with a bank (less than 6 months) and do you work with similar organizations yourself?
3. Do you think that business needs strong support from the state now and does your bank take part in any state or municipal program to support small and medium-sized businesses?
4. Does your bank make a simplified form of the balance sheet of the prospective borrower, based on the elementary financial documents of the

company and other information gathered through communication with SME
distinct from official financial statements?

5. What type of loan's risk reduction you prefer most?

INTERVIEW TRANSCRIPTS (SME OWNERS)

Interviewee 1

1. How can you score your ready to render your personal guarantee for loan for your company?
 - Yes, I am fully ready to give my personal guarantees for obtaining a loan.
2. Is your business really exposed to seasonal factor?
 - Yes, my business is seasonal.
3. Does your company have collateral (real estate, equipment, vehicle, raw material, goods and so on) to pledge obtained loan?
 - Yes, our company has enough collateral, namely real estate.
4. Does your company have management accounting distinct from official financial report and how often do you practice this method?
 - Yes, we quite often resort to changes in financial statements.
5. Could you call factor which you think the most important in SME's lending offer?
 - I suppose that the most important factor in lending offer is Low-interest rate loan.
6. Equity ratio (equity/total assets) of your company is?
 - My company's equity ratio is 15%

Interviewee 2

1. How can you score your ready to render your personal guarantee for loan for your company?
 - Yes, I am fully ready to give my personal guarantees for obtaining a loan.
2. Is your business really exposed to seasonal factor?
 - Yes, my business is seasonal.
3. Does your company have collateral (real estate, equipment, vehicle, raw material, goods and so on) to pledge obtained loan?

- No, our company does not have anything that could serve as collateral for taking a loan.
4. Does your company have management accounting distinct from official financial report and how often do you practice this method?
 - Yes, we quite often resort to changes in financial statements.
 5. Could you call factor which you think the most important in SME's lending offer?
 - I suppose that the most important factor in lending offer is Credit availability and Low-interest rate loan.
 6. Equity ratio (equity/total assets) of your company is?
 - My company's equity ratio is 21%

Interviewee 3

1. How can you score your ready to render your personal guarantee for loan for your company?
 - Most likely, I am ready to give personal guarantees to obtain a loan.
2. Is your business really exposed to seasonal factor?
 - Most likely, my business is not subject to the seasonal factor, but I do not feel this strong connection.
3. Does your company have collateral (real estate, equipment, vehicle, raw material, goods and so on) to pledge obtained loan?
 - Yes, our company has enough collateral, namely: transport and real estate.
4. Does your company have management accounting distinct from official financial report and how often do you practice this method?
 - No, we do everything in its right/legal form and do not deceive any government participants.
5. Could you call factor which you think the most important in SME's lending offer?
 - I suppose that the most important factor in lending offer is Credit availability.
6. Equity ratio (equity/total assets) of your company is?
 - My company's equity ratio is 18%

Interviewee 4

1. How can you score your ready to render your personal guarantee for loan for your company?
 - No, I am not ready to give personal guarantees for obtaining a loan.
2. Is your business really exposed to seasonal factor?
 - No, my business is not seasonal.
3. Does your company have collateral (real estate, equipment, vehicle, raw material, goods and so on) to pledge obtained loan?
 - No, our company does not have anything that could serve as collateral for taking a loan.
4. Does your company have management accounting distinct from official financial report and how often do you practice this method?
 - Yes, we quite often resort to changes in financial statements.
5. Could you call factor which you think the most important in SME's lending offer?
 - I suppose that the most important factor in lending offer is Credit availability.
6. Equity ratio (equity/total assets) of your company is?
 - My company's equity ratio is 10%

Interviewee 5

1. How can you score your ready to render your personal guarantee for loan for your company?
 - So far, I am not ready to give personal guarantees for obtaining a loan.
2. Is your business really exposed to seasonal factor?
 - No, my business is not seasonal.
3. Does your company have collateral (real estate, equipment, vehicle, raw material, goods and so on) to pledge obtained loan?
 - No, our company does not have anything that could serve as collateral for taking a loan.

4. Does your company have management accounting distinct from official financial report and how often do you practice this method?
 - Yes, we quite often resort to changes in financial statements.
5. Could you call factor which you think the most important in SME's lending offer?
 - I suppose that the most important factor in lending offer is Credit availability.
6. Equity ratio (equity/total assets) of your company is?
 - My company's equity ratio is 26%

Interviewee 6

1. How can you score your ready to render your personal guarantee for loan for your company?
 - Yes, I am fully ready to give my personal guarantees for obtaining a loan.
2. Is your business really exposed to seasonal factor?
 - No, my business is not seasonal.
3. Does your company have collateral (real estate, equipment, vehicle, raw material, goods and so on) to pledge obtained loan?
 - Yes, our company has enough collateral, namely: real estate and equipment.
4. Does your company have management accounting distinct from official financial report and how often do you practice this method?
 - Yes, we quite often resort to changes in financial statements.
5. Could you call factor which you think the most important in SME's lending offer?
 - I suppose that the most important factor in lending offer is Credit availability.
6. Equity ratio (equity/total assets) of your company is?
 - My company's equity ratio is 31%

Interviewee 7

1. How can you score your ready to render your personal guarantee for loan for your company?
 - Yes, I am fully ready to give my personal guarantees for obtaining a loan.
2. Is your business really exposed to seasonal factor?
 - Most likely, my business is not subject to the seasonal factor, but I do not feel this strong connection.
3. Does your company have collateral (real estate, equipment, vehicle, raw material, goods and so on) to pledge obtained loan?
 - Yes, our company has enough collateral, namely: transport and equipment.
4. Does your company have management accounting distinct from official financial report and how often do you practice this method?
 - No, we do everything in its right/legal form and do not deceive any government participants.
5. Could you call factor which you think the most important in SME's lending offer?
 - I suppose that the most important factor in lending offer is Low-interest rate loan.
6. Equity ratio (equity/total assets) of your company is?
 - My company's equity ratio is 28%

Interviewee 8

1. How can you score your ready to render your personal guarantee for loan for your company?
 - Most likely, I am ready to give personal guarantees to obtain a loan.
2. Is your business really exposed to seasonal factor?
 - Yes, my business is seasonal.
3. Does your company have collateral (real estate, equipment, vehicle, raw material, goods and so on) to pledge obtained loan?
 - No, our company does not have anything that could serve as collateral for taking a loan.

4. Does your company have management accounting distinct from official financial report and how often do you practice this method?
 - Yes, we quite often resort to changes in financial statements.
5. Could you call factor which you think the most important in SME's lending offer?
 - I suppose that the most important factor in lending offer is Credit availability and realistic collateral.
6. Equity ratio (equity/total assets) of your company is?
 - My company's equity ratio is 55%

Interviewee 9

1. How can you score your ready to render your personal guarantee for loan for your company?
 - Yes, I am fully ready to give my personal guarantees for obtaining a loan.
2. Is your business really exposed to seasonal factor?
 - Yes, my business is seasonal.
3. Does your company have collateral (real estate, equipment, vehicle, raw material, goods and so on) to pledge obtained loan?
 - Yes, our company has enough collateral, namely: real estate, vehicles, and equipment.
4. Does your company have management accounting distinct from official financial report and how often do you practice this method?
 - Yes, we quite often resort to changes in financial statements.
5. Could you call factor which you think the most important in SME's lending offer?
 - I suppose that the most important factor in lending offer is Credit availability and realistic collateral.
6. Equity ratio (equity/total assets) of your company is?
 - My company's equity ratio is 19%

Interviewee 10

1. How can you score your ready to render your personal guarantee for loan for your company?
 - Yes, I am fully ready to give my personal guarantees for obtaining a loan.
2. Is your business really exposed to seasonal factor?
 - Yes, my business is seasonal.
3. Does your company have collateral (real estate, equipment, vehicle, raw material, goods and so on) to pledge obtained loan?
 - No, our company does not have anything that could serve as collateral for taking a loan.
4. Does your company have management accounting distinct from official financial report and how often do you practice this method?
 - No, we do everything in its right/legal form and do not deceive any government participants.
5. Could you call factor which you think the most important in SME's lending offer?
 - I suppose that the most important factor in lending offer is Credit availability and realistic collateral.
6. Equity ratio (equity/total assets) of your company is?
 - My company's equity ratio is 22%

Interviewee 11

1. How can you score your ready to render your personal guarantee for loan for your company?
 - No, I am not ready to give personal guarantees for obtaining a loan.
2. Is your business really exposed to seasonal factor?
 - No, my business is not seasonal.
3. Does your company have collateral (real estate, equipment, vehicle, raw material, goods and so on) to pledge obtained loan?
 - No, our company does not have anything that could serve as collateral for taking a loan.
4. Does your company have management accounting distinct from official financial report and how often do you practice this method?

- Yes, we quite often resort to changes in financial statements.
5. Could you call factor which you think the most important in SME's lending offer?
 - I suppose that the most important factor in lending offer is Credit availability and realistic collateral.
 6. Equity ratio (equity/total assets) of your company is?
 - My company's equity ratio is 38%

Interviewee 12

1. How can you score your ready to render your personal guarantee for loan for your company?
 - Yes, I am fully ready to give my personal guarantees for obtaining a loan.
2. Is your business really exposed to seasonal factor?
 - No, my business is not seasonal.
3. Does your company have collateral (real estate, equipment, vehicle, raw material, goods and so on) to pledge obtained loan?
 - Yes, our company has enough collateral, namely: real estate and equipment.
4. Does your company have management accounting distinct from official financial report and how often do you practice this method?
 - No, we do everything in its right/legal form and do not deceive any government participants.
5. Could you call factor which you think the most important in SME's lending offer?
 - I suppose that the most important factor in lending offer is Credit availability.
6. Equity ratio (equity/total assets) of your company is?
 - My company's equity ratio is 28%

Interviewee 13

1. How can you score your ready to render your personal guarantee for loan for your company?
 - Yes, I am fully ready to give my personal guarantees for obtaining a loan.
2. Is your business really exposed to seasonal factor?
 - No, my business is not seasonal.
3. Does your company have collateral (real estate, equipment, vehicle, raw material, goods and so on) to pledge obtained loan?
 - No, our company does not have anything that could serve as collateral for taking a loan.
4. Does your company have management accounting distinct from official financial report and how often do you practice this method?
 - Yes, we quite often resort to changes in financial statements.
5. Could you call factor which you think the most important in SME's lending offer?
 - I suppose that the most important factor in lending offer is Credit availability.
6. Equity ratio (equity/total assets) of your company is?

Interviewee 14

1. How can you score your ready to render your personal guarantee for loan for your company?
 - Yes, I am fully ready to give my personal guarantees for obtaining a loan.
2. Is your business really exposed to seasonal factor?
 - Most likely, my business is not subject to the seasonal factor, but I do not feel this strong connection.
3. Does your company have collateral (real estate, equipment, vehicle, raw material, goods and so on) to pledge obtained loan?
 - No, our company does not have anything that could serve as collateral for taking a loan.
4. Does your company have management accounting distinct from official financial report and how often do you practice this method?

- Yes, we quite often resort to changes in financial statements.
- 5. Could you call factor which you think the most important in SME's lending offer?
 - I suppose that the most important factor in lending offer is Credit availability.
- 6. Equity ratio (equity/total assets) of your company is?
 - My company's equity ratio is 25%

Interviewee 15

1. How can you score your ready to render your personal guarantee for loan for your company?
 - Most likely, I am ready to give personal guarantees to obtain a loan.
2. Is your business really exposed to seasonal factor?
 - Most likely, my business is not subject to the seasonal factor, but I do not feel this strong connection.
3. Does your company have collateral (real estate, equipment, vehicle, raw material, goods and so on) to pledge obtained loan?
 - Yes, our company has enough collateral, namely real estate.
4. Does your company have management accounting distinct from official financial report and how often do you practice this method?
 - No, we do everything in its right/legal form and do not deceive any government participants.
5. Could you call factor which you think the most important in SME's lending offer?
 - I suppose that the most important factor in lending offer is Credit availability.
6. Equity ratio (equity/total assets) of your company is?
 - My company's equity ratio is 66%

Interviewee 16

1. How can you score your ready to render your personal guarantee for loan for your company?

- Most likely, I am ready to give personal guarantees to obtain a loan.
2. Is your business really exposed to seasonal factor?
 - No, my business is not seasonal.
 3. Does your company have collateral (real estate, equipment, vehicle, raw material, goods and so on) to pledge obtained loan?
 - Yes, our company has enough collateral, namely: transport and equipment.
 4. Does your company have management accounting distinct from official financial report and how often do you practice this method?
 - Yes, we quite often resort to changes in financial statements.
 5. Could you call factor which you think the most important in SME's lending offer?
 - I suppose that the most important factor in lending offer is realistic collateral.
 6. Equity ratio (equity/total assets) of your company is?
 - My company's equity ratio is 40%

Interviewee 17

1. How can you score your ready to render your personal guarantee for loan for your company?
 - Most likely, I am ready to give personal guarantees to obtain a loan.
2. Is your business really exposed to seasonal factor?
 - No, my business is not seasonal.
3. Does your company have collateral (real estate, equipment, vehicle, raw material, goods and so on) to pledge obtained loan?
 - Yes, our company has enough collateral, namely: transport and real estate.
4. Does your company have management accounting distinct from official financial report and how often do you practice this method?
 - Yes, we quite often resort to changes in financial statements.
5. Could you call factor which you think the most important in SME's lending offer?
 - I suppose that the most important factor in lending offer is realistic collateral.

6. Equity ratio (equity/total assets) of your company is?

- My company's equity ratio is 45%

Interviewee 18

1. How can you score your ready to render your personal guarantee for loan for your company?

- So far, I am not ready to give personal guarantees for obtaining a loan.

2. Is your business really exposed to seasonal factor?

- Most likely, my business is not subject to the seasonal factor, but I do not feel this strong connection.

3. Does your company have collateral (real estate, equipment, vehicle, raw material, goods and so on) to pledge obtained loan?

- No, our company does not have anything that could serve as collateral for taking a loan.

4. Does your company have management accounting distinct from official financial report and how often do you practice this method?

- Yes, we quite often resort to changes in financial statements.

5. Could you call factor which you think the most important in SME's lending offer?

- I suppose that the most important factor in lending offer is realistic collateral.

6. Equity ratio (equity/total assets) of your company is?

- My company's equity ratio is 33%

Interviewee 19

1. How can you score your ready to render your personal guarantee for loan for your company?

- Yes, I am fully ready to give my personal guarantees for obtaining a loan.

2. Is your business really exposed to seasonal factor?

- Most likely, my business is not subject to the seasonal factor, but I do not feel this strong connection.

3. Does your company have collateral (real estate, equipment, vehicle, raw material, goods and so on) to pledge obtained loan?
 - No, our company does not have anything that could serve as collateral for taking a loan.
4. Does your company have management accounting distinct from official financial report and how often do you practice this method?
 - Yes, we quite often resort to changes in financial statements.
5. Could you call factor which you think the most important in SME's lending offer?
 - I suppose that the most important factor in lending offer is Low-interest rate loan.
6. Equity ratio (equity/total assets) of your company is?
 - My company's equity ratio is 25%

Interviewee 20

1. How can you score your ready to render your personal guarantee for loan for your company?
 - Yes, I am fully ready to give my personal guarantees for obtaining a loan.
2. Is your business really exposed to seasonal factor?
 - No, my business is not seasonal.
3. Does your company have collateral (real estate, equipment, vehicle, raw material, goods and so on) to pledge obtained loan?
 - No, our company does not have anything that could serve as collateral for taking a loan.
4. Does your company have management accounting distinct from official financial report and how often do you practice this method?
 - Yes, we quite often resort to changes in financial statements.
5. Could you call factor which you think the most important in SME's lending offer?
 - I suppose that the most important factor in lending offer is Low-interest rate loan.
6. Equity ratio (equity/total assets) of your company is?

- My company's equity ratio is 30%

Interviewee 21

1. How can you score your ready to render your personal guarantee for loan for your company?
 - Yes, I am fully ready to give my personal guarantees for obtaining a loan.
2. Is your business really exposed to seasonal factor?
 - Most likely, my business is subject to the seasonal factor, but I do not feel its strong influence.
3. Does your company have collateral (real estate, equipment, vehicle, raw material, goods and so on) to pledge obtained loan?
 - No, our company does not have anything that could serve as collateral for taking a loan.
4. Does your company have management accounting distinct from official financial report and how often do you practice this method?
 - Yes, we quite often resort to changes in financial statements.
5. Could you call factor which you think the most important in SME's lending offer?
 - I suppose that the most important factor in lending offer is Credit availability and realistic collateral.
6. Equity ratio (equity/total assets) of your company is?
 - My company's equity ratio is 14%

Interviewee 22

1. How can you score your ready to render your personal guarantee for loan for your company?
 - Yes, I am fully ready to give my personal guarantees for obtaining a loan.
2. Is your business really exposed to seasonal factor?
 - Yes, my business is seasonal.

3. Does your company have collateral (real estate, equipment, vehicle, raw material, goods and so on) to pledge obtained loan?
 - No, our company does not have anything that could serve as collateral for taking a loan.
4. Does your company have management accounting distinct from official financial report and how often do you practice this method?
 - Yes, we quite often resort to changes in financial statements.
5. Could you call factor which you think the most important in SME's lending offer?
 - I suppose that the most important factor in lending offer is realistic collateral.
6. Equity ratio (equity/total assets) of your company is?
 - My company's equity ratio is 13%

Interviewee 23

1. How can you score your ready to render your personal guarantee for loan for your company?
 - Most likely, I am ready to give personal guarantees to obtain a loan.
2. Is your business really exposed to seasonal factor?
 - Yes, my business is seasonal.
3. Does your company have collateral (real estate, equipment, vehicle, raw material, goods and so on) to pledge obtained loan?
 - No, our company does not have anything that could serve as collateral for taking a loan.
4. Does your company have management accounting distinct from official financial report and how often do you practice this method?
 - Yes, we quite often resort to changes in financial statements.
5. Could you call factor which you think the most important in SME's lending offer?
 - I suppose that the most important factor in lending offer is Credit availability and Low-interest rate loan.
6. Equity ratio (equity/total assets) of your company is?
 - My company's equity ratio is 22%

Interviewee 24

1. How can you score your ready to render your personal guarantee for loan for your company?
 - Most likely, I am ready to give personal guarantees to obtain a loan.
2. Is your business really exposed to seasonal factor?
 - Yes, my business is seasonal.
3. Does your company have collateral (real estate, equipment, vehicle, raw material, goods and so on) to pledge obtained loan?
 - Yes, our company has enough collateral, namely: transport and real estate.
4. Does your company have management accounting distinct from official financial report and how often do you practice this method?
 - Yes, we quite often resort to changes in financial statements.
5. Could you call factor which you think the most important in SME's lending offer?
 - I suppose that the most important factor in lending offer is realistic collateral.
6. Equity ratio (equity/total assets) of your company is?
 - My company's equity ratio is 27%

Interviewee 25

1. How can you score your ready to render your personal guarantee for loan for your company?
 - No, I am not ready to give personal guarantees for obtaining a loan.
2. Is your business really exposed to seasonal factor?
 - Most likely, my business is not subject to the seasonal factor, but I do not feel this strong connection.
3. Does your company have collateral (real estate, equipment, vehicle, raw material, goods and so on) to pledge obtained loan?
 - No, our company does not have anything that could serve as collateral for taking a loan.

4. Does your company have management accounting distinct from official financial report and how often do you practice this method?
 - Yes, we quite often resort to changes in financial statements.
5. Could you call factor which you think the most important in SME's lending offer?
 - I suppose that the most important factor in lending offer is realistic collateral.
6. Equity ratio (equity/total assets) of your company is?
 - My company's equity ratio is 32%

Interviewee 26

1. How can you score your ready to render your personal guarantee for loan for your company?
 - No, I am not ready to give personal guarantees for obtaining a loan.
2. Is your business really exposed to seasonal factor?
 - Most likely, my business is not subject to the seasonal factor, but I do not feel this strong connection.
3. Does your company have collateral (real estate, equipment, vehicle, raw material, goods and so on) to pledge obtained loan?
 - No, our company does not have anything that could serve as collateral for taking a loan.
4. Does your company have management accounting distinct from official financial report and how often do you practice this method?
 - Yes, we quite often resort to changes in financial statements.
5. Could you call factor which you think the most important in SME's lending offer?
 - I suppose that the most important factor in lending offer is realistic collateral.
6. Equity ratio (equity/total assets) of your company is?
 - My company's equity ratio is 39%

Interviewee 27

1. How can you score your ready to render your personal guarantee for loan for your company?
 - Most likely, I am ready to give personal guarantees to obtain a loan.
2. Is your business really exposed to seasonal factor?
 - Most likely, my business is not subject to the seasonal factor, but I do not feel this strong connection.
3. Does your company have collateral (real estate, equipment, vehicle, raw material, goods and so on) to pledge obtained loan?
 - No, our company does not have anything that could serve as collateral for taking a loan.
4. Does your company have management accounting distinct from official financial report and how often do you practice this method?
 - Yes, we quite often resort to changes in financial statements.
5. Could you call factor which you think the most important in SME's lending offer?
 - I suppose that the most important factor in lending offer is realistic collateral.
6. Equity ratio (equity/total assets) of your company is?
 - My company's equity ratio is 40%

Interviewee 28

1. How can you score your ready to render your personal guarantee for loan for your company?
 - Most likely, I am ready to give personal guarantees to obtain a loan.
2. Is your business really exposed to seasonal factor?
 - No, my business is not seasonal.
3. Does your company have collateral (real estate, equipment, vehicle, raw material, goods and so on) to pledge obtained loan?
 - Yes, our company has enough collateral, namely: transport and equipment.
4. Does your company have management accounting distinct from official financial report and how often do you practice this method?
 - Yes, we quite often resort to changes in financial statements.

5. Could you call factor which you think the most important in SME's lending offer?
 - I suppose that the most important factor in lending offer is Credit availability and Low-interest rate loan.
6. Equity ratio (equity/total assets) of your company is?
 - My company's equity ratio is 37%

Interviewee 29

1. How can you score your ready to render your personal guarantee for loan for your company?
 - Most likely, I am ready to give personal guarantees to obtain a loan.
2. Is your business really exposed to seasonal factor?
 - No, my business is not seasonal.
3. Does your company have collateral (real estate, equipment, vehicle, raw material, goods and so on) to pledge obtained loan?
 - No, our company does not have anything that could serve as collateral for taking a loan.
4. Does your company have management accounting distinct from official financial report and how often do you practice this method?
 - Yes, we quite often resort to changes in financial statements.
5. Could you call factor which you think the most important in SME's lending offer?
 - I suppose that the most important factor in lending offer is Credit availability and Low-interest rate loan.
6. Equity ratio (equity/total assets) of your company is?
 - My company's equity ratio is 30%

Interviewee 30

1. How can you score your ready to render your personal guarantee for loan for your company?
 - Yes, I am fully ready to give my personal guarantees for obtaining a loan.

2. Is your business really exposed to seasonal factor?
 - Yes, my business is seasonal.
3. Does your company have collateral (real estate, equipment, vehicle, raw material, goods and so on) to pledge obtained loan?
 - No, our company does not have anything that could serve as collateral for taking a loan.
4. Does your company have management accounting distinct from official financial report and how often do you practice this method?
 - Yes, we quite often resort to changes in financial statements.
5. Could you call factor which you think the most important in SME's lending offer?
 - I suppose that the most important factor in lending offer is Low-interest rate loan.
6. Equity ratio (equity/total assets) of your company is?
 - My company's equity ratio is 38%

Interviewee 31

1. How can you score your ready to render your personal guarantee for loan for your company?
 - Yes, I am fully ready to give my personal guarantees for obtaining a loan.
2. Is your business really exposed to seasonal factor?
 - Most likely, my business is subject to the seasonal factor, but I do not feel its strong influence.
3. Does your company have collateral (real estate, equipment, vehicle, raw material, goods and so on) to pledge obtained loan?
 - No, our company does not have anything that could serve as collateral for taking a loan.
4. Does your company have management accounting distinct from official financial report and how often do you practice this method?
 - Yes, we quite often resort to changes in financial statements.
5. Could you call factor which you think the most important in SME's lending offer?

- I suppose that the most important factor in lending offer is Credit availability.
6. Equity ratio (equity/total assets) of your company is?
- My company's equity ratio is 49%

Interviewee 32

1. How can you score your ready to render your personal guarantee for loan for your company?
 - So far, I am not ready to give personal guarantees for obtaining a loan.
2. Is your business really exposed to seasonal factor?
 - Most likely, my business is not subject to the seasonal factor, but I do not feel this strong connection.
3. Does your company have collateral (real estate, equipment, vehicle, raw material, goods and so on) to pledge obtained loan?
 - No, our company does not have anything that could serve as collateral for taking a loan.
4. Does your company have management accounting distinct from official financial report and how often do you practice this method?
 - Yes, we quite often resort to changes in financial statements.
5. Could you call factor which you think the most important in SME's lending offer?
 - I suppose that the most important factor in lending offer is Credit availability.
6. Equity ratio (equity/total assets) of your company is?
 - My company's equity ratio is 75%

Interviewee 33

1. How can you score your ready to render your personal guarantee for loan for your company?
 - So far, I am not ready to give personal guarantees for obtaining a loan.
2. Is your business really exposed to seasonal factor?

- Most likely, my business is not subject to the seasonal factor, but I do not feel this strong connection.
3. Does your company have collateral (real estate, equipment, vehicle, raw material, goods and so on) to pledge obtained loan?
 - No, our company does not have anything that could serve as collateral for taking a loan.
 4. Does your company have management accounting distinct from official financial report and how often do you practice this method?
 - Yes, we quite often resort to changes in financial statements.
 5. Could you call factor which you think the most important in SME's lending offer?
 - I suppose that the most important factor in lending offer is Credit availability.
 6. Equity ratio (equity/total assets) of your company is?
 - My company's equity ratio is 17%

Interviewee 34

1. How can you score your ready to render your personal guarantee for loan for your company?
 - No, I am not ready to give personal guarantees for obtaining a loan.
2. Is your business really exposed to seasonal factor?
 - No, my business is not seasonal.
3. Does your company have collateral (real estate, equipment, vehicle, raw material, goods and so on) to pledge obtained loan?
 - No, our company does not have anything that could serve as collateral for taking a loan.
4. Does your company have management accounting distinct from official financial report and how often do you practice this method?
 - Yes, we quite often resort to changes in financial statements.
5. Could you call factor which you think the most important in SME's lending offer?
6. Equity ratio (equity/total assets) of your company is?
 - My company's equity ratio is 22%

Interviewee 35

1. How can you score your ready to render your personal guarantee for loan for your company?
 - Yes, I am fully ready to give my personal guarantees for obtaining a loan.
2. Is your business really exposed to seasonal factor?
 - No, my business is not seasonal.
3. Does your company have collateral (real estate, equipment, vehicle, raw material, goods and so on) to pledge obtained loan?
 - Yes, our company has enough collateral, namely: real estate and equipment.
4. Does your company have management accounting distinct from official financial report and how often do you practice this method?
 - Yes, we quite often resort to changes in financial statements.
5. Could you call factor which you think the most important in SME's lending offer?
6. Equity ratio (equity/total assets) of your company is?
 - My company's equity ratio is 66%

Interviewee 36

1. How can you score your ready to render your personal guarantee for loan for your company?
 - Yes, I am fully ready to give my personal guarantees for obtaining a loan.
2. Is your business really exposed to seasonal factor?
 - No, my business is not seasonal.
3. Does your company have collateral (real estate, equipment, vehicle, raw material, goods and so on) to pledge obtained loan?
 - No, our company does not have anything that could serve as collateral for taking a loan.

4. Does your company have management accounting distinct from official financial report and how often do you practice this method?
 - Yes, we quite often resort to changes in financial statements.
5. Could you call factor which you think the most important in SME's lending offer?
 - I suppose that the most important factor in lending offer is Credit availability and realistic collateral.
6. Equity ratio (equity/total assets) of your company is?
 - My company's equity ratio is 40%

Interviewee 37

1. How can you score your ready to render your personal guarantee for loan for your company?
 - Most likely, I am ready to give personal guarantees to obtain a loan.
2. Is your business really exposed to seasonal factor?
 - Most likely, my business is subject to the seasonal factor, but I do not feel its strong influence.
3. Does your company have collateral (real estate, equipment, vehicle, raw material, goods and so on) to pledge obtained loan?
 - No, our company does not have anything that could serve as collateral for taking a loan.
4. Does your company have management accounting distinct from official financial report and how often do you practice this method?
 - Yes, we quite often resort to changes in financial statements.
5. Could you call factor which you think the most important in SME's lending offer?
 - I suppose that the most important factor in lending offer is Credit availability and realistic collateral.
6. Equity ratio (equity/total assets) of your company is?
 - My company's equity ratio is 26%

Interviewee 38

1. How can you score your ready to render your personal guarantee for loan for your company?
 - No, I am not ready to give personal guarantees for obtaining a loan.
2. Is your business really exposed to seasonal factor?
 - Yes, my business is seasonal.
3. Does your company have collateral (real estate, equipment, vehicle, raw material, goods and so on) to pledge obtained loan?
 - No, our company does not have anything that could serve as collateral for taking a loan.
4. Does your company have management accounting distinct from official financial report and how often do you practice this method?
 - Yes, we quite often resort to changes in financial statements.
5. Could you call factor which you think the most important in SME's lending offer?
 - I suppose that the most important factor in lending offer is Credit availability and realistic collateral.
6. Equity ratio (equity/total assets) of your company is?
 - My company's equity ratio is 39%

Interviewee 39

1. How can you score your ready to render your personal guarantee for loan for your company?
 - Yes, I am fully ready to give my personal guarantees for obtaining a loan.
2. Is your business really exposed to seasonal factor?
 - No, my business is not seasonal.
3. Does your company have collateral (real estate, equipment, vehicle, raw material, goods and so on) to pledge obtained loan?
 - No, our company does not have anything that could serve as collateral for taking a loan.
4. Does your company have management accounting distinct from official financial report and how often do you practice this method?
 - Yes, we quite often resort to changes in financial statements.

5. Could you call factor which you think the most important in SME's lending offer?
 - I suppose that the most important factor in lending offer is Credit availability and realistic collateral.
6. Equity ratio (equity/total assets) of your company is?
 - My company's equity ratio is 48%

Interviewee 40

1. How can you score your ready to render your personal guarantee for loan for your company?
 - Yes, I am fully ready to give my personal guarantees for obtaining a loan.
2. Is your business really exposed to seasonal factor?
 - No, my business is not seasonal.
3. Does your company have collateral (real estate, equipment, vehicle, raw material, goods and so on) to pledge obtained loan?
 - No, our company does not have anything that could serve as collateral for taking a loan.
4. Does your company have management accounting distinct from official financial report and how often do you practice this method?
 - Yes, we quite often resort to changes in financial statements.
5. Could you call factor which you think the most important in SME's lending offer?
 - I suppose that the most important factor in lending offer is realistic collateral.
6. Equity ratio (equity/total assets) of your company is?
 - My company's equity ratio is 33%

Interviewee 41

1. How can you score your ready to render your personal guarantee for loan for your company?
 - So far, I am not ready to give personal guarantees for obtaining a loan.
2. Is your business really exposed to seasonal factor?

- No, my business is not seasonal.
- 3. Does your company have collateral (real estate, equipment, vehicle, raw material, goods and so on) to pledge obtained loan?
 - No, our company does not have anything that could serve as collateral for taking a loan.
- 4. Does your company have management accounting distinct from official financial report and how often do you practice this method?
 - Yes, we quite often resort to changes in financial statements.
- 5. Could you call factor which you think the most important in SME's lending offer?
 - I suppose that the most important factor in lending offer is realistic collateral.
- 6. Equity ratio (equity/total assets) of your company is?
 - My company's equity ratio is 30%

Interviewee 42

1. How can you score your ready to render your personal guarantee for loan for your company?
 - Yes, I am fully ready to give my personal guarantees for obtaining a loan.
2. Is your business really exposed to seasonal factor?
 - Yes, my business is seasonal.
3. Does your company have collateral (real estate, equipment, vehicle, raw material, goods and so on) to pledge obtained loan?
 - No, our company does not have anything that could serve as collateral for taking a loan.
4. Does your company have management accounting distinct from official financial report and how often do you practice this method?
 - Yes, we quite often resort to changes in financial statements.
5. Could you call factor which you think the most important in SME's lending offer?
 - I suppose that the most important factor in lending offer is Low-interest rate loan.

6. Equity ratio (equity/total assets) of your company is?
 - My company's equity ratio is 36%

Interviewee 43

1. How can you score your ready to render your personal guarantee for loan for your company?
 - No, I am not ready to give personal guarantees for obtaining a loan.
2. Is your business really exposed to seasonal factor?
 - Most likely, my business is not subject to the seasonal factor, but I do not feel this strong connection.
3. Does your company have collateral (real estate, equipment, vehicle, raw material, goods and so on) to pledge obtained loan?
 - No, our company does not have anything that could serve as collateral for taking a loan.
4. Does your company have management accounting distinct from official financial report and how often do you practice this method?
 - Yes, we quite often resort to changes in financial statements.
5. Could you call factor which you think the most important in SME's lending offer?
 - I suppose that the most important factor in lending offer is Credit availability and realistic collateral.
6. Equity ratio (equity/total assets) of your company is?
 - My company's equity ratio is 38%

Interviewee 44

1. How can you score your ready to render your personal guarantee for loan for your company?
 - No, I am not ready to give personal guarantees for obtaining a loan.
2. Is your business really exposed to seasonal factor?
 - Yes, my business is seasonal.
3. Does your company have collateral (real estate, equipment, vehicle, raw material, goods and so on) to pledge obtained loan?

- No, our company does not have anything that could serve as collateral for taking a loan.
- 4. Does your company have management accounting distinct from official financial report and how often do you practice this method?
 - Yes, we quite often resort to changes in financial statements.
- 5. Could you call factor which you think the most important in SME's lending offer?
 - I suppose that the most important factor in lending offer is Credit availability and realistic collateral.
- 6. Equity ratio (equity/total assets) of your company is?
 - My company's equity ratio is 69%

Interviewee 45

1. How can you score your ready to render your personal guarantee for loan for your company?
 - Yes, I am fully ready to give my personal guarantees for obtaining a loan.
2. Is your business really exposed to seasonal factor?
 - No, my business is not seasonal.
3. Does your company have collateral (real estate, equipment, vehicle, raw material, goods and so on) to pledge obtained loan?
 - No, our company does not have anything that could serve as collateral for taking a loan.
4. Does your company have management accounting distinct from official financial report and how often do you practice this method?
 - Yes, we quite often resort to changes in financial statements.
5. Could you call factor which you think the most important in SME's lending offer?
 - I suppose that the most important factor in lending offer is realistic collateral.
6. Equity ratio (equity/total assets) of your company is?
 - My company's equity ratio is 25%

INTERVIEW TRANSCRIPTS (BANK'S MANAGERS)

Interviewee 1

1. Could you mention the importance different levels of factors that characterize the client you would grant a loan?
 - The most important factors in evaluating a company for issuing a loan for our bank are work experience and results which company achieved.
2. In your opinion, is it normal that banks work with enterprises that have not even had a short-term relationship with a bank (less than 6 months) and do you work with similar organizations yourself?
 - We believe that this is a normal practice that brings its share of additional profit. Our bank rarely works with companies that fit your description, as we try to diversify our activities as much as possible.
3. Do you think that business needs strong support from the state now and does your bank take part in any state or municipal program to support small and medium-sized businesses?
 - Yes, we believe that SMEs need support from the state more than ever, the Russian economy often faces various trials, so you need to be ready for these trials. Our bank is trying to influence government agencies responsible for such business support programs.
4. Does your bank make a simplified form of the balance sheet of the prospective borrower, based on the elementary financial documents of the company and other information gathered through communication with SME distinct from official financial statements?
 - Yes, we always try to draw up a simplified form of a potential client's balance sheet based on information that we receive through personal interaction and not just based on official data. This procedure, of course, takes a certain amount of resources such as time and money, but nevertheless it sorts out very risky companies.
5. What type of loan's risk reduction you prefer most?
 - We prefer such a credit risk reduction factor as realistic collateral.

Interviewee 2

1. Could you mention the importance different levels of factors that characterize the client you would grant a loan?
 - The most important factors in evaluating a company for issuing a loan for our bank is the industry the borrower works in.
2. In your opinion, is it normal that banks work with enterprises that have not even had a short-term relationship with a bank (less than 6 months) and do you work with similar organizations yourself?
 - We believe that this is a normal practice that brings its share of additional profit. Our bank quite often works with companies that fall under your description due to the fact that we try to get high profits despite all the risks.
3. Do you think that business needs strong support from the state now and does your bank take part in any state or municipal program to support small and medium-sized businesses?
 - Yes, we believe that SMEs need support from the state more than ever, the Russian economy often faces various trials, so you need to be ready for these trials. But unfortunately, we do not have much influence on the state bodies responsible for the introduction of programs to support small and medium-sized enterprises.
4. Does your bank make a simplified form of the balance sheet of the prospective borrower, based on the elementary financial documents of the company and other information gathered through communication with SME distinct from official financial statements?
 - Yes, we try to work with simplified forms of a potential client's balance sheet based on information that we receive through personal interaction and not only based on official data. This practice allows us to screen out controversial companies for additional diversification of activities.
5. What type of loan's risk reduction you prefer most?
 - We prefer such a credit risk reduction factor as state or municipal warranty.

Interviewee 3

1. Could you mention the importance different levels of factors that characterize the client you would grant a loan?
 - The most important factors in evaluating a company for issuing a loan for our bank is ability of SME to pay high interest rate.
2. In your opinion, is it normal that banks work with enterprises that have not even had a short-term relationship with a bank (less than 6 months) and do you work with similar organizations yourself?
 - We believe that working with such companies is too risky. Therefore, our bank tries to avoid interaction with such young companies.
3. Do you think that business needs strong support from the state now and does your bank take part in any state or municipal program to support small and medium-sized businesses?
 - Yes, we believe that SMEs need support from the state more than ever, the Russian economy often faces various trials, so you need to be ready for these trials. Our bank is trying to influence government agencies responsible for such business support programs.
4. Does your bank make a simplified form of the balance sheet of the prospective borrower, based on the elementary financial documents of the company and other information gathered through communication with SME distinct from official financial statements?
 - Yes, we always try to draw up a simplified form of a potential client's balance sheet based on information that we receive through personal interaction and not just based on official data. This procedure, of course, takes a certain amount of resources such as time and money, but nevertheless it sorts out very risky companies.
5. What type of loan's risk reduction you prefer most?
 - We prefer such a credit risk reduction factor as realistic collateral.

Interviewee 4

1. Could you mention the importance different levels of factors that characterize the client you would grant a loan?
 - The most important factors in evaluating a company for issuing a loan for our bank is the availability of collateral to pledge an obtained loan.

2. In your opinion, is it normal that banks work with enterprises that have not even had a short-term relationship with a bank (less than 6 months) and do you work with similar organizations yourself?
 - We believe that this is a normal practice that brings its share of additional profit. Our bank rarely works with companies that fit your description, as we try to diversify our activities as much as possible.
3. Do you think that business needs strong support from the state now and does your bank take part in any state or municipal program to support small and medium-sized businesses?
 - Yes, we believe that SMEs need support from the state more than ever, the Russian economy often faces various trials, so you need to be ready for these trials. Our bank is trying to influence government agencies responsible for such business support programs.
4. Does your bank make a simplified form of the balance sheet of the prospective borrower, based on the elementary financial documents of the company and other information gathered through communication with SME distinct from official financial statements?
 - Yes, we try to work with simplified forms of a potential client's balance sheet based on information that we receive through personal interaction and not only based on official data. This practice allows us to screen out controversial companies for additional diversification of activities.
5. What type of loan's risk reduction you prefer most?
 - We prefer such a credit risk reduction factor as state or municipal warranty.

Interviewee 5

1. Could you mention the importance different levels of factors that characterize the client you would grant a loan?
 - The most important factors in evaluating a company for issuing a loan for our bank is the positive credit history.
2. In your opinion, is it normal that banks work with enterprises that have not even had a short-term relationship with a bank (less than 6 months) and do you work with similar organizations yourself?

- We believe that there is nothing wrong with working with young companies, especially if they are quite promising. Our bank quite often works with companies that match your description, due to the fact that we try to get high profits, despite all the risks.
3. Do you think that business needs strong support from the state now and does your bank take part in any state or municipal program to support small and medium-sized businesses?
 - Yes, we believe that SMEs need support from the state more than ever, the Russian economy often faces various trials, so you need to be ready for these trials. But unfortunately, we do not have much influence on the state bodies responsible for the introduction of programs to support small and medium-sized enterprises.
 4. Does your bank make a simplified form of the balance sheet of the prospective borrower, based on the elementary financial documents of the company and other information gathered through communication with SME distinct from official financial statements?
 - Yes, we always try to draw up a simplified form of a potential client's balance sheet based on information that we receive through personal interaction and not just based on official data. This procedure, of course, takes a certain amount of resources such as time and money, but nevertheless it sorts out very risky companies.
 5. What type of loan's risk reduction you prefer most?
 - We prefer such a credit risk reduction factor as owner's guarantee.

Interviewee 6

1. Could you mention the importance different levels of factors that characterize the client you would grant a loan?
 - The most important factors in evaluating a company for issuing a loan for our bank are the availability of collateral to pledge an obtained loan and positive credit history.
2. In your opinion, is it normal that banks work with enterprises that have not even had a short-term relationship with a bank (less than 6 months) and do you work with similar organizations yourself?

- We believe that this is a normal practice, which has the main advantage due to the high yield on loans. Our bank works quite often with companies that match your description, due to the fact that we try to make high profits by setting high interest rates.
3. Do you think that business needs strong support from the state now and does your bank take part in any state or municipal program to support small and medium-sized businesses?
 - Yes, we believe that SMEs need support from the state more than ever, the Russian economy often faces various trials, so you need to be ready for these trials. But unfortunately, we do not have much influence on the state bodies responsible for the introduction of programs to support small and medium-sized enterprises.
 4. Does your bank make a simplified form of the balance sheet of the prospective borrower, based on the elementary financial documents of the company and other information gathered through communication with SME distinct from official financial statements?
 - Yes, we try to work with simplified forms of a potential client's balance sheet based on information that we receive through personal interaction and not only based on official data. This practice allows us to screen out controversial companies for additional diversification of activities.
 5. What type of loan's risk reduction you prefer most?
 - We prefer such a credit risk reduction factor as realistic collateral.

Interviewee 7

1. Could you mention the importance different levels of factors that characterize the client you would grant a loan?
 - The most important factors in evaluating a company for issuing a loan for our bank are the availability of collateral to pledge an obtained loan and ability of SME to pay high interest rate.
2. In your opinion, is it normal that banks work with enterprises that have not even had a short-term relationship with a bank (less than 6 months) and do you work with similar organizations yourself?

- We believe that there is nothing wrong with working with young enterprises, especially if they are sufficiently promising in terms of sustainability and direction of activity. Our bank tries to often work with similar companies that match your description, as we are interested in additional markets for earnings and development.
3. Do you think that business needs strong support from the state now and does your bank take part in any state or municipal program to support small and medium-sized businesses?
 - Yes, we believe that SMEs need support from the state more than ever, the Russian economy often faces various trials, so you need to be ready for these trials. Our bank is trying to influence government agencies responsible for such business support programs.
 4. Does your bank make a simplified form of the balance sheet of the prospective borrower, based on the elementary financial documents of the company and other information gathered through communication with SME distinct from official financial statements?
 - Yes, we always try to draw up a simplified form of a potential client's balance sheet based on information that we receive through personal interaction and not just based on official data. This procedure, of course, takes a certain amount of resources such as time and money, but nevertheless it sorts out very risky companies.
 5. What type of loan's risk reduction you prefer most?
 - We prefer such a credit risk reduction factor as realistic collateral.

Interviewee 8

1. Could you mention the importance different levels of factors that characterize the client you would grant a loan?
 - The most important factors in evaluating a company for issuing a loan for our bank are the industry the borrower works in and ability of SME to pay high interest rate.
2. In your opinion, is it normal that banks work with enterprises that have not even had a short-term relationship with a bank (less than 6 months) and do you work with similar organizations yourself?

- We believe that there is nothing wrong with working with such companies, especially given the prospects for the development of new industries. Our bank tries to often work with such companies, as we try to keep up with the times and consider all companies, regardless of the duration of their work.
3. Do you think that business needs strong support from the state now and does your bank take part in any state or municipal program to support small and medium-sized businesses?
 - Yes, we believe that SMEs need support from the state more than ever, the Russian economy often faces various trials, so you need to be ready for these trials. Our bank is trying to influence government agencies responsible for such business support programs.
 4. Does your bank make a simplified form of the balance sheet of the prospective borrower, based on the elementary financial documents of the company and other information gathered through communication with SME distinct from official financial statements?
 - Yes, we try to work with simplified forms of a potential client's balance sheet based on information that we receive through personal interaction and not only based on official data. This practice allows us to screen out controversial companies for additional diversification of activities.
 5. What type of loan's risk reduction you prefer most?
 - We prefer such a credit risk reduction factor as state or municipal warranty.