St. Mary's University

School of Graduate Studies

Assessment of Credit Portfolio Risk Management of United Bank s.c

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Addis Ababa,Ethiopia

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DEDICATION

I dedicate this piece of work to my dear parents and the family for their financial and moral support in my studies, especially for my mother Ms. ZewdituMotbaynor. It is the achievement she has indeed worked for. Thank you and be rewarded abundantly.

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ACRONYMS AND ABBREVIATIONS

ACOCR/COCR…Ensuring Adequate Controls over Credit Risk

ACRE……………Establishing an Appropriate Credit risk environment

BCBS…………..Basel Committee on Banking Supervision

CAMM…………Maintaining an Appropriate Credit Administration, Measurement and monitoring process

CPM…………..Credit portfolio management

CRMP………..Credit risk management practice

DV……………Dependent variable

IV……………Independent variables

LPM…………Loan Portfolio Management

NBE………… National Bank of Ethiopia

SCGP…………Operating under a sound Credit granting process

UB……………United bank s.c

SPSS…………Statistical Package Software for Social Sciences

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ABSTRACT

Credit risk management has become an important topic for financial institutes, especially since the business sector of financial services is related to conditions of uncertainty. The management of Credit risk generally includes setting out authority and responsibility clearly, developing and applying appropriate Credit risk strategy, policy and procedures: proper understanding and identification of risk: sound Credit granting process: credit administration, monitoring and reporting process and finally Credit risk control along with determining the method and frequency of reviewing Credit policies and procedures (Basel Committee on Banking Supervision, 2006).Consequently, this research looks at the Credit Risk management practice of united bank s.c. The research objective is formulated in order to gain a better understanding of credit risk management practices of united banks.c. Quantitative research approach and descriptive research design is employed under the quantitative research design survey method is used. The data were collected by questionnaire survey method and the total population of those involved in credit and credit related activities were 126, but those who are convenient for the study were taken and 92 questionnaires were distributed, but only 69 of them, 75% were returned. From the survey result establishing appropriate credit risk environment is found to be very important for the well-being of the bank. In general, the mean value of the four credit risk management perspectives, it is found that there is a good/high and positive credit risk management practice with in united bank s.cHence, saying it is good on a measurement scale doesn't mean it's absolute, there are certain things that the respondents doesn't agree with, and I also believed to be corrected immediately. For instance the credit related information and processing activity of the bank should be further improved, otherwise they will increase the risk exposure of the bank.

KEY WORDS:

- **Credit, credit management, portfolio, risk, credit risk, united banks.c**

CHAPTER ONE

1.1. INTRODUCTION/BACKGROUND OF THE STUDY

Banks play an important function in the economy of any country. They are the main intermediaries between those with excess money and those individuals and businesses with viable projects but requiring money for their investment. Overall they have the functions of lending money, depositing others' money, transferring money locally or globally and working as paying agent (RanaAl-Mosharrafa, 2013).Hence, credit is the main source of generating income for the banking industry. If we look the income statement or the asset composition of many commercial banks, the greater sharecomes from credit activities, like wise for united bank.

However, this operation involves huge risks to both the lender and the borrower. This risk happens when a trading partner not fulfilling his or her obligation as per the contract on due date or anytime thereafter , which will be caused by the inability of the trading partner or lead by the improper credit management practice implemented by the bank's side. This indeed can greatly jeopardize the smooth functioning of any bank's business operation. Among the risk that face banks, credit risk is one of great concern to most bank authorities and banking regulators, including united bank s.c., because credit risk is that risk that can easily and most likely prompts bank failure(RanaAl-Mosharrafa, 2013).

Credit portfolio risk can be divided into three risks: default, exposure and recovery risks. As the extension of credit has always been at the core of United Bank's operations, itsfocus has also been emphasized on its credit portfolio risk management. Credit portfolio risk management incorporates decision making process; even before the credit decision is made; follow up of credit commitments including all monitoring and reporting process (Bessis, 2002).A bank's first defense against excessive credit portfolio risk is the initial -

credit-granting process, sound underwriting standards, an efficient, balanced approval process, and a competent lending staff. Because a bank cannot easily overcome borrowers with questionable capacity or character, these factors exert a strong influence on credit quality. Borrowers whose financial performance is poor or whose repayment ability is dependent upon unproven projections can quickly become impaired by personal or external economic stress.

According to (Bagchi, 2003) credit portfolio risk management involves establishing formal legitimate policies and procedures that will ensure that proper authorities grant credit, the credit goes to the right people, the credit is granted for the productive activities or for businesses which are economically and technically viable, the appropriate size of credit is granted, the credit is recoverable and there is adequate flow of management information within the organization to monitor the credit activity. After all, united bank also works in order to strengthen its performance and maximize its profit by minimizing the non performing onesto maintain a consistent and balanced growth in the long run through proper credit risk management practice.

Management of credit portfolio risk, however, must continue after a credit has been made, for sound initial credit decisions can be undermined by improper credit structuring or inadequate monitoring. Traditionally, banks have focused on oversight of individual loans in managing their overall credit portfolio risk. While this focus is important, banks should also view credit risk management in terms of portfolio segments and the entire portfolio. Effective management of the portfolio's credit risk requires that the board and management understand and control the bank's risk profile and its credit culture. To accomplish this, they must have a thorough knowledge of the portfolio's composition and its inherent risks. They must be sure that the policies, processes, and practices implemented to control the risks of individual credits and portfolio segments are sound and that lending personnel adhere to them, otherwise these will lead to credit defaults, further will affect the bank's performance.

Various empirical studies have been made by different scholars. For instance (Bagchi, 2003) examine credit risk management in banks. He examined risk identification, risk measurement, risk monitoring, and risk control and risk audit as basic considerations for credit risk management. He also concluded that proper credit risk architecture, policies and framework of credit risk management, credit rating system, monitoring and control contributes in success of credit risk management system and improving bank performance. Within financial institutions, the risks being taken by individual lines of business may have been well understood. However, how those risks were correlated, and their cumulative impact on the organizational risk profile, were not, that is the reason why portfolio concept is incorporated with in these discussion to remind, the bank's credit should be seen from this perspective.

Therefore, this study is conducted in order to identify the importance of credit portfolio risk management practice with in the credit operation of united bank s.c and tries to find out the existing practice for credit portfolio risk management that are being followed by the bank to minimize its credit risk exposure .

1.2. STATMENT OF THE PROBLEM

The Basel states that credit risk is one of the major financial risks that commercial banks face. It is described as the risk to have losses because counterparty is not capable to carry out its obligations according to the term of agreement. Sometimes losses occur even when the counterparty does not breach the contract, but there are certain signs showing increasing probability of borrower's insolvency (e.g. downgrade in credit ratings of the borrower). Credit risk is one of the key for the bank's failure to not properly manage it may lead to insolvency and bankruptcy of a Financial Institution (Basel, 2006).

Due to these and other reasons, Credit management has not only featured domination in the structure of banks but also critically important to the success of any bank. The success of financial institutions largely depend on the effectiveness of their credit management -

systems because these institutions generate most of their income from interest earned on loans extended to small and medium entrepreneurs credit facilities granted. However, the key to safe, liquid, healthy and profitable credit operations lies on the quality of credit risk management because, the very nature of the banking business is so sensitive, more than 85 percent of their liability is deposits from depositors (Saunders, Cornett, 2005).For instance, according to (Bagchi, 2003) risk identification, risk measurement, risk monitoring, and risk control and risk audit lies as the basic considerations for credit risk management.

It is evident that the present possibility for Ethiopian banks to diversify into broader range of services and products make life really cool and also very challenging at the same time by making deposit mobilization very difficult for a country with poor saving cultures like ours, for both banks which were already sustain with in the industry and new entrants.Most Ethiopian banks, including united bank s.c are diversifying/opening new branch across different regions in order to attract new customers and mobilize resources. But this diversification advantage is a once in a life time opportunity that should be consumed with some caution and prudence as this involves a great deal of risk (NBE). The risk of credit with in united bank's portfolio might come in association with the bank's tradition on its credit customers selection, evaluation of their potential to return the borrowed fund or utilize the provided credit facilities for its intended purpose and further must be assured the bank disburse enough amount of credit, or grant enough amount of facility, not less than or greater than its intended or proposed purpose by the applicants, the proper implementation of the bank's credit management policies and procedures and credit portfolio risk mitigation mechanisms are properly implemented and practiced even before the credit process begins and during and after. However, if all these credit management practices are not properly implemented, the risk of affecting the banks performance is going to be manifested in the form of default and other credit default related activities like allocation of provision for the credit amount defaulted .On the contrary prudent risk management practices reduce the volatility in banks' financial performance.

There is a need for united bank to adopt appropriate credit portfolio risk management techniques to minimize the possibility of creditrisksincethese risks leads to adverse effects such as the depositors losing their money, loss of confidence in the banking system, and performance instability (Kithinji, 2010).Therefore, the principal concern of this thesis is to assesswhetherunited bank implemented appropriate credit risk management for the well-being and healthy operation of the organization in order to strengthen and augmentits performance through proper credit risk management practices, because doing so is the very important nature of keeping banks safely operate in the banking industry.

1.3. BASIC RESEARCH QUESTIONS

- Have united bank established appropriate Credit portfolio risk environment?
- Do united bank has Sound Credit granting process?
- Have united bank maintained appropriate Credit administration, measurement and monitoring system?
- Did united bank ensure adequate control over credit portfolio risk?

1.4. OBJECTIVES OF THE STUDY

1.4.1 GENERAL OBJECTIVE

To identify and show how credit portfolio risk management is practicedby united bank s.cand its contribution in managingand minimizing the bank's potential credit portfolio risk and exposures.

1.4.2 SPECIFIC OBJECTIVES

- To identify the credit management elements that most influence credit risk management activity of united banks s.c
- To assess and evaluate the credit portfolio risk management practice of united bank s.c
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1.5. DEFINITION OF TERMS

NBE (National bank of Ethiopia): -It is the reserve or central bank of Ethiopia. According to proclamation No 591/2008 NBE establishment proclamation article 4 the purpose of the NBE is to maintain stable rate of price and exchange, to foster a healthy financial system and undertake other relative activities that are conducive to rapid economic development of Ethiopia. Its duties and responsibilities include giving license and supervise banks, insurers and other financial institutions (NBE directive, 2008).

Loan: - It is a type of debt. Like all debt instruments, a loan entails there distribution of financial assets over time between lender and the borrower (UB credit manual, 2012).

Borrower: -Is the one who borrows money from the lender (Bank)(UB credit manual, 2012).

Lending: -The provision of resources, by one party to another party where the second party doesn't reimburse the first party immediately, thereby generating a debt and instead arranges either to repay or return those resources a later date (UB credit manual, 2012).

Credit Risk: It is defined as changes in portfolio value due to the failure of counter parties to meet their obligations or due to changes in the markets perception of their ability to continue to do so.

Credit portfolio risk: According to (Agene, 2011), it is the deterioration in loan portfolio quality that results in loan losses and high delinquency management costs.

Bad Debt: it is created when a bank agrees to lend a sum ofassets to a debtor and granted with expected repayment; inmany cases, however the debtor is unable to repay the debt at the fixed period of time by a certain date.

The Basel Committee on Banking Supervision: is a committee of banking supervisory authorities that was established by the central bank governors of the Group of Ten countries in 1974. It provides a forum for regular cooperation on banking supervisory matters. Its objective is to enhance understanding of key supervisory issues and improve the quality of banking supervision worldwide.

The Committee also frames guidelines and standards in different areas - some of the better known among them are the international standards on capital adequacy, the Core Principles for Effective Banking Supervision and the Concordat on cross-border banking supervision.Committee is the primary global for the prudential regulation of banks and provides a forum for cooperation on banking supervisory matters. Its mandate is to strengthen the regulation, supervision and practices of banks worldwide with the purpose of enhancing financial stability.

1.6. SIGNIFICANCE OF THE STUDY

Credit has important function for commercial banks. Its contribution to asset is very high in the banking industry, for the management of creditportfoliorisk; a performance focused activity must be implemented because improper management of this resource by banks has negative impact on both united bank s.canditsborrowers in particular and on the growth of the country's economy in general.

Therefore, believing Success in credit portfolio risk management has a highly visibleimpact on the results of united bank s.c.the research intended to identify and show critical credit portfolio risk management practices of united bank s.c. because, improper practicing of credit risk management increase the bank's exposure toward unnecessary risks, minimize the chance of the bank's credit recovery and finally by increasing the default ratesit affects the bank'sperformance by creating volatility. Therefore, this research played a good roll in identifying andshowing those united bank's credit portfolio risk management practice which could increase the exposure of the bank's asset to unnecessary risks while due care should have been in place, which ultimately be expelled by affecting and deteriorating the banks performance.

1.7. SCOPE OF THE STUDY

This study covered united bank s.c. and its branches located in Addis Ababa. As it is been known banks face various risks, for instance liquidity, foreign exchange and so on. However, credit portfolio risk is the huge and the one which needs great attention.

So,the researchemphasized only on assessing the credit portfolio risk management of united bank.

1.8. ORGANIZATION OF THE PAPER

The research report consist the following chapters. Chapter one discussed about the study which includes a brief overview of the issue under study in its introduction section. This chapter also incorporates statement of the problem, research questions, objectives, scope and definition of terms and also significance of the study.

In chapter two exhaustive literatures is reviewed and presented briefly. This chapter also discussed important issues related to the study like; credit, credit management, major functions related with credit management activities, riskmanagement and other related topics.

Chapter three have research design, sampling and sampling technique, data collection techniques, data analysis methods and instrument used.

Chapter four presented research findings, discussion and results. Finally, the last chapter, chapter five discussed and summarizes the research results and based on these results conclusions and recommendations were given.

CHAPTER TWO

2. LITERATURE REVIEW

2.1 ORIENTATION

The financial environment of most economies consists of typically five components namely: money, financial instruments, financial institutions, rules and regulations and financial markets. Among the various financial institutions, banks are a fundamental component and the most active players in the financial system (Dhanabhakyam&Kavitha, 2012).

A Bank is a financial intermediary that channels funds from surplus units, the depositors, to the deficit units, the borrowers, in the process gaining from the spread of the different interest charged. By the scope of its functions, banks are the key to economic growth of any economy (Rashid, 2010). Further, banks are a fundamental component of the financial system, and are also active players in financial markets (Guisse, 2012). The essential role of a bank is to connect those who have capital (such as investors or depositors), with those who seek capital (such as individuals wanting a loan, or businesses wanting to grow).United bank s.c is also among the many well organized financial institution in our country,which were established in light of giving and fulfilling these services required under the rules and regulations established by the NBE.

Banks have control over a large part of the supply of money in circulation. Through their influence over the volume of bank money, they can influence in nature and character of production in any country (Brigham & Houston, 2011).

Banks are highly interdependent, according to(Kumbirai& Webb (2010), a single bank is highly connected with other banks for payment system and other functions of bank such that the failure of a single bank not only affects its shareholders and depositors rather it affects rest other banks and even all rest other business.

The failure of a single bank creates an economic turmoil situation and is regarded as a disaster for the economy. So, banks must have a high concern about the performance of all banks (Searle, 2008).Off all other banking operations credit is the biggest source of income and the biggest concern for the industry by acquiring high risk to the institutions. Therefore, the supervisory authority, which is NBEliein the middle of all these andtry to create smooth and efficient atmosphere for fund flow and payment system.Likewise banks should establish appropriate credit risk management infrastructure in order to accommodate these risks.

This research is therefore planned to guide united bank's supervisory authorities by implying their level of risk exposure and its contributing factors, which are also affecting its performance and assess the strength and weakness of the bank's portfolio credit risk management practices and indicate ways for the bank to takes necessary actions.

2.2. THEORETICAL FOUNDATIONS OF THE STUDY

2.2.1. CREDIT RISK

Credit risk is the current and prospective risk to earnings or capital arising from an obligor's failure to meet the terms of any contract with the bank or otherwise to perform as agreed. Credit risk is found in all activities in which success depends on counter party, issuers, or borrower performance. It arises any time bank funds are extended, committed, invested, or otherwise exposed through actual or implied contractual agreements, whether reflected on or off the balance sheet. Thus risk is determined by factor extraneous to the bank such as general unemployment levels, changing socio-economic conditions, debtors' attitudes and political issues. Credit risk according to Basel Committee of Banking Supervision (BCBS, 2006) and (Gostineau, 1992) is the possibility of losing the outstanding loan partially or totally, due to credit events (default risk). Credit events usually include events such as bankruptcy, failure to pay a due obligation, repudiation/moratorium or credit rating change and restructure.

Basel Committee on Banking Supervision (BCBS, 2006) defined credit risk as the potential that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms.

(Heffernan ,1996) observe that credit risk as the risk that an asset or a loan becomes irrecoverable in the case of outright default, or the risk of delay in the servicing of the loan. In either case, the present value of the asset declines, thereby undermining the solvency of a bank. Credit risk is critical since the default of a small number of important customers can generate large losses, which can lead to insolvency (Bessis, 2002).

(BCBS ,1999) observed that banks are increasingly facing credit risk (or counterparty risk) in various financial instruments other than loans, including acceptances, interbank transactions, trade financing foreign exchange transactions, financial futures, swaps, bonds, equities, options, and in the extension of commitments and guarantees, and the settlement of transaction. (Anthony, 1997) asserts that credit risk arises from non-performance by a borrower. It may arise from either an inability or an unwillingness to perform in the pre-committed contracted manner. (Brownbridge, 1998) claimed that the single biggest contributor to the bad loans of many of the failed local banks is insider lending. He further observed that the second major factor contributing to bank failure were the high interest rates charged to borrowers operating in the high-risk. The most profound impact of high non-performing loans in banks portfolio is reduction in the bank profitability especially when it comes to disposals. (BCBS, 1999) stated that lending involves a number of risks. In addition to risk related to the credit worthiness of the borrower, there are others including funding risk, interest rate risk, clearing risk and foreign exchange risk. (BCBS, 2006) observed that historical experience shows that concentration of credit risk in asset portfolios has been one of the major causes of bank distress. This is true both for individual institutions as well as banking systems at large. (Robert and Gary, 1994) states that the most obvious characteristics of failed banks were not poor operating efficiency only, however an increased volume of non-performing loans as well.

A high level of financial leverage is usually associated with high risk. This can easily be seen in a situation where adverse rumors, whether founded or precipitated financial panic and by extension a run on a bank. According to (Brownbridge, 1998) few banks are able to withstand a persistent run, even in the presence of a good lender of last resort. As depositors take out their funds, the bank hemorrhages and in the absence of liquidity support, the bank is forced eventually to close its doors. Thus, the risks faced by banks are endogenous, associated with the nature of banking business itself, whilst others are exogenous to the banking system. The role of bank remains central in financing economic activity and its effectiveness could exert positive impact on overall economy as a sound and profitable banking sector is better able to withstand negative shocks and contribute to the stability of the financial system (Athanasoglou et al, 2005).

Therefore, the determinants of bank performance have attracted the interest of academic research as well as of bank management. Studies dealing with internal determinants employ variables such as size, capital, credit risk management and expense management. The need for risk management in the banking sector is inherent in the nature of the banking business. Poor asset quality and low levels of liquidity are the two major causes of bank failures and represented as the key risk sources in terms of credit and liquidity risk and attracted great attention from researchers to examine the their impact on bank profitability. Credit risk is by far the most significant risk faced by banks and the success of their business depends on accurate measurement and efficient management of this risk to a greater extent than any other risk (Giesecke, 2004). Increases in credit risk will raise the marginal cost of debt and equity, which in turn increases the cost of funds for the bank (Basel Committee, 1999).

The Basel Committee on Banking Supervision (BCBS, 1999) asserts that loans are the largest and most obvious source of credit risk, while others are found on the various activities that the bank involved itself with. Therefore, it is a requirement for every bank worldwide to be aware of the need to identify measure, monitor and control credit risk while also determining how credit risks could be lowered. This means that a bank should -

hold adequate capital against these risks and that they are adequately compensated for risks incurred. This is stipulated in Basel II, which regulates banks about how much capital they need to put aside to guide against these types of financial and operational risks they face. In response to this, commercial banks have almost universally embarked upon an upgrading of their risk management and control systems. Also, it is in the realization of the consequence of deteriorating loan quality on profitability of the banking sector and the economy that this research work is motivated.

2.2.2. CREDIT RISK MANAGEMENT PRACTICES

(Greuning and Bratanovic , 2003) defined credit risk as the chance that a debtor or a financial instrument issuer will not be able to pay interest or repay the principal according to the terms specified in a credit agreement. It means that payments may be delayed or ultimately not paid at all, which may cause cash flow problems and affects banks liquidity. Credit risk is the most important area in risk management. More than 80 percent of all banks balance sheet relate to credit. All over the world exposure to credit risk has led to many banks failure. Credit risk exposure particularly to real estate led to widespread banking problems in Switzerland, Spain, The United Kingdom, Sweden, Japan and others. Here in Kenya, (Obiero, 2002) found that credit risk was only second to poor management in contributing to bank failures. On perception, (Brownbridge, 1998) found that credit risk was the most important area of risk management in Kenya.

Risk management means, increasing the likelihood of success, reducing the possibility of failure and limiting the uncertainty of all the overall financial performance. (Best, 2001) argued that the purpose of risk management is to prevent an institution from suffering unacceptable loss. He went on to explain that "unacceptable loss" is one which either causes an institution to fail or materially damages its corporate position. Banks must monitor the ever changing micro and macroeconomic environment to identify the risks therein and find ways of managing these risks. Developing economies in the world face -

more uncertainties that the developed counter parts. Banking business in developing world's therefore faces more risks. Failure to manage risks effectively in the respective banks leads to bank failures. One bank failure may have a contagion effect on the other banks leading to a systematic failure of the whole banking industry in a country or even a whole region as witnessed during the Asian Bank crisis (1997-1998). Kenya has had its share of bank failures. (Obiero, 2002) noted that in 1993 alone, 14 banks in Kenya collapsed. In recognition of the high risks involved in banking, the Central Bank of Kenya published risk Management guidelines for the purpose of providing guidance to all financial institutions on the minimum requirements for a risk management frame work and strategy. It has classified the risks facing financial institutions into nine classes namely: strategic risk, credit risk, liquidity risk, interest rate risk, price risk, foreign exchange rate risk, operational risk, reputation risk and regulatory risk. Banks can project the average level of credit losses it can reasonably expect to experience.

When united bank grants credit to its customers, it also incurs the risk of non-payment. Credit risk management refers to the systems, procedures and controls which the bank puts in place to ensure the efficient collection of customer payments and minimize the risk of non-payment.

Credit risk management forms a key part of united bank's overall risk management strategy, because, Weak credit risk management is a primary cause of many businesses Failures. Many small businesses have neither the resources nor the expertise to operate a sound Credit management system (Richardson, 2002).Therefore they put the general public's fund in to a jeopardy called delinquency,which is a loan in which the full payment not received as per the loan contract.For purposes of managing this problem, united bank s.c should categorize its credit in to different portfolio groups, based on their nature then a specific provision should be set for each category, and appropriate credit risk management infrastructure should be implemented.

2.2.3. CREDIT PORTFOLIO MANAGEMENT

Credit portfolio management (CPM) is the process by which risks that are inherent in the credit process are managed and controlled. Credit portfolios are the major asset of united bank s.c. The value of the credit portfolio depends not only on the interest rates earned on these credits but also on the likelihood that interest and principal will be paid (Jansson, 2002).united banks portfolio is categorized in to import, export, domestic trade, manufacturing and so on.Credit is the principal business activity for united bank s.c, the credit portfolio is typically the largest asset and the predominate source of revenue. As such, it is one of the greatest sources of risk to the bank's safety and soundness. Whether due to lax credit standards, poor portfolio risk management, or weakness in the economy, credit portfolio problems have historically been the major cause of losses and failures. Effective management of the credit portfolio and the credit function is fundamental to united bank's healthy operation. Because review of the CPM process is so important, it is a primary supervisory activity (Sinkey, 1992). Assessing LPM involves evaluating the steps the management takes to identify and control risk throughout the credit process. The assessment focuses on what management does to identify issues before they become problems. The identification and management of risk among groups of credits may be at least as important as the risk inherent in individual credits. For decades, good credit portfolio managers have concentrated most of their effort on prudently approving credits and carefully monitoring credit performance. Although these activities continue to be mainstays of credit portfolio management, analysis of credit problems, has made it clear that portfolio managers should do more. Traditional practices rely too much on trailing indicators of credit quality such as delinquency, nonaccrual, and risk rating trends. (Richardson 2002).

Effective credit portfolio management begins with oversight of the risk in individual credits. Prudent risk selection is vital to maintaining favorable credit quality. Therefore, the historical emphasis on controlling the quality of individual credit approvals and managing the performance of credits continues to be essential. But better technology and information systems have opened the door to better management methods. A portfolio manager can now obtain early indications of increasing risk by taking a more comprehensive view of the credit portfolio (Sinkey, 1992).

To manage their portfolios, bankers must understand not only the risk posed by each credit but also how the risks of individual loans and portfolios are interrelated. These interrelationships can multiply risk many times beyond what it would be if the risks were not related. Until recently, few banks used modern portfolio management concepts to control credit risk. Now, many banks view the credit portfolio in its segments and as a whole and consider the relationships among portfolio segments as well as among credits. These practices provide management with a more complete picture of the bank's credit risk profile and with more tools to analyze and control the risk. (Sinkey, 1992)

2.2.3.1. OBJECTIVES OF CREDIT PORTFOLIO MANAGEMENT

CPM's objectives ultimately boil down to improvements in risk/return profiles, but its direct targets can be broadly broken down into three categories as follows.

2.2.3.1.1. REDUCE CREDIT CONCENTRATION RISK

Reflecting various factors, including the financial institution's marketing policies, business base and lending practices, credit may well end up concentrated in certain areas, business sectors and/or individual companies. Some observers have pointed out that main bank system in Japan has been a factor in causing concentrations of credit with certain business partners. It has also been noted that regional financial institutions find it difficult to diversify their borrowers because their business bases are strong in certain areas and business sectors.

The experience since the collapse of the economic bubble in Japan clearly demonstrates that credit concentration risk has a major impact on financial institution management at times of stress, such as recessions. Reducing credit concentration risk is thus a vital issue for many financial institutions, and CPM can be seen as a potentially effective solution.

2.2.3.1.2. REDUCE CREDIT RISK

CPM is effective not only in reducing credit concentration risk as seen above, but also in ensuring that capital is adequate vis-à-vis credit risk. Even when current credit risk is judged not to be excessive, CPM can be broadly applied to adjusting the risk profile by taking steps to reduce credit risk as part of protective preparations againstpotential stress situations.

2.2.3.1.3. RISK/RETURN OPTIMIZATION

In cases where management is also conscious of the need to optimize shareholder value, CPM's direct objectives will be to reduce risk while improving returns as a means of improving the balance between the two. In this case, the primary aim is to ensure that the risk/return relationship is optimized at all times by dynamically replacing credits that bear a poor risk/return profile with credits that bear a better one, while monitoring risk-adjusted return indicators. This kind of enhanced intern-oriented CPM normally develops from risk-hedge-oriented CPM.

2.2.3.1.4. RISK IDENTIFICATION

Risk identification is vital for effective risk management, for united officials to manage risks facing them effectively they need to know how to identify the credit risks. The first step in risk identification is identifying and prioritizing key risks which are reviewed and approved by the management committee. There is also need to determine the degree of risk

the bank should tolerate and to conduct assessments for each risk of the potential negative impact if it is not controlled. Finally analyze the risk faced by the bank in the areas of interest rate risk, liquidity, credit, operations and strategic risks (Basel II, 2006).

2.2.3.1.5. RISK ANALYSIS AND ASSESSMENT

(Mwisho, 2001) A typical risk analysis process consists of two components; financial analysis (quantitative analysis) and qualitative analysis. Financial analysis consists of analysis of financial data available for the credit applicant; the analysis of annual financial statements has a central position in this context. Mostly financial analysis is carried out by credit analysts, there should be a general guideline stipulating that the analysis is confirmed by the person in charge of the organizational unit supplying the module for credit analysis when this module is handed over to the credit officer managing the exposure. (Eldelshain 2005)

2.2.3.1.6. CREDIT APPROVAL

Clear established processes of approving new creditors and extending the existing credits has been observed to be very important while managing credit risks. United bank must also have in place written guidelines on credit approval processes and approval authorities' .The board of directors should always monitor loans, approval authorities will cover new credit approvals, renewal of existing credit changes in terms and conditions of previously approved credits particularly credit restructuring which should be fully documented and recorded. Prudent credit practice requires that persons empowered with the credit approval authority should have customer relationship responsibility. Approval authorities of individuals should be commensurate to their positions within the management ranks as well as their expertise (Mwisho, 2001).

2.2.3.1.7. CREDIT RISK CONTROL AND MONITORING

The importance of monitoring risks is to make sure that they can be managed after identification. United bank play an increasingly important role in local financial economies where competition for customers and resources with Micro Finance Institutions and other commercial banks is high therefore it require effective and efficient risk control and monitoring systems.

The risk management feedback loop will involve the management and senior staff in the risk identification and must assess, process, as well as to create sound operational policies, procedures and systems. Implementation and designing of policies, procedures and systems will integrate line staff into the internal control processes, thus providing feedback on united bank's ability to manage risk without causing operational difficulties. The committee and the manager should receive and evaluate the results on an ongoing basis. Most risk management guidelines in united bank's manuals will be contained in the policy manuals eg the credit manual.

2.2.4. CREDIT RISK MANAGEMENT STRATEGIES

The credit risk management strategies are measures employed by banks to avoid or minimize the adverse effect of credit risk. A sound credit risk management framework is crucial for banks so as to enhance profitability guarantee survival. According to (Lindergren ,1987), the key principles in credit risk management process are sequenced as follows; establishment of a clear structure, allocation of responsibility, processes have to be prioritized and disciplined, responsibilities should be clearly communicated and accountability assigned. The strategies for hedging credit risk include but not limited to these;

Credit Derivatives: This provides banks with an approach which does not require them to adjust their loan portfolio. Credit derivatives provide banks with a new source of fee income and offer banks the opportunity to reduce their regulatory capital (Shao and Yeager, 2007). the commonest type of credit derivative is credit default swap whereby a seller agrees to shift the credit risk of a loan to the protection buyer. Credit encourages banks to lend more than they would, at lower rates, to riskier borrowers. Recent innovations in credit derivatives markets have improved lenders' abilities to transfer credit risk to other institutions while maintaining relationship with borrowers (Marsh, 2008).

Credit Securitization: It is the transfer of credit risk to a factor or insurance firm and this relieves the bank from monitoring the borrower and fear of the hazardous effect of classified assets. This approach insures the lending activity of banks. The growing popularity of credit risk securitization can be put down to the fact that banks typically use the instrument of securitization to diversify concentrated credit risk exposures and to explore an alternative source of funding by realizing regulatory arbitrage and liquidity improvements when selling securitization transactions (Michalak and Uhde,2009). A cash collateralized loan obligation is a form of securitization in which assets (bank loans) are removed from a bank's balance sheet and packaged (trenched) into marketable securities that are sold on to investors via a special purpose vehicle (SPV) (Marsh,2008).

Compliance to Basel Accord: The Basel Accord is international principles and regulations guiding the operations of banks to ensure soundness and stability. The Accord was introduced in 1988 in Switzerland. Compliance with the Accord means being able to identify, generate, track and report on risk-related data in an integrated manner, with full auditability and transparency and creates the opportunity to improve the risk management processes of banks. The New Basel Capital Accord places explicitly the onus on banks to adopt sound internal credit risk management practices to assess their capital adequacy requirements (Chen and Pan, 2012).

Adoption of a sound internal lending policy: The lending policy guides banks in disbursing loans to customers. Strict adherence to the lending policy is by far the cheapest - and easiest method of credit risk management. The lending policy should be in line with the overall bank strategy and the factors considered in designing a lending policy should include; the existing credit policy, industry norms, general economic conditions of the country and the prevailing economic climate (Kithinji,2010).

2.2.5. COMMON SOURCES OF MAJOR CREDIT PROBLEMS

Most major banking problems have been either explicitly or indirectly caused by weaknesses in credit management. In supervisors' experience, certain key problems tend to persist. Severe credit losses in a banking system usually reflect simultaneous problems in several areas, such as concentrations, failures of due diligence and inadequate monitoring (BCBS, 2006).

- Concentrations are probably the single most important cause of major credit problems. Credit concentrations are viewed as any exposure where the potential losses are large relative to the bank's capital, its total assets or, where adequate measures exist, the bank's overall risk level.

- Many credit problems reveal basic weaknesses in the credit granting and monitoring processes. While shortcomings in underwriting and management of market-related credit exposures represent important sources of losses at banks, many credit problems would have been avoided or mitigated by a strong internal credit process.

- Many banks find carrying out a thorough credit assessment (or basic due diligence) a substantial challenge. For traditional bank lending, competitive pressures and the growth of loan syndication techniques create time constraints that interfere with basic due diligence.

- Some credit problems arise from subjective decision-making by senior management of the bank. This includes extending credits to companies they own or with which they are affiliated, to personal friends, to persons with a reputation for financial acumen or to meet a personal agenda, such as cultivating special relationships with celebrity.
- Many banks that experienced asset quality problems also lacked an effective credit review process and indeed, many banks had no credit review function. Credit review at larger banks usually is a department made up of analysts, independent of

the lending officers, who make an independent assessment of the quality of a credit or a credit relationship based on documentation such as financial statements, credit analysis provided by the account officer and collateral appraisals. At smaller banks, this function may be more limited and performed by internal or external auditors. The purpose of credit review is to provide appropriate checks and balances to ensure that credits are made in accordance with bank policy and to provide an independent judgment of asset quality, uninfluenced by relationships with the borrower. Effective credit review not only helps to detect poorly underwritten credits, it also helps prevent weak credits from being granted, since credit officers are likely to be more diligent if they know their work will be subject to review.

- A common and very important problem among troubled banks in the early 1990s was their failure to monitor borrowers or collateral values. Many banks neglected to obtain periodic financial information from borrowers or real estate appraisals in order to evaluate the quality of loans on their books and the adequacy of collateral. As a result, many banks failed to recognize early signs that asset quality was deteriorating and missed opportunities to work with borrowers to stem their financial deterioration and to protect the bank's position. This lack of monitoring led to a costly process by senior management to determine the dimension and severity of the problem loans and resulted in large losses.

- In some cases, the failure to perform adequate due diligence and financial analysis and to monitor the borrower can result in a breakdown of controls to detect credit related fraud. For example, banks experiencing fraud-related losses have neglected to inspect collateral, such as goods in a warehouse or on a showroom floor, have not authenticated or valued financial assets presented as collateral, or have not required audited financial statements and carefully analyzed them. An effective credit review department and independent collateral appraisals are important protective measures, especially to ensure that credit officers and other insiders are not colluding with borrowers.

- In addition to shortcomings in due diligence and credit analysis, bank credit problems reflect other recurring problems in credit-granting decisions. Some banks analyze credits and decide on appropriate non-price credit terms, but do not use risk-sensitive pricing. Banks that lack a sound pricing methodology and the discipline to follow consistently such a methodology will tend to attract a disproportionate share of under-priced risks. These banks will be increasingly disadvantaged relative to banks that have superior pricing skills.

- Many banks have experienced credit losses because of the failure to use sufficient caution with certain leveraged credit arrangements. As noted above, credit extended to highly leveraged borrowers is likely to have large losses in default. Similarly, leveraged structures such as some buyout or debt restructuring strategies, or structures involving Customer-written options generally introduce concentrated credit risks into the bank's credit portfolio and should only be used with financially strong customers. Often, however, such structures are most appealing to weaker borrowers because the financing enables a substantial upside gain if all goes well, while the borrower's losses are limited to its net worth.

- Many banks' credit activities involve lending against non-financial assets. In such lending, many banks have failed to make an adequate assessment of the correlation between the financial condition of the borrower and the price changes and liquidity of the market for the collateral assets. Much asset-based business lending (i.e.

  commercial finance, equipment leasing, and factoring) and commercial real estate lending appear to involve a relatively high correlation between borrower creditworthiness and asset values. Since the borrower's income, the principal source of repayment is generally tied to the assets in question, deterioration in the borrower's income stream, if due to industry or regional economic problems may be accompanied by declines in asset values for the collateral. Some asset based consumer lending (i.e. home equity loans, auto financing) exhibits a similar, if weaker, relationship between the financial health of consumers and the markets for consumer assets.

- A related problem is that many banks do not take sufficient account of business cycle effects in lending. As income prospects and asset values rise in the ascending portion of the business cycle, credit analysis may incorporate overly optimistic assumptions. Effective stress testing which takes account of business or product cycle effects is one approach to incorporating into credit decisions a fuller understanding of a borrower's credit risk.

- More generally, many underwriting problems reflect the absence of a thoughtful consideration of downside scenarios. In addition to the business cycle, borrowers may be vulnerable to changes in risk factors such as specific commodity prices, shifts in the competitive landscape and the uncertainty of success in business strategy or management direction. Many lenders fail to "stress test" or analyze the credit using sufficiently adverse assumptions and thus fail to detect vulnerabilities.

2.2.6. PRINCIPLES OF SOUND CREDIT RISK MANAGEMENT

As a direction for the achievement of the required level of status and healthy credit operation by financial institutions, the Basel Committee on Banking Supervision in September 2006 formulated the following Principles.

- Establish an appropriate credit risk environment
- Operate under a sound credit granting process
- Maintaining an appropriate credit administration, measurement and monitoring process
- Ensuring adequate controls over credit risk

2.2.7. IMPORTANCE OF CREDIT POLICIES

A Credit Policy is not something that is only operated by the Credit and risk Department. All employees involved with customers, in any way, need to be aware of the credit policy and ensure that it is operated consistently.

In order to be effective, credit policies must be communicated throughout the organization, implemented through appropriate procedures, monitored and periodically revised to take into account changing internal and external circumstances. They should be applied, where appropriate, on a consolidated bank basis and at the level of individual affiliates. In addition, the policies should address equally the important functions of reviewing. Economic conditions and the firm's credit policies are the chief influences on the banks overall balance sheet. Economic conditions, of course, are largely beyond the control of the financial manager. As with other current assets, however, the management of united bank can vary the level of receivables in keeping with the tradeoff between profitability and risk. Lowering quality standards may stimulate demand, which, in turn, should lead to higher profitable receivables, as well as a greater risk of bad debt. The credit and collection policy of one firm are not independent of those of other firms. If product and capital markets are reasonably competitive, the credit and collection practices of one company will be influenced by what other companies are doing. Such practice related to the pricing of the product or service and must be viewed as part of the overall competitive process. The examination of certain policy variables implies that the competitive process is accounted for in the specification of the demand function as well as in the opportunity cost associated with taking on additional receivables. The policy variables include the quality of the trade accounts accepted; the length of the credit period, the cash discount, any special terms such as seasonal dating and the collection program of the firm. Together, these elements largely determine the average collection period and the proportion of bad debt losses, and finally the performance of the bank (Horne, 1995).

2.3. REVIEW OF RELATED EMPIRICAL LITERATURES

(Benedikt, Marsh, Vall and Wagner, 2006), examined credit riskmanagement policies for ten banks in the United States using a multivariate model and found that banks that adopt advanced Credit risk management technique experiences a permanent increase in their target loan level of around 50%. Partial adjustment to this target, however, means that the impact on actual loan levels is spread over several years. The findings confirm the general efficiency- enhancing implications of new risk management techniques in a world with frictions suggested in the theoretical literature.

The (Macaulay, 1988) investigated the adoption of credit risk management best practices in the United States and reported that over 90% of the banks in that country have adopted the best practices. Effective credit risk management has gained an increased focus in recent years, largely due to the fact that inadequate credit risk policies are still the main source of serious problems within the banking industry. The chief goal of an effective credit risk management policy must be to maximize a bank's risk adjusted rate of return by maintaining credit exposure within acceptable limits. Moreover, banks need to manage credit risk in the entire portfolio as well as the risk in individual credits transactions.

The bank of Jamaica conducted an empirical study on the implementation of credit risk management policies by commercial banks in that county. The study which involved all the 73 banks in that country found out that only 46% had implemented them in full. This was partly attributed to the poor way in which the regulations had been communicated. Credit policies establish the framework for lending and reflect an institution's credit culture and ethical standards, To be effective, policies must be communicated in a timely fashion, be implemented through all levels of the organization by appropriate procedures and revised periodically in light of changing circumstances. The foundation of an effective credit risk -

management program is the identification of the existing and potential risks inherent in an institution and the parameters under which credit risk is to be controlled. Pressures for increased profitability, marketing considerations and a vastly more complex financial environment have resulted in innovative credit instruments and approaches to credit. Measuring the risks attached to each credit activity permits the determination of aggregate exposures to counterparties for control and reporting purposes, concentration limits and risks/reward returns.

Privately owned banks are more likely to implement credit risk management polices than state owned banks. (Kuo and Enders, 2004) investigated credit risk management polices for state banks in china using a survey research design, The study found out that with the increasing opening of the financial market, the state owned commercial banks in china are faced with the unprecedented challenges. As the core of national finance and vital of national economy, the state owned commercial banks could not rival with foreign banks unless they make profound changes. And the reform of credit risk management is a major step that determines whether the state owned commercial banks in china would survive the challenges or not.

Research however faults some of the credit risk management policies in place. The European shadow Financial Regulatory Committee (ESFRC) (2007) researched on the impact of a basel (ii) accord by conducting a survey of 93 banks and presented findings that objected to the highly complex approach of the draft New Basel Capital Accord (Basel II). It considered in to the excessively focused on the regulation of risk management by individual banks. In addition, it also objected to the treatment of operational risk, the politically influenced issues around lending to the small and medium sized enterprises (SMEs), the insufficient consideration of the issue pro-cyclicality, and the reduced emphasis on the third pillar, i.e. market discipline. The study therefore recommended that European authorities apply the substance of the Basel II advanced approach only to very large internationally active banks. Remaining banks would have the opinion of a simplified standardized approach.

(Ben-Naceur and Omran, 2008) in attempt to examine the influence of banks regulations, concentration, financial and institutional development on commercial bank's margin and -profitability in Middle East and North Africa (MENA) countries from 1989-2005. To assess the impact of banking sector concentration, and institutional development on bank performance while controlling for bank-specific characteristics and the macroeconomic, institutional and financial environment in the MENA region to estimate the regressions, they first indicate how to measure the variables of interest: (1) bank performance indicators, (2) bank concentration, (3) bank-specific characteristics, (4) regulatory policies, (5) variables to control for cross-county differences in the macroeconomic environment and (6) financial structure and development indicators, and (7) indicators of institutional development. These variables are summarized in and were grouped under to main panels: Panel A which presents bank performance and specific variables, and Panel B presents economic and institutional control variables, combining cross-section and time-series data.

They found that bank capitalization and credit risk have positive and significant impact on bank's net interest margin, cost efficiency and profitability. (Ahmed, Takeda and Shawn, 1998) in their study found that loan loss provision has a significant positive influence on non-performing loans. Therefore, an increase in loan loss provision indicates an increase in credit risk and deterioration in the quality of loans consequently affecting bank performance adversely.

Owusu(2008) on credit practices in rural banks in Ghana found out that the appraisal of credit Applicantions did not adequately assess the inherent credit risk to guide the taking of appropriate Credit decision he also found out that the drafted credit policy documents of the two banks lacked basic credit management essentials like credit delivery process, credit portfolio mix, basis of pricing, management of problem loans among others to adequately make them robust. In his recommendations he stated that credit amount should be carefully assessed for identified projects in order to ensure adequate funding. This situation provides the required financial resources to nurture projects to fruition, thus forestalling diversion of funds to other purposes, which may not be economically viable.

Githingi(2010) surveyed on operating efficiency and credit portfolio indicators usage by financial institutions. The study applied data from both primary and secondary sources. -

Primary data was collected by use of a questionnaire. The questionnaire was administered through the "drop and pick later" method. The follow-up was done by emails, Short Message Service (SMS) and phone calls, on arrangements some questionnaires were personally administered to the respondents. The researcher also used secondary sources. The data for the banks was extracted from the banks' annual reports and financial statements for a ten year period 2000-2009. These were obtained from the NSE library, The respective banks' secretaries and the banks supervision department at the central bank of Kenya. Analyzing the data was made through descriptive measures.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

According to (Leedy and Ormrod, 2005) research methodology is a means to extract the meaning of data. Data and methodology are highly interdependent. Therefore, the methodology to be used for a particular research problem must always take into consideration about the nature of data that will be collected to resolve the research problem.

3.1 RESEARCH DESIGN

The purpose of this study is therefore to identify and show the united bank' credit management practice and assess which credit portfolio risk management activities is the most significant one in affecting the banks. As it can be seen from the research problem it is more descriptive type and tries to answer the credit management practice of united bank.

3.2 QUANTITATIVE RESEARCH APPROACH

This approach is used to answer question about relationships among measured variables with the purpose of explaining, predicting and controlling phenomenon. Quantitative studies represent the mainstream approach to research and structured guidelines exist. Variables, hypotheses and methods of measurement tend to be defined before the study begins and remain the same throughout.

Quantitative research approach has two strategies of inquiry. The first is survey design which provides a quantitative or numeric description of trends, attitude or opinion of a population by studying a sample of that population. From the sample the researcher generalizes about the population. The second type of design is experimental design used to test the effect of intervention on an outcome, controlling all other factors which may -

influence that outcome. In experiment design researcher may also identify a sample and generalize to a population (Creswell, 2003).The analysis is made based on deductive reasoning, beginning with certain theory or hypotheses and drawing logical conclusions from it. Formal, impersonal and scientific type of reporting is common. The weakness of this approach is, if the study is made in laboratory, the difficulty to generalize in the real world.

Considering the research problem and objective shown above along with the philosophy of the different research approaches, quantitative research approach is found to be appropriate for this study. Therefore, categorizing this research in quantitative research design is more appropriate. According to (Leedy and Ormord, 2005) survey research is a common method used in business. Therefore, from quantitative research strategies I used survey research method.

3.2.1. SURVEY

Survey research involves acquiring information about one or more group of people perhaps about their characteristics, opinions, attitudes, or previous experiences by asking them questions and tabulating their answers. The ultimate goal is to learn about a large population by surveying a sample of that population (Leedy and Ormord, 2005).
Survey design is used because of budget and time constraint. The data collection includes questionnaires.

3.3. SAMPLE AND SAMPLING TECHNIQUES

3.3.1. SUBJECTS OF THE STUDY

The target population was united bank s.c. Because of time and budget constraint, the sample was restricted only with branches located at Addis Ababa and head office only and loan officer, branch managers, loan clerks, department managers and analysts were the main target.

3.3.2. SAMPLE SIZE

The total population related with this activity is 126 (HRM department united bank s.c), which is the total population working on credit related jobs , employees working for the bank as loan officers, branch managers and department managers and analysts. But for the sake of convenience, 92 employees were selected, excluding those who are remotely located and newly established, only by taking those who are readily available and convenient for the research. The questionnaire was delivered through internal communication system called IP to all target participants.

3.3.3. SELECTION TECHNIQUE

The most appropriate type of sampling design for this research is found to be a non-probability purposive sampling method. Purposive sampling where the researcher selects the sample on his particular purpose for instance the researcher may choose people who represent diverse perspective and knowledge on the issue (Leedy and Ormrod, 2005). Purposive sampling was used when sample members are chosen with specific purpose or objective in mind. In this study purposive sampling method was used because, only few people are concerned and know about the effect of this problem on the performance of the bank and may be those who are experts or managers on top of the hierarchy, but not all employees and officials.

3.3.4. INSTRUMENT DESIGN AND DATA COLLECTION METHOD

Primary data werealso used in the study. The data was collected using questionnaire. it was developed as a a structured questionnaire based on the Basel's Credit risk managementprinciples of 2006,32 closed ended questions with five Likert scale level of agreement aredeveloped on five aspects of Credit risk management activities:

- Establishing an appropriate Credit risk environment;
- Operating under a sound Credit granting process;

- Maintaining an appropriate Credit administration, measurement and monitoring process; and
- Ensuring adequate Controls over credit risk and
- Credit risk management practice.

The questionnaires was also distributed using an internal internet protocol called IP used for communication by united bank staffs across branches to the participants and follow-up was made to provide or receive feedback and clarifications. Covering letter was also available at the front page of the questionnaire which could describe the real purpose of the research.

3.4. ETHICAL ISSUES

Due consideration will be given to obtain consent from each participant about their participation in the study. It will be voluntary. I highly respected the participant right and privacy and also gave full acknowledgement to all the reference materials I used for the study.

3.5. PROCEDURES OF DATA COLLECTION

The closed-ended questions provided more structured responses to facilitate tangible recommendations. The closed ended questions were used to test the rating of various attributes and this helps me in reducing the number of related responses in order to obtain more varied responses. The questionnaire was carefully designed and tested with a few members of the population for further improvements. This was done in order to enhance its validity and accuracy of data collected for the study. The researcher administered the questionnaire individually to all respondents of the study.

3.6. METHODS OF DATA ANALYSIS

Before processing the responses, the completed questionnaires were edited for completeness and consistency. The data was coded to enable the responses to be grouped -

into various categories. Descriptive statistics were used to analyze the data. Descriptive statistics include the frequencies, mean and standard deviation. Reliabilityanalysis wasalso conducted through SPSS software version 20.

The survey questionnaires were designed and distributed to gauge the current level of risk management practices in united bank s.c. For the purpose of this study, each variable to measure the practice through a likert 5 point scale is given a score for its risk management practices, which is then compared with the mean score for each category of the practice. These practices are being categorized into four types: as establishing appropriate risk environment, risk measurement and monitoring process, risk control and credit granting process.

I found out that the following variables and regression model might explain the relation and the nature of the credit risk management practice of united bank. By categorizing the variables the researcher tried to show the culture of credit portfolio risk management at united bank.

CHAPTER FOUR

4. DISCUSSION AND RESULTS

INTRODUCTION

The previous chapters presented the orientation of the study, theoretical and empirical foundations, literatures were also reviewed to grasp different aspects of previously done researches and scholarly opinions about the subject matter under study and the research methods adopted in the study were also discussed briefly on how relate research problem gathered and analyzed. This chapter presents the results. As discussed in the preceding chapter in this study aimed at examining the credit management practice of united bank standing on the surveyed data and response gained from the respondents.

The questionnaire was distributed to 92 employees, whose positions related to bank lending. Out of 92 questionnaires 69, were completed and collected. As the result the response rate is found to be75%. According to different researchers, researcher or survey organization differ considerably in the extent to which they devote time and money to improve response rate. Thus, there is no agreed-upon standard for a minimum acceptable response rate.

4.1.RELIABILITY MEASURE AND RESPONDENTS PROFILE

Cronbach's alpha was employed to test the consistency and reliability of the questionnaire. CRMP, ACRE, SCGP, CAMM and ACOCR had high reliabilities, all Cronbach'salpha=0.817. Cronbach'salphavalueof .7 is acceptable and ensures the reliability of items while other research's suggested that Cronbach'salpha value of above 8 is preferably to be considered reliable. Therefore the result of total items together and also each clustered items were reliable enough for further statistics and the items are highly consistent.

4.2.1 RELIABILITY TEST

Table 4.1Cronbach's Alpha Reliability test.

Cronbach's Alpha	N of Items
.817	4

Source: Researcher Findings and own computation

4.1.2 GENDER OF THE RESPONDENTS

The table below presents the profile of the respondents in the study. As shown in Table 1, 66.7 % of the respondents are male and 33.3% are female. Though the number of males dominates in united banks credit related activities, it has no any implication ,it was just happened because .during recruitment examination, males have fortunately passed the entrance exams, not intentionally done to discriminate females.

Table 4.2 Gender of the respondents.

		Frequency	Percent	Valid Percent	Cumulative Percent
	Male	46	66.7	66.7	66.7
	Female	23	33.3	33.3	100.0
	Total	69	100.0	100.0	

Source: Researcher Findings and own computation

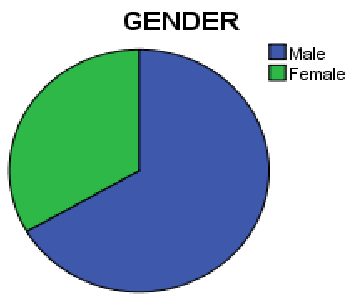

Figure 4.1 percentage compositions of respondents Gender.

4.1.3 QUALIFICATION OF THE RESPONDENTS

Most of the respondents are degree holders, almost 92.8% of them are degree holders and about 7.2% have above BA degree. From the respondents profile we can observe, united bank has the minimum educational qualification for credit related activities, which is bachelors' degree. Because it involves intensive financial and customer profile analysis.

Table 4.3 Educational Qualifications of the respondents.

		Frequency	Percent	Valid Percent	Cumulative Percent
	BA Degree	64	92.8	92.8	92.8
	Above Degree	5	7.2	7.2	100.0
	Total	69	100.0	100.0	

Source: Researcher Findings and own computation

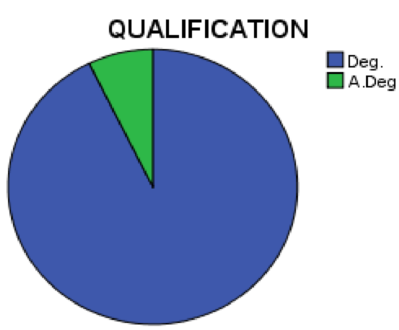

Figure 4.2 percentage composition of the respondent's educational qualification.

4.1.4 WORKING POSITION OF THE RESPONDENTS

When we see their positions in bank the large group or 59.4 percent of respondents were bank loan officers. The second largest numbers about 20 percent of respondents were managers for about 26.1 percent, the rest 7.2 percent are analysts and likewise 7.2 percent are loan clerks. All these respondents are actively participate in united banks credit management activities, and know well the pros and cons of the credit management activity. They involve somehow either in the formulation or implementation of the credit management. Therefore, incorporating all these parties in order to find the credit management practice of united bank is found very crucial, that why I participate all in the survey to find their opinion.

Table 4.4 Work positions of the respondents with in united bank s.c

		Frequency	Percent	Valid Percent	Cumulative Percent
	Credit Analyst	5	7.2	7.2	7.2
	Loan Clerk	5	7.2	7.2	14.5
	Loan Officer	41	59.4	59.4	73.9
	Manager	18	26.1	26.1	100.0
	Total	69	100.0	100.0	

Source: Researcher Findings and own computation

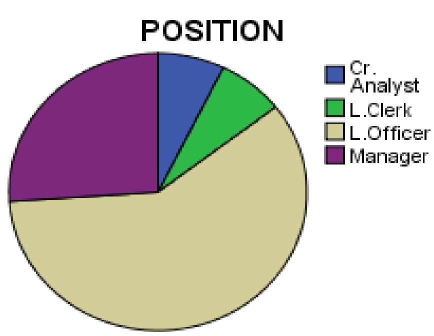

Figure 4.3 percentage compositions of work positions of the respondents with in united bank

With respect to experience, 44.9 percent of survey respondents indicated that they had between3-5 years of banking experience. The second larger number of respondents, 39.1 %,

had banking experience above 5 years. About13 percent of respondents indicated that they have in between 1-2 years of banking experience and only 2.9 percent of the respondents have bellow 1 year experience. From the respondents profile we can observe that most of the respondents have medium and very high credit related experience and their experience is very viable for me to find their honest and rich expertise and opinion in their response. It will make the final output very concrete and reliable.

4.1.5 WORK EXPERIENCE OF THE RESPONDENTS

Table 4.5 Respondents work experience with in united bank s.c

	Frequency	Percent	Valid Percent	Cumulative Percent
Less than 1 Year	2	2.9	2.9	2.9
1-2 Years	9	13.0	13.0	15.9
3-5 Years	31	44.9	44.9	60.9
Above 5 Years	27	39.1	39.1	100.0
Total	69	100.0	100.0	

Source: Researcher Findings and own computation

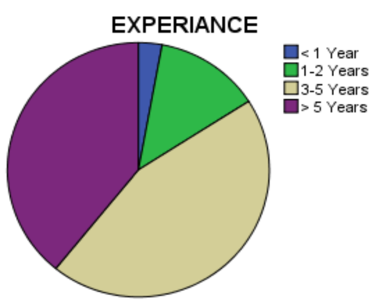

Figure 4.4 percentage composition of respondents work experience with in united bank s.c

4.2. CREDIT PORTFOLIO RISK MANAGEMENT PRACTICE OF UNITED BANK S.C

The detailed discussion of the respondents regarding united banks credit management practice has been discussed below.

4.2.1ESTABLISHING APPROPRIATE CREDIT RISK ENVIRONMENT

Eight items were included in the questionnaire to address the issue of establishing appropriate Credit risk environment. The table below shows the descending orders of 8items in terms of mean value. Mean value of eight questions range from 3.94 to 4.49 which represent apositive and good response on measurement scale. The lowest mean value is 3.94 for question number three and Followed by mean value of 4.09 for question number eight which are also less than grand mean value of 4.23,but on a measurement scale both are a good and high responses. This indicates that top management of the bank did not closely monitor credit risk implementation. And also the respondents answer with a mean value of 4.09 for question number eight showing that there is gap in understanding the banks credit risk policies and procedures across the bank.Understanding credit risk strategy, policy and procedures as well as identifying risks are the cornerstone forCredit risk management process. Lack of Common understanding on Credit risk strategy, policies and procedures across the bank may cause inconsistent interpretation and application of Credit policy and procedures across the bank and finally lead to lack of common code of conducting Credit risk management activities among staff and staff also get difficulties to ward identifying Credit risk inherent in all product and activities of the bank. However, for question number one the respondents strongly agree on a very good scale that the united bank regularly review the banks credit related policies and procedures which is a good implication that the bank update itself with the environment in order to cop up and even lead the environment with new and up-to-date credit risk mitigation rules and procedures.

Generally, the grand mean value is 4.23 which represent a very good positive response on measurement scale.Cumulative frequency scale of 4 and 5 of eight items also ranges from 51 to 68. therefore, we can conclude that the majority of the participants gave a very good and positive response on the establishment of appropriate Credit risk environment in united bank s.c.Question number two has the highest standard deviation of 0.806 which means that there is more average deviation between individual score and its mean while the second question has lowest standard deviation of 0.514 which indicates the respondent's score is near to more or less average deviation between observed values and the mean score.

Table 4.6 Frequency, mean and standard deviation for Credit risk environment

Establishing Appropriate Credit risk environment	**SD**	**D**	**N**	**A**	**SA**	**Mean**	**Standard Devia-tion**
The Bank's Credit risk strategies, policies and Procedures are regularly reviewed	-	1	-	32	36	4.49	0.585
Senior managements are responsible for Implementing credit risk strategy approved by the board and for developing credit policies and procedures.	-	2	9	25	33	4.29	0.806
Senior Managers closely monitor the major Credit Risk exposure of the Bank.	-	1	17	36	15	3.94	0.725
Credit Risk management strategy, Policies and Procedures are consistently applied in all Credit product and activities	-	3	2	40	24	4.23	0.710
The banks' staffs take the necessary precaution against default risk.	-	-	1	42	26	4.36	0.514
Authority and Responsibility of Risk Management are clearly set out and understood throughout the bank.	-	-	16	29	24	4.12	0.758

There is proper identification of Credit Risk inherent in all products and activities of the Bank	-	-	8	33	28	4.29	0.666
There is common understanding about Credit Risk Management Strategy, Policy and Procedures across the Bank.	-	1	14	32	22	4.09	0.762
Grand Mean	**4.23**						

Source: Survey outcomes and own computation

4.2.2 OPERATING UNDER A SOUND CREDIT GRANTING PROCESS

Operating under a Sound Credit granting process is the basis for an effective Credit risk management process under which feasible and creditworthy client is identified. The table below indicates the descending order of eight questions in terms of mean value. Mean value of eight questions range from 4.06 to 4.28. The lowest mean value is 4.06 of question number eight and Followed by mean value of 4.07 for question number 6, which are also less than grand mean value of 4.16, represent in a good, high and positive level of response on measurement scale. This indicates that united bank should further enhance Credit limit system, level of Credit diversification and obtaining sufficient and up-to-date macroeconomic and borrower data relatively. Lending business without gathering the necessary information is just like putting money on fire.

The mean value of the first question is 4.26 which represent strong level of a very good and positive response on measurement ofscale and relatively indicates that bank's risk management staffs have high awareness and positive perception on portfolio diversification. The mean value of second, third, fourth and fifth question are 4.28, 4.19, 4.13 and 5.14 which represent strong positive response on the level of measurement scale. The grand mean value is 4.17 which also represent good/high and positive response on measurement scale. Overall, these results indicate that united bank s.c.is operating under sound and good Credit granting process.

Table 4.7 Frequency, mean and standard deviation for Credit granting process							
Operating under a Sound Credit granting process	**SD**	**D**	**N**	**A**	**SA**	**Mean**	**Standard Deviation**
It is too risky to invest the bank's funds in one specific sector of the economy.	-	3	8	26	32	4.26	0.834
Adequacy, marketability and enforceability of collateral requirement is properly evaluated and measured by professional personnel or expertise.	-	2	8	28	31	4.28	0.784
The Bank conducts comprehensive Credit worthiness analysis properly before granting loan.	-	1	9	35	24	4.19	0.713
The Bank uses well defined Credit-granting Criteria for assessing credibility of each loan applicants.	-		10	40	19	4.13	0.640
The bank critically follows Sound Credit granting process for approving new credits as well as amending, renewing and re-financing existing credits.	-	3	5	38	23	4.17	0.747
The bank has established comprehensive Credit limit for the main categories of risk factors in all types of credit facilities.	-	2	15	28	24	4.07	0.828
The Bank optimally diversifies its credit exposure to different economic sectors and geographical area.	-	2	12	30	25	4.13	0.803
The Bank undertakes Credit granting process based on a reliable and substantial amount of date related to macroeconomic and borrower specific factors.	-	2	13	33	21	4.06	0.784
Grand Mean	**4.16**						

Source: Survey outcomes and own computation

4.2.3 MAINTAINING AN APPROPRIATE CREDIT ADMINISTRATION, MEASUREMENT AND MONITORING PROCESS

Proper administration of Credit documentation as well as monitoring the status of borrowers, loan term and conditions and collateral coverage periodically as well as keeping Credit file up to date and repayments continuously are the basic post Credit approval activities of Credit risk management process that help to discover mistake at early stage while management information system and internal risk rating are the main ingredient for monitoring, reporting and controlling risks.

The first, second, third and fourth statements with the high mean value of 4.39, 4.33, 4.23 and 4.23 again, which are also greater than grand mean value of 4.23, represent a very good and positive response on measurement of scale. Therefore, Majority of respondents confirmed that unite bank is monitoring loan term and conditions strictly; reviewing and monitoring credit quality; updating credit file and applying internal risk rating system properly and regularly reviews and monitors the performance of Credit quality at individual and portfolio level. These results show that united bank strictly monitors loan terms and conditions that have been stipulated at the time of loan approval.

The lowest mean score is 4.09 of question number 8 and Followed by a mean value of 4.1 and 4.13 and 4.14 of question number 3, 4 and 7, which are also less than grand mean value of 4.21, represent a good/high and positive level of response on measurement scale. Hence, establishing effective management information system, Communication and reporting risk related data and quantifying credit risk both at individual and portfolio level are some issues that require great attention of top management and regulatory bodies respectively. Average grand mean value of eight statements is 4.21 which represent a good/high and positive level ofresponse on measurement of scale. Generally, it indicates that appropriate Credit administration, Measurement and Monitoring process are maintained in line with guideline of NBE and Basel principles for credit risk management.

Source: Survey outcomes and own computation

Table 4.8 Frequency, mean and standard deviation for Credit administration, Measurement and monitoring process

Maintaining an appropriate Credit administration, Measurement and Monitoring process	**SD**	**D**	**N**	**A**	**SA**	**Mean**	**Standard Deviation**
The bank strictly monitors loan terms and conditions that have been stipulated at the time of loan approval.	-	1	3	33	32	4.39	0.647
The bank regularly reviews and monitors the performance of Credit quality at individual and portfolio level.	-	2	6	28	33	4.33	0.761
There is a complete, neatly organized and regularly updated credit file in our bank.	-	1	13	33	22	4.1	0.750
The bank has developed its own internal risk rating system and applying in credit risk management process effectively.	-	3	5	40	21	4.14	0.733
There is effective Credit monitoring system and procedures.	-	3	2	40	24	4.23	0.710
The banks quantify its credit risk at individual and portfolio level.	-	1	10	30	28	4.23	0.750
There is effective system and practice of reporting and communicating risk data/ information among relevant staffs of the bank.	-	-	16	28	25	4.13	0.765
The bank's Credit risk management system and practice has been integrated with appropriate Management Information Systems.	-	1	13	34	21	4.09	0.742
Grand Mean	**4.21**						

4.2.4 ADEQUATE CONTROL OVER CREDIT RISK

Eight items were included in the questionnaire to address the issue of ensuring adequate control over Credit risk. The table below shows descending orders of 8 items in terms of their mean value. Mean value of eight questions range from3.97 to 4.36. The lowest mean score is 3.97 is for of question number six and Followed by mean value of 4.1and 4.19 of question number 7 and 1, less than grand mean value of 4.17, which represent good/high positive response on measurement scale. This indicate that the bank should establish appropriate policies, procedures and techniques for improving loan repayment and handling troubled loans and also adequate control over credit risk are some issues that need attention of top level managements. The mean value of first, second, third and fourth question is 4.19, 4.22, 4.22 and again 4.22 which represent good/high positive level of response on measurement scale.

This indicates that the majority of participants have positive perception and strong beliefs toward riskmanagement documents toward controlling credit risk by taking Appropriate and timely policy measures. Generally, Grand mean value is 4.17 which represent a good/high and positive level of response on measurement scale and it indicates that the majority of respondents confirmed as united bank s.c have ensured adequate control over Credit risk by developing appropriate loan repayment strategy, policies and procedures and resolving loan recovery problem properly with committed top level management as well as with staffs having positive perception and strong beliefs toward Credit policies and procedures.

Table 4.9 Frequency, mean and standard deviation for Credit risk control							
Maintaining an appropriate Credit risk control	**SD**	**D**	**N**	**A**	**SA**	**Mean**	**Standard Deviation**
The bank has appropriate policy, procedures and techniques for improving loan repayment and handling troubled loan.	-	3	9	29	28	4.19	0.827
Credit loss, Loan concentration, large exposure and level of NPL can be reduced if banks' Credit policy, Procedure and Techniques are implemented properly.	-	2	9	30	28	4.22	0.783
The bank's top managements have strong commitment toward controlling default risk	-	1	9	33	26	4.22	0.725
Appropriate and timely policy measures have been taken for resolving loan recovery problem	-	4	4	34	27	4.22	0.802
The Bank keeps its Actual risk profile at or below its risk tolerance	-		3	38	28	4.36	0.568
There is an appropriate level of Control over Credit Risk the bank faces.	-	1	16	36	16	3.97	0.727
The Bank carry out regular independent internal Credit quality reviews accurately.	-	-	14	34	21	4.10	0.710
There is an early identification of Credit default sign with immediate corrective action.		2	13	29	25	4.12	0.814
Grand Mean	**4.17**						

Source: Survey outcomes and own computation

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMENDATIONS

5.1 SUMMARY OF FINDINGS

Table 4.10Measurement standard(Best,1977)		**Table 4.11 Descriptive Statistics Result of the Four Dimensions**			
1-1.8	lowest		**Mean**	**Std. Deviation**	**N**
1.81-2.61	lower	Credit management practice of united bank s.c (CRMP)	4.23	.336	69
2.62-3.41	average	Establishing Appropriate Credit risk environment(ACRE)	4.23	.375	69
3.42-4.21	Good/high	Operating under a Sound Credit granting process(SCGP)	4.16	.327	69
4.22-5	Very good	Maintaining an appropriate Credit administration, Measurement and Monitoring process(CAMM)	4.21	.316	69
1-1.8	lowest	Maintaining an appropriate Credit risk control(ACOCR)	4.17	.347	69

Source: Survey outcomes and own computation

Generally the study reported here is conducted to find out the level of Credit risk management practiceand generally, the levels of awareness and perception of credit staffs of united bank s.con five Likert scale and its frequency distribution of scale on each component are displayed above. Average grand mean value of all items is 4.19 which indicate that the majority of respondents gave positive score on the level of agreement scale of32 questions regarding the level of united banks credit management. It indicates that the majority of respondents gave a good/high and positive score on the level of agreement scale of 32 questions. The dominance of positive response, the frequencies scale of 4 and 5, has been clearly observed from frequency table. The frequency of 4 and 5 are totally occupied almost 99.1 % over total frequency.

Off all the variables majority of the respondents believed united bank have a very good credit risk environment with a mean of 4.23 on a measurement scale, The Bank's Credit risk strategies, policies and Procedures are regularly reviewed and the one who is working on credit related activities take the necessary precautions in order to minimize the default rate. But the respondents believe the top level management don't make the desired follow up weather the banks credit risk management infrastructure is properly implemented or not. Following the risk environment maintaining an appropriate Credit administration, Measurement and Monitoring processacquire a grand mean value of 4.21 on a measurement scale, which is good and positive, the bank regularly reviews and monitors the performance of Credit quality at individual and portfolio level and also strictly monitors loan terms and conditions that have been stipulated at the time of loan approval.

The respondents also believed united bank has a good credit controlling practice, with a good mean value of 4.17 on a measurement scale. Hence Credit loss, Loan concentration, large exposure and level of nonperforming loans can be reduced at a higher level if united bank Credit policy, Procedure and techniques are implemented properly. United bank has also diversified its risk with in a portfolio believing concentrating its asset in one sector would bring and attract greater risk and also in order to mitigate the risk adequacy, marketability and enforceability of collateral requirement is properly evaluated and measured by professional personnel or expertise.

Overall, these results indicate that united bank s.c is undertaking its Credit risk management function by establishing appropriate Credit risk environment, with sound Credit granting process, Credit administration and monitoring system and adequate control over credit risk.

5.2CONCLUSION

Like any other segment of the economic policy, credit isvery important for any financial institution as it generatesprofit and gear up economic activities of the country. Inother word, credit is a business entity and it is input in theproduction process of the country. Since credit has anInherent risk, therefore proper utilization of the loans isessential to meet the requirements of the borrower. Theloan applied for by the borrower must not be employed for unproductive purpose. In this regard, the bank must closelyfollow the progress of the loan and the way the borrower isutilizing the funds. In the assessment processes the bankwill determine any fraudulent activities on the part of theborrower. The bank always trying to improve their creditpolicy for minimizing loss and maximizing profit andvarious measures are undertaken to develop the creditmanagement system.

Descriptive analysis ascertain as there is somewhat a good and appropriate Credit risk environment and maintainedappropriate Credit administration, Measurement and Monitoring process in united bank s.c. while it is operating under sound Credit granting process and ensuring adequate control over Credit risk.

In general from the research outcomes we can see that improving the credit risk management practice of the bank, improving the quality of credit granting process, establishing appropriate credit risk environment, recruiting adequate and qualifies credit and credit risk management staffs and experts, putting a well-documented credit management strategy, policy and procedure, conducting a comprehensive credit worthiness analysis during credit offering might have a significant effect, positive effect on united bank's performance.

5.3 LIMITATIONS OF THE STUDY

The study faces limitations. Obtaining data from the bank was a great challenge and the management in some branches was not cooperative, luckily the researcher managed to obtain the data.

The study faces challenges of times resources limiting the study from collecting information for the study particularly where the respondents delay in filling the questionnaire and travelling for collection the filled questionnaire.

The study faces various limitations. The respondents were found to be uncooperative because of the sensitivity of the information required for the study. The researcher overcome this by explaining to the respondents that that the information they provided was to be held confidential and was only for academic purpose only.

5.4 RECOMENDATIONS

In developing its credit administration areas and improving its performance united bank should ensure:

- The efficiency and effectiveness of credit administration operations, including Monitoring documentation, contractual requirements, legal covenants, collateral.
- The accuracy and timeliness of information provided to management.
- The adequacy of controls over all back office procedures andCompliance with prescribed management policies and procedures as well as applicable laws and regulations.
- It should develop and utilize internal risk rating systems in managing credit risk. The rating system should be consistent with the nature, size and complexity of the bank's activities.
- It must strengthen its information systems and analytical techniques that enable management to measure the credit risk inherent in all on- and off-balance sheet activities. The management information system should provide adequate information on the composition of the credit portfolio, including identification of any concentrations of risk.
- The bank must have in place a system for monitoring the overall composition and quality of the credit portfolio.
- The management of the bank should review theirsystems, policies, processes and product prices in linewith the changing market reality.
- In order to reduce the classified loans and advances united bank should be more cautious regarding preparingcredit proposal, approval, disbursement, and monitoringand documentation formalities for a loan.
- United Bank should make proper and exhaustivedocumentation before disbursement and to ensureproper supervision, monitoring and follow up of each credit.

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ANNEX

QUESTIONNAIRE

Questionnaire

My name is YohannesTaweke and I am currently working with the research component of the Master's Degree in business Administration (MBA) at the University of St.Mary's.

The purpose of my study is to assess and show united bank's credit risk management practice. To this end, the study intends to gather information from selected managers, analysts, loan officers, experts, branch managers etc. through a self-administered questionnaire. The participation is fully voluntary and responses will be confidential. The result will be also reported without showing the identity of respondents.

The questionnaire takes about 15-20 minutes to complete. I would appreciate your positive consideration in completing the enclosed questionnaire and assisting me in my research effort. If you have any questions please call 0911-812235 or email johnnyzmmys@yahoo.com.

Thank you in advance.

YohannesTaweke

A.SECTION ONE

GENERAL QUESTIONS

1. Gender

Male ☐

Female ☐

2. Educational background

Bellow diploma ☐

Diploma ☐

Degree ☐

Above Degree ☐

3. How many years of experience do you have working with bank and the area credit operation?

Less than 1 year ☐

1-2 years ☐

3-5 years ☐

More than five years ☐

4. In what position you are working in the banking industry?

Expert ☐

Credit Analyst ☐

Loan Clerk ☐

Loan Officer ☐

Manager ☐

B. SECTION TWO

CREDIT RISK MANAGEMENT PRACTICE OF UNITED BANK S.C

1. Establishing Appropriate Credit Risk Environment	**Strongly Dis-agree**	**Dis-agree**	**Neu-tral**	**Agree**	**Strongly Agree**
The Bank's Credit risk strategies, policies and Procedures are regularly reviewed					
Senior managements are responsible for Implementing credit risk strategy approved by the board and for developing credit policies and procedures.					
Senior Managers closely monitor the major Credit Risk exposure of the Bank.					
Credit Risk management strategy, Policies and Procedures are consistently applied in all Credit product and activities					
The banks' staffs take the necessary precaution against default risk.					
Authority and Responsibility of Risk Management are clearly set out and understood throughout the bank.					
There is proper identification of Credit Risk inherent in all products and activities of the Bank					
There is common understanding about Credit Risk Management Strategy, Policy and Procedures across the Bank.					

2. Operating under a Sound Credit granting process	Strongly Dis-agree	Dis-agree	Neu-tral	Agree	Strongly Agree
It is too risky to invest the bank's funds in one specific sector of the economy.					
Adequacy, marketability and enforceability of collateral requirement is properly evaluated and measured by professional personnel or expertise.					
The Bank conducts comprehensive Credit worthiness analysis properly before granting loan.					
The Bank uses well defined Credit-granting Criteria for assessing credibility of each loan applicants.					
The bank critically follows Sound Credit granting process for approving new credits as well as amending, renewing and re-financing existing credits.					
The bank has established comprehensive Credit limit for the main categories of risk factors in all types of credit facilities.					
The Bank optimally diversifies its credit exposure to different economic sectors and geographical area.					
The Bank undertakes Credit granting process based on a reliable and substantial amount of date related to macroeconomic and borrower specific factors.					

3. Maintaining an appropriate Credit administration, Measurement and Monitoring process	**Strongly Dis-agree**	**Dis-agree**	**Neu-tral**	**Agre e**	**Strongl y Agree**
The bank strictly monitors loan terms and conditions that have been stipulated at the time of loan approval.					
The bank regularly reviews and monitors the performance of Credit quality at individual and portfolio level.					
There is a complete, neatly organized and regularly updated credit file in our bank.					
The bank has developed its own internal risk rating system and applying in credit risk management process effectively.					
There is effective Credit monitoring system and procedures.					
The banks quantify its credit risk at individual and portfolio level.					
There is effective system and practice of reporting and communicating risk data/ information among relevant staffs of the bank.					
The bank's Credit risk management system and practice has been integrated with appropriate Management Information Systems.					

4. Adequate Control over credit risk	Strongly Dis-agree	Dis-agree	Neu-tral	Agree	Strongly Agree
The bank has appropriate policy, procedures and techniques for improving loan repayment and handling troubled loan.					
Credit loss, Loan concentration, large exposure and level of NPL can be reduced if banks' Credit policy, Procedure and Techniques are implemented properly.					
The bank's top managements have strong commitment toward controlling default risk					
Appropriate and timely policy measures have been taken for resolving loan recovery problem					
The Bank keeps its Actual risk profile at or below its risk tolerance					
There is an appropriate level of Control over Credit Risk the bank faces.					
The Bank carry out regular independent internal Credit quality reviews accurately.					
There is an early identification of Credit default sign with immediate corrective action.					

Thank You!

ENDORSMENT

This is to certify that this piece of research was submitted to the University with my approval as the candidate's advisor.

Signature……………………………………………………Date………………………

AbebawKassie(PhD).

Supervisor

St. Mary's university

DECLARATION

I, YohannesTawekeNeraedeclare that this research report is my original work and has not been published or submitted to any University before and where other people's literature has been used, acknowledgment has been duly accorded.

RESEARCHER:

Signature…………………………… Date……………………………………

YohannesTaweke

St. Mary's university