ST. MARY'S UNIVERSITY COLLEGE

BUSINESS FACULTY

DEPARTEMENT OF MANAGEMENT

CREDIT RISK HANDLING PRACTICES AND CHALLENGES OF NIB INTERNATIONAL BANK S.C

A SENIOR ESSAY SUBMITTED TO
THE DEPARTMENT OF MANAGEMENT
BUSINESS FACULTY
ST. MARY'S UNIVERSITY COLLEGE

BY
ABEBE BOGALE

June, 2011
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IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR

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Acknowledgments

First of all, I would like to extend my thanks from the root of my heart to my advisor Ato Zellalem Tadesse for his endless assistance from the beginning to the end in preparing of this paper.

I also want to appreciate the cooperation of Nib International bank S.C at head office, credit department and Specially Adarash Branch staffs for their unreserved treatment and provision of important data.

Table of Contents

List of Table

CHAPTR ONE

INTRODUCTION

1.1 Background of the study

Commercial banks are in the risk business. Risk is the fundamental elements that drive the behavior of banking institution. In other words, futures of banking will undoubted rest on risk management dynamics. In the process of providing financial services, the bank faced different challenges and risks to grow up; strong and competent industry one of the most critical baking risk is credit risk (Annual Report of NIB, 2009:29)

The word “credit” which is also called “loan “is derived from the Latin word” creditum” which means to believe or trust in economics, the term ”credit” refers to a promise by one party to pay another for money borrowed or good /services received. It is a medium of exchange to receive money or good /service on demand at same future data (Jhingan, 1997:11)

Credit risk is defined as the potential that a bank borrower or counter party will fail to meet its obligation in accordance with agreed terms and conditions (Bassel, 1994:4).

It has been argued that risks facing all financial institution can be segmented in to three separable types. These are:

i) Risks that can be eliminated or avoided by simple business purchase.
ii) Risks that can be transferred to other participants.
iii) Risks that can be actively managed at the firm’s level.

However, the specific credit risk management practices may be differs among banks depending upon the nature and complexity of their credit activities.

So the focus of this study is on the following important areas of credit risk management.

- Credit Granting
- Credit risk environment
- Credit monitoring
- Internal control over credit risk of Nib International Bank. It is clear that the bank should develop a credit risk plan that guides the banks credit granting, reviewing and controlling activities.

Nib international Bank S. Co is one of the private owned commercial banks in Ethiopia which was established on 26^{th} may 1999. This makes it the 6^{th} privately owned commercial banks in the country.

The mission of the bank is that fully aware of it's primarily responsibility of maximizing share's value through on aggressive market promotion and dynamic management. In the process, the bank is also committed to enhancing superior service to its customers and the public at large by providing efficient domestic and international banking services.

The main objective of the bank is to provide efficient commercial banking services to the business community and the public at large. The principal activities of the bank are to lead in all activates which includes:-

- Accept all type of deposits (saving, demand, and time deposits)
- Extend loans and advances and grant overdraft facilities to customers.
- Draw, accept, buy and sell bill of exchanges, drafts and promissory notes.

- Carry out international banking transaction.

The banks authorized capital was birr 150 million and paid up capital of Birr 27.6 million at the time of establishment. The No. of share holders was about 717 during establishment. (Broacher, 2008).

As at June 1, 2010, the bank's total capital reached Birr 916.5 million. The number of share holders is about 2977as. The bank gives domestic and foreign banking services through all its 48 braches.

Now a day, NIB international Bank is the youngest & profitable one. Even though it is profitable, the bank faced different challenges and risks. Thus the study tried to assess the practices and challenges of credit risk management of the bank.

1.2. Statement of the problems

Banks are one of the most important financial intermediaries which act as a bridge between those societies which save and those who want to invest but have difficulty in finance. Those functions of banks involve risks. Inefficient handling of credit results not only in loss of bank's capital but also puts depositors at risk. Failure in credit management and failure in developing credit strategy or plan that guides the direction of the bank's credit granting results in deteriorating credit like Non-performing Loans (NPL) which reduce earning &capital, increase administration costs and induce liquidity problem and also affect the bank (Credit Training Manual,2009:3).

According to Internal & annual report of 2010 of NIB international Bank, the total percentage of NPL from 2007/08, to 2009/10 was between 10%-8% of the total outstanding loans & advances. Whereas the National bank of Ethiopia set that the percentage of NPL in banks to be less or equal to 5% of total outstanding loan & advance (NBE directive no

SBB/54/2009. In addition to this, the amount of NPL written-off in the past financial year was about birr 35 million. This calls the student researcher for an investigation on Credit risk handling practices and challenges of Nib International Bank.

1.3. Research Questions

In order to conduct the study the student research addressed the following important questions.

1. What is the practice of the bank in handling of credit risk?
2. How the banks measures its credit strength with its guideline?
3. What are the causes for credit risks in Nib?
4. What are the effects of credit risks in Nib?
5. What measures are required to avoid or reduce the problems on loans and advances?

1.4. Objective of the Study

1.4.1. General Objective

The general objective of the study was to assess the credit risk handling practice and challenges in Nib International Bank.

1.4.2. The Specific Objectives:-

- To asses problems faced by the bank on loans and advances.
- To asses the banks strength and weakness on loans and advance.
- To examine the practice of the bank in handing non performing loan.
- To examine the causes and effects of credit risk.
- To make suggestion how to reduce the problems of credit risks.

1.5. Significance of the study

This paper assessed Nib international Bank's credit policy which had the following importance:-

- The managers alert on what is expected from them in managing credit and advices.
- For partial fulfillments of the requirements for the Bachelor of Arts (BA) management.
- It helps as a reference for other researchers who want to make further investigation in the area.

1.6. Delimitation /Scope of the Study/

It is clear that banks may face different types of risks such as credit risk, liquidity risk, market risk and operational risks. Due to different constraints such as finance time, the study focused only on credit risk management at head office and branches such as Main, Adarash, Tana, Tiret and Mamokacha. This paper covered the credit risk management of the bank since 2007/8.

1.7. Research Design and methodology

1.7.1. Research Design

Descriptive research method was used to seek answer to the research questions.

1.7.2. Population and Sampling Techniques

Nib international Bank has 48 braches. From those, 31 branches are located in Addis Ababa and the remaining are located indifferent regions of the country. Because of time and budget constraints, the primary data were collected from Head office, Main, Tana, Tiret, Adarash and Mamokacha branches which were selected by their credit portfolio. Tana, Tiret and Adarash braches are located around Merkato area whereas head office and main branch are found around Bole on Demble City Center and Mamokacha branch is around Genet Hotel.

The population size of employees of the bank who engaged in credit departments are about 130. 30% of these i.e. 39 peoples were used as sample size. And also for triangulation purpose, from 154 borrowers, 25 customers were selected conveniently from 5 branches.

- From Head Office 6 credit analysis and 2 credits follow up.
- From main branch, 6 loan officers and, 2 loan clerks and 2 Supervisors
- From Tana branch, 3 officers, 1 loan clerk and 2 supervisors.
- From Adarash branch, 2 loan officers, 1 Loan clerk & 2 Supervisors.
- From Tiret branch, 2 loan officers, 1 loan clerk and 2 supervisors.
- From Mamokacha branch, 2 loan officers, 1 loan clerk and 2 Supervisors.

1.7.3 Types of Data Collected

Both primary and secondary data were used to seek adequate information.

1.7.4 Method of Data Collected

This paper used both primary and secondary sources of data. The primary data were collected through interviews and questionnaires from staff member who participated in credit operation and from borrower.

The secondary data were collected from internal reports, journals and manuals of bank.

1.7.5 Data Analysis Method

To analyze the data collected though questionnaire and interview, table, percentages were used. This enabled the students researched to assess and interpret the data.

1.8. Limitation of the Study

Due to the reason broadness of the topic, constraint of time and finance shortage of document, the thesis is not study deeply.

1.9. Organization of the Study

This paper is comprised of four chapters. The first chapter includes the introduction part composed of background of the study, statement of the problems, objectives of the study, significance of the study, scope of the study, limitation of the study and research design and methodology. The second chapter comprises related literature reviews that defines concepts and explain principle related with credit risk. The third chapter includes the data presentation, analysis and interpretation. The fourth chapter is comprises summary of findings, conclusions and recommendations.

CHAPTER-TWO

REVIEW OF Related Literature

In this chapter, related literature to the proposed study was reviewed.

It is obvious that banks generated profit by providing services and granting credit facility. In the process of doing these, they faced critical challenges and risks.

2.1. Definition Credit and Credit Risk

Under this portion the definition of credit and credit risk is defined as follows.

2.1.1. Definition of Credit

In general terms credit can be defined as the facility to obtain goods / service now against the promise to pay in the future. This implies a relationship of trust between the two parties involved.

From a bank's perspective; this would means that credit implies any transaction entered in to with a person or organization / business concern which results in funds being lent. Whenever credit is granted, it always implies that there is risk involved (Credit policy of Nib; 2009:3.

2.1.2. Definition of Credit Risk

Credit risk from a banking perspective can be defined as the possibility that a person or business concern to which funds are lent may or may not honor the contractual commitments entered in to with the bank lending the funds and that the bank itself did not make adequate provision for potential loss control. (Credit Policy of Nib; 2009:3).

So, Credit Risk Mean risk of failing to repay the credit according to the agreed terms due to different reasons like financial weakness etc.

2.2. Why Credit Risk Management?

The goal of credit risk management should always be to maximize bank's rate of return by maintaining credit risk exposure with in the entire portfolio as well as the risk individual's credit or transactions.

For most banks, loans are the largest and most obvious source of credit risk; however, other sources of credit risk exist throughout the activities of a bank including in the banking books and in the banking books and in the trading book, and both on and off the balance sheet. Banks are increasingly facing credit risk (or counter party risk) in various financial instruments other than loans, including acceptances, inter bank transaction, trade financing, foreign exchange transactions, financial futures, equities, options, and in the extension of commitments and guarantees, and the settlement of transactions. So that bank should consider the relation between the credit risk and other risk(Jhingan,1997:19).

The effective management to credit risk is critical component of a comprehensive approach to credit risk management and essential to the long term success of any banking organization However, to be consistence with the research objective the focus here is on credit risk, which is the risk of repayment i.e. the possibility that an obligatory will that an obligatory will fail to perform as agreed or will not able to fulfill the commitment agreed (Bassel; 2004:49).

Since exposure to credit risk continues to be the leading source of problems in banks worldwide, banks and their supervisors should be able to draw useful lessons from past experiences. Banks should now have a keen awareness of the need to identify measure, monitor and control credit risk as well as to determine that they hold adequate capital against these risks and that ate adequately compensated for risks incurred.

The taking of credit risk is the principal function of banks. How a bank approaches credit risk represents one of its important polices. The willingness to take credit risk has provided major service to market economies throughout the banks history. The heart of the banking business is assessing credit risk not necessarily taking risks, but evaluation them (Henery, 2003:135).

2.3. Types of Credit Risk

The loan officer or the branch manager should see potential risk areas of the business and state the expected impact and materiality. The major areas of risk to be considered are (Credit policy, 2009:5)

1. Management Risk

This is the risk of incapacity of the management team in effective planning, direction coordination and evaluating the overall activities of the business. It includes the risk of educational qualification, business knowledge, experience and talent, behavior, leadership risk and inability to cope with changing business environment.

2. Ownership Risk

Ownership risk is the amount of equity contribution made by the owners of the business in proportion to the external (creditors) financing and the risk of lack of belongingness of the owners due insignificant contribution to the business.

3. Business Risk

This is threat of business failure due to different factors such as high competition, market failure, price movement, product substitution and other business related risks.

4. Financial Risk

The risk of poor financial structure of the business such as poor current ratio, acid-test ratio, debt to equity ratio, debt to asset ratio, etc.

5. Collateral Risk

This is the risk of inadequacy and non-marketability of the collateral to recover of the loan. It refers to the nature, type and marketability of the assets offered as collateral. The risk involved is the instability of the realizable value of the security fully covers the outstanding amount of the loan.

2.4. Factors that Influence Credit Risk Management

The environment within which the bank will grant credit has a real impact on the risk involved. This environment can be divided in to the internal and external environments (Bassel 2004:4).

2.4.1. The Internal Environment

The internal environment of the bank refers to those factors or variables that can affect the credit risk, but may be influenced indirectly or directly by the management of the bank.

The credit policy of the bank- it is a document that gives the necessary guidelines and principles to be applied when granting a loan (i.e. what credit may be granted, the credit terms required, acceptable security and qualified principles and criteria). It is developed by senior levels of management and be approved by the top management. It should be constantly updated and streamlined (improve) with current issues on credit risk faced by the bank. All credit staffs must be will trained in the content and implication of the credit policy all at times.

Employees of the bank-and employee need to be knowledgeable and competent if they are not the banks will exposed to credit risk. Credit training programs are used to give staff the necessary skills and knowledge. Products and markets-it is essential to the bank to do through research as to the type of products it wants to sell to the specified target market. High level of competition and also put pressure on banks to become lenient in granting credit, especially if it is a newly entered target market.

Credit management and control system-it includes client information monitoring of clients conduct in terms of their contacts, record keeping, credit reports etc.

2.4.2. The External Environment

The external environment of the bank refers to those factors or variables that can affect the credit risk, but cannot be really influenced indirectly or directly by the management of the bank.

The external environment can be classified under the following eight categories the marketing environment (competition, clients and risk. i.e. inability to repay debt (insolvency and illiquidity), unwillingness or due to fraud an illegal conduct.

The economic environment – when the economy is upswing higher consumer expenditure higher demand for credit and when the economy downswing consumer will spend less and the demand for credit will decrease.

The international environment – fluctuation in the exchange rate, county risk i.e., the degree to which a government can interfere in the normal business by means of rules, regulations, control system, nationalization, confiscation, political instability also is part of country risk. The physical environment- it refers climate, availability of good infrastructure and the impact of environmental protection and conservation.

Legislative and the institutional Environment – the social environment influence o fiscal policy (government spending and taxation). Influence of monetary policy tax policy- restriction of bank lending, interest rate control, exchange control regulation and

moral suasion – in other words, requesting the bank to act / not to act in a particular way.

The social environment – it refers to cultural, language, religion and customs and population.

The technical environment – the fast pace of change of technology (MIS)

The political environment - the influence that the political parties that manifest in the government ideological standpoint policies and expectation on matters such as education, free market economy, privatization, stability of the government itself and influence of international politics(Bassel 2004:5).

2.5. Credit Risk Management Approach

According to Herrick (1990: 87) banks manage their credit risk through three approaches. They are;

- Minimizing risk
- Price risk and
- The diversity of risk approaches

All approaches require an ability to assess credit risks. The difference between the three approaches is the way assessments of risk used banks.

2.5.1. Minimal Risk Approach

The minimal risk approach to credit risk management attempts to separate loans securities and other asset in two groups,

1. It includes credit in which there is no reasonable doubt that the asset will be redeemed at face value, or in the case of equity investment, no reasonable doubt that the investment will provide significant rate of return over period of years.

2. It includes all assessments of credit risk where it appears that a credit might not be redeemed or an equity investment right not provides a good return. Money young bankers of the time told themselves that they would do whatever was needed to prevent the experience from happening again. One preventive measure was to look carefully at quality of the loan application; little could be done about past loans. Many of them were either on a workout basis of the type of business about drawing fine lines of various degrees of risk and credit worthy. Loans which were not likely to be repaid, beyond reasonable doubt, simply were made (Herrick, 1990:88).

   The minimal risk approach relies on the classic three "C" of credit

   - Character
   - Capacity and
   - Capital

The minimal risk approach to credit risk requires that bankers act as a helpful friend, consultant and adviser who use firm’s persuasion when necessary. This information relationship adds an understanding, but strong pressure to the management of any organization to keep its affairs in good shape. Moreover, if a banker approaches credit risk from the minimal risk approach, its efferent is directed to prevent any losses risk occurring. There is no place in this thinking for losses and he makes extra ordinary afferent's to fulfill this outlook.

To a banker with this credit risk approach and with dedication to the customers. There is often a feeling of person's failure if loss occurs. This psychological incentive to prevent to provide an important part of attitude of bankers with a strategy that strives to minimize risk. This approaches tenders to keep banker activities restricted to areas that are already well known to a bank, new areas of banking activities greater uncertainties than the areas that are part of daily activities.

Even though the minimal risk approach has this important limitation, may banks have been very successful for years by following this approach of credit risk.

2.5.2. Price for Risk Approach

Risk pricing recently has developed as an alternative approach to credit risk in recent years this approaches also has related on the basics methods analysis noted with the minimal risk approach, but carriers the conclusions much farther.

The risk pricing approaches looks at all degrees of risk as normal parts of the banking business. In effect, it views the assets of the bank loans securities and investment in several of white and gray and accepts all of them as legitimate, worth. While assets of greater credit risk involves greater risk of loss, but these assets are expected to price to earn more return or interest income to offset their credit risk for a profit to the bank.

Assets of little credit risk involve low risk of loss. These assets expected to earn lower interest rate also earn low profit for a bank. If risk pricing is done properly asset of all types of credit risk should show approximately the same profit to the bank.

The risk pricing approach reflects to reflect to trends in banking during the past decade. First has been growing assurance among may banks that they possess the technical capabilities of assessing risk to a greater extent than did an earlier generation of bankers. New techniques have been applied to banking that did not exist a generation ago. Computers have enabled banks to handle much greater quantities of information operation research and system research have opened new ways of analyzing information.

A new generation of thinking has risen which believes that it can make more accurate conclusions based on factual experience than on the rule of thumb guides and the personal judgment of credit officers, and securities traders. Many banks emboldened by these grater technical resources in much the same way and a about the same time that many economists developed their confidence in being able to "fine turn" the economy and many psychologists developed their confidence about motivating people. All of these approaches to knowledge rest on supreme confidence that there are highly refined ways of conducing operations that will superior results.

The second trend underlies the growth of risk pricing is the recent emphasis for banks to show strong gains. Risk pricing opens the door to a major expansion in banking. Business a large proportion of business that would be tuned down on the bases of minimal risk approaches becomes choice bankable business. To work successfully over a long period the risk pricing approaches requires three conditions (Herrick, 1990:91);

1. Need for large number of assets in the bank's assets portfolio; The basis of risk pricing is that a banker does not know which loan, security or investment will require emergency efforts, reduced terms or fail, but the should have good idea of the likelihood that these difficulties could occur in large portfolio.

2. The bank needs a staff with considerable analytical skill; The process of assessing various degrees of risks in not a task that a one or two main credit department can easily handle. The development of risk pricing format for bank involves a major statistical operation. Moreover the risk-pricing format for one bank would not necessarily be appropriate to another bank. A risk pricing format provides specific guidelines showing the way a particular bank will price Loan, security, or investment and reflected the franchise of particular bank, its personnel and its ongoing business relationship with customer.

3. The bank needs to possess an outstanding forecasting capability; Risk pricing is concerned about the future and must make much complete and accurate assumption concerned about the future and must make much complete and accurate assumption concerning the future condition of credit market, business activities and accurate assumption concerning the future condition of credit market, business activities and attitudes of debtors.

2.5.3. Diversity of Risk Approaches

Credit risk management often diversifies a portfolio of loan, securities and investment at a simple effective way of keeping problems of credit risk under control. However, the approach is sometimes mistakenly used to justify taking grated individual credit risk or slimmer risks price premiums than otherwise would be justified, which is mistaken.

In fact, diversity can only partially control risk and it is not approach to credit risk that can stand independently of other approaches.

The major practical problem in diversifying credit risk is determining what constitutes diversity. There are literally thousands of ways of classifying assets, and a case could be making that many of the categories represent diversity on logical grounds. Yet to be effective, risk diversity requires relevant categories and the determination of relevant categories is not an easy matter (Herrick, 1990:135).

2.6. Credit Risk Management Cost:

According to Taffler,(1991:36) the starting point for efficient credit controls is recognition of cost of credit and it potential effects profit and liquidity. Techniques for managing, operating credit risk build on the broad principles of risk management that are already deeply ingrained in banking practices. There are three basic ways to manage credit risk and carry costs to consider. They are

1. **Exposure reduction methods**: this credit exposure could be eliminated by requiting the customer to provide collateral or guarantees. Banks have their own specialist lenders and credit risk

assessors who have the skills and experience to assess risk reduction. Although exposure reduction techniques are generally not expensive for banks to implement, they oftener result in higher customer costs.

2. **Risk control:** programs to control risk on the other hand can involve a change in operation and are often expensive to implement. This is designed to mentor the actual level of risk as it changes and to refer to transaction to the proper credit authority for approval before the exposure is created.

3. **Loss funding:** provisions must also be made for any losses that do occur. Although banks insure loans losses by deducting a provision from earnings to create are sere, must do not uses this mechanism to insure against losses from operating services. Ideally, reserve should be built and capital allocated to operating services in proportion the risk they incur. They determine the level of credit risk to be funded, the following have to be considered: How much risk remains after implementation exposure reduction and risk control procedures, the operation dependability of the efforts and an analysis of the likelihood of loss from the remaining exposure (Taffler, 1991:36)

2.7. Credit Risk Management Functions

According to Bassel (2004:9), credit risk management is the core to achieve the desired objectives. It has three basic functions. These are:

- Credit analysis and appraisal,
- Credit monitoring and review and
- Work out procedures

2.7.1 Credit Analysis and Appraisal:

Credit procedure manual of NIB describes credit analysis as a critical assessment/ evaluation of the borrower's strength and the security (collateral) presented by the applicant. Credit requests shall be analyzed and appraised by the lending officer in line with the Bank's Credit procedure and Guideline Manual before any recommendations is forwarded for decision.

The purpose of credit analysis is to assess the likelihood that the customer will repay the loan in accordance with stipulated terms. Each of these describes and area of person's credit worthiness which are called the 5 Cs.

1. **Character**: Assesses the customer willingness and assessing capacity involves determining ability to repay.

The character of the debtor evaluated by seeing past credit experience, there credit reference and accuracy of application.

2. **Capacity**: it is the ability to repay debts as scheduled. For salaried individual the analysis is concerned with job stability.

Consumer capacity is reflection of safety margin between income and committed outflows and the stability of each business capacity is depend upon sales income monthly out flow inflow, stability of income source, stability of customer, liquidity.

3. **Capital**: involve analysis of the customer's net worth is important in establishing the customer ability to repay the loan by falling bank on other assets that could be used to generated cash to repay the loan.

4. **Collateral:** is used to secure the loan if the loan is secured by collateral and customer fails to repay the loan as promised, the bank has the right to the assets to secure the loan. To provide an alternative source of repayment the collateral must be marketable and the value of the collateral should serve only as an alternative source of repayment and in most cases should not be major consideration in granting credit.

It serves to limit loss of the bank is finally forced to resolve the loan through repossession.

5. **Condition**: where the current economic condition indicates any potential problems in customer ability to repay the loan.

2.7.2. Workout procedure

Once problems on loans are identified, it requires special attention and thus transferred to workout Loan Division for further analysis. Workout Loans

Division is an organ, which is established under Credit Analysis and appraisal Department to find out the prospect of recovery of the problem loan. On receipt of the problem loan, the workout officer analyzes the reason for default, business and security strength of the borrower's business, determine the extent of risk exposure and recommend the appropriate workout strategy (extension of repayment period, injection of additional loan, changing the form of the loan, requesting of additional loan, changing the form of the loan, requesting additional collateral, foreclosure of collateral etc). Based on the analysis of the workout officer, the credit committees shall pass appropriate decision on workout loan.

2.7.3. Loan Monitoring and Review

Credit monitoring refers to the day-to-day and /or periodic checking, analysis and reporting of the proper implementation of credit decisions as well as the credit policy and procedure to ensure that the credit function of the Bank is executed as planned and structured. Credit monitoring is a critical element in maintaining the asset quality of the bank. It includes proper documentation, disbursement and identification of warning signals.

2.8. Credit Policy and Procedure

Policy means a program of action adopted by a person, it group or government or set of principles on which they are based. In simple term, policies are way of doing things, polices are core stone of sound credit manual and polices is agreement (Credit Policy & Manual 2009:27).

Credit policy

- Ensure operational consistency
- Adhere [stick] uniform and sound practice
- Guide –lending activities
- Define – acceptable and non – acceptable risks
- Policies establish common credit language throughout the institution delegate lending authority and responsibility

Objective of Credit policy

- Provide guidance and standardize credit decision

- Avoid exposing excessive credit risk
- Proper evaluation of business opportunities
- Ensure operational consistency.

2.9. Credit follows up

Follow up loans and an advance is a day to day activity of a bank and should be made both before and after disbursement of loans (Credit Policy).

2.10. Before Disbursement

After all the credit processing is completed and the loan is approved, a loan contract should be prepared and duly signed. The loan contract and the collateral offered should be registered before the loan is disbursed. The contract held and registered should have a full insurance coverage.

Documents should be filed in the customer loan file:

- written credit application
- Credit information inquiry
- Financial statements
- Copies of licenses (trade license, investment license permit)
- Copies of memorandum and article of association (for companies)
- Loan approval form together with minutes prepared for credit decision.
- Copies of power of attorney, legal opinions if any
- Other relevant documents

2.11. After Disbursement of Loans

- Follow up whether the approved loan is used for the intended purpose or not.

- Review operation of customers account at least once a month
- identify early warning signals (financial, management & banking relationships) & take remedial
- Weak financial performance
- Improper account operation
- Change in customer behavior in meeting bank obligation
- Frequent overdraw beyond the limit
- Frequent NSF or returned cheque
- Delay in periodic repayment of loans

2.13. Classifications of Loans and Advances

Loans and Advances are classified into the following five categories depending upon the level of arrears operations.

1. **Pass**: - Loans and Advances when the account reflects have no arrears or actively operated.
2. **Special Mention**: - Those loans and advances whose repayments are past due from 30 (thirty) days up to 89 (eighty nine) days.
3. **Substandard**: - Loans and Advances whose repayments are behind 90(ninety) and 179(one hundred seventy nine) days
4. **Doubtful**: - Whose repayments are past due 180 or more but less 360 days.
5. **Loss**: - Loans and Advances past over 360 days are considered as loss loans. Those loans and advances which fall under loss or doubtful category should be reviewed more frequently than others

CHAPTER – THREE

Data Presentation, Analysis and Interpretation

This part of the paper emphasize on the presentation, analysis and interpretation of data and information collected through primary data which was collected by using questionnaire and interview to give answer to the basic research questions.

The questionnaire was distributed to 39 samples who are working in credit department of different branches and positions from those, 34(87.20%) of them were responded. Also for check up purpose, the questionnaire was distributed to 25 customers and 20 of them were gave their responds.

3.1. General Characteristics of Respondents (employees)

No	Item	Respondents	Number of respondents	(%)
1	Sex	Male	28	82.30
		Female	6	17.70
		Total	34	100
2	Age	21 – 30	10	29.42
		31 – 40	17	50.00
		41 - 50	7	20.58
		> 50	__	__
		Total	34	100
3	Qualification	Certificate	__	__
		Diploma	6	17.65
		Degree	27	79.41
		Masters	1	2.94
		Total	34	100
4	Working experience in NIB	< 1 year	1	2.94
		1 – 3 years	9	26.47
		4 – 6 years	9	26.47
		> 6 years	15	44.11
		Total	34	100
5	Current working position of respondents	Loan clerk	5	14.71
		Loan officer	13	38.23
		Credit Analyst	6	17.65
		Branch manager	10	29.41
		Total	34	100

As it can be seen from table 1, 28(82.35%) respondents were male and 6(17.65%) of them were Female. This indicates that most of the borrowers were male. From the total of respondents, 10 (29.42%) were young between 21 & 30, 17(50%) of them were between 31 & 40 and 7 (20%) of them were between 41 & 50, 6(17.65%) had diploma and 27

(79.41%) were degree holders and 1(2.94%) had second degree which implies that they are professional in their field.

Again 1(2.94%) respondent has less 1 year experience, 9 (26.47%) have 1 to 3 years and the other 9 (26.47%) have 4 to 6 years working experience in the industry while 15(44.12%) of them have more than 6 years experience. This reveals that most of the staffs who are working in credit department have good experience in the industry.

From those respondents, 5(14.71%) were loan clerk, 13(38.23%) of them were loan officers, 6(17.65%) of them were credit analyst and 10 (29.41%) were supervisors. This shows that most of them are in a good position which helps them to understand the consequence of every step in the bank.

3.2. Analysis of the Major Findings

No	Item	Responses	No of responses	% ages
1	Do you believe that Nib faced challenges in collection of its credit	Yes	27	79.41
		No	7	20.59
		Total	34	100
2	How do you rate the adequateness of credit information exchanged in loan processing	Very high	3	8.82
		High	14	41.17
		Neutral	13	38.23
		Low	2	5.88
		Very low	2	5.88
		Total	34	100
3	Do you think that staffs in credit are preparing financial analysis properly?	Yes	16	47.05
		Sometimes	16	47.05
		Not at all	2	5.60
		Total	34	100

As shown in the above table 2, 27(79.41%) responded that the bank faced challenges on collection of its credit while 7(20.59%) were said that the bank did not faced any challenges on collection of its credit. This implies that most of the staffs or respondents recognized that there were problem on collection of credit which leads the outstanding of credit into deteriorated loan. Also 41.2% of the respondents were said that the adequateness of credit information exchange in loan processing is high and 3(8.8%) were said that it was very high, 13(38.2%) of them said neutral and 2(5.9%) were replied that it was low & very low respectively. It also show on the above table that 16(47.1%) were responded that the loan officers were always prepare financial analysis properly and also the same percentage replied that they prepare only sometimes and 2(5.9%) of the respondents replied that they did not prepare at all. This trend of providing loans and advance without examining the financial analysis of the borrowers leads the bank to risk.

Table3. Knowledge of Staffs on Credit or their duty

No	Request	Responses	No of Respondents	Percentage %
1	Do you have enough knowledge about the credit policy& procedures of NIB	Yes	29	85.29%
		No	5	14.71
		Total	34	100
2	If you have enough knowledge on credit policy & procedure, how did you get it?	By reading	20	68.90
		By taking training	5	17.20
		By Asking immediate supervisor	4	13.90
		Total	29	100

According to the above table 3, 29(85.29%) of the respondents have enough knowledge about the credit policy and procedure of the bank and 5(14.71%) of them had not. The student researcher understood that most of the workers who engaged on credit department have well understanding on their positions.

From the total of 34 respondents, 20 of them or 68.90% were grasp their knowledge by reading the manual of the bank, 5 (17.20%) of them were from training they had attended and 4(13.90%) were by asking their immediate supervisor. From this ratio one can understood that significant number of the staffs were tried to master their field by reading the bank's credit policy and manual.

Table4. Training and need of training for credit handling.

No	Items	Response	No of Respondent	% percentage
1	Does the bank give training regarding credit	Yes	32	94.1%
		No	2	5.9%
		Total	34	100%
2	What is your opinion on the adequateness of training	Strongly agree	13	40.60
		Agree	14	43.80
		Neutral	5	15.60
		Disagree	__	__
		Strongly disagree	—	—
		Total	32	100
3	Does the credit policy of the bank need revision	Yes	26	76.47
		No	8	23.53
		Total	34	100
4	To what extent has the revision required?	All in all	2	5.9
		Some of it	—	—
		To some extent	32	94.1
		Total	32	100
5	The impact of training on credit for effectiveness of bank	Very high	12	35.3
		High	22	64.7
		Neutral	__	__
		Low	__	__
		Very low	__	__
		Total	34	100

As it is attested in item of table 4, 32(94.10%) of the respondents said that they got an opportunity to attend on trainings provided by the bank while 2 of them were not. From those respondents, or 34 respondents, 13(40.60%) of them were strongly agree on the adequateness of the training, 14(43.80%) were agree; 5(15.60%) of them were neutral on the adequateness of the training but no one of the respondents were disagree or strongly disagree on its adequateness or fairness.

From this table, the student researcher inferred that all of the staffs had no complain on the adequateness of the training.

From the total of 34 respondents, 26(76.50%) were replied that, the credit policy of the bank need revision while 8(23.53%) of them said that no need of revision of it and also 32(94.1%) of the staffs said that the revision is to some extent but the rest or 2(5.9%) replied that the revision is all in all.

From these, the student researcher inferred that the credit policy of the bank needs review again. 22(64.7%) of the respondents replied that the impact of training on credit for the effectiveness of the bank was high and 12(35.3%) of them said that its impact was very high. This means that for effective credit handling, training has positive impact on it. That is why all of them gave the positive attitude.

Table5. Loan Repayment practice of the bank.

No	Items	Response	No of Respondent	Percentage (%)
1	How do you rate the loan repayment practice with scheduled?	Very high	5	14.71
		High	10	29.41
		Neutral	8	23.53
		Low	9	26.47
		Very low	2	5.88
		Total	34	100
2	If your response is low of very low on the above question, what are the main causes?	Lack of follow up	3	27.30
		Market problem	7	63.60
		Diversion of borrowed fund to other purpose	1	9.11
		Over estimation of collateral value	—	—
		Total	11	100
3	What do you think on the appropriateness of collateral of NIB?	Very good	10	29.41
		Good	11	32.35
		Neutral	13	38.24
		Poor	—	—
		Very poor	—	—
		Total	34	100

As per the above mentioned table 5, 10(29.40%) of the respondent argued that the loan repayment practice with scheduled period was high, 5(14.70%) were said it was very high and 8(23.50%) of them were answered that it was neutral but 9(26.50%) of the staffs were responded that the repayment was low and also 2(5.90%) of them were said that it was very low.

It is possible to understand from the above this that only 15(44.12%) of the respondents had positive attitude on the loan repayment practice of the bank while 11(32.35%) of them did not have and the rest were in between. This means that the practice was not in a good position since it was not accepted even by 50% of the respondents.

Again from the above table it can be possible to see that 3 of the staffs said that one of the causes for low practice of loan repayment is due to lack of follow up, 7(63.60%) was because of market problem and 1 of them was due to diversion of borrowed fund to other purpose. In addition to this, mostly, the borrowers and also the interviewees agreed on the major causes of NPL. This reveals that the bank should examine more the profitability of the market that the borrowers wanted to invest and also its trends of follow-up.

The student observed from the table 5 that 10(29.41%) of the respondent responded that the appropriateness of collateral estimation of Nib was very good, 11(32.35%) of them said that it was good while the other were neutral. But as it is attested in the item 5 of table 10, 5(25%) of the borrowers replied that the collateral estimation was not done properly.

The student researcher inferred that there was a variation between the employees and the borrowers to some extent toward the estimation of the collateral.

Table6. Impact of NPL on the goal of the bank

No	Items	Response	No of respondent	Percentage %
1	How do you rate the impact of NPL on the profitability of the bank?	Very high	24	70.59
		High	8	23.53
		Moderate	2	5.88
		Low	—	—
		Very low	—	—
		Total	34	100
2	Do you think that NPL increase administration cost of the bank	Yes	34	100%
		No	—	—
		I don't know	—	—
		Total	34	100

About 24(70.59%) of the respondents replied that the impact of non-performing loan (NPL) in the bank was very high, and 8(23.53%) of them said that its impact was high whether 2(5.88%) of the respondents argued that the impact of NPL on profitability was moderate. Moreover, the interviewees replied that NPL affects in different aspects such as by declining the profit, lending capacity and increasing operational expense. One can understand that non-performing loan has negative impact on the profitability of the bank and no one can complain its negative impact. From above table 6, 34(100%) of the respondents replied that non-performing loan can increase administration cost of the bank. They said that NPL can increase the costs in different ways such as:

- Telephone expenses in the process of motivating the customer to effect the payment.
- In connection with writing reminders and warning

- Transportation cost
- Fuel expense and perdiem
- Burden for the worker (time)
- Cost of auction
- Cost for legalizing the acquisition
- And others.

It can be easily one can understand that these all costs can seriously rises the administration cost of the bank.

Table 7. Different Issues in connection with NPL

No	Items	Responses	No of respondents	Percentage %
1	Do you agree if the borrower fails to meet its obligation and the bank will sell the collateral to collect its credit?	Strongly agree	4	11.77
		Agree	14	41.17
		Neutral	14	41.17
		Disagree	2	5.89
		strongly disagree	—	—
		Total	34	100
2	How the banks recover its loan from NPL?	By motivating the customer to repay	13	38.23
		From fore closure	21	61.77
		If any other	—	—
		Total	34	100
3	Does the bank give advices to the borrowers to reduce NPL	Yes	34	100%
		No	__	__
		I don't know	__	__
		Total	34	100

As can be seen from table7, 4(11.77%) of the respondents replied that they were strongly agree on the bank's benefit from the sell of collateral, 14(41.17%) of them were agree and also the same percentage were neutral but 2(5.9%) of the respondents responded that, they disagree on the bank's benefit from sell of collateral. The reason why these respondents disagree on the sell of collateral was that the motto of the bank is not for sell of collateral and they argued that this action can create a negative image on the bank. But those respondents who agreed on sell of the collateral for repayment of loan was to protect the interest of the bank and the depositors and also for the healthy of the general economy.

Thirteen(38.23%) of the staffs reported that it is better that if the bank recovers its loan by motivating the customer to repay with out boring while the rest 21(61.77%) of them responded that the repayment of the loan was from foreclosure of the collateral. Also 40% of the borrowers agreed on this issue while 60% of them were in between. This indicates that they gave priority for the interest of the bank. 34(100%) of the respondents replied that the bank consults to reduce the amount of deteriorated loan and maximize the profit of the bank. Moreover, the interviewees responded that the bank give special emphasis to mitigate and regularize NPL by advising and negotiation with the borrowers in order to settle arrears though possible solutions. The borrowers also agreed on the advices of the bank but 12(60%) of them did not satisfied. One can understand that the bank didn't try its maximum effort.

Table8. General characteristics of Respondents (Borrowers)

No	Items	Responses	No of respondents	Percentage %
1	Sex	Male	14	70
		Female	6	30
		Total	20	100
2	Age	20 – 30	—	—
		31 – 40	12	60
		41 – 50	7	35
		>51	1	5
		Total	20	100
3	Education Background	Certificate	7	35
		Diploma	8	40
		Degree	5	25
		Masters	—	—
		Total	20	100
4	Type of trade you engaged	Domestic	12	60
		Foreign	8	40
		Total	20	100

As it can be seen from the above table 8, 14(70%) of the borrowers were male and 6(30 %) of them were female. From those customers, 12(60%) of the clients were between age 31 and 40, 7(35%) of them were between 41 & 50 while only 5% were more than 51 years old. From this, the student inferred that most of the borrowers were younger and energetic to run their business which guides them to be profitable and at the same time makes the repayment may better. On the other side, those younger may derived by feeling faced challenges to meet their obligation.

When the students see the education background, 35% (7) of them have Certificate, 40% (8) of them were Diploma holder and the rest 5(25%) were degree holders. This shows that since most of them were educated which makes things may easy to gather information and understand things to adjust themselves in the process of doing their business, 12(60%) of the borrowers were engaged in domestic trade but the remaining 8(40%) were on foreign trade. This implies that the borrowers of Nib International Bank were engaged on both domestic and foreign trade.

Table 9. Relation of the borrowers in doing Business with Bank

No	Item	Response	Number of respondents	Percentage (%)
1	How many times you got loan from Nib Bank	One times	10	50
		Two time	7	35
		Three time	3	15
		Total	20	100
2	What portion of the loan you request provided?	All	2	10
		¾%	8	40
		Half	10	50
		1/3	__	__
		Total	20	100
3	How do you rate the willingness of the loan officer or branch manager to get consultation about the loan before you get the loan	Very high	3	15
		High	5	25
		Moderate	11	55
		Poor	1	5
		Very poor	__	__
		Total	20	100
4	Do you believe that the information the bank and customer they exchanged is satisfactory?	Yes	12	60
		No	8	40
		I don't know	__	__
		Total	20	100
5	After the loan has been disbursed, does the bank make follow up	Yes	10	50
		No	8	40
		I don't know	2	10
		Total	20	100
6	If you answer is Yes for the above question, No how was the frequency	Always	4	20
		Some times	16	80
		Total	20	100

According to the table 9, 10(50%) of the borrowers were new comers or they got loan from Nib for the first time regardless of the type of loan (short term & long term) they provided, 7(35%) of them were got the loan for the second times and the rest 3 of them were got for the 3rd times which implies that the relation created is good which makes the repayment better.

From those, 2 of the borrowers were got 100% of the loan they had requested. This shows that, the trust of the bank on these customers was very high, 8(40 %) of them were granted two- third of the loan they requested and 10(50 %) of the borrowers were got half of the total amount of loan they requested.

This indicates that the bank treats its customers according to their business relations.

As per the above table 9, 3 of the respondent reported that the willingness of the some loan officers or the branch managers to give advise or consultation in the process of providing loan was very high, 5(25%) of them responded that their willingness was high while 11(55%))of them said that the willingness was moderate. This shows that even though some of them were satisfied, most of the borrowers were not got or not satisfied by the advices of the bankers which may drive the loan in risk. In addition to this, 1 of the borrowers responded that it is poor.

Also 19(95%) of the clients responded that the information exchanged between the bank & customer was satisfactory but 1 of the borrower said that it was not.

After the loan has been dispersed, 10(50%) of the borrowers responded that the bank made continuous follow up to know whether the customers used or not the fund for the purpose of the loan while 8(40%) of them reported that they did not agree and 2(10%) of them were not know whether the bank made follow up or not. From this, the student researchers inferred that, the bank was not exhaustively tried to made follow up. This failure surely guides the loan to deteriorate. In connection to this 4(20%)of them said that the frequency that made follow up always but 16(80 %) of them respond that they made some times.

Table10. Some Question that Assess about the Loan

No	Item	Response	No.of Response	%
1	Did you face any problems in connection with loan repayment?	Yes	4	20
		No	16	80
		Total	20	100
2	If your answer is 'Yes' on the above questions, how did you solve it	By Discussion	4	20
		By court	—	—
		Specify it any	—	—
		Total	4	20
3	What is the reason that some customers do not pay their debit?	Because the interest is high	—	—
		Lack of follow up	5	25
		Over estimation of collateral	1	5
		Market problem	14	70
		Mention if any	—	—
		Total	20	100
4	How do you rate the impact of deteriorated loan in the future?	Very high	12	60
		High	8	40
		Moderate	—	—
		Low	—	—
		Very low	—	—
		Total	20	100
5	Do you think that the collateral estimation is made properly?	Yes	15	75
		No	5	25
		I don't know	—	—
		Total	20	100
6	If your answer is 'No' on the above questions, what do you think for this?	Over estimation	2	10
		Under estimation	3	15
		Mention if any	—	—
		Total	5	25
7	Do you think that the banker process your loan according to the policy of the bank?	Yes	2	10
		No	5	25
		Neutral	13	65
		Total	20	100
8	What do you say if the customer fails to meet his/her obligation on repay it and if the bank will sell the security?	Strongly agree	4	20
		Agree	4	20
		Neutral	12	60
		Disagree	—	—
		Strongly disagree	—	—
		Total	20	100

As shown from the above tables, 16(80%) of the respondents reported that they did not faced any problems in connection with loan repayment but 4 of them faced. Those customers who faced the problem were solved by discussing the issues with the bank.

As per the above mentioned table, 14(70%) of the borrowers responded that the major reasons why some customer do not repay their debit was that due to market problems, 5 of them replied that because of lack of follow up and 1 of them was due to the reason of over estimation of their collateral.

This show that, the bank did not assess properly the profitability of the market of the borrowers and also lack of continuous follow up after disbursement.

Twelve(60%) the clients responded that the impact of deteriorated loan was very high and also the remaining 8(40%) of them replied that its impact was high.

This shows that each and every customer understand very well the negative impact of bad credit which minimizes the load of the bank in the process of collection.

Fifteen(75%) of the customers believed that the collateral estimation was made properly but 5(25% of them said that it was not estimated properly. This shows that the bank can't exhaustively play the role during collateral estimation to minimize the credit risk. From those 25% of the respondents who have complain on collateral estimation, 3 of them said that their collateral was under estimated this may do not attract the customer to do business in the future while the rest 2 of them respond that some collateral may over estimated. Due to this reason, the borrower was lack willingness to repay their debit properly. 5 of the borrowers respond that the workers or the banker did not process the loan according to the policy of the bank; 2 of them reported that they did & the rest 13(65%) of them were in between. This implies that if the employees did not protect the interest of the bank, it may face loss and also if they did not handle the customer properly the bank may loss its customers. As per the above mentioned table 4(20%) of the borrowers responded that they were strongly agree on the sell of the collateral if the customer fails to meet his/her obligation on repayment and also 4 of them were agree on this issue while 12(60%) of them were neutral. This shows that no one complain on this issue.

Table 11 Deposit Mobilization

in '000

Deposit by type	30/06/10	30/06/10	30/06/10
demand deposit	1,308,874.60	1,031,727.00	671,938.20
Saving deposit	2,517,185.70	1,995,516.70	1,436,607.30
Time deposit	301,128.20	269,146.70	362,472.25
Total	4,127,188.50	3,296,390.00	2,471,017.75

The aggregate deposits mobilized by the bank at the close of 2009/10 financial year stood at birr 4.13 billion. It was increased by 25% and 34% the financial year of 2008/9 and 2007/9 respectively. This clearly indicates that it builds the capacity of the bank to increase its loan to the society and increase its income. It also reflects the improvements made in customer service and growing of confidence of public on the bank.

Table 12. Loan and Advances by Economic sector

in '000

Economic sector	30/06/10		30/06/09		30/06/08	
	Amount	%	Amount	%	Amount	%
Building	356,688.10	22.10	551,013.70	24.8	351,129.90	16.6
Manufacturing	537,559.00	21.10	540,153.20	24.3	589,877.70	28.0
Domestic Trade & Service	418,822.90	16.40	359,829.10	16.2	369,979.50	17.6
Export	389,550.70	15.30	217,820.00	9.8	184,477.90	8.5
Import	293,677.50	11.50	238,829.80	10.8	352,750.20	16.7
Agriculture	151,822.50	6	140,346.00	6.3	144,642.00	5.4
Hotel & tourism	95,727.90	3.8	76,996.90	3.5	36,101.50	1.7
Transportation	79,444.20	3.1	84,366.70	3.8	106,678.7	5.1
Persona	15,843.10	0.6	10,933.90	0.5	8,177.10	0.4
Total	2,546,135.90	100	2,220,289.40	100	2,113,814.50	100

As clearly indicated in table 12, loans and advances extended by the bank covered various sectors of the economy. Accordingly, 22.1% of the total loans and advances were absorbed by building and construction sectors followed by manufacturing (21.1%, domestic trade and services (16.4%), export (15.3%) and import (11.50). According to annual report of 2009/10, the bank earned an income from loans and advances in 2009/10, 2008/9 and 2007/8 was 261,826.00, 251,445.70 and 201,821.00 respectively. This shows that the income generated from loans and advances was increased from time to time.

Table 13. NPL Ratios

Year	outstanding loan	Total NPL	NPL Ratio
2007/8	1,755,831,156	146,466,492.50	0.09:1
2008/9	2,033788,606	211,514,015.02	0.10:1
2009/10	2,546,135,500	203,690,840	0.08:1

The ratio tells us how much of the total loans and advances are non-performing or delinquent. The NPL to total loan ratio of the bank in the year 2007/8 was 9% of the total outstanding loans. The ratio has shown in 2008/9 and 2009/10 was 10 and 8 percent. One can understand that the amount of non-performing loan was very significant (Annual report 2009/10:8).

CHAPTER-FOUR

Summary, Conclusions and Recommendations

4.1. Summary of the Major Findings a

Generally, in the process of solving the problems raised under the statement of problem, the student researcher tried to raise different questions which were mentioned in research questions. Descriptive research method was employed to describe the problems . from 130 total populations who engaged in credit department of the bank, 30% of it which is 39 peoples were used as sample size and the questionnaire were distributed for them and 87%(34) of them were gave their responds. For triangulation purpose, the response of 25 borrowers were included from different branches. The summary of the major findings are as follows.

- 82.3% of the respondents were male and the remaining 17.70% were female while 70% the borrowers were male whether 30% were female

- 50% if the respondents were age of between 31 and 40 while 29.42% and 20.58% were from 21 to 30 and 41 to 50 respectively. And also 60% of the borrowers were from 31 to 40 and 35% were between 41 and 50 and the rest 5% were more than 50 years old.

-79.41% of the employee were degree holders, 17.65% and 2.94% have diploma and masters respectively. Whereas 25% of the borrowers were degree holders, 35% and 40% have Certificate and diploma respectively.

-44.11% of the respondents have more than 6 years experience and 55.9% have less than 6 years experience in the industry.

-38.23% of the respondents were loan officers, 29.41% were branch managers (supervisors), 17.65% were credit Analyst and 14.71% were loan clerk

- About 79.41% of the respondents replied that Nib International Bank faced challenges in collection of its loan.

- During loan processing, the financial analysis was not properly prepared

- 76.47% of the staffs replied that the credit policies of the bank need revision,

- The negative impact of NPL on the profitability of the bank was unquestionable; this was the response of all the staffs and borrowers.

- More than 50% of the respondents (employees) responded that the bank should recover its loan by selling the collateral if the borrowers fails to meet his/her obligation and also 40% of the borrowers were also agree on this issues while 60% of them were in between

- Even though all of the employees replied that the bank advice the borrowers to reduce the NPL but more than 50% of the borrowers were not satisfied with the consultation of the bank.

-There are many causes for a loan to be deteriorated. 26.47% of the employees replied that due to market problem, 14.71% was due to lack of follow up and 2.94% was due to diversion of borrowed fund to other purpose and also the borrowers responded that 70% was due to market problem, 25% was due to lack of follow up and 5% was because of improper estimation of collateral.

4.2. Conclusions

It is obvious that lending is the major function of banking industry. One of the most important processes that are used in processing loan is analysis of financial statement of the borrowers. Most branches of Nib International Bank did not under take timely analysis of financial statements.

The major causes for a loans and advances to be deteriorated are due to market problems, lack of continuous follow up, diversion of borrowed fund to other purpose, and over estimation of collateral.

The credit policy and manual of the bank is the major guidelines for day to day activities in the process of credit and risk management, This very crucial tool was not updated.

Before the loan was dispersed to the borrowers, proper analysis of the profitability of the borrower's business was not properly done.

The bank did not use its maximum effort at the time of estimation of collateral which is crucial to handle the customer and also for safety of loan provided if the borrower did not meet his/her obligation.

Due to different factors Nib International Bank faced challenges on collection of its credits.

Advising the borrower at most possible and continuous follow up is one of the remedy to minimize the amount of deteriorated loan or NPL. But most of the borrowers of Nib International Bank were not satisfied.

The deposit mobilization of Nib International Bank was increased from time to time. This indicates that trust of general public on the bank and also the amount of NPL was also increased due to the increased of total outstanding loan

4.3. Recommendations

Based on the outcome found in the previous chapters, the major findings and conclusions, the following recommendations were suggested to improve the credit risk and challenges faced in Nib International Bank S.C.

- It is advisable that the bank should exhaustively try to minimize the gap of loan repayment practice with its scheduled guidelines.

- It is also advisable that the credit policy and manual of the bank should up dated with the existing market situation.

- It is strongly recommended that the bank should conduct periodic financial analysis.

- It is strongly advisable that before the loan was dispersed, the bank should assess the profitability of the borrower's business to protect the market problem.

- It is strongly recommended that the Bank should carefully estimate the value of collateral of the borrowers.

- The bank should develop strong credit assessment to minimize the major causes of credit risk.

- The Bank should exhaustively advise the borrowers to minimize the non-performing loan.

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Appendix 1

St. Mary's University College

Business Faculty

Management Department

TO BE FILLED BY EMPLOYEE

This questionnaire is prepared by St. Mary's University College department of management student. The objective of this questionnaire is for partial fulfillment for requirement of B.A. degree in Management. So, your response is very important to me. The information you will fill in this questionnaire will be kept confidential and will be used only for the intended purpose. No need of writing your name. Put the mark < X > in the box you want to choose. Thank you in advance for your kind cooperation.

I. Background of the respondent

1. Sex **Male** ☐ **Female** ☐

2. Age **21 - 30** ☐ **31 -40** ☐ **> 50** ☐ **41- 50** ☐

3. Education Background

Certificate ☐ **Diploma** ☐ **Masters** ☐ **Degree** ☐

4. Your working experience in the bank

< 1 year ☐ **1-3 years** ☐ **>6years** ☐ **4-6 years** ☐

5. Your current working position

Loan Clerk ☐ **Loan Officer** ☐ **Credit Analyst** ☐

Branch Manager ☐

II. Questions directly related to the study

6. **Do you believe that Nib International Bank faced challenges in collection of its credit?**

   Yes ☐ **No** ☐ **I don't know** ☐

7. **How do you rate the adequateness of credit information exchange in the loan processing?**

   Very high ☐ **Neutral** ☐ **Very low** ☐

   High ☐ **low** ☐

8. **Do you think that staffs in credit area prepare the customer's financial analysis properly?**

   Yes ☐ **Sometimes** ☐ **Not at all** ☐

9. **Do you have enough knowledge about the credit policy and procedure of NIB Bank?**

   Yes ☐ **No** ☐

10. **If your answer is ' yes' on the above question how get this enough knowledge?**

    By reading ☐ **By taking training** ☐

    By asking immediate supervisor ☐

11. **Does the Bank give training regarding credit to its personnel's who working on credit?**

Yes ☐ **No** ☐

12. What is your opinion on the adequateness of training?

Strongly agree ☐ **Neutral** ☐ **Disagree** ☐

Agree ☐ **Strongly disagree** ☐

13. Does the credit policy of the Bank need revision?

Yes ☐ **No** ☐

14. If your answer is ' yes ' on the question no. 13, above to what extent?

All in all ☐ **Some of it** ☐

To some extent ☐

15. What is the impact of training on credit area for bank's effectiveness?

Very high ☐ **High** ☐ **Neutral** ☐

Low ☐ **Very low** ☐

16. How do you rate the loan repayment practice with the scheduled?

Very high ☐ **Neutral** ☐ **Low** ☐

High ☐ **Very low** ☐

17. If you low or Very low on question no. 16, what are the main causes for this problem?

Lack of follow up ☐ **Diversion of borrowed fund to other purpose** ☐

Market problem ☐ **Over estimation of collateral value** ☐

18. What do you think on the appropriateness of Collateral of NIB?

☐ ☐ ☐

Very Good Neutral Very Poor

Good ☐ Poor ☐

19. What is the impact of NPL on the profitability of the Bank?

Very high ☐ High ☐ Moderate ☐

Low ☐ Very low ☐

20. Do you think that NPL increase administration cost of the Bank?

Yes ☐ No ☐ I don't know ☐

How ?--

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21. What is your opinion on the Bank's benefit from sell of collateral?

Strongly agree ☐ Neutral ☐ Disagree ☐

Agree ☐ strongly disagree ☐

22. If your answer is disagree or strongly disagree on the above question no. 21, what is your reason?

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____________________________________.

23. How the Bank recover its loan from NPL?

By motivating the customer to repay ☐

From foreclosure ☐

Please mention if any

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____________________________________.

24. Does the Bank give advices to borrowers to reduce NPL?

Yes ☐ No ☐ I don't know ☐

Appendix 2

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Appendix 3

ST. MARY'S UNIVERSITY COLLEGE

BUSINESS FACULTY

MANAGEMENT DEPARTEMENT

Questionnaires to be respond by Managers

1. What can you say about loan Position of Nib International Bank?
2. Did the Bank give advise to borrowers to prevent NPL?
3. How do you evaluate the Bank's risk management policy in dealing with NPL?
4. What are the main causes and effects of NPL in NIB?
5. Does NPL affects the Profitability of the Bank? How?
6. What is the Present impact of NPL in the Bank?
7. Do you think that NPL can increase the expenditure of the Bank? How?
8. What is the remedy to minimize or reduce credit risk?

Declaration

I, the undersigned, declare that this student research paper is my original work, prepared under the guidance of Ato Zelalem Tadese. All sources of materials used to this paper have been duly acknowledged.

Name:- *Abebe Bogale*

Signature: ______________

Place of Submission: *St. Mary's University College*

Date of Submission: *June,2011*

This paper has been submitted for examination with my approval as University College advisor.

Name: Zellalem Tadesse

Signature:_____________

Date: June 22,2011