ST. MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIES

ASSESSMENT OF CREDIT MANAGEMENT POLICY AND LOAN COLLECTION PROBLEM IN CASE OF UNITED BANK S.C

BY

YONAS BERHANU

JUNE, 2017

ADDIS ABAB, ETHIOPOA

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A THESIS SUBMITTED TO ST.MARY'S UNIVERSITY, SCHOOL OF GRAUDATE STUDIES IN PARTIAL FULFILMENT OF THE REQUIRMENTS FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION IN ACCOUNTING AND FINANCE

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DECLARATION

This is to certify that the thesis prepared by Yonas Berhanu, entitled: “Assessment of Credit Management Policy and Loan Collection Problem in Case of United Bank S.C” was done with my own effort. I have produced it independently except for the guidance and suggestions of my research advisor. I assure that this study has not been submitted for any scholarly award in this or any other university.

Yonas Berhanu Signature ———————————— Date —————————

ABSTRACT

This study assessed credit management policy and loan collection problem in case of United Bank S.C. This was carried out by analyzing the bank's credit management policy and procedure towards loan collection; assess loan collectability performance of the bank, evaluate credit risk management method, examine the trend of NPLs of the bank with in the study period and identify the methods used to recover debt. The descriptive survey method was used for the study. For this study the researcher used all 60 credit related employees was select into a sample population by judgmental or purposive sampling from the total population of employees due to the specific needs of the topic which require people who have good knowledge and experience in relation to the study. Two main sources of data were used for the study namely, the primary and secondary sources of data. Questionnaires were used as the main instrument to collect the primary data on access to the bank credit management policy and procedure towards loan collection; examine loan collectability performance of the bank, evaluate credit risk management method, and identify the methods used to recover debt as well as secondary data important for examine the trend of NPLs of the bank with in the study period. The study findings revealed that lack of proper monitoring was the main factor for divisions of fund. Finally, this study ends up with some recommendations were bank should considered different loan recovery method, like periodic credit call; review the applicant's previous track record; review credit risk rating and annual review of accounts; develop evaluation method of current business activity and market, identifying and examining the causes of defaults, and should look for any attachable property.

Key words: Credit Monitoring, Credit Policy, Credit Risk Management, Loan and NPLs

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List of Acronyms

CRM	Credit Risk Management
DTS	Domestic Trade and service
FDRE	Federal Democracy Republic of Ethiopia
NBE	National Bank of Ethiopia
NPL	Non-performing Loan
SPSS	Statistical Package for Social Science
UB	United Bank S.C

Table of Content

Page

Abstract-- i

Acknowledgments-- ii

List of Acronyms--- iii

Table of Content-- iv

List of Table-- vi

CHAPTER ONE: INTRODUCTION--- 1

1.1 Background of the Study-- 1

1.2 Statement of the Problem-- 4

1.3 Research Question--- 6

1.4 Objective of the study--- 6

1.4.1 General objective--- 6

1.4.2 Specific objective--- 6

1.5 Significance of the study-- 7

1.6 Scope of the Study-- 7

1.7 Organization of the study--- 8

1.8 Definition of Terms--- 8

CHAPTER TWO: LITERATURE REVIEW--- 9

2.1 Theoretical Review--- 9

2.1.1 The Concepts of Loans--- 9

2.1.2 The nature of loan and advances granted by banks------------------------------------- 9

2.1.3 Problems of loan default-- 10

2.1.4 Causes of loan default-- 10

2.1.5 Effects of loan default--- 13

2.1.6 The Concept of Credit Management-- 14

2.1.7 Credit Culture-- 16

2.1.8 Credit Management Policy-- 17

2.1.9 Loan and loan collectability performance of finance institutions-------------------------- 18

2.1.10 Classification of nonperforming loan-- 18

2.1.11Essence of Sound Credit Management Policy-- 19

2.1.12 Credit Monitoring and Recovery Strategies--- 20

2.2 Empirical Review--- 22
2.2.1The relationship between credit management policy and credit risk-------------- 23
2.3 Conclusions-- 26
CHAPTER THREE: RESEARCH DESIGN AND METHODOLOGY------------------- 27
3.1 Research Design-- 27
3.2 Populations--- 27
3.3Sampling Procedure & Sample Size-- 27
3.3 Types of Data and Instruments of Data Collection------------------------------------- 28
3.4 Data Analysis Techniques--- 28
3.5 Ethical Consideration-- 29
CHAPTER FOUR: DATA ANALYSIS AND DISCUSSION----------------------------- 30
4.1. Overview of the Research-- 30
4.2. General Information-- 31
4.3. Credit Management Policy and Procedure-- 33
4.4. Credit Collectability Performance-- 34
4.5. Credit Risk Management Method-- 41
4.6 Factor Accounting for the incidence of NPLs in United Bank S.C--------------------- 45
4.6.1 Trend of NPLs and Loan Repayment collection-- 56
4.6.1 Analysis Trend of NPLs in Ratio--- 57
4.6.3 Credit Risk-- 58
CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATION---- 62
5.1 Summary and Conclusion--- 62
5.2 The Strengths and Weaknesses of Credit Management practices in UB----------- 64
5.3 Recommendation-- 65
Reference-- vii
Annex--- x

List of Tables

Table 1: Background of the Respondents……………………………………………. 31

Table 2: Credit management policy and procedure………………………………….. 33

Table 3: Credit collectability performance…………………………………………..… 37

Table 4: Credit risk management………………………………………………….….. 41

Table 5: Factor accounting for the incidence of NPLs………………………………. 45

Table 6: Assessed the true need of the loan (purpose)…….…………………………. 49

Table 7: Quality of credit officer……………………………….……………………. 49

Table 8: Non-compliance with credit policy…………….…………………………… 50

Table 9: Reason for non-compliance of credit policy…….………………………….. 50

Table 10: Factors account for diversion of funds……………………………………. 51

Table 11: Measurement to recover non performance…….………………………….... 52

Table 12: Credit policy important to credit problem manage……………………...... 52

Table 13: Credit recovery methods practical……………………….......................... 53

Table 14: Credit recovery methods effective……………………......................... 53

Table 15: Loan recovery policy toward effective credit management………………. 54

Table 16: Appropriate criteria for credit provision and write off……………………. 54

Table 17: Relevant of credit information…………………………………………….. 54

Table 18: Loan status classification….. 55

Table 19: Secondary source of repayment…………………………………………… 55

Table 20: Trend of NPLs and Repayment collection…………………………………. 56

Table 21: NPL Performance by sector………………………………………………… 59

CHAPTER ONE

INTRODUCTION

1. 1 Background of the Study

Not surprising, banks have an important role in the economy and the society as a whole. Their central role is to make the community's surplus of deposits and investments useful by lending it to people for various investment purposes: company growth, education, houses (Bart and Gestel, 2009).According to Brick, (2006), banks perform a very important service to all sectors of the economy by providing facilities for the pooling of savings and making them available for economically and socially desirable purposes. This is beneficial to their customers since they are rewarded by the payment of the interest on their savings, which are safe and in a highly liquid form.The main function of banks is to receive deposits from individuals who have savings these deposits are kept in various types of accounts opened in the bank. Then loan fund from those deposits to those in needs and charges interest.

In addition, banks act as brokers is between supply and demand of securities, and they transform short-term deposits into medium and long-term credits. Specialized information on financial products is gathered by banks to improve investment decisions and to manage the risk (Bart and Gestel, 2009).

Financial institution is the pillar of the financial sector of the economy, they provide financing to different groups, different sectors in the economy namely, the contractors, builder's real estates, traders, house-holds, and manufacturers. These credits will be used to reinvest in businesses and for which the owners expect to earn a return. At the same time, lenders or financial intermediaries supply credit to earn a return when these companies borrow. This process for extending credit has a multiplier effect on the global money supply, so this is why credit is a powerful driver of our backward economy.

This transformation from supply to demand side is not without risk. Banks are exposed to credit, market, operational, interest rate and liquidity risk. The appropriate management of these risks is a key issue to reduce the earnings risk of the bank, and to reduce the risk that the bank becomes insolvent and that depositors cannot be refunded (Bart and Gestel, 2009).

The lending function is considered by the banking industry as one of the most important function for the utilization of funds. Since, banks earn their highest gross profits from loans; the administration of loan collection seriously affects the profitability of banks. Indeed, large number of uncollected amount of loan or non-performing loans is the main cause of bank failure (Rehm, 2002).

According to Colquitt (2007), credit risk arises whenever a lender was exposed to loss from a borrower, or counterparty who fails to honor their contracted debt obligation, as agreed, in a timely manner. For lenders who extend credit in the form of loans, credit risk is inherent in all their business activities and is an element in virtually every product and service that is provided.

This task is not easy as it involves detailed and elaborate analysis of the documentation provided by the applicants and their collaterals mismanagement of bank resources will result in huge non-performing asset lending policies will determine the future of a country's economy as they channel funds to productive investment alternative. Therefore, there is a need of effective loan supervision where loans should be very well managed to minimize potential risks that may affect the bank's performance.

Inspector does therefore find it necessary to devote a large portion of their time and attention of bank loan portfolios. The inspector‘s evaluation of the loan portfolio involves much more than merely oppressing the individual loan therein. Careful running and administration of the overall loan account, including establishment of sound lending policies and guidelines are of vital importance if the bank is to be continuously operated in an acceptable manner.

According to Augusto, (2003), lending policies should be clearly defined and set forth in such a manner as to provide effective supervision by the directors and senior officers. In as much as board of director of every bank has the legal responsibility to formulate lending policies and to supervise their implementation. To stay profitable, examiners of banks credits should encourage establishment of and maintenance of written, up-to-date lending policies, which have been approved by the board of directors. A bank's lending policy should not be a static document, but must be reviewed periodically and revised in light of changing circumstances surrounding the borrowing needs of the bank's customers as well as changes that may occur within the bank itself. These lending policies are designed to serve only as guidelines for areas needing consideration in over-all policy evaluation.

In addition, According to Gibson (2006), management should maintain a written loan review policy that is review policy that is reviewed and approved at least annually by the board of director policy guideline should include a written description of the overall credit grading process and establish responsibilities for the various loan review function. The sources and causes of problem loans cover a multitude of mistakes a bank may permit a borrower to make, as well as mistakes directly attributable to weaknesses in the bank's credit administration and management. Some well-constructed loans may develop problems due to unforeseen circumstances on the part of the borrower; however, bank management must endeavor to protect a loan by every means possible in order to preserve it performance.

When we think about bank's role, their financial health is the most important factor and it requires decisions about what to do with loans collection problem. The solidity of bank's portfolio depends on the health of its borrowers. In many countries, failed business enterprises bring down the banking system. Among other things a sound financial system requires minimum level of uncollected portion of loans which in turn facilitates the economic development of one country. Non-performing loans have been a hindrance to economic stability and growth of the economies (Beck, 2001, sited in Joseph, 2004).

Therefore, this study was focused on to assess the credit management policy and loan collection problem in case of United Bank S.C.

1.2 Statement of the Problem

All commercial banks provide essential services as lending service and bulk of their income from loans and investments. Interest earned on funds deployed by way of credit constitutes major income of commercial banks. Credit is a risky venture for it means giving out public funds, which are callable at any time or within a short notice, because of the business sensitivity more than half percent of their liability is deposits from depositors. Banks use these deposits to generate credit for their borrowers, which in fact is a revenue generating activity for most banks. This credit creation process exposes the banks to high default risk which might lead to financial suffering including insolvency because of loan collection problem. All the same, beside other services, banks must create credit for their clients to make some money, grow and survive stiff competition at the market place. Loans are forming a greater portion of the total assets in banks. These assets generate huge interest income for banks, which is to a large extent determines the financial performance of banks (United Bank Directive, 2015)

Sound credit analysis principle was good level of collectability performance and effective credit policy management leads to growth of economy and build the confidence of customer by reducing the frequency and depth of loan problem (Koch, 1995). On the other hand poor level of credit policy management and ineffective loan collectability performance is bottleneck for economic growth and eroded the public confidence in loaning and crediting activity.

According to Moti, (2012) poor credit policy management and low loan collectability performance has become one of the challenges for finance intermediary development. In order to optimize performance, banks need to engage on good management policy and procedure. This involves crafting sound credit policy and procedure strategies that help the bank in cushioning itself against adverse effects of credit risks. In addition, banks should continuously review their credit monitoring and recovery strategies so as to ensure that losses arising from loan collection problem are minimized.

According to Brown and Tayler (1993) NPL may causes for reducing development of finance institution by reducing their capital resource, by decreasing credit rating and this will in return increasing their cost of borrowing. Non-performing loan and loan loss caused by numerous factors, such as lack of credit standard, poor portfolio management, and weakness in company have been the major causes of high level of nonperforming loans and bank losses.

According to NBE risk management revised guideline (2010) banks must have a system in place for early remedial action on deteriorating credits, managing problem credits and similar workout situations. One reason for establishing a systematic credit review process is to identify weakened or problem credits. A reduction in credit quality should be recognized at an early stage when there may be more options available for improving the credit. Banks must have disciplined and vigorous remedial management process, triggered by specific events, that are administered through the credit administration and problem recognition systems. A bank's credit policies should clearly set out how the bank will manage problem credits. Banks should document how various courses of actions should be applied. These include renewal, and extension of impaired credit facilities. The bank internal procedures should clearly set out authority limits within the organization that will have responsibility to make such decisions and how standard credit approval practices will be enhanced in the case of impaired credit.

Financial intermediaries like United Bank have collect funds from customers seeking safe, liquid and secure investment opportunities. This money in turn is invested in higher yielded credit borrowers who must meet stringent credit checks. The movement from collector to lender provides an efficient method of moving cash to more efficient usage. However, nowadays one of the most important risks is loan collection problem, which leads to increase in non-performing loans (NPLs). As the lending process affects not only the banking activity, but also the development process, risks should be avoided as much as possible. Low level of credit management policy and poor loan collection performance ultimately result in high level of nonperforming loans which affect the financial position of lending institution, erodes public confidence in the financial market and it causes depositors to withdraw their deposit from the lending institution. As per the bank's report the growth of NPL amount for the past five years starting from July 2011/12 up to July 2015/16 shows 91%, -26%, 32% and 23% sequentially.

In the same way, the main reason for not meeting the loan recovery performance target because of various reasons that this research paper to deal with. Since, loan recovery issue has gained increasing attention the last five years. The immediate consequence of large amount of loan recovery balance in the banking system is creating sever policy or operational functioning problems and it decreases the bank's opportunity in relation to take advantage the competitive environment

Among various finance institutions in Ethiopia, United Bank S.C is the one which is selected by the researcher to perform the study. This study was focused on assessed the credit management policy and loan collectability problem in case of United Bank S.C.

1.3 Research Question

The research tries to answer the following basic questions which are entirely related to credit management policy and loan collection problem in case of United Bank S.C

1. Does the bank have an appropriate credit management policy and procedures *towards loan collection*?
2. How is the bank *loan* collectability *performance*?
3. How does the bank's manage its credit risk?
4. What has been the trend of NPLs of the bank with in the study period?
5. What are the methods used to recover debts?

1.4 Objective of the study

1.4.1 General objective

The general objective of the study was to assess credit management policy and loan collection problem in case of United Bank S.C

1.4.2 Specific objective

- To assess the relevance of the bank credit management policy and procedure towards loan collection
- To assess loan collectability performance of the bank.
- To evaluate credit risk management method.
- To examine the trend of NPLs of the bank with in the study period
- To identify the methods used to recover debt.

1.5 Significance of the study

The findings of this study were benefiting a number of stakeholders; the credit managers in particular expect benefit by getting an insight on various credit monitoring strategies. This study was significantly helping them in review credit assessment procedures and policies, credit appraisal techniques among others. In addition, the findings of this study *were* assist managers in devising appropriate and effective credit recovery strategies. This could be positively impact on the overall performance by minimizing the risks associated with non-performing loans.

This study was also useful to all business enterprises involved in granting commercial credit and other users of the study. It could also useful to government institutions that were directly involved with financial institutions as it could provide a source of knowledge into the core business of banks. Investors who are interested in investing strongly in financial intermediaries and practitioners, policy makers, academicians, readers and the public should benefit from this research paper through giving their opinion and suggestion about the practice of loan giving to customers. Besides, this study help to provide general ideas and information those individual who were engaged in research activity regarding to finance institution credit management policy and loan collection problem also benefit from this study as well.

1.6 Scope of the Study

This study focuses on assessing credit management policy and loan collection problem in case of United Bank S.C. Even though, credit management policy and loan collection problem a concern of all Banks operating in the country, the paper was limited to cover only United Bank S.C's. On top of this, due to time and cost constraints, the study was focus only on respondents residing at Head Office and Addis Ababa Branches staffs of United Bank S.C

1.7 Organization of the study

The research study was organized into five chapters: Chapter one was contain the introduction part dealing with research problems, research questions and objectives, significance, scope and limitation of the study. The second chapter was discussing the review of related literatures about the subject matter. In chapter three was focus on the research design and methodology. Chapter four was focus on analysis of the subject matter to investigate and evaluate the problems. Finally, chapter five was covering the conclusions of the findings and forwards recommendations.

CHAPTER TWO

LITERATURE REVIEW

This chapter summarizes the information from the available literature in the same field of study. It will review theories of credit management policy as well as empirical studies on credit management and loan collection performance in different financial institution.

2.1 Theoretical Review

The theoretical review aims at giving the meaning of a word in terms of theories of a specific discipline. It will contribute to a better understanding of the concept and help in assuming both knowledge and acceptance of theories that relate to credit management policy and loan collection problem.

2.1.1 The Concepts of Loans

A loan is usually available on a fixed and spot basis and can be secured or unsecured. Loans are offered for specify amounts for specified periods. (Mabvure, 2012), describes loans in general are part of our major component of the total assets of every bank. The lender cannot seek repayment prior to expiry of the period unless there have been some default. In a legal sense, a loan facility is a contractual promise between a lender and a borrower where the lender usually bank consent to the granting of an amount to a borrower, who intend undertakes to resettle same to the lender either in bulk or in installments within a specified period of time.

2.1.2 The nature of loan and advances granted by banks

Commercial banks provide important services as lending service. Financial intermediaries like United Bank are collect funds from customers seeking safe, liquid and secure investment opportunities. This money in turn is invested in higher yielded credit borrowers who must meet stringent credit checks. The movement from collector to lender provides an efficient method of moving cash to more efficient usage.

Commercial bank provides different types of loan given to all types of customers mainly to businessmen and investors against personal security or movable or immovable in nature. The loan amount is paid in cash or by credit to customer account which the customer can raw at any time. The interest is charged for the full amount whether withdraws the money from his/her account or not. (Yawadu, 2015)

2.1.3 Problems of loan default

Loans are classified as problem credits when they cannot be repaid. Problem loans and losses essentially reflect the difficult risk inherent in a borrower's ability and willingness to rep process by its nature is imperfect. Credit analysis may be incomplete or based on faulty data. Loan officers may ignore the true condition of borrowing with strong personal ties with the bank, and able to repay may simply change after a loan is granted. If management concentrates solely on minimizing losses, a bank will make virtually no loans; profit will shrink and the legitimate credit needs of customers will not be met. Lenders cannot completely eliminate risks, so more loan losses are expected. The objective is to manage losses well so that the bank can meet its risks and returns targets (Orjih, 2002).

Loan defaults arise as a result of debts due to creditors but for some inherent weakness, the full or partial recovery is considered impossible. From the banker's point of view, loan default accounts receivable or credit granted to the customers of the bank but which cannot be recovered within the specified period, for one reason or the other.

2.1.4 Causes of loan default

According to Rosmary, (2013) loan defaults are caused by variety of factors, some controllable and others uncontrollable. Controllable factors are those that reflect overall bank credit policy as well as inadequate credit analysis, loan strutting and loan documentation. Uncontrollable factors typically reflect adverse economic conditions, adverse changes in regulations, environmental changes surrounding the borrower's catastrophic operation sevenths. While there and is little that can be done to prevent uncontrollable variables.

Effective credit granting procedure can significantly reduce other sources of loses. The following affects loan defaults

1. Bank-related factors
2. Customer-related factors
3. Uncontrollable factors

1. Bank-related factors:

A. Lack of in-depth knowledge of customer's banks grant Operation credit to customers based on hazy knowledge of customers operations and personality. This practice usually leads to situations whereby loans are granted to customers who have neither the willingness nor the capacity to repay the loan.

B. Excessive dependence on financial statements: The information contained in the financial statement of the customer serves as a tool for proper loan administration. The loan administrator should not work on the statements on their face value; neither or rather in-depth financial analysis of the data is required for sound decision-making.

C. Connected lending: Some lending officers in the bank provide loans to their relations or related business without considering the basic principles of lending. This practice often leads to bad and irrecoverable debts of loans.

D. Lending on overvalued securities: Often times, the securities deposited with the bank are not properly valued to reflect the current market prices. These securities are overvalued and even when they are realized; they do not cover the value of the loans.

E. Inadequate project monitoring: Incidences of bad and doubtful debts in banks may be as a result of inability to monitor and recover their loans due to lack of swell articulated and communicated loan policies to guide lending operations.

F. Inadequate knowledge of project appraisal techniques: In some banks, some lending staffs are not academically and professionally knowledgeable to appraise projects properly. Consequently, most loans granted by them become irrevocable.

2. Customer-related factors:

Most business failures result from management expertise, inadequate planning and accounting systems, outright fraud and general incompetence. In many cases, the original founder of a company is unwilling to relinquish any responsibility to subordinates.

As the company grows, the founder does not have sufficient expertise and time to handle all operational details. Because all key decisions are centralized, the firm does not react quickly to changing market conditions and does not generate new product ideas. Many companies simply outgrow their existing management skills, which are limited in the areas of accounting, finance and marketing.

A. Inadequate initial capitalization: Some businesses often run into problems shortly after beginning operations because of inadequate capitalization. Owners underestimate the costs of opening the doors for business and overestimate the speed with which they can turn out profit. By the time they recognize the problem, their capital had depleted and lenders refuse to extend additional credit.

B. High financial and operating leverage: If a company has a large amount of outstanding debt and the high percentage of its total costs are fixed it operates with a high degree of financial and operating leverage. High financial leverage exposes the firm to high interest payments that must be met when sales decline. High operating leverage exposes the firm to substantial depreciation and maintenance expenses when sales decline. In both cases, the volatility of earnings is high relative to changes in sales.

C. Misconception of bank loans: Some borrowers do not clearly understand the purpose of bank loans. They sometimes regard bank loans as windfall receipts and very much unwilling to refund them.

D. Strong Competition: To grow and remain profitable, companies must adapt to economic events. They should regularly improve existing operations and introduce new products to remain competitive. Frequently, new competitors move into a firm's market and disrupt norm a company can react either offensively or defensively. Offensive responses normally focus on marketing efforts intended to different products and segment the market. In many cases, the firm cuts prices to retain market share and may not break even.

E. Loan Diversion: Diversion of loans purposes other than those for which they are granted most often leads to bad debt. This is because the expected cash flow cannot be granted to meet up repayment schedule.

3. Uncontrollable factors

A. Economic downturn: Many firms cannot operate profitably in a declining economic environment. Their costs may be fixed because of high leverage, and their sales may deteriorate if they are not the market leaders. The resulting strain on cash flow impairs the firm's ability to repay.

B. Changes in economic policies: Changes in economic policies may affect the operations of a borrowing firm, and consequently the ability to honor loan obligations.

C. Changes in taste and preference: The customer's ability to service and repay loans may be adversely affected by shift of consumers taste away from his products. This entails decline in sales, fall in revenue and inability to refund loaned funds.

D. Natural Hazards: Some hazards, such as wars, desert encroachment, locust invasion, fire, Flood etc may affect the borrower's capacity due.

2.1.5 Effects of loan default

According to Chisom, (2012) the lending of funds deposits with banks to those who require them implied risk taking by the lending credit may not materialized as planned. The lending institution demands may be made by depositors.

If this happens, the lending institution would not be able to attain the objectives expected of them. The overall effect would be a loss of confidence in the banking system. Other negative effects of default on loan repayments are:-

1. **Loss to banks:** The un-recovered loans constitute a very heavy loss on the part of the banks. When the debts are not paid, the banks have to write them off which sometimes have significant adverse effects on the banks operations.

2. **Decline in revenue:** The interest loss adversely or affect revenue. The main activity of the banks is the granting of loans and credit to customers. They charge interest on loans and this forms a major source of revue for them. Failure to pay interest on loans means that the banks will lose substantial revenue.

3. **Distress:** In a situation where bad accumulate largely to the extent that the bank cannot write them off, it may lead to the bank becoming illiquid. After this stage, if the situation does not improve, the affected banks may become distressed and ultimately go into liquidation.

4. **Increased overhead:** When the debt foes bad, the bank may resort to legal action to receive part or the whole of the debt. The legal fee involved in most cases is usually very enormous. Regrettably, they may lose the case after spending the huge amount on litigation.

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9. Limited Credit Creation Capacity: As bad debt increase, the capital of the bank decreases and the money available to the banks for lending becomes depleted, thereby slow down the capacity of the banks to create.

2.1.6 The Concept of Credit Management

Credit management is one of the most essential activities in any company and cannot be neglected by any entity involved in the supply of credit lines no matter the nature of its business. It is the mechanism to ensure that customers will pay for the products delivered or the services rendered. (Myers and Brealey, 2003) consider it to be made up of techniques and strategies used by an enterprise to ensure that an optimal level of credit and its effective management are kept. This is one aspect of monetary administration including credit examination, credit assessment, and credit scoring and credit reports. (Nelson, 2002) considers credit management as apparently the way by which an enterprise superintends over its credit sales in a manner that creates greater opportunities for making higher profits. This is a prerequisite for any business engaged in provision of lines of credit since it is not possible to completely eliminate credit risk default.

The higher the amount of accounts receivables together with a longer duration, the greater the monetary as well as opportunity costs incurred to sustain them. If these debts are not collected promptly and urgent cash needs surface, a firm may likely resort to borrowing and the opportunity cost translates into the interest expense paid. (Nzotta, 2004) opined that credit management greatly influences the success or demise of banks and other financial institutions.

This is because the failure of deposit banks is determined largely by the quality of credit decisions and thus the quality of the risky assets. He further notes that, credit management provides a leading indicator of the quality of deposit banks‟ credit portfolio. One important precondition for effective credit management is the ability to intelligently and efficiently manage customer credit lines (Nzotta, 2004)

According to Mante, 2011) credit management involves the setting up of legal and formal systems and policies that will guarantee that the appropriately designated staff are well-positioned to grant credit, the facility goes to the people with the right credit history, the loan is given out for profitable activities or for businesses which have a strong financial and technical viability, the correct amount of credit is disbursed, the credit can be recovered and the flow of management information is sufficient within the organization to allow for effective monitoring of credit activity. He therefore viewed it as the putting in place of systems that act as a check right from the credit granting process to the point of collection.

Credit Management likewise alludes to the proficient mix of four noteworthy credit approach parameters to ensure convenient collection of advances conceded to clients and in the meantime build their trust in and devotion to the financial organization (Horne, 2007). The main variable is an evaluation of the nature of the client's record operation in the establishment. This takes into consideration the correct examination of the capacity of the clients to meet installments promptly. The second strategy variable is that of setting up the right credit period. In this manner, the bank should give sufficient time to permit loyal customers the chance of deriving the full advantages of the credit. Such period should not be too long to put the bank in a distraught position. The third parameter is the rebate or the sweetener given to clients as a way of inspiring them to reimburse their credit facilities on time. Such sweeteners must be sufficiently appealing before the goal can be accomplished.

The last variable looks at the level of expenditure that can be permitted in the recovering of debts. The inference here is that the bank should not give out credit where the cost to be spent on retrieving the obligation will probably surpass the obligation itself. To mix these variables into a proficient workable framework obliges the establishment of a watchful arrangement, controlling and coordination of all accessible human and material assets (Horne, 2007).

Office of the Controller of the Currency (2011) defined Loan portfolio management as the mechanism by which risks that are inherent in the credit granting process are controlled and effectively administered. It involves evaluating the steps taken by management of financial service providers of credit to identify and exercise adequate control over the element of risk throughout the credit delivery process. The evaluation centers' on what management does to unveil the issues before they become problems.

Credit management starts with a sale or the granting of a facility as in the case of a bank and does not stop until the full and final payment has been made. Technically a transaction cannot be termed as complete until full payment has been made. Good lending therefore ensures that the borrower follows the repayment plan set up for him in a timely and prompt manner otherwise; this eventually leads to the total loss of interest that the institution could have earned due to the opportunity cost of the loan, the risk involved and time value of money. Credit management is primarily concerned with the effective management of debtors as well as judicious financing of receivables. The objectives of credit management can therefore be expressively stated as safeguarding the portfolio of the companies‟ investments in debtors and maximizing operational cash flows. Policies and practices ought to be rigorously enforced for granting credit facilities to customers, collection of repayments that are due and limiting the high risk factor of non-payments (OCC, 2011)

2.1.7 Credit Culture

Credit culture, according to Kamath, (2010) can be defined as a banks approach to correlated to the administration of credit risk. He continued by stating that if it is to attain a healthy credit risk portfolio, it must be synchronized with the strategic direction and organizational culture of the financial institution. The culture must have the capacity to deliver the service required by the institution to meet the needs of its clients in a timely manner. It can only do this if it is in harmony with the overall strategic direction of the financial institution and is pioneered by the top echelon of the financial institution.

Because the credit culture ought to maintain a balance between assuming new risks and imposing limits on the amount of risk at the same time, it is bound to run into all of kinds of resistance. Top management is the only source that can ensure that the culture not only supports appropriate credit standards, but is also profitable enough not to cause the bank to lose out on good business. Solid credit standards, according to (Rouse, 2002) will unavoidably cost the bank some business, which in retrospect would have been beneficial. However, when the decision is being contemplated on, hindsight is unavailable. Credit culture which is an integral part of credit management takes into consideration the fact that there is some business the bank has to be willing to lose and so it becomes imperative for an agreement to be sought. This policy has to be established by management and should articulate the type and level of risk the bank is ready to accommodate and the return it expects from taking on stated risk levels, both at the customer and portfolio level.

In the view of (Gallinger and Ifflander, 2002), credit standards translate the culture into actions. They should consider the terrain of the bank‟‟ the level of preparedness of staff involved in credit decisions. This enables an effective credit management system to be implemented buoyed by a strong culture that is able to convert policies into proven results.

2.1.8 Credit Management Policy

It is defined as the tenets and systems set up by top administration that oversee the organization's credit division and investigates execution in the augmentation of credit benefits against set down procedures (Franklin, 2010). It is essentially a situated composition of rules intended to minimize expenses connected with credit while expanding advantages from it (Naughton, 1996). Credit administration arrangements involve the credit strategies, credit measures and credit terms. This policy becomes the blueprint which guides the conduct and expectations of all employees entrusted with the responsibility of granting credit and also acts as a benchmark by which performance can be measured against standards set.

2.1.9 Loan and loan collectability performance of finance institutions

Loan is an arrangement in which a lender gives money or other property to borrower and the borrower agrees to return the property or repay the money, usually along with interest at some future point in time. Usually, there is a predetermined time for repaying a loan and generally the lender has to bear the risk that the borrower may not repay a loan (through modern capital market has developed many ways of managing this risk. On the other hand loan collectability is a collection of money from clients that is received in the form of loan for specific period of time.

Nonperforming loan is the loan that is in default or close to being in default. Many loans become nonperforming after being in default for 90 days, but this can depend on the contract terms. A loan is nonperforming when payment of interest and principal are past due of ninth days or more, or at least 90 days of interest payment have been capitalized, refinanced or deployed by agreement or payment are less than 90 days overdue, but there are other good reasons to doubt that payment will be made in full. Nonperforming loan consists of the following loans:

- ✓ Loans which have been placed on non-accrual.
- ✓ Loan that are 90 days or more past due.
- ✓ Other real-estate owed which is taken by foreclosure.

To reduce amount of nonperforming loan there are several proactive measures that are being implemented such as, corporate governance, better credit information, prudential supervision of clients, efficient capable management and well developed capital market are the major measures to reduce nonperforming loan (Yawadu, 2015)

2.1.10 Classification of nonperforming loan

According to NBE directives, (2012) nonperforming loan means outstanding credit facility that are past due for more than 90 days beyond the agreed up on repayment period. Nonperforming loan and advance of micro-finance institution shall be classified in the following three categories based on the number of days the loan is past due.

- ✓ **Substandard:** nonperforming loan or advance past due 90 days or more but less than 180 days shall at minimum be classified as substandard.
- ✓ **Doubt full:** nonperforming loan or advances past due 180 days or more but less than 360 days shall be at minimum classified as doubt full.
- ✓ **Loss:** nonperforming loan or advance past due 360 days or more shall be classified as loss.

There are regulations on how long a bank or other lending institution can continue to collect “a bad debt” when that time expires, the institution must write off the loan meaning they now consider the debt uncollected. This does not mean you no longer owe the debt but it does mean that the financial institution will stop trying to collect it. Loan written off can mean that it is called “change off” meaning that the business or bank issuing the loan has released after non-payment to collection agency and has used their insurance to cover the loss. Collection agencies by delinquent loan accounts for pennies Birr owed from banks and begin their own process of collection. They make money by getting the full loan amount repaid when they may have only purchased the account for one fourth of the total owed (Kyndrad, 2005).

2.2.11The Essence of Sound Credit Management Policy

If revenue is the energy that fuels a company, credit management policy is the engine that keeps it running. The credit management apparatus acts in the capacity as a dominant force that drives income and motivation to all aspects of the organization. As the credit management system metamorphoses into a more potent and effective mechanism, it has a direct impact on the business in terms of profits and productivity (Atradius, 2013)

According to Brice, he stated that, “where you have important trading interconnections, to regularly its monitor a financial good performance practice by taking a comprehensive look at a broad range of financials and other information to establish the direction in which the company is moving towards and to identify its finance in Putting in place sound credit management, for example by scrutinizing both existing and new customers as well as consistent profiling and updating of customer data on an ongoing basis is a sensible strategy in any market, but especially in faltering economic conditions.

Credit management therefore ensures that the process of credit granting is effectively carried out by ensuring that the disbursed loan goes to the right people who possess the character and capacity to pay and also that optimal benefits are derived from the loaned funds through the regular payment of installments by customers to guarantee a solid revenue generating stream for the financial institution.

It also allows for the identification of risks that are inherent within the credit process and to be able to make adequate provision for these risks through sound underwriting principles, effective appraisal systems as well as a solid monitoring system and guaranteeing a stable liability structure predominantly funded with deposits (Atradius, 2011)

2.1.12 Credit Monitoring and Recovery Strategies

Debt recovery is the process of pursuing loans which have not been repaid and managing to recover them by convincing the loan to make attempts to repay their outstanding loans. Normally, this role of recovering loans is not an easy task as clients will go out of their way to prove inaccessible to the lender. The banking industry in most cases has a debt recovery unit which is in charge of following loans before they become delinquent and make attempts to recover the loans (Garber, 1997).

Debt recovery is a very important component of banking as it plays a key role in ensuring that the main objective of the bank results into the desired outcome of making a margin out of the loans advanced. It is evident that the presence of debt recovery puts pressure to the loan to pay up lest they get the dreaded calls from the banking staff through the debt recovery unit. Debt recovery unit is involved in the day today role of ensuring that the loans issued to the bank’s customers are repaid as per the schedule of contract signed by the customer and bank. The task of debt recovery entails compiling a list of overdue loans and proactively managing the loans by calling up customers who are defaulting. This unit is equally charged with the role of liaising with lawyers to draft demand letters to the loan defaulters and sending the same to the customers who are defaulting.

Many of the agonies and frustrations of slow and distresses credits can be avoided by good loan supervision. Supervision helps keeping a good loan good. It may be visiting the borrowers' premises to investigate the general state of affairs and maintenance of plant and equipment. Inadequate maintenance is often an early sign of financial distress. Also to be observed is the state of employee morale and the physical stock of materials and finished goods. The general business policy and advice is considered. If a bank is sanitizing to business development it can revise its own credit and loan polices as well as advising its customers. A gain keeping track of deposits and balances gives clue to the affairs of the borrowers (Key, 2002)

Debt rescheduling signifies a change in the existing terms of a loan. A financial institution should consider rescheduling a debt when it has determined that the rescheduling is in the government's interests and that recovery of all or a portion of the debt is reasonably assured. As with installment payments, before rescheduling a debt, the agency should reassess the debtor's financial position and ability to repay the debt if rescheduled. The agency should also determine if it should require the debtor to use pre-authorized debit to make payment. In regard to any repayment arrangement, the terms and conditions of the rescheduling, including the acceleration clause, must be in writing and signed by the debtor. The bank should discourage informal workout arrangements with debtors. Each bank should establish uniform policies, procedures and criteria for rescheduling and other types of workouts for each program area. Its policies and procedures should provide for the recognition of gains and losses on rescheduled accounts in accordance with the provisions of credit management standards (Maphartia, 2004).

Repossession of security is aimed at recovery of dues and not to deprive the borrower of the property. The recovery process through repossession of security will involve repossession, valuation of security and realization of security through appropriate means. All these would be carried out in a fair and transparent manner. Repossession will be done only after issuing the notice as detailed above. Due process of law will be followed while taking repossession of the property. The bank will take all reasonable care for ensuring the safety and security of the property after taking custody, in the ordinary course of the business (Umoh, 2007).

In its efforts to recover a delinquent debt, a bank may use the services of private collection agencies (Early, 2006). Private collection agencies charge fees, which are paid out of amounts collected. The creditor agency retains the final authority to resolve disputes, compromise debts, suspend or terminate collection action, and refer accounts to Credit Reference Bureaus.

The credit reference agency ought therefore to supplement and inter-pose between the lending institution/creditor and the borrower/debtor. The other point to be taken up is about levels of intervention between the creditor, debtor, and the lawyer. Lending institutions simply require seeking advisory and other services if credit activity will not be paralyzed by the phenomenon of bad debts. These services will take the shape of credit brokerage, debt adjusting, collecting, counseling, and factoring services and ultimately recovery action (Early, 2006)

Credit scoring systems can be used by the banks a credit recovery strategy. A credit score is a number that is based on a statistical analysis of a borrower's credit report, and is used to represent the creditworthiness of that person. A credit score is primarily based on credit report information. Lenders, such as banks use credit scores to evaluate the potential risk posed by giving loans to consumers and to mitigate losses due to bad debt. Using credit scores, financial institutions determine who are the most qualified for a loan, at what rate of interest, and to what credit limits (Capon, 2002).

While written communication, telephonic reminders or visits by the bank's representatives to the borrowers' place or residence will be used as loan follow up measures, the bank will not initiate any legal or other recovery measures including repossession of the security without giving due notice in writing. The Bank will follow all such procedures as required under law for recovery / repossession of security.

2.2 Empirical Review

According to Kevin Davis there is conflicting data about the true value of finance institution as developmental tools, while many finance institutions advertise high repayment rate and better quality of life for their clients. The evidence that a finance institution creates appreciable reduction in poverty is inconclusive. To makes a significant impact finance institutions must be made available to a very broad segment of society and be coupled with entrepreneurial ability on much of the joy of the movements early days has dissipated and few now see finance institutions on its own reduction for global poverty. Despite this emerging sense of realism, there is still a relatively broad consensus that providing financial service to the poor has tangible economic benefit, even if not the instant alleviation of client poverty.

Koch, (1995) mentioned that NPLs and loan loss non-performing loans and loans are caused by a Varity of factors some controllable and some are uncontrollable. Controllable factors are those factors that affect overall credit policy as well as in adequate credit analysis, loan structuring and loan documentation. The adherence to sound credit policy principle farmed by sound credit analysis can reduce the frequency and depth of loan problems. Lending difficulty can be reduced if management established all adheres to loan policy guidelines specify quantitative goals for loan production versus loan quality and indicates procedures to attain these goals.

Sindani(2012) in her study on Effectiveness of Credit Management System on Loan Performance: Empirical Evidence from Micro Finance Sector in Kenya found out that Credit terms formulated by the microfinance institutions do affect loan performance; the involvement of credit officers and customers in formulating credit terms affects loan performance. Interest rates charged had a negative effect on the performance of the loans, the higher the interest rates the lower the loan performance.

Soke Fun Ho and Yusoff (2009), in their study on credit risk management strategies of selected financial institutions in Malaysia the majority of financial institutions and banks losses stem from outright default due to inability of customers to meet obligations in relation to lending, trading, settlement and other financial transactions. Credit risk emanates from a bank's dealing with individuals, corporate; portfolio may attract liquidity as well as credit risk

Achou and Tenguh (2008) additionally directed an examination on the performance of financial institutions and credit risk administration and found that an essential relationship of huge significance existed between financial organizations performance (regarding profitability) and credit risk administration (with regards to credit effectiveness). Better credit risk administration brought about a more upbeat performance in financial institutions. Therefore, it is of fundamental importance that monetary establishments teach the propensity for reasonable credit hazard administration, protecting the resources of the organization and securing the interests of investment holders. This falls in line with one of the goals of the research work which is establish the relationship between credit management practices and institutional performance in credit granting institutions in Ghana with profitability being one of the performance measures to be utilized.

Gaitho (2010) surveyed on credit risk management practices by Saccos in Nairobi, findings revealed that majority of Saccos used credit risk management practices to mitigate risks as a basis for objective credit risk appraisal. She also found out that majority of Saccos relied heavily on the discretion and ability of portfolio managers for effective credit risk management practices as opposed to a system that standardizes credit and credit risk decisions.

2.2.1 Review of studies in Ethiopian case

Endalkachew (2005) mentioned that lending policy are the concise set of board statement established the concept and objective parameter for credit extension, the organization of lending function including approval and delegation of responsibility. Lending procedure are the detailed approvals and techniques and implementing the stated policy in terms of how credit proposal should be granted and handled, borrower financial information analyzed, credit file mentioned and up dated, control of repayment schedule performed and enforced and periodic review and reports be generated and distributed.

(Mohamed, 2005) mentioned that default culture is not a new dimension in the arena of investment. Rather in the present economic structure, it is an established culture. The redundancy of unusual happening becomes so frequent that it seems that people prefer to be as default has a multidimensional aspect. Various researchers have concluded various reasons for loan to be default. In Ethiopia a loan is classified as nonperforming loan when the principal and interest is due and uncollectable for 90 days or more beyond the schedule payment date (NBE, 2002)

According to Selamawit, (2015) the nature and purpose of each study dealing with internal determinants employ variables such size, capital, credit risk or costs. There is a significant relationship between institution performance (in terms of return on asset) and credit risk management (in terms of loan performance). Better credit risk management results in better institution performance. Thus, it is of crucial importance that institution practice prudent credit risk management and safeguarding the asset of the intuition and protect the investors interests.

According to Solomon, (2013) mentioned that credit risk management techniques and practice of NIB International Bank has conclude that credit risk management system of commercial Banks should incorporate a check and balance for the extension of credit that integrate separation of credit risk management from credit sanction, credit processing/approval from credit administration and finally establishment of an independent credit audit and risk review function.

According to Tibebu, (2011) "Credit risk management and profitability of commercial banks in Ethiopia" emphasized that Banks board of directors are responsible for each and every activities of the bank, so they need to conduct continues training for their employees particularly for credit risk management department managers and employees as well. Policy maker of banks (NBE) need to set policy, and guidelines which force banks to think over their credit policy, risk management policy and other related things.

2.3 Conclusion and research gap

The chapter reviewed literature on a wide range of issues closing on credit management policy, loan collection problem and credit risk control. It initiate by discussing theoretical concept of credit and credit management policy, loan collection problem and recovery strategy will extensively explore to bring the main issues to the fore. On top of this, both local and overseas empirical literature will also reviewing which are relate with the concept of nonperforming loan, credit risk management & recovery strategy. As shown from the literature, local studies that have been done on financial institution do not consider on the credit management policy and procedure on top of the performance of NPLs, there is therefore a gap in the empirical evidence available. This study seeks to bridge the gap.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

This research study was conduct to assess credit management policy and loan collection problem in case of United Bank S.C. It consists of research design, sampling procedure &sample size, types of data and instruments of data collection, methods of data analysis and ethical consideration.

3.1 Research Design

In this study the researcher was used descriptive type of research and the researcher tries to describe the credit management policy and loan collection problem in case of United Bank S.C. Besides, the study describes these variables by using both primary and secondary data. The primary data was collected by using distributing structure questioner to credit administration and appraisal department and credit portfolio department and secondary data was collected by using from annual reports, credit management policy, procedures and directive and other relevant document was used to analyze the extent of implementation. Finally, the collection data from both primary and secondary data were analyzed accordingly.

3.2 Population

United Bank S.C has 145 branches of which 81 are in Addis Ababa and 64 branches in regional towns as of July, 2016.For this study all 60 credit related employees directly involve credit appraisal and management department, credit portfolio/monitoring department, risk management department at head office level and branch credit committee at branch level which exist in Addis Ababa select as a total population.

3.3 Sampling Procedure

Respondents were selected into a sample population by judgmental or purposive sampling was a non-representative subset of some larger population, and is conduct to serve a very specific need or purpose. This method of sampling were useful to the research because it consumes less time as a large number of respondents are not needed; is much less expensive and also be an advantage as no statistical knowledge is required. Another reason for the usage of purposive sampling was better understood and straight forward compared to other sampling methods as the respondent was already an expert in the field and the persons sampled are also well

convenient in the topic; when employees not related with the study are eliminate since the results would expect to be more accurate.

3.3 Types of Data and Instruments of Data Collection

The type of data used for the study includes qualitative and quantitative data (mixed). Primary and secondary sources of data were used for the study. The main primary source of data is through the use of questionnaires. The questionnaire was open and close-ended. The open-ended question offer the respondents the opportunity to freely express themselves on the issues under consideration while the close ended questions was restrict the respondents on the options provide. In the case of the secondary source of data, annual reports of the bank were analyzed.

3.4 Data Analysis Techniques

The collected data was entering into Statistical Package for Social Science Software (SPSS) version to run the descriptive statistics. It was selected because of its simplicity and clarity to draw inferences. Besides, it was using averages, percentage, diagrams, and tables for the analysis of the collect data. Data analysis techniques was used both analyses tool, quantitative and qualitative. It was involved in collections of quantitative information that tabulate along a continuum in numerical form. Therefore, for this study, a combination of both qualitative and quantitative analysis was employ to describe the existing scenarios regarding loan recovery performance of the bank's in comparison against the given theoretical framework.

3.5 Ethical Consideration

Before the research was conducted, the researcher informed the participants of the study about the objectives of the study, and was consciously consider ethical issues in seeking consent, avoiding deception, maintaining confidentiality, respecting the privacy, and protecting the anonymity of all respondents. A researcher must consider these points because the law of ethics on research condemns conducting a research without the consensus of the respondents for the above listed reasons.

CHAPTER FOUR
DATA ANALYSIS AND DISCUSSION

This study was, as described in the abovementioned chapter, aimed at assess credit management policy and loan collection problem in case of United Bank S.C. The data were collected from related bank employees involved in credit and related activities (i.e. credit managers, loan officer and analysts, recovery/monitoring officers and credit committee members). The researcher gathers relevant data for the purpose of the study, questionnaire means of data instruments were employed. Therefore, the data collected from the target population of the study through these instruments were presented and discussed in this chapter. In doing so, the data gathered through the questionnaire were presented in tables.

4.1. Overview of the Research

In conducting this research used both the primary and secondary source. The primary source is conducted through the use of questionnaire. A total of 60 questionnaires were distributed to those individuals who are working in the credit and risk area of United Bank S.C. Out of the total 60 questionnaires distributed 49 questionnaires have been fully completed and returned to the researcher. Thus, the researcher believes that the returned questionnaire i.e. 87% of the total will be representative for the study under consideration.

Questionnaires were prepared in English. Accordingly, the respondents gave their responses about the extent of assessment of credit management policy and loan collection problem in case of United Bank S.C. Therefore: the data found from the respondents were analyzed and discussed in line with the research questions as follows.

Generally speaking, the analysis was done in primary and secondary data sources. The primary data were analyzed using frequency distribution tables, while the secondary data were analyzed using ratios.

4.2. Background of the Respondents

Table 1: Background of the Respondents

Variables	Variable categories	Frequency	Percentage
Gender	Male	31	63%
	Female	18	37%
	Total	**49**	**100**
Age	20-29 years	24	49%
	30.39 years	17	35%
	40.49 years	8	16%
	Above 50 years	0	0%
	Total	**49**	**100**
Educational Background	Diploma	4	8%
	Degree	33	67%
	Master and above	12	24%
	Total	**49**	**100**
Current Position	Clerical	10	20%
	Professional	23	47%
	Managerial	16	33%
	Total	**49**	**100**
Experience	0-5 years	12	24%
	6-10 years	18	37%
	11-20 years	20	41%
	Above 20 years	0	-
	Total	**49**	**100**

Source: Survey Questionnaire 2017

Note: 'F' stands for frequency and'%' stands for valid percentage value

It can be observed in the above table was that from the total 49 respondents, 31(63%) respondents were male and 18(37%) respondents were female. Thus, we can say that in the studied area (credit and risk) major respondents were male. It can be observed from table the above that 49%, 35% and 16% of the respondents were between 20 to 29, 30 to 39 and40 to 49 respectively. The above table shows that 45(92%) of the respondents own degree and above which is a good indication that the Bank is staffed by educated people. The remaining 4(8%) of the respondents own diploma. It can be seen from the frequency distribution of the respondents current position (Table-1) that the most respondents were professionallevel23(47%) followed by managerial level 16(31%) and the remaining 10(20%) clerical staffs in the respondents. This implies this study addresses the supervisory level of employees and also better knowledge and experience related with the study. Thus, the response given was highly relevant. The table above shows the percentage of the years of experience the respondents had working within the bank. The researcher asked this question because the researcher wanted to know how experienced the respondents were in terms of banking sector. In the results, the researcher notices that 12(24%) have experience working with in the bank 0-05 years, followed by 18(37%) have experience working with in the bank 06-10 years and the remaining 20(41%) have experience working with in the bank 11-20 years. This implies that most of the respondents were experienced in banking sector. This helped the researcher to reach in a correct conclusion.

4.3. Credit Management Policy and Procedure

Table 2: Credit management policy and procedure

Credit Management Policy and Procedure	Strongly Agree		Agree		Neutral		Disagree		Strongly Disagree		Total	
	F	%	F	%	F	%	F	%	F	%	F	%
I know and understand the bank credit management policy and procedure	14	29%	27	55%	4	8%	1	2%	3	6%	49	**100%**
Credit management policy and procedures frequently reviewed and updated	3	6%	17	35%	2	4%	19	39%	8	16%	49	**100%**
The bank credit management policy and procedure compatible with laws, regulation and direction issued by NBE	28	57%	9	18%	12	24%	0	0%	0	0%	49	**100%**
Credit management policy and procedures must always be used when processing loans	5	10%	14	29%	5	10%	17	35%	8	16%	49	**100%**
Credit management policy and procedure properly monitor the quality of credit portfolio	9	18%	18	37%	14	29%	4	8%	4	8%	49	**100%**
The bank credit management policy and procedure address follow up mechanism of borrowers	24	49%	20	41%	2	4%	3	6%	0	0%	49	**100%**
The bank credit management policy and procedure encourage clients to borrow and repay	8	16%	4	8%	7	14%	17	35%	13	27%	49	**100%**
The bank officially explain credit management policy and procedure properly monitor the quality of credit before granting to their customers	9	18%	5	10%	6	12%	11	22%	18	37%	49	**100%**

Source: Survey Questionnaire 2017

Note: 'F' stands for frequency and'%' stands for valid percentage value

All banks should establish with credit policy and procedure to advance the loan delivery system. According to Atradius, (2011) credit policy and procedure is the method of evaluating credit before and after loan has been granted to the customers. It was important for ensures that the process of credit granting is effectively carried out by ensuring that the disbursed loan goes to the right people who possess the character and capacity to pay and also that optimal benefits are derived from the loaned funds through the regular payment of installments by customers to guarantee a solid revenue generating stream for the financial institution.

As shown in the table respondents were asked whether you be familiar with the bank credit management policy and procedure, 14(29%) respondents strongly agree, 27(55%) respondents agree, 4(8%) respondents neutral either neither agree nor disagree, 1(2%) respondents disagree and the remaining 3(6%) respondents strongly disagree. Most of the respondents also were very familiar with the credit management and procedure of the bank; this was significant as it was evaluating credit before and after loan has been granted to the customers.

From the above table, respondents were asked whether the bank credit management policy and procedures frequently reviewed and updated, 3(6%) respondents strongly agree, 17(35%) respondents agree, 2(4%) respondents neutral neither agree nor disagree, 19(39%) respondents disagree and the remaining 8(16%) respondents strongly disagree. Most of the respondents disagree with credit management policy and procedures frequently reviewed and updated question; this was impact for the bank operation when considering today competitive and a very dynamic environment where internal and external factors influences it's every move. So, in order to go hand in hand with this changing situation, it is necessary to frequently revise and update the bank's policy and procedure manuals continually.

The researcher wants to know the bank credit management policy and procedure compatible with laws, regulation and direction issued by NBE. Thus, from the total respondents 28(57%) respondents strongly agree, 9(18%) respondents agree, and the remaining 12(24%) respondents neutral neither agree nor disagree with the question. Most of the respondents agree with the bank credit management policy and procedure compatible with laws, regulation and direction issued by NBE, In addition the loan review committee of the board shall have all duties and responsibility as stipulated in NBE directive SBB/43/2008 Article 5 state the committee shall review loans as per NBE directive at least on quarterly basis and submit its report to the board.

On the same table, respondents were asked whether the credit management policy and procedure must always be used when processing loans. Thus, from the total respondents 5(10%) respondents strongly agree, 14(29%) respondents agree, 5(10%) respondents neutral neither agree nor disagree, 17(35%) respondents disagree and the remaining 8(16%) respondents strongly disagree. Most of the respondents disagree with the issue, this was critical as it was these professional and mangers who had not work under the bank policy and procedure due to ignorance of the requirement or other different reason lead to loan default. Accordingly the bank policy and procedure has becomes the blueprint which guides the conduct and expectations of all employees entrusted with the responsibility of granting credit and also acts as a benchmark by which performance can be measured against standards set.

On the same table, respondents were asked whether the credit management policy and procedure properly monitor the quality of credit portfolio. Thus, from the total respondents 9(18%) respondents strongly agree, 18(37%) respondents agree, 14(29%) respondents neutral neither agree nor disagree, 4(8%) respondents disagree and the remaining 4(8%) respondents strongly disagree. Therefore, we can say that the majority of the respondent agreed that credit management policy and procedure properly monitor the quality of credit portfolio. According to OCC (2011) defined Loan portfolio management as the mechanism by which risks that are inherent in the credit granting process are controlled and effectively administered. It involves evaluating the steps taken by management of financial service providers of credit to identify and exercise adequate control over the element of risk throughout the credit delivery process. Accordingly, each bank needs to develop and implement a credit management policy and procedure that important for properly monitors the quality of credit portfolio monitor and control the risks inherent in its credit portfolio.

In this survey brought out that credit management policy and procedure address follow up mechanism of borrowers, Thus, from the total respondents 24(49%) respondents strongly agree, 20(41%) respondents agree, 2(4%) respondents neutral neither agree nor disagree and the remaining 3(6%) respondents strongly disagree. Therefore, we can say that the majority of the respondent agreed that credit management policy and procedure address follow up mechanism of borrowers; this shall be the fundamental lending objective of modern banks is to find the proper balance between portfolio growth and credit quality. This assures long-term profitability and increases shareholder‘s value.

‘Transactions that create value and yield adequate returns together with appropriate hedging strategies are the keys to extending business credit and maximizing earnings’ (Colquitt, 2007: 52).

On the same table, respondents were asked whether the credit management policy and procedure encourage client to borrow. Thus, from the total respondents 8(16%) respondents strongly agree, 4(8%) respondents agree, 7(14%) respondents neutral neither agree nor disagree, 17(35%) respondents disagree and the remaining 13(27%) respondents strongly disagree. Most of the respondents disagree with the issue, this was critical as it was credit management policy and procedure encourage client to borrow. Accordingly, the bank credit policy and procedure must have easy to understand and encourage customer to borrow without in the least claim about the bank policy and procedure as well to improve efficient customer service, maintain consistency in credit extension, promote transparency and control in credit decision making.

In this survey brought out that bank officially explain credit management policy and procedure properly monitors the quality of credit before granting to their customers. Thus, from the total respondents 9(18%) respondents strongly agree, 5(10%) respondents agree, 6(12%) respondents neutral neither agree nor disagree, 11(22%) respondents disagree and the remaining 18(37%) respondents strongly disagree. Most of the respondents disagree with the issue, this was critical when it was bank officially explains credit management policy and procedure properly monitors the quality of credit before granting to their customers. Accordingly, the bank credit management policy and procedure properly monitors the quality of credit before granting to their customers was important for the bank customers have better understanding about the condition of the loan before granting loan and it used to minimize non performing loan of the institution and also the bank has developed sufficient, clear and self explanatory credit processing system.

4.4. Credit Collectability Performance

Table 3: Credit collectability performance

Credit Collectability Performance	Strongly Agree		Agree		Neutral		Disagree		Strongly Disagree		Total	
	F	%	F	%	F	%	F	%	F	%	F	%
The bank has closely followed-up loan repayments and has timely reminded customers with repayment backlog as per the credit policy, applied default rates on NPLs as appropriate.	23	47%	18	37%	2	4%	6	12%	0	0%	49	**100%**
Customers pay their debt regularly	4	8%	7	14%	3	6%	28	57%	7	14%	49	**100%**
Failure to assess customer capacity to repay result in loan default	18	37%	24	49%	7	14%	0	0%	0	0%	49	**100%**
Most of the time non collateralized loans are default	9	18%	18	37%	6	12%	7	14%	9	18%	49	**100%**
Interest rate charged affect loan collection performance	21	43%	18	37%	1	2%	5	10%	4	8%	49	**100%**
Flexible repayment period improve loan repayment	8	16%	27	55%	3	6%	7	14%	4	8%	49	**100%**
Penalty of late payment enhance customer commitment to loan repayment	9	18%	17	35%	4	8%	16	33%	3	6%	49	**100%**

Source: Survey Questionnaire 2017

Note: 'F' stands for frequency and'%' stands for valid percentage value

According to United Bank Directive, (2015) loan is an arrangement in which a lender gives money or other property to borrower and the borrower agrees to return the property or repay the money, usually along with interest at some future point in time. Usually, there is a predetermined time for repaying a loan and generally the lender has to bear the risk that the borrower may not repay a loan through modern capital market has developed many ways of managing this risk. On the other hand loan collectability is a collection of money from clients that is received in the form of loan for specific period of time.

As shown in the table respondents were asked whether the bank has closely followed-up loan repayments and has timely reminded customers with repayment backlog as per the credit policy, applied default rates on NPLs as appropriate. Thus, from the total respondents 23(47%) respondents strongly agree, 18(37%) respondents agree, 2(4%) respondents neutral neither agree nor disagree, and the remaining 6(12%) respondents strongly agree. Therefore, we can say that the majority of the respondent agreed that the bank has closely followed-up loan repayments and has timely reminded customers with repayment backlog as per the credit policy, applied default rates on NPLs as appropriate. According to NBE, (2012) to reduce amount of nonperforming loan there are several proactive measures that are being implemented such as, corporate governance, better credit information, prudential supervision of clients, efficient capable management and well developed capital market are the major measures to reduce nonperforming loan. While written communication, telephonic reminders or visits by the bank's representatives to the borrowers' place or residence will be used as loan follow up measures, the bank will not initiate any legal or other recovery measures including repossession of the security without giving due notice in writing. The Bank will follow all such procedures as required under law for recovery / repossession of security.

From the above table, respondents were asked whether the customers pay their debt regularly. Thus, 4(8%) respondents strongly agree, 7(14%) respondents agree, 3(6%) respondents neutral neither agree nor disagree, 28(57%) respondents disagree and the remaining 7(14%) respondents strongly disagree. Most of the respondents disagree with whether the customers pay their debt regularly; this was impact for the bank operation leading to the higher loan delinquencies and non-performing loan portfolios. According to Van Horne (2007) establishment of the payment guidelines would give a clear indication as to when and how loans would be paid. To be able to establish effective policy guidelines, there is the need to create a tracking system that would alert debt collectors of all overdue payments; so that immediate action could be taken to collect all outstanding debts. It is also important to follow strict protocols for missed payment. This is possible if the tracking system is put in place. Considering prompt payment and writing to notify the debtors often were also regarded as the main strategies that the management had adopted in recovering credit.

From the above table, respondents were asked whether failure to assess customer capacity to repay result in loan default. Thus, from the total respondents 9(18%) respondents strongly agree, 24(49%) respondents agree and the remaining 7(14%) respondents neutral neither agree nor disagree. Most of the respondents agree with the issue, this was critical when it was bank failure to assess customer capacity to repay result in loan default. According to Poli and Puri (2013) who opined that the capacity of a customer to pay back a loan facility depends on future income streams and the disposition to repay has to be based on the pre-existent commitment that has been undoubtedly demonstrated by the borrower. However, a very good credit management policy and procedure helped in discovering certain characteristics of their customers which aided them in the credit granting decision process. The capacity of the customers was determined through the assessment of the customer's cash flow, line customer's account operation and its management was important for assessing the capacity of a customer in accessing a loan facility.

The researcher wants to know frequently non collateralized loans are default. Thus, 9(18%) respondents strongly agree, 18(37%) respondents agree, 6(12%) respondents neutral neither agree nor disagree, 7(14%) respondents disagree and the remaining 9(18%) respondents strongly disagree. Most of the respondents agree with the issue, this was risk when it was bank not used collateral coverage is assessed with related to the financial health for credit monitoring and controlling. Security is taken to mitigate the bank's risk source of repayment (Koch & MacDonald, 2003). In the banking environment, security is required among others, to ensure the full commitment of the borrower, to provide protection should the borrower default from the planned course of action outlined at the time credit is extended, and to provide insurance should the borrower default.

On the same table, respondents were asked whether the interest rate charged affect loan collection performance. Thus, from the total respondents 21(43%) respondents strongly agree, 18(37%) respondents agree, 1(2%) respondents neutral neither agree nor disagree, 5(10%) respondents disagree and the remaining 4(8%) respondents strongly disagree. Therefore, we can say that the majority of the respondent agreed that interest rate charged affect loan collection performance.

The researcher wants to know flexible repayment period improve loan repayment. Thus, 8(16%) respondents strongly agree, 27(55%) respondents agree, 3(6%) respondents neutral neither agree nor disagree, 7(14%) respondents disagree and the remaining 4(8%) respondents strongly disagree. Most of the respondents agree with the issue, this was due to the different economic cycles of customers and so having flexible repayment terms allowed them the opportunity to structure the timing of their cash flows to their repayment.

The researcher wants to know flexible repayment period improve loan repayment. Thus, 9(18%) respondents strongly agree, 17(35%) respondents agree, 4(8%) respondents neutral neither agree nor disagree, 16(33%) respondents disagree and the remaining 3(6%) respondents strongly disagree. Most of the respondents agree with the issue, this was due to the penalty for late payment which carried a charge of 3% p.a. was identified as helping to improve loan repayment by customers. This helped act as a check against default since customers were informed of the risk of incurring a higher cost for their loan if they risked defaulting on their commitment.

4.5. Credit Risk Management Method

Table 4: Credit risk management

Credit Risk Management Method	Strongly Agree		Agree		Neutral		Disagree		Strongly Disagree		Total	
	F	%	F	%	F	%	F	%	F	%	F	%
There is independent risk management policy and procedure from credit policy and procedure in your organization.	0	0%	2	4%	5	10%	24	49%	18	37%	49	**100%**
Imposing loan size limits is available strategy in credit risk management	11	22%	24	49%	2	4%	7	14%	5	10%	49	**100%**
Poor risk assessment would lead to loan default	35	71%	9	18%	5	10%	0	0%	0	0%	49	**100%**
Credit committees involvement in making decision regarding loans are essential in reducing default risk	24	49%	18	37%	7	14%	0	0%	0	0%	49	**100%**
The bank strictly monitor weekly, monthly and quarterly credit reports generated to monitor loans	17	35%	9	18%	4	8%	17	35%	2	4%	49	**100%**
The bank offer both secures and unsecure loans	27	55%	8	16%	4	8%	7	14%	3	6%	49	**100%**
The bank check and evaluate collateral before giving its clients loans	20	41%	9	18%	10	20%	8	16%	2	4%	49	**100%**
The bank strictly monitor the account movement of its customers for early corrective measure in case of a default	8	16%	6	12%	3	6%	18	37%	14	29%	49	**100%**

Source: Survey Questionnaire 2017

Note: 'F' stands for frequency and'%' stands for valid percentage value

According to Froot (1998) credit risk management can be described as a function that must be performed by a commercial bank in order to ensure that the loans it advances to its clients are orderly repaid back. The basis of a sound credit risk management is the identification of the existing and potential risks inherent in the lending activities. And also according to Naughton (1999) credit risk management is the support, control systems and other practices necessary to manage the outstanding risk assets, normal repayment and to monitor business risk properly. Credit risk management lies at the heart of commercial banking.

It remains central to the health of the banking industry and must qualify for core status with the majority of a bank' assets being in the form of loans, the lending function plays a critical role in the bank risk management.

As shown in the table respondents were asked whether there is independent risk management policy and procedure from credit policy and procedure in your organization. Thus, from the total respondents 2(4%) respondents agree, 5(10%) respondents neutral neither agree nor disagree, 24(49%) respondents disagree and the remaining 18(637%) respondents strongly disagree. Most of the respondents disagree with the issue; this was risk when it was bank not used independent risk management policy and procedure from credit policy and procedure in your organization. According to OCC (2011) identified independent risk management policy and procedure was important mechanisms of controlling credit risk as strong underwriting, extensive financial analysis, adequate appraisal techniques, credit documentation practices, and sound internal controls. These principles constitute a fundamental role in credit management as they help to ensure the sound management of credit portfolios in a manner that allows the financial institutions to maximize returns on loans granted as well as reduce economic losses from bad loans.

The researcher wants to know imposing loan size limits is available strategy in credit risk management. Thus, 11(22%) respondents strongly agree, 24(49%) respondents agree, 2(4%) respondents neutral neither agree nor disagree, 7(14%) respondents disagree and the remaining 5(10%) respondents strongly disagree. Most of the respondents agree with the issue, this was due to credit limit considerations must be taken to maximize the returns in terms of the sales and also the financial strengths of the customer to ascertain whether we will be able to pay the credit obligation. On the same table, respondents were asked whether poor risk assessment would lead to loan default. Thus, from the total respondents 35(71%) respondents strongly agree, 9(18%) respondents agree and the remaining 1(2%) respondents neutral neither agree nor disagree. Therefore, we can conclude that the majority of the respondent agreed that poor risk assessment would lead to loan default.

The researcher wants to know credit committee's involvement in making decision regarding loans is essential in reducing default risk. Thus, from the total respondents 24(49%) respondents strongly agree, 18(37%) respondents agree and the remaining 7(14%) respondents neutral neither agree nor disagree. Most of the respondents agree with the issue, this was due to credit committee's involvement in making decisions regarding loans affect monitoring and credit management there by reducing default risk leading to improvement in loan performance in the bank.

According to Churchill & Coster (2001) the establishment of a committee of persons to take decisions with regard to the granting of advances is a vital control in reducing credit (and misrepresentation) hazard. In the event that an individual has the ability to choose who will be loan beneficiaries, which advances will be written off or rescheduled, and the states of the advances, this level of influence can without much of a stretch be mishandled and concealed. So it's important of credit committee's involvement in making decisions regarding loans affect monitoring and credit management thereby reducing default risk leading to improvement in loan performance in the bank.

On the same table, respondents were asked whether the bank strictly monitor weekly, monthly and quarterly credit reports generated to monitor loans. Thus, from the total respondents 17(35%) respondents strongly agree, 9(18%) respondents agree, 4(8%) respondents neutral neither agree nor disagree, 17(35%) respondents disagree and the remaining 2(4%) respondents strongly disagree. Therefore, we can conclude that the majority of the respondent agreed that the bank strictly monitor weekly, monthly and quarterly credit reports generated to monitor loans.

The researcher wants to know the bank offer both secures and unsecure loans. Thus, from the total respondents 27(55%) respondents strongly agree, 8(16%) respondents agree, 4(8%) respondents neutral neither agree nor disagree, 7(14%) respondents disagree and the remaining 3(6%) respondents strongly disagree. Most of the respondents agree with the issue, this was due to the bank offer both secures and unsecure loans. According to United Bank Directive, (2015) unsecure loan financing is very risky unless handled with utmost care and have a clearly defined procedure. Therefore, strong policy and procedure will help the bank to have clear guideline on how to handle clean loan requests and identifies the type of loans that can be financed on clean basis.

The bank charges higher interest rates on these loans. These type of collateral used when a situation where a prominent and financially sound customer of the bank becomes incapable of getting additional finance for the mere reason that we can't offer additional collateral. The researcher wants to know the bank check and evaluate collateral before giving its clients loans.

Thus, from the total respondents 20(41%) respondents strongly agree, 9(18%) respondents agree, 10(20%) respondents neutral neither agree nor disagree, 8(16%) respondents disagree and the remaining 2(4%) respondents strongly disagree. Most of the respondents agree with the issue, this was due to the bank check and evaluate collateral before giving its clients loans. According to United Bank Directive, (2015) the properties offered as collateral are estimated or cheeked by the appropriate organ before giving loan. Buildings are estimated by the banks engineers and vehicles' and machines' insurable amount is taken as an estimated value. The estimation helps for discounting and to decide the loan able amount in addition to the business' requirement. The collateral ought to be secure, readily merchantable and that its quality ought to have the capacity to meet the obligation when sold off in the event that the borrower defaults in payment

The researcher wants to know the bank strictly monitor the account movement of its customers for early corrective measure in case of a default. Thus, from the total respondents 8(16%) respondents strongly agree, 6(12%) respondents agree, 3(6%) respondents neutral neither agree nor disagree, 18(37%) respondents disagree and the remaining 14(29%) respondents strongly disagree. Most of the respondents agree with the issue, this was due to the bank should be strictly monitoring the account operation of its customers for early corrective measures in case of default. According to United Bank Directive, (2015) the account movements' monitor reflects the normal sales activity of the business, even as the credit and debit turnover reflect the borrowers have reputable customer of the bank. The credit balance indicates the liquidity position of the borrower.

4.6 Factor Accounting for the incidence of NPLs in United Bank S.C

In table 5, the researcher used a question to ask the respondents about factor accounting for the incidence of NPLs in United Bank S.C. Many reasons were assigned to the causes of nonperforming loans in the bank. The major factors identified by the respondents were Delayed approval, Poor credit appraisal techniques, Diversion of funds, Business Failure, Wrong timing of credit delivery, Poor weather conditions, Inadequate marketing avenues, , High interest rate, Inadequate monitoring, willful default among others. Respondent were asked to rank the causes of bad loans in United Bank S.C using the scale of 1-10, with 10 being the most dominant cause, followed by 9 as the next most common factor and so on with 1 as the least dominant cause and the result are presented in table 5.

Table 5: Factor accounting for the incidence of NPLs

	Frequency of selected														
	1st	**2nd**	**3rd**	**4th**	**5th**	**Sub-Total**	**%**	**6th**	**7th**	**8th**	**9th**	**10th**	**Total**	**Rank**
Delayed approval			4	6	9	**19**	***39%***	14	10	6			**49**	**7th**
Poor credit appraisal	2	6	3	4	10	**25**	***51%***	5	4	14	1		**49**	**6th**
Diversion of funds	8	15	4	11	2	**40**	***82%***	1	5		3		**49**	**2nd**
Business Failure	5	2	11	2	7	**27**	***55%***	5	5	9		3	**49**	**5th**
Wrong timing of credit	20	12	7	4	3	**46**	***94%***	1	2				**49**	**1st**
Poor weather conditions						**0**	***0%***			3	2	44	**49**	**10th**
Inadequate marketing avenues			5	12	1	**18**	***37%***	9	12	9	1		**49**	**8th**
High Interest Rate	5	3	9	4	11	**32**	***65%***	8	4	2	3		**49**	**4th**
Ineffective monitoring	9	11	5	5	4	**34**	***69%***	6	5	3	1		**49**	**3rd**
Willful defaulter			1	1	2	**4**	***8%***		2	3	38	2	**49**	**9th**

Source: Survey Questionnaire 2017

Wrong timing of credit delivery: Sometimes, because of the delays in approving loans being requested by the customers, some business opportunities are lost before the loan amount is disbursed to the customers. When this happens and the disbursement is done in cash, because money has alternative uses, the borrowers tend to misuse these funds or at best use them for wrong or unplanned business ventures which in most cases fail to perform well. In the end they are unable to repay the loan. The respondents were to rank the causes of non-performing loans using a scale of 1-10 with 10 being the most important factor and 1 the least important factor. Out of 49 respondents who returned the questionnaires, 46(94%) times mentioned between 5th-10th scales; wrong timing of credit delivery as the 1stmost dominant cause of NPLs.

Diversion of Funds: The next factor that was cited by the respondents was diversion of funds. Diversion of funds is where funds or loans granted to undertake a particular project is used for unintended purpose. This leads to a drop in the projected cash flows and ultimately results in loan default. The respondents were to rank the causes of non-performing loans using a scale of 1-10 with 10 being the most important factor and 1 the least important factor. Out of 49 respondents who returned the questionnaires, 40(82%) times mentioned between 5th- 10th scales; diversion of funds as the 2nd dominant cause of NPLs.

Ineffective Monitoring: Debt recovery unit is involved in the day today role of ensuring that the loans issued to the bank's customers are repaid as per the schedule of contract signed by the customer and bank. Understaffing and unexciting of loan officer were the most common reasons cited as the causes of ineffective monitoring. The respondents were to rank the causes of non-performing loans using a scale of 1-10 with 10 being the most important factor and 1 the least important factor. Out of 49 respondents who returned the questionnaires, 34(69%) times mentioned between 5th- 10th scales; infective monitoring as the 3rd dominant cause of NPLs.

High Interest rate: High interest rate was only applicable to loan defaulters who have managed to pay off outstanding principal and are in default in only interest payment. If a borrower is in default of both principal and interest, then one cannot assert that high interest rate is the actually the cause of the loan default. The respondents were to rank the causes of non-performing loans using a scale of 1-10 with 10 being the most important factor and 1 the least important factor. Out of 49 respondents who returned the questionnaires, 32(65%) times mentioned between 5th- 10thscales; high interest rate as the 4th dominant cause of NPLs.

Business failure: Those from whom the researcher sought further explanation said sometimes borrowers with previous satisfactory credit record suddenly default and most of such cases are traced to business failure. The respondents were to rank the causes of non-performing loans using a scale of 1-10 with 10 being the most important factor and 1 the least important factor. Out of 49 respondents who returned the questionnaires, 27(55%) times mentioned between 5th- 10thscales; business failure as the 5th dominant cause of NPLs.

Poor credit Appraisal techniques: Poor credit appraisal techniques on the part of credit/loan officers also account for some loans becoming delinquent. They explain this to mean that some loan officers lack the skills to adequately assess a credit proposition to reasonably determine their commercial viability or otherwise. In this sense, they accept some unbendable projects which eventually fail and repayment of the loan becomes sticky. The respondents were to rank the causes of non-performing loans using a scale of 1-10 with 10 being the most important factor and 1 the least important factor. Out of 49 respondents who returned the questionnaires, 25(51%) times mentioned between 5th- 10thscales; poor credit appraisal techniques as the 6th cause of NPLs.

Delayed Approval was credit impartial committee members should devote sufficient amount of time in receiving analysis and approving or disapproving several loan application presented to them at the same time. The committed ensures that all the procedures, guidelines and directives in the credit; policy has been followed is require much time to quickly approved loan request. The respondents were to rank the causes of non-performing loans using a scale of 1-10 with 10 being the most important factor and 1 the least important factor. Out of 49 respondents who returned the questionnaires, 19(39%) times mentioned between 5th- 10^{th}scales; delayed approval as the 7th cause of NPLs.

Inadequate Marketing Avenues: were a result of inadequate market, the wares get perished or their sales may deteriorate if they are not the market leaders. The resulting strain on cash flow impairs the firm's ability to repay. The respondents were to rank the causes of non-performing loans using a scale of 1-10 with 10 being the most important factor and 1 the least important factor. Out of 49 respondents who returned the questionnaires, 18(37%) times mentioned between 5th- 10th scales; Inadequate marketing opportunities as the 8th cause of NPLs.

Willful Default: it considered being in a position to repay the loan but somehow they fail to repay the loan. It is not considered to be a major cause of loan default in United Bank S.C. and borrowers in that category are not too many. The respondents were to rank the causes of non-performing loans using a scale of 1-10 with 10 being the most important factor and 1 the least important factor. Out of 49 respondents who returned the questionnaires, 4(8%) times mentioned between 5th- 10^{th}scales; willful loan defaulters as the 9^{th}not as much of cause of NPLs.

Poor weather conditions: was explained that often times, poor weather conditions include severe drought, excessive rainfall, late onset of rains and shortened rainfall period. One or combination of these factors could lead to crop failure. Once, a farmer experiences crop failure, naturally, loan default becomes imminent. The respondents were to rank the causes of non-performing loans using a scale of 1-10 with 10 being the most important factor and 1 the least important factor. Out of 49 respondents who returned the questionnaires, any one can't mention between 5th- 10^{th}scales; poor weather conditions as the 10th not as much of cause of NPLs.

Others factors: such as difficulty in locating the houses of loan defaulters due to under-financing, and overtrading, high cost of inputs, inadequate storage facilities, excessive dependence on financial statements, high financial and operating leverage, political factor and information asymmetry were also cited as other factors accounting for the incidence of NPLs in United Bank S.C. Lacks of business management knowledge on the part of credit officers and non-compliance with the provisions of the credit policy were some of the other minor reasons cited as factors that result in loan default by the respondents.

Table 6: Assessed the true need of the loan (purpose)

Do you think the bank assessed the true need of the loan (purpose)		
Response	**Frequency**	**Percent**
Yes	18	37 %
No	31	63%
Total	**49**	**100%**

Source: Survey Questionnaire 2017

In table 6, the researcher used a yes/no question to ask the respondents about the bank assessed the true need of the loan (purpose). The results show that the amount of respondents who choose yes was 37% and the rest 63% choose no. This implies that the bank not assessed the true need of the loan (purpose). However, the bank must be discover the previous performance and the vision of the business, that is, at this stage the applicant should be encouraged to conduct a friendly chat to get all possible information about the firm and all the previous success and failure stories of the business.

Table 7: Quality of credit officer

Do you think the quality of credit officer determine the nature of appraisal and extent of NPLs		
Response	**Frequency**	**Percent**
Yes	34	69%
No	15	31 %
Total	**49**	**100%**

Source: Survey Questionnaire 2017

In table 7, the researcher used a yes/no question to ask the respondents about the quality of credit officer determine the nature of appraisal and extent of NPLs. The results show that the amount of respondents who choose yeswas69% and the rest 31% choose no. This implies that the quality of credit officer determine the nature of appraisal and extent of NPLs.

Table 8:Non-compliance with credit policy

Do you think noncompliance with credit policy account for NPLs		
Response	**Frequency**	**Percent**
Yes	29	59%
No	20	41%
Total	**49**	**100%**

Source: Survey Questionnaire 2017

In table 8, the researcher used a yes/no question to ask the respondents about noncompliance with credit policy account for NPLs. The results show that the amount of respondents who choose yes was 93.1% and the rest 6.9% choose no. This implies that noncompliance with credit policy account for NPLs.

Table 9: Reason for non-compliance of credit policy

Activities	**Frequency**	**Percentage**
Customer pressure	3	10%
Management pressure	8	28%
Ignorance of the requirements	13	45%
Other	5	17%
Total	**29**	**100%**

Source: Survey Questionnaire 2017

It can be seen from the frequency distribution of the respondent's preference about noncompliance with credit policy account for NPLs that the most respondents were ignorance of the requirements 13(45%) followed by management pressure, other and customer pressure 8(28%), 5(17%) and 5(17) respectively. This implies that ignorance of the requirements was the main cause for noncompliance with credit policy account for NPLs.

Table 10: Factors account for diversion of funds

Activities	Frequency	Percentage
Lack of proper monitoring	21	43%
Ignorance of lending terms and condition	16	33%
Over financing	8	16%
Under financing	2	4%
Other	2	4%
Total	**49**	**100%**

Source: Survey Questionnaire 2017

Note: 'F' stands for frequency and'%' stands for valid percentage value

It can be seen from the frequency distribution of the respondent's preference about factor for division of funds that the most respondents were chose lack of proper monitoring 21(43%) followed by ignorance of lending terms and condition, over financing, and under financing 16(33%), 8(16%), 2(4%) and 2(4%) respectively. This implies that lack of proper monitoring was the main factor for division of funds.

Table 11: Measurement to recover non performance

Do you think the bank has adequate measures are put in place to recover nonperforming loans		
Response	**Frequency**	**Percent**
Yes	35	71%
No	14	29%
Total	**49**	**100%**

Source: Survey Questionnaire 2017

In table 11, the researcher used a yes/no question to ask the respondents about the bank have adequate measures is put in place to recover nonperforming loans. The results show that the amount of respondents who choose yes was 35(71%) and the rest 14(29%) choose no. This implies that the bank has adequate measures are put in place to recover nonperforming loans.

Table 12: Credit policy important to credit problem manage

Do you think the bank has credit policy that clearly set out how to credit problem are to be manage		
Response	**Frequency**	**Percent**
Yes	31	63%
No	18	37%
Total	**49**	**100%**

Source: Survey Questionnaire 2017

In table 12, the researcher used a yes/no question to ask the respondents about credit policy that clearly set out how to credit problem are to be manage. The results show that the amount of respondents who choose yes was 31(63%) and the rest 18(37%) choose no. This implies that the bank has credit policy that clearly set out how to credit problem are to be manage.

Table 13: Credit recovery methods practical

Do you think credit recovery methods practical		
Response	**Frequency**	**Percent**
Yes	22	45%
No	27	55%
Total	**49**	**100%**

Source: Survey Questionnaire 2017

In table 13, the researcher used a yes/no question to ask the respondents about credit policy that clearly set out how to credit problem are to be manage. The results show that the amount of respondents who choose yes was 22(45%) and the rest 27(55%) choose no. This implies that the bank credit recovery methods difficult to applied. Credit recovery is a very important component of banking as it plays a key role in ensuring that the main objective of the bank (to issue loans) results into the desired outcome of making a margin out of the loans advanced.

Table 14: Credit recovery methods effective

Do you think credit recovery method is effective		
Response	**Frequency**	**Percent**
Yes	20	41%
No	29	59%
Total	**49**	**100%**

Source: Survey Questionnaire 2017

In table 14, the researcher used a yes/no question to ask the respondents about credit recovery method is effective. The results show that the amount of respondents who choose yes was 20(41%) and the rest 29(59%) choose no. This implies that the bank credit recovery method is not effective. According to Greuning & Bratanovic (2003) an effective credit monitoring system will include measures to; ensure that the bank understands the current financial condition of the borrower or counterparty; ensure that all credit are in compliance with the existing covenant; follow the use customer make of approved credit lines; ensure that projected cash flows on major credits meet debt servicing requirements and collateral provides adequate coverage relative.

Table 15: Loan recovery policy toward effective credit management

Do you think available loan recovery policy have assisted toward effective credit management		
Response	**Frequency**	**Percent**
Yes	49	100%
No	0	-
Total	**49**	**100%**

Source: Survey Questionnaire 2017

In table 15, the researcher used a yes/no question to ask the respondents about available loan recovery policy have assisted toward effective credit management. The results show that the amount of respondents who choose yeswas100%. This implies the bank that available loan recovery policy has assisted toward effective credit management.

Table 16: Appropriate criteria for credit provision and write off

Do you think the bank has appropriate criteria for credit provisioning and write off		
Response	**Frequency**	**Percent**
Yes	34	69%
No	15	31%
Total	**49**	**100%**

Source: Survey Questionnaire 2017

In table 16, the researcher used a yes/no question to ask the respondents about appropriate criteria for credit provisioning and write off. The results show that the amount of respondents who choose yes was 34(69%) and the rest 15(31%) choose no. This implies that the bank has appropriate criteria for credit provisioning and writes off.

Table 17: Relevant of credit information

Do you think credit information relevant for managing loan		
Response	**Frequency**	**Percent**
Yes	32	65%
No	17	35%
Total	**49**	**100%**

Source: Survey Questionnaire 2017

In table 17, the researcher used a yes/no question to ask the respondents about credit information relevant for managing loan. The results show that the amount of respondents who choose yes was 32(65%) and the rest 17(35%) choose no. This implies that the bank has credit information relevant for managing loan.

Table 18: Loan status classification

Do you think the bank has checked correctness of loan status classification (Pass, Special mention, Substandard, Doubtful and Loss)		
Response	**Frequency**	**Percent**
Yes	42	86%
No	7	14 %
Total	**49**	**100%**

Source: Survey Questionnaire 2017

In table 18, the researcher used a yes/no question to ask the respondents about the bank has checked correctness of loan status classification (Pass, Special mention, Substandard, Doubtful and Loss). The results show that the amount of respondents who choose yes was 42(86%) and the rest 7(14%) choose no. This implies that the bank has the bank has checked correctness of loan status classification (Pass, Special mention, Substandard, Doubtful and Loss)

Table 19: Secondary source of repayment

Do you think the bank has assessed secondary source of repayments other fallbacks		
Response	**Frequency**	**Percent**
Yes	10	20 %
No	39	80%
Total	**49**	**100%**

Source: Survey Questionnaire 2017

In table 19, the researcher used a yes/no question to ask the respondents about assessed secondary source of repayments other fallbacks. The results show that the amount of respondents who choose yes was 10(20%) and the rest 39(80%) choose no. This implies that the bank has not any secondary source of repayments other fallbacks.

4.6.1 Trend of NPLs and Loan Repayment collection

Table 20 Trend of NPLs and Repayment collection

Year	Total Loan Granted	%Change on Loan Granted	Amount of NPL	%Change on NPL	NPL Ratio	Total loan collected	%Change on Loan Collected
2012	1,546,265,641.08	-	62,526,196.07	-	4%	2,306,398,493.67	-
2013	2,003,787,792.29	30%	119,214,337.00	91%	6%	2,926,237,706.82	27%
2014	3,248,504,322.41	62%	87,939,504.39	-26%	3%	3,608,071,016.71	23%
2015	3,285,465,597.09	1%	116,241,385.90	32%	4%	4,746,143,485.26	32%
2016	3,294,127,563.97	0.3%	143,134,084.62	23%	4%	5,298,584,188.59	12%

Source: Annul report from credit department

The tendency of total loan granted, total collection and amount of NPLs size of UB from the period 2012 to 2016. These trends shows the increasing rate of loan granted to customers and amount of NPLs used as base to present and analyze NPLs ratio of the bank. When we look at the trend of NPLs size of the bank from the period 2012 to 2016 of recent year there is fluctuating trend from the smallest amount of NPLs in 2012 up to the highest amount in 2016. The percentage change of NPLs of the bank shows fluctuating rate.

As presented in Table 20 NPLs position of the bank sets a reduced amount of birr87, 939,504.39 in year 2014 by -26% changes on NPL compare with previous year 2013. The NPLs position of the bank sets at maximum in 2013 and 2016 accounting year was the largest amount that recorded of the bank. Based on the response from the loan follow up officers of the bank reason why NPLs set at largest in 2013 and 2016 was the bank under take poor collection effort and rescheduling of NPLs to collect loan of the year as well as other loans that recorded as NPLs in the past accounting year of the bank. However, the amount of NPL increased in 2016 which clearly implies that the measure taken to collect the loan was not effective. Besides the rapid increment of the total loan granted history at the same way the amount of total NPL in 2016 reaches 116,241,385.90 it also the highest amount of NPL in the bank from 2012 to the recent time period. The loan collectability performance of the bank was improved from the year 2015 to 2016 by 12% growth rate. However the loan granted to customers increasing by decrease rate from the year 2015 to 2016 by 0.3% growth rate.

4.6.2. Analysis of Trend of NPLs in Ratio

The Ratio NPL to amount of total loan granted over the period of 2012-2016 have fluctuating trend from the minimum ratio 3% up to the maximum ratio 6% in 2012 and 2016. As presented in table 20 the amount of NPL ratio decreased from 2013 to 2014 and increase in 2015and 2016. The annual loan report of the bank shows that the average loan granted amount of the bank increased time to time. However, when we see in the year 2013 the total loan granted amount of birr 2 billion then in the next year 2014 the amount increased in to birr 3.2 billon which means increased by 12% growth rate, but when we see the NPL ratio decrease from 6% rate in year 2013 in to 3% rate in 2014. This implies that total amount of NPLs and Ratio NPL to amount of loan has indirect relation between them.

4.6.3 Credit Risk

Credit risk is the financial exposure resulting from a banks dependence on another party to discharge an obligation as agreed and cause the bank to incur a financial loss. The bank established a credit risk management system on the basis of maximizing the return on its assets while keeping its credit exposure within acceptable limits. The bank regularly reviews its credit portfolio quality, provisioning requirement and customer exposure. A credit risk management committee is responsible for implementing the credit risk management policy of the bank. The bank loans and advance are diversified in various sectors. An analysis of concentrations of credit risk is shown below:

Table 22: NPL Performance by sector

Sector	NPL Performance by Sector			
	Jun-16	NPL % age share	Jun-15	NPL % age share
Domestic Trade Service	45,115,226.49	32%	40,515,874.02	35%
Health Service	-	-	-	-
Hotel & Tourism	1,546,064.28	1%	9,642,474.44	8%
Export	3,917,851.13	3%	1,028,901.12	1%
Import	19,824,881.54	14%	15,988,652.20	14%
Transport	3,776,158.49	3%	1,740,687.37	1%
Manufacturing	3,159,109.40	2%	16,661,029.75	14%
Building & Construction	53,273,505.81	37%	23,916,130.26	21%
Advance on Import Bills	-	-	-	-
Pre- shipment	6,000,000.00	4%	596,904.34	1%
Personal (Staff)	2,150,826.21	2%	4,908,783.08	4%
Personal (External)	1,285,461.27	1%	1,241,949.32	1%
Agriculture	3,085,000.00	2%	-	-
Total	**143,134,084.62**	**100%**	**116,241,385.90**	**100%**

Source: Annual report 2015-2016

Note: 'Amt' stands for amount and'%' stands for valid percentage value

The Bank's outstanding loan net of provision as at June, 2016 was Birr 8.53 billion making a growth rate of 0.3% from the preceding year's performance. Similarly with that of the previous year, this increment has been registered against the allocation of 27 percent of every fresh loan disbursement amount for NBE bills. Export loans stood at birr 1.76 billion or growth in percentage 21% at the end of the year from last year's 20% growth as well as show 16% of the total loan portfolio contribute. Sector wise, both manufacturing and DTS loans contribute 16% of the total loan portfolio followed by the import sector which contributes for about 16% to the total loan portfolio. The health service sectors loan insignificant contributed birr 45 million or 0.5% to the total loan portfolio. The remaining sectors contribute 47% to the total loan portfolio. The bank manages the concentration of risk through regular reviews by risk management department which is reported quarterly to senior management and the board of directors.

Out of the total NPL, the Construction sectors took the lion share both in terms of absolute value of about birr 53 million (37%). The DTS sectors follows by contributing about 45 million (32%), followed by import sector that contributes about birr 19 million (14%) to the total NPLs. In terms of NPLs ratios by sector, Construction, DTS, Import sectors has their NPLs contribution more than 83% and are categorized as high-risk categories.

More importantly as the DTS and construction sectors have significant share of about 26% of the total loan portfolio, any deterioration in the quality of these sectors will significantly affect the total credit quality of the Bank. Hence, the Bank should exercise stringent follow-up and credit granting mechanisms to them.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

This chapter summarizes and briefly discusses the findings of the study. The study was conducted with a set of research objectives as a guide. It draws conclusions on the entire work and makes recommendations for the study.

5.1 Summary and Conclusion

This study assessed of credit management policy and loan collection problem in case of United Bank S.C. This was carried out by analyzing the bank credit management policy and procedure towards loan collection; examine loan collectability performance of the bank, evaluate credit risk management method, assess the trend of NPLs of the bank with in the study period and identify the methods used to recover debt. The descriptive survey method was used for the study.

The total population of the study was all 60 credit related employees directly involve credit appraisal and management department, credit portfolio/monitoring department, risk management department at head office level and branch credit committee at branch level which exist in Addis Ababa select as a total population. For this study the researcher use all 60 credit related by judgmental or purposive sampling from the population of employees due to the specific needs of the topic which require people who is good knowledge and experience in relation to the study would select as a sample.

Two main sources of data were used for the study namely, the primary and secondary sources of data. Questionnaires were used as the main instrument to collect the primary data on access to the bank credit management policy and procedure towards loan collection; examine loan collectability performance of the bank, evaluate credit risk management method, and identify the methods used to recover debt. Secondary data important for assess the trend of NPLs of the bank with in the study period (2012 up to 2016).

The following findings were identified;

- The bank credit management policy and procedures have not frequently reviewed and updated.
- The bank credit management policy and procedure haven't used when processing analyzing loans.
- The bank credit related employees haven't officially explained credit management policy and procedure properly monitors the quality of credit before granting to their customers.
- The bank credit customers haven't pay their debt regularly
- Flexible repayment period improve loan repayment
- The bank was letdown to assess customer capacity to repay result in loan default.
- Frequently non collateralized loans are default.
- The bank hasn't any independent risk management policy and procedure from credit policy and procedure in your organization.
- The bank not assessed the true need of the loan (purpose).
- Ignorance of the bank credit requirements was the main cause for noncompliance with credit policy account for NPLs
- Lack of proper monitoring was the main factor for division of funds
- The bank credit recovery methods difficult to applied as well as not effective
- The NPLs position of the bank sets at maximum in 2013 and 2016 accounting year was the largest amount that recorded of the bank.
- The loan granted to customers increasing by decrease rate from the year 2015 to 2016 by 0.3% growth rate.
- NPL ratio decrease from 6% rate in year 2013 in to 3% rate in 2014. This implies that total amount of NPLs and NPL ratio to amount of loan has direct relation between them.
- Export loans stood at birr 1.76 billion or growth in percentage 21% at the end of the year from last year's 20% growth as well as show 16% of the total loan portfolio contribute

- The Bank's outstanding loan net of provision as at June, 2016 was Birr 8.53 billion making a growth rate of 0.3% from the preceding year's performance.
- The health service sectors loan insignificant or least contributed birr 45 million or 0.5% to the total loan portfolio.
- Out of the total NPL, the Construction sectors took the lion share both in terms of absolute value of about birr 53 million (37%). The DTS sectors follows by contributing about 45 million (32%), followed by import sector that contributes about birr 19 million (14%) to the total NPLs. In terms of NPLs ratios by sector, Construction, DTS, Import sectors has their NPLs contribution more than 83% and are categorized as high-risk categories.
- Factor accounting for the incidence of NPLs in United Bank S.C were assigned to the causes of nonperforming loans in the bank using a scale of 1to 10. The major factors identified by the respondents were ranked respectively Wrong timing of credit delivery, Diversion of funds, Inadequate monitoring, High interest rate, Business Failure, Poor credit appraisal techniques, Delayed approval, Inadequate marketing avenues, Willful default, Poor weather conditions and Other factors such as difficulty in locating the houses of loan defaulters due to under-financing, and overtrading, high cost of inputs, inadequate storage facilities, excessive dependence on financial statements, high financial and operating leverage, political factor and information asymmetry were also cited as other factors accounting for the incidence of NPLs in United Bank S.C.

5.2 The Strengths and Weaknesses of Credit Management practices in UB

It was discovered from the respondents that the credit management practices and policy of the bank had assisted in the reduction of bad loans in the books of the bank as well as allowing loan officers to follow an effective process in appraising loans due to its widespread nature. This facilitated the reduction of errors and major risks associated with appraisal and disbursement. Again, taking of strong collateral helped to provide a reduce for the bank in case of default loan history ensured that high-risk customers do not have access to huge facilities whilst low risk and dependable customers could access higher amounts whenever necessary.

Some of the weaknesses of the credit management practices that were enumerated included the strict nature of some of the requirements which resulted in a lot of people not qualifying for a loan. This ended up driving away a lot of potentially good customers. Requirements such as the provision of a cash collateral ended up pushing a lot of customers away since they considered it as a reduction in the total amount they were requesting for and therefore unable to fully meet their working capital demands. Again one challenge that was identified was that the credit granting process involved a lot of paper work and procedures making it very long and cumbers some for both the credit officers and the customers. This was found to be a disincentive as it drawn out the time it took for people to access loans thereby leading to higher default rate sometimes.

5.3 Recommendation

Based on the forgoing major findings of the study the following recommendation can be made for further growth and effective credit policies and loan collectability performance of the bank.

- Credit management policy and procedures frequently reviewed and updated, if not this was impact for the bank operation when considering today competitive and a very dynamic environment where internal and external factors influences it's every move. So, in order to go hand in hand with this changing situation, it is necessary to frequently revise and update the bank's policy and procedure manuals continually.
- Professional and mangers who had not worked under the bank policy and procedure due to ignorance of the requirement or other different reason lead to loan default. So, in order reduce this cause the credit management policy and procedure must always be used when processing loans
- The bank credit policy and procedure must have easy to understand and encourage customer to borrow without in the least claim about the bank policy and procedure as well to improve efficient customer service, maintain consistency in credit extension, promote transparency and control in credit decision making.
- The study indicated that the bank credit policy defines the responsibility and authority of credit department employees but, it is better to address other department employees that participate in credit extending and collection process like finance and law extending credit to customers.

- One of the strong recommendations that have been presented is that management needs to put in place measures to ensure that credit officers comply fully with the credit delivery policies of the bank.
- The bank credit management policy and procedure properly monitors the quality of credit before granting to their customers was important for the bank customers have better understanding about the condition of the loan before granting loan and it used to minimize non performing loan of the institution and also the bank has developed sufficient, clear and self explanatory credit processing system.
- Establish effective policy guidelines, there is the need to create a tracking system that would alert debt collectors of all overdue payments; so that immediate action could be taken to collect all outstanding debts
- The bank should give sufficient training to the customers on loan usage.
- Identified independent risk management policy and procedure was important mechanisms of controlling credit risk as strong underwriting, extensive financial analysis, adequate appraisal techniques, credit documentation practices, and sound internal controls.
- The bank should checks the borrower history before granting loans and properly assessed the customer ability to meet obligations in credit processing or appraisal system and properly assess the customer ability to meet obligations.
- Credit recovery is a very important component of banking as it plays a key role in ensuring that the main objective of the bank (to issue loans) results into the desired outcome of making a margin out of the loans advanced.
- The bank should regularly undertake stress testing on the overall credit portfolio.
- The bank should focus on creating and maintaining a clear communication, fast, and sharp communication between management team and stakeholders ways of effective communication to credit risk of the Bank.
- Follow up the implementation credit policies and standards that conform to regulatory requirements and the bank's overall objectives and improve the miss implementation of the bank credit management policies or procedure. Cope up to the changes of credit management policies with the regulatory body or organ.
- Having a good credit policy is not guaranty for having quality loans. So, the bank should work with its credit policy to achieve long term objectives of the bank.

- The bank should emphasis in portfolio management, loan review policy, diversification, and other tools like credit audit and problem loan management as a technique / instrument of credit risk management in addition to collateral.
- Since, poor credit risk management is the main consideration in case of banks' unsatisfactory performance and often the reason of bankruptcy, the bank should strength the system of managing problem credit.
- It is necessary that bank participate actively in operations of the credit referencing bureau by providing the centre with relevant information on the borrowing of customers. This will enable the bank to share information on the recalcitrant borrowers and reduce the risk of default. Also, customers with bad credit history could then be denied credit and improve the loan quality of the bank.
- The study indicated that NPLs of 2013 and 2016 increased due to weak rescheduling system and with less collection effort. So, the bank strengthens its rescheduling and collection system of loan and advances.
- The bank should considered different loan recovery method, like periodic credit call, review the applicant's previous track record; review credit risk rating and annual review of accounts; develop evaluation method of current business activity and market, identifying and examining the causes of defaults, and should look for any attachable property. This all investigation helps for taking quick action to correct the problem that makes the loan Non Performing. The corrective Actions are convincing the customer to clear his/her irregularities without taking any further action; reschedule of the outstanding loan for further period; injection of additional finance; voluntary liquidation of assets and foreclosure and write-off

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ANNEX

St. Mary's University

School of Graduate Studies, MBA Program

Questionnaire

Dear respondents,

This is a questionnaire designed to gather data on ***Credit Management Policy and Loan Collection Problem in Case of United Bank S.C*** which will be used as an input for a thesis in a partial fulfillment of Master of Business Administration (MBA) in Accounting and Finance. To this end, it intends to gather information from related bank employees involved in credit and related activities (i.e. credit managers, loan officer and analysts, recovery/monitoring officers and credit committee members). The participation is fully on voluntary basis, and your accurate and frank responses are imperative for the successful accomplishment of the study. Please be assured that your responses will be treated in a strictly confidential manner, and the results will be used only for the purpose of this research. Kindly, therefore, return the questionnaire upon completing each item appropriately.

Thank you in advance. Respectfully;

For further information and need my assistance while you fill the questionnaire please contact me:**E-mail:**yonivan80@gmail.com
Mobile: 0912 05 56 37and **IP Address: 10.120.1.57**

Thank you for your cooperation

Yours sincerely

Yonas Berhanu

General Instruction

- No need to write your name
- Please put a tick (√) on the space provided
- Select the appropriate answer and circle
- For questions that need further explanations please use the space provided under each section.

Part I. Background of the respondents

1. Sex Male ☐ Female ☐
2. Age group 20 – 29 ☐ 30 – 39 ☐ 40 – 49 ☐ above 50 ☐
3. Highest Educational Level Obtained

   Diploma ☐ Degree ☐ Masters and above ☐
4. Current position

   Clerical ☐ Professional ☐ Managerial ☐
5. Bank related work experiance

   0-5 Years ☐ 6-10 Years ☐ 11-20 Years ☐ above 20 Years ☐

Part II. Research related questions

Please provide your level of agreement using the following rates (where**1=** Strongly Agree, **2**= Agree, **3**= Neutral, **4**= Disagree and **5**=Strongly Disagree)

1. Credit Management Policy & Procedure	**1**	**2**	**3**	**4**	**5**
I know and understand the bank credit management policy and procedure					
Credit management policy and procedures frequently reviewed and updated					
The bank credit management policy and procedure compatible with laws, regulation and direction issued by NBE					
Credit management policy and procedures must always be used when processing loans					
Credit management policy and procedure properly monitor the quality of credit portfolio					
The bank credit management policy and procedure address follow up mechanism of borrowers					
The bank credit management policy and procedure encourage clients to borrow and repay					
The bank officially explain credit management policy and procedure properly monitor the quality of credit before granting to their customers					

2. Credit Collectability Performance	**1**	**2**	**3**	**4**	**5**
The Bank has closely followed-up loan repayments and has timely reminded customers with repayment backlog as per the credit policy, applied default rates on NPLs as appropriate.					

Customers pay their debt regularly					
Failure to assess customer capacity to repay result in loan default					
Most of the time non collateralized loans are default					
Interest rate charged affect loan collection performance					
Flexible repayment period improve loan repayment					
Penalty of late payment enhance customer commitment to loan repayment					

3. Credit Risk Management Method	**1**	**2**	**3**	**4**	**5**
There is independent risk management policy and procedure from credit policy and procedure in your organization.					
Imposing loan size limits is available strategy in credit risk management					
Poor risk assessment would lead to loan default					
Credit committees involvement in making decision regarding loans are essential in reducing default risk					
The bank strictly monitor weekly, monthly and quarterly credit reports generated to monitor loans					
The bank offer both secures and unsecure loans					
The bank check and evaluate collateral before giving its clients loans					
The bank strictly monitor the account movement of its customers for early corrective measure in case of a default					

4. Non-Performing Loan Trend

4.1 How will you rank the following factors as causes of NPLs using a scale of 1 to 10, with 10 being the highest and 1, the lowest?

(I). Delayed approval ☐

(II). Poor credit appraisal ☐

(III). Diversion of funds ☐

(IV). Business Failure ☐

(V). Wrong timing of credit ☐

(VI). Poor weather conditions ☐

(VII). Inadequate marketing avenues ☐

(VIII). High Interest Rate ☐

(IX). Ineffective monitoring ☐

(X). Willful defaulter ☐

(XI). Others please specify......................................

4.2 Do you think the bank assessed the true need of the loan (purpose)?

YES ☐ NO ☐

4.3 Do you think the quality of credit officer determine the nature of appraisal and extent of NPLs? YES ☐ NO ☐

4.4 Do you think noncompliance with credit policy account for NPLs?

YES ☐ NO ☐

4.5 If yes to above, which of the following account for that?

(a) Customer pressure

(b) Management pressure

(c) Ignorance of the requirements

(d) Others, please specify ……………………………

4.6 Which of the following factors account for diversion of funds?

(a) Lack of proper monitoring

(b) Ignorance of lending terms and conditions

(c) Over financing

(d) Under financing

(e) Other please, specify……………………………

4.7 Are there any particular reasons for your answer in above? Please specify

…………………………………………………………………………………………

…………………………………………………………………………………………

4.8 Do you think the bank has adequate measures are put in place to recover non performing loans? YES ☐ NO ☐

4.9 What are the measures put in place by management to help reduce the incidence of NPLs?

(a) ……………………………………………………………………………………

(b)……………………………………………………………………………………

(c) ……………………………………………………………………………………

(d) ……………………………………………………………………………………

5. Method Used to Recover Debt indicate

5.1 Do you think the bank credit policy that clearly available how to credit problem are to be manage? YES ☐ NO ☐

5.2 Do you think credit recovery methods practical? YES ☐ NO ☐

5.3 Do you think credit recovery method is effective? YES ☐ NO ☐

5.4 Do you think available loan recovery policy have assisted toward effective credit management? YES ☐ NO ☐

5.5 Do you think the bank has appropriate criteria for credit provisioning and write–off?
. YES ☐ NO ☐

5.6 Do you think credit information relevant for managing loan? YES ☐ NO ☐

5.7 Do you think the bank has checked correctness of loan status classification (pass, specialmention, substandard, doubtful, and loss?) YES ☐ NO ☐

5.8 Do you think the bank has assessed secondary source of repayments other fallbacks?
. YES ☐ NO ☐

5.9 What are the methods used to recover debts?

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