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St. Mary's University

The Assessment of Credit Management Performance in Emerging Private Commercial Banks in Ethiopia: the Case of Berhan International Bank S.C

A THESIS SUBMITTED TO THE SCHOOL OF GRADUATE STUDY IN THE PARTIAL FULFILLMENT OF THE REQUAIRMENT FOR THE DEGREE OF GENERAL MASTER'S OF BUSINESS ADMINISTRATION (MBA)

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The Assessment of Credit Management Performance in Emerging Private Commercial Banks in Ethiopia: the Case of Berhan International Bank sc.

DECLARATION

I hereby declare, that the thesis report entitled, ” *The Assessment of Credit Management Performance in Emerging Private Commercial Banks in Ethiopia: the Case of Berhan International Bank S.C*” written and submitted by me to School of Graduate Study (St. Mary’s university), in partial fulfillment of the requirements for the degree of **MASTERS OF GENERAL BUSINESS ADMINISTRATION (MBA)**.this is my original work and conclusions drawn are based on the material collected by me.

I further declare that this work has not been submitted to this or any other university for the awards for of any other degree, diploma or equivalent course.

Tekeste Gebrekidan

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STATEMENT OF CERTIFICATION

This is to certify that Tekeste Gebrekidan has carried out this research work on the topic entitled “*The assessment of credit management performance in emerging private commercial banks in Ethiopia: the case of Berhan International Bank S.C*” under my supervision. This work is original in nature and it is sufficient for submission for the partial fulfillment for the award of Master in general business administration (General MBA)

Advisor Zenegnaw Abiy (PHD)

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This is to certify that the thesis prepared by Tekeste Gebrekidan, entitled: *Assessment of Credit Management Performance in Emerging Private Commercial Banks in Ethiopia: the case of Berhan International Bank S.C* and submitted in partial fulfillment of the requirements for the Degree of Masters of general business administration(MBA) complies with the regulations of the University and meets the accepted standards with respect to originality and quality.

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DEDICATION

“This piece is dedicated to my lovely mother, Rediate (Buze) Teklu who passed away in the middle of the study. Missed you”!

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ABSTRACT

This research paper presents the assessment of credit management performance in emerging private commercial banks in Ethiopia: the case of Berhan international bank S.C. The main purpose of this study was to asses the performance of credit management of Berhan International Bank as compared to National Bank requirements vis à vis its loan policy and procedures. A survey study research design of one private Bank, Berhan International Bank, was employed in this paper. The methodology used for the study is population census for bank staff and convenience non-probability sampling for clients to verify the bank respondents as the bank is the main study. Questionnaires were used to collect data for the study and the data is carefully coded and entered to SPSS ver. 20 software and analysed by descriptive statistics. Bank staff and clients involved in lending and borrowing activities participated on the questionnaire. The major findings of the study show that impeding loan growth and rising loan clients complaint on the bank are regarding the lengthy of loan processing, amount of loan processed and approved, loan period, and discretionary limits affecting the performance of credit management. The overall credit management activity of the bank needs improvement in devising a strong follow-up unit, devising an office that can control the condition and sanctionsat each approval document, establishing coordination among work units. Consequently, the bank should conducted monitoring visit before and after disbursement of the loan, shortening of loan processing and advice customers and give technical support that help to minimize loan loss and diversion of loans.

Key Words; *credit management, Performance, Emerging Private Banks, Policy, BIB*

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ACRONYMS/ABBREVIATION

BIB- Berhan International Bank S.C.

CM- Credit Management

DB – Dashen Bank

FIS- Financial Institutions

NBE- National Bank of Ethiopia

NPLS- Non Performing Loans

SC- Share Company

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

A strong financial system is very important for a country to develop. The economic progress of a nation and development of banking are invariably interrelated. The banking sector is an indispensable financial service sector supporting development plans through channeling funds for productive purposes and supporting financial and economic policies of the country (Rajaraman and Vasishtha, 2002).

The banking sector plays a key role in the development of an economy. The development role undertaken by the banking sector determines the step for the development of the economy. Hence the stability of the banking sector is key for the development of an economy. The primary function of a bank is to mobilize deposits from surplus units to deficit units in the form of loans and advances to various sectors such as agriculture, industry, personnel and governments. However, in recent times, the banks have become very cautious in extending loans due to non-performing assets (Sontakke and Tiwari, 2013). Therefore, commercial banks are one of the banking sectors which are the main source of funding to fund business activities as well as other projects throughout the country. As noted by Handerson (1998), they play a vital role to emerging economies where most borrowers have no access to capital markets. Thus, they are considered as an intermediary between the depositors and borrowers.

While providing credit as a main source of generating income, banks take many issues into consideration as factors of credit management which help them to minimize the risk of default that results in financial distress and bankruptcy. When banks provide credit, they are exposed to the risk of default (risk of interest and principal repayment) which needs to be managed effectively to acquire the required level of loan growth and performance.

The types and degree of risks to which banks are exposed depend upon a number of factors such as their size, complexity of the business activities and volume. It is generally believed that banks face credit, market, liquidity, operational, compliance/legal/ regulatory and reputational risks. Of these, credit risk is known to have an adverse impact on profitability and growth. Hence, the success of

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most commercial banks lies on prudent credit management including robust risk mitigating strategies at the right level.

Charles (1999) stresses the importance of credit management as follows: credit management process deserves special emphasis because proper credit management greatly influences the success or failure of financial institutions. This indicates that credit provision should be accompanied by appropriate and attractive credit policies and procedures that enhance performance of credit management and protects the banking industry from failure.

For the banking sector, credit management means the total process of lending starting from inquiring potential borrowers up to recovering the amount loaned. For the banking sector, credit management is concerned with activities such as accepting applications, loan appraisal, loan approval, monitoring and recovery of non-performing loans (Shekhar, 1985).

According to Hettihewa (1997) credit management is extremely important as granting credit is considered to be the equivalent of investing in a customer. However, payment of the debt should not be postponed for too long as delayed payments and bad debts are a cost to the company. Thus, efficiency and effectiveness in performing each steps of loan processing using various parameters has a significant effect on the performance of credit management.

In the last few years, investment and business activities involving both public and private sectors in Ethiopia underwent encouraging development in investment and business activities, paving the way for a growing banking industry (NBE, 2011). Berhan International Bank Share Company is one of the emerging financial institutions engaged in providing short and medium term credit, like other commercial banks in the country. Since its establishment in 2009G.C, Berhan Bank has been striving to exploit all such opportunities towards achieving its corporate goals. The bank has been providing only short and medium term loans and advances to its customers.(BIB Annual report, 2015). The bank has been playing a significant role in providing loans and advances to its customers that enhance the investment needed in the country and as a means of generating income for its shareholders.

According to Hempel (1994), credit management is the most important function of the banking industry. Though risky and difficult, it's the most profitable function performed by banks. The key strategic value a bank adds has always depended on its ability to manage credit. This cannot be done

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properly without an effective risk assessment, control and follow up strategy. A strong and effective credit management process is one that reinforces and compliments its corporate objectives and goals. The main problem that banks encounter in credit administration is that some of the granted credit facilities are not re-paid leading to a loss of depositor's funds and emergence of bad debts.

Therefore, it becomes a matter of compelling urgency to evaluate BIB's credit management performance. Since the Non-Performing Loan (NPL) position of the bank gets increment in five reported financial periods.

1.2 STATEMENT OF THE PROBLEM

One of the primary roles of commercial banks is to advance credit to their customers. However, not all borrowers honor the agreement between them and the banks in regards to loan repayment. Some end up defaulting on loan repayment and the banks concerned suffer from bad debts. It is asserted that bad debts destroy loans which are the bank's earning assets and as such negatively compromise the banks' profitability. The higher the volume of bad debts written off from the profit of the bank the lower the net profit and thus, the amount available for distribution as dividends to shareholders, this also limits the amount ploughed back into the business (Basil, 2013).

Most of the studies conducted on credit management in Ethiopia are focused on big banks. Habtamu (2015) assessed factors affecting non-performing loans in five big Private Commercial banks. His study of the five big (peer 1) private commercial banks focused on Awash International Bank S.C, Dashen Bank S.C, Bank of Abyssinia S.C, Wegagen Bank S.C and United Bank S.C. Yihnalem (2015) also conducted research on the credit monitoring activity and asset quality of Dashen Bank which is one of the largest private commercial banks in the industry. It is safe to say that there are no studies conducted on newly emerging commercial banks, specifically on Berhan International Bank (BIB) even though all banks are suffering from the problem of non-performing loans. The researcher's investigations made in the area unveiled that no empirical research that looks into and evaluate credit management performance of emerging private commercial banks in Ethiopian except the very single case study made on Wegagen Bank Sc. Tigray Region (Hagos, 2010). As observed above there are few studies on emerging banks on credit management which engaged the bank and credit clients. For the reason that , the researcher motivated to make an assessment on credit management in BIB and

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to deliver the first initial reference document for those who are interested in carrying out similar studies on this bank or other banks and credit institutions in the industry.

On top of that, as Table 1.1 indicates, in year 2011 the total NPL was 9.8 million and the figure shows an increment of 14.4 million (47%) in year 2012. Further increases were reported for the year 2013, 2014, and 2015 as 23.6 million, 42.7 million and 82.7 million which represent 63%, 81% and 93% respectively. Consequently, BIB's non-performing loans have shown an increasing trend which clearly reveals that there is a problem of credit management in the bank.

Table 1.1 Trend of NPL

Year	Amount of Loan *	Amount NPL**	Percentage of Increment
2010	151,194,041	–	–
2011	328,106,951	9,843,208	–
2012	499,551,098	14,484,288	47%
2013	967,593,820	23,609,389	63%
2014	1,183,000,000	42,732,994	81%
2015	1,601,834,151	82,474,678	93%

*Annual Report 2010-2015

**Annual Internal Performance Report 2010-2015

Therefore, in light of the above facts and research gaps, the principal concern of this study is to assess credit management Performance in Berhan International Bank Share Company.

1.3 RESEARCH QUESTIONS

In order to achieve all the research objectives the following research questions are presented.

1. How consistently does the bank comply with its own policy and procedures in entertaining loan applications, loan processing, and collecting?
2. To what extent is the bank accelerating the performance of credit management in line with the policy and National Bank requirements?

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3. What credit management factors were applied for the improvement of the declining of performance loan of the bank?
4. What action has Berhan Bank taken so far to control or minimize the bank's non-performing loans?
5. To what extent is the bank building up quality loans thereby arresting non-performing loans in line with its policy and National Bank's requirement?

1.4 OBJECTIVES OF THE STUDY

The main objective of the study is to assess the performance of loan management of Berhan International Bank as compared to National Bank requirements vis à vis its loan policy and procedures. The study specifically seeks to achieve the following objectives:

- To evaluate the credit monitoring process in Berhan International Bank
- To assess the loan provision of the bank
- To assess the loan follow-up strategy of Berhan International Bank
- To evaluate the credit collection practice of the bank
- To assess the Bank's credit quality as compared to National Bank's requirements and its credit policy.

1.5. SIGNIFICANCE OF THE STUDY

The strength and soundness of the banking system primarily depends upon the health of the advances. Therefore the ability of banks to formulate and adhere to policies and procedures that promote credit quality and curtail nonperforming loans is the means to survive the stiff competition. The inability to create and build up quality loans and credit worthy customers leads to default risk and bankruptcy as well as hampers economic growth of a country.

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Consequently, the findings will be useful to emerging banks including Berhan International Bank management and staff who will be able to understand the credit management practices that contribute to the performance of the bank and ensure that they undertake acceptable banking credit practices and procedures and also facilitate bank customers to understand and appreciate credit management practices instituted by banks so as to adhere to prudential banking practices.

The National Bank of Ethiopia may use this study to design and improve the current credit risk management framework for all commercial banks in Ethiopia. The findings of this study may be of value to literature review in terms of broadening minds in this area.

The study will also add to the already existing body of knowledge thereby benefitting academics and researchers. The study will further provide background information to research organizations and scholars and identify gaps that will help act as a benchmark for researchers who are interested in the area to extend it further.

1.6. SCOPE AND LIMITATION OF THE STUDY

The study focused on Berhan International Bank Share Company which is one of the emerging private commercial banks in Ethiopia. The study covers loan policies, procedures, and credit operations and management of the bank in comparison and contrast to National Bank directives and policies. It also assesses whether the loan growth and performance is to the required level for the bank. In addition, the study concerns itself with identifying the major reasons for best practices of loan management, loan growth and causes of loan default in the bank. The study also limits itself to examining the assessment of credit management practices of Berhan International Bank and finding out the problems encountered in this process. All 41 branches in Addis Ababa, Head office credit departments and selected branch clients were target respondents as of 2016.

The Confidentiality nature of credit documents, access to customer and banks information except officially disclosed financial information, respondents reluctance to feel the questioner and gave their genuine opinion, time and financial constraints were the major limitation of the study.

1.7 . ORGANIZATION OF THE STUDY

This study is organized in five chapters. The first chapter deals with background of the study, statement of the problem, research question, objectives, significance of the study, scope and limitation of the study and organization of the study. Chapter two presents review of related literature and empirical studies. In chapter three research design and methodology are presented. Chapter four deal with data presentation, analysis and interpretation. Chapter five concludes the study with summary of findings, conclusion and recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.1 THEORETICAL LITERATURE REVIEW

This chapter describes and documents what has been written and recorded in different manuals, literatures and authors about Bank Credit Management.

2.1.1 DEFINITION OF CREDIT

The word credit is derived from the Latin word *Creditum*, which means to believe or trust. In economics, the term credit refers to promises by one party to pay another for money borrowed or goods or services received. It is a medium of exchange to receive money or goods on demand at some future date (Jhibgan, 2002).

Another definition claims that the word credit originated from the Latin word “*Credo*” which means ‘I Believe’. Credit is a matter of faith in the person and no less than the security offered. Credit is purchasing power not derived from income, but by financial institutions either as an offset to idle incomes held by the depositors in the bank, or as a net addition to the total amount of purchasing power. In fact, no economy can function without credit. These days all economic transactions are settled by means of credit instruments. It is the very life blood of modern business and commercial system (Cole, 2000).

2.1.2. TYPES OF CREDIT

Depending on the length of time, for which the loan is outstanding, credit can be classified in three categories: Long term and Medium term credits. Credit transactions on the basis of whether or not the lender received collateral security, they can be classified as secured loan and/ unsecured loans.

According to Clemens and Dyer (1977) cited in Kokeb (2010) Secured loan is guaranteed by collateral which is an item of equal or greater value than the amount of the loan, such as a car, home, or cash deposit. It is a secondary source of payment and is recommended for more than 75% of the bank’s loan. No loan should be granted based on the value of the collateral without a clear indication of a stable primary source of repayment.

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Unsecured loan: It may be granted to customers with established characteristics of ability to repay. The purpose of the loan and the source of repayment must be clearly understood. Generally, unsecured should not exceed 25% of the net worth. These may be available from financial institution under many different guides or marketing packages; may also be granted to customers with established characteristics and ability to repay (Westerfield, 1993).

2.1.3 DEFINITION OF CREDIT MANAGEMENT

There are many definitions given for credit management (CM) by different scholars. Among them, some are provided as follows:

According to Nath (2013) Credit management in a bank is a dynamic sector where a certain standard of long-range planning is needed to allocate the fund in diverse field and to minimize the risk and maximizing the return on the invested fund. The objective of the credit management is to maximize the performing asset and the minimization of the non-performing asset as well as ensuring the optimal point of loan and advance and their efficient management

Credit management is implementing and maintaining a set of policies and procedures to minimize the amount of capital tied up in debtors and to minimize the exposure of the business to bad debts (Hagos, 2010). When it functions efficiently, credit management serves as an excellent instrument for the business to remain financially stable and profitable. Credit management is also the process of controlling and collecting payments from customers. This is the function within a bank or company to control credit policies that will improve revenues and reduce financial risks.

Wise (2014) describe credit management as the process of building a series of investments based upon credit relationships and managing the risks involved with these investments. Therefore, credit management encompasses assessing the risk involved with each loan and then analyzing the total amount of risks for all loans. The major objective of credit management is to reduce the amount of loans default. Banks reduce the loan portfolio default risk by considering the credits repayment history of both individuals and groups applying for loans. Myers and Brealey (2003) describe credit management as methods and strategies adopted by a firm to ensure that they maintain an optimal level of credit and its effective management. Nelson (2002) also views credit management as simply the

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means by which an entity manages its credit extension. It is a prerequisite for any entity dealing with credit transactions since it is impossible to have a zero credit or default risk.

2.1.4 DIMENSION OF CREDIT MANAGEMENT

According to Pandey (1997) credit management particularly performs the following core concepts in relation to credit policy:

- i. **Formulation of credit policy:** - for firms with usual credit sales the prime responsibility is formulation of credit policy which includes the decision about three credit terms that is cash discount, discount period and credit period. Credit term refers to the duration of credit and the term payment of customers including discount if any credit standard specifies the attributes customer should demonstrate to get credit.
- ii. **Evaluation of credit policy:** - these involve evaluating the credit applicant's worthiness. It involves three steps:
 - a. Collection of credit information
 - b. Analyzing and evaluating information
 - c. Making of credit decision
- iii. **Implementation of credit policy:** - once credit policy is formulated and evaluated the next step is adapting and using it.
- iv. **Administering and controlling credit policy:**-the purpose of this step is to check and control whether implemented policy is properly working or not.

2.1.5 COMPONENTS OF CREDIT POLICY

There are three components of credit policy. They are credit standard, credit terms and collection Policy(Pandey, 2010).

- **Credit standards:** - refer to the guidelines issued by a company that are used to determine that a potential borrower is credit worthy. Credit standards are often created after careful analysis of past borrowers and market conditions, and are designed to limit the risk of a borrower not making credit payments or defaulting on loaned money.
- **Credit terms:** - specify the length of credit period and the discount given early payment. The common credit term for the firm to offer of "net 30" or "2/10 net 30". Net 30 means the

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customer must pay its bill within 30 days of the invoice date. Term 2/10 net 30 means the customer is offered a 2% discount if payment is made within 10 days of the invoice date. Otherwise the full amount of the receivables is due in 30 days. The stated terms of credit extension will have a strong impact on the eventual size of the accounts receivable balance.

- **Collection policy:** - refers to the procedures that firms follow to obtain payment of past due account. As a general rule, the more quick account receivable is converted into cash the greater will be the profit. Collection policy is the final element in credit policy. It involves to spot trouble in obtaining payment of past due accounts.

2.1.6 CREDIT INFORMATION

This benefits for lenders to assess or analyses creditworthiness, the ability payback a loan and can affect the interest rate and other terms of loan. According to Westerfield (1993) there are a number of sources to get credit information about a customer including the following:

- Financial Status- a bank asks a customer to supply financial statement such as, balance sheet and income statement which can be used as a basis for extending or reducing of a credit.
- Credit report on the customer payment history from other firms: quite a few organizations sell information on the credit strength and credit history of business firms.
- Banks will generally provide assistance to their business customers in acquiring information on the credit worthiness of other firms.
- The customer payment history with the bank: The likelihood of the customer on the paying is to examine whether they have settled payment obligation and how quick they have met their obligation.

2.1.7 CREDIT PLANNING

The concept of the credit planning has gained importance during recent years. The term credit planning is used to mean the allocation of financial resources from which ever source they are available. In such way that the plan target of output and investment are achieved in full and distribution of these resources doesn't hamper the implementation of plan programmers. Viewed from this angle credit planning at each level of the banking system is a subsidiary one since the bank credit is only one of the financial resource available from several sources. Bank credit occupies a very

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prominent position and national allocation of their sources available with a bank is an important aspect of economic planning and policy. The significance of such planning is enhanced when banks have to operate principally with the deposit (Shekhor, 1999).

2.1.8 CREDIT ANALYSIS

According to Abebaw (2015) Credit analysis is the primary method in reducing the credit risk on a loan request. This includes determining the financial strength of the borrowers, estimating the probability of default and reducing the risk of non-repayment to an acceptable level. In general, credit evaluations are based on the loan officer's subjective assessment (or judgmental assessment technique). Once a customer requests a loan; bank officers analyze all available information to determine whether the loan meets the bank's risk-return objectives. Credit analysis is essentially default risk analysis, in which a loan officer attempts to evaluate a borrower's ability and willingness to repay.

In the same way Compton (1985) identified three distinct areas of commercial risk analysis related to the following questions:

1) What risks are inherent in the operations of the business? Lowering quality standards may stimulate demand, which, in turn, should lead to higher profitable receivables, as well as a greater risk of bad debt. The credit and collection policy of one firm are not independent of those of other firms. If product and capital markets are reasonably competitive, the credit and collection practices of one company will be influenced by what other companies are doing. Such practice related to the pricing of the product or service and must be viewed as part of the overall competitive process.

The examination of certain policy variables implies that the competitive process is accounted for in the specification of the demand function as well as in the opportunity cost associated with taking on additional receivables. The policy variables include the quality of the trade accounts accepted; the length of the credit period, the cash discount, any special terms such as seasonal dating and the collection program of the firm. Together, these elements largely determine the average collection period and the proportion of bad debt losses of the business.

2) What have managers done or failed to do in mitigating those risks? 3) How can a lender structure and control its own risks in supplying funds?

The first question forces the credit analyst to generate a list of factors that indicate what could harm a borrower's ability to repay. The Second recognizes that repayment is largely a function of decisions

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made by a borrower. Is management aware of the important risks, and has it responded? As Timothy (1995) quoted, the last question forces the analyst to specify how risks can be controlled so the bank can structure to an acceptable loan agreement. A bank's credit analysts often use the five C's of credit to focus their analysis on the key dimensions of an applicant's credit worthiness.

Pandey (1997), identified five C's of credit. They include; Character, Capacity, Capital, Collateral, and Conditions.

1. Character: The applicant's record of meeting past obligations, financial, contractual, and moral. Past payment history as well as any pending or resolved legal judgments against the applicant would be used to evaluate its character.

2. Capacity: The applicant's ability to repay the requested credit. Financial statement analysis, with particular emphasis on liquidity and debt ratios, is typically used to assess the applicant's capacity.

3. Capital: The financial strength of the applicant as reflected by its ownership position. Analysis is of the applicant's debt relative to equity and its profitability ratios are frequently used to assess its capital.

4. Collateral: The amount of assets the applicant has available for use in securing the credit. The larger the amount of available assets, the greater the chance that a firm will recover its funds if the applicant defaults. A review of the applicant's balance sheet, asset value appraisals, and any legal claims filed against the applicant's assets can be used to evaluate its collateral.

5. Conditions: The current economic and business climate as well as any unique circumstances affecting either party to the credit transaction. For example, if the firm has excess inventory of the items the applicant wishes to purchase on credit, the firm maybe willing to sell on more favorable terms or to less creditworthy applicants. Analysis of the general economic and business conditions, as well as special circumstances that may affect the applicant or firm is performed to assess conditions.

The credit analyst typically gives primary attention to the first two C's-character and Capacity-because they represent the most basic requirements for extending credit to an applicant. Consideration of the last three C's-Capital, Collateral, and Conditions-is important in structuring the credit management and making the final credit decision, which is affected by the credit analyst's experience and judgment.

Lending is not just a matter of making loan and waiting for repayment. Loan must be monitored and closely supervised to prevent loan losses. As noted by MacDonald (2006) cited in Abebaw (2015)

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there are five Cs of bad credits that represent the issues used to guard against/prevent bad loans).

These are:

Complacency: refers the tendency to assume that because of the things were good in the past, they will be good in the future. For instance, Assuming the past loan repayment success since things have always worked out in the past.

Carelessness: indicates the poor underwriting typically evidenced by inadequate loan documentation, lack of current financial information or other pertinent information in the credit files, and lack of protective covenants in the loan agreement. Each of these makes it difficult to monitor a borrower`s progress and identify problems before they are unmanageable.

Communication ineffectiveness: inability to clearly communicate the bank`s objectives and policies. This is when loan problems arise. Therefore, the bank management must clearly and effectively communicate and enforce the loan policies and loan officers should make the management aware of specific problems with existing loans as soon as they appear.

Contingencies: refers the lenders` tendency to play down/ignore circumstances in which a loan might in default. It focuses on trying to make a deal work rather than identifying down side risk.

Competition: involves following the competitors` action rather than monitoring the bank`s own credit standards. Banks, however, still have required expertise, experiences, and customer focus to make them the preferred lender for many types of loan.

However, the key risk factors to be considered in credit analysis are traditionally grouped in to five C`s and currently two C`s have been added and become seven C`s. These are capacity, character, capital, conditions and collateral (Koch and Macdonald, 2000 and Rose, 1999). The additional two are customer relation and competition (Koch and Macdonald, 2000).

Customer Relationship

A bank`s prior relationship with a customer reveals information about past credit and deposit experience that is useful in assessing willingness and ability to repay (Koch and Macdonald, 2000).

Competition

It has an impact by affecting the pricing of a loan. In principle, competition should not hinder banks from obtaining positive risk adjusted returns and it should also not affect loan accept-reject decision. In reality, however, lenders sometimes react to competitive pressures by undercutting competitor`s rates in order to attract new business. Similarly, loan accept reject decisions are at times compromised when competition is strong creating industry instability (Koch and Macdonald, 2000).

2.1.9 CREDIT PROCESS

The fundamental objective of commercial and consumer lending is to make profitable loans with minimal risk. Management should target specific industries or markets in which lending officers have expertise. The credit process relies on each bank's systems and controls to allow management and credit officers to evaluate risk and return trade-offs.

According to Timothy (1995), the credit process includes three functions: business development and credit analysis, credit execution and administration, and credit review.

i. Business Development and Credit Analysis

Business development is the process of marketing bank services to existing and potential customers. With lending it involves identifying new credit customers and soliciting their banking business, as well as maintaining relationships with current customers and cross-selling non-credit services. Every bank employee, from tellers handling drive-up facilities to members of the board of the directors, is responsible for business development. Each employee regularly comes in to contact with potential customers and can sell bank services. To encourage marketing efforts, many banks use cash bonuses or other incentive plans to reward employees who successfully cross-sell services or bring new business into a bank.

ii. Credit Execution and Administration

The formal credit decision can be made individually or by committee, depending on a bank's organizational structure. This structure varies with a bank's size, number of employees, and type of loans handled. A bank's Board of Directors normally has the final say on which loans are approved. Typically, each lending officer has independent authority to approve loans up to some fixed amount.

iii. Credit Review

The loan review effort is directed at reducing credit risk as well as handling problem loans and liquidating assets of failed borrowers. Effective credit management separates loan review from credit analysis, execution, and administration. The review process can be divided into two functions: monitoring the performance of existing loans and handling problem loans. Many banks have a formal loan review committee, independent of loan officers, that reports directly to the chief executive officer and directors' loan committee.

Loan review personnel review current loan to verify that the borrower's financial condition is acceptable, loan documentation is in place, and pricing meets return objectives.

2.1.10 CREDIT APPROVAL AND IMPLEMENTATION

The individual steps in the credit approval process and their implementation have a considerable impact on the risks associated with credit approval. The quality of credit approval processes depends on two factors, i.e. a transparent and comprehensive presentation of the risks when granting the loan on the one hand, and an adequate assessment of these risks on the other. Furthermore, the level of efficiency of the credit approval processes is an important rating element. Due to the considerable differences in the nature of various borrowers and the assets to be financed as well as the large number of products and their complexity, there cannot be a uniform process to assess credit risks.

The quality of the credit approval process from a risk perspective is determined by the best possible identification and evaluation of the credit risk resulting from a possible exposure.

According to Oesterreichische National bank Credit Approval Process and Credit Risk Management (2000), the credit risk can be distributed among four risk components.

- a. Probability of Default (PD)
- b. Loss Given Default (LGD)
- c. Exposure at Default (EAD)
- d. Maturity (M)

The most important components in credit approval processes are PD, LGD, and EAD. While maturity (M) is required to calculate the required capital, it plays a minor role in exposure review. The significance of PD, LGD, and EAD is described below.

a) Probability of Default (PD)

Reviewing a borrower's probability of default is basically done by evaluating the borrower's current and future ability to fulfill its interest and principal repayment obligations. This evaluation has to take into account various characteristics of the borrower (natural or legal person), which should lead to a differentiation of the credit approval processes in accordance with the borrowers served by the bank.

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Furthermore, it has to be taken into account that —for certain finance transactions — interest and principal repayments should be financed exclusively from the cash flow of the object to be financed without the possibility for recourse to further assets of the borrower. In this case, the credit review must address the viability of the underlying business model, which means that the source of the cash flows required to meet interest and principal repayment obligations has to be included in the review.

b) Loss Given Default (LGD)

The loss given default is affected by the collateralized portion as well as the cost of selling the collateral. Therefore, the calculated value and type of collateral also have to be taken into account in designing the credit approval processes.

c) Exposure at Default (EAD)

In the vast majority of the cases described here, the exposure at default corresponds to the amount owed to the institution. Thus, besides the type of claim; the amount of the claim is another important element in the credit approval process.

Once information has been gathered, the firm faces the hard choice of either granting or refusing credit. Many financial managers use the "five C's of Credit" as their guide (Ross et al. 1999) as discussed earlier and identify and evaluate the credit risk resulting from a possible exposure to sanction the credit.

2.1.11 NON-PERFORMING LOAN (NPLS)

Non-performing loans generally refer to loans, which for a relatively long period do not generate income; that is the principal, and/or interest on these loans has been left unpaid for at least 90 days (NBE, 2008). Furthermore, the stability of banking is a pre-requisite for economic development and resilience against financial crisis. Like any other business, success of banking is assessed based on profit and quality of asset it possesses. Even though banks serve social objective through their priority sector lending, mass branch networks and employment generation, maintaining asset quality and profitability is critical for their survival and growth. A major threat to the banking sector is prevalence of Non-Performing Loans (NPLs). Non-performing Loans represent bad loans, the borrowers of

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which failed to satisfy their repayment obligations. Banks as intermediaries of funds are responsible for attracting resources and inject it in various economic sectors. In the process of resources allocation, banks encounter several risks and nowadays while making profits, one of the most important risks is default risk, which leads to increase in non-performing loans (NPLs). Based on rules in banking system, the amount of non-performing loans should not be more than 5% of remaining facilities of each bank, but increasing growth of NPLs amount concerned officials and with considering the role of banks in the country's economy, this phenomenon could be named a "national" concern (Ghasemi, 2010)

Despite ongoing efforts to control bank-lending activities, non-performing loans are still a major concern for both international and local regulators. To date there is no bank crises happened in Ethiopia due to non-performing loans, but there is an indicator of high NPL in the country, which may lead to that direction if not controlled on time (NBE, 2010).

According to Shekhar (1985), loan plays an important role in the lives of many people and in almost all industries that involve monetary investment in some form. Loan is mainly granted by banks including to several other functions like mobilizing deposits, local and international transfers, and currency exchange service.

2.1.12 PRINCIPLES FORMULATED BY THE BASEL COMMITTEE

As a direction for the achievement of the required level of loan status and healthy financial institutions the Basel Committee on Banking Supervision in September 2000 also formulated the following Principles.

a) Establishing an appropriate credit risk environment

Principle 1: The board of directors should have responsibility for approving and periodically (at least annually) reviewing the credit risk strategy and significant credit risk policies of the bank. The strategy should reflect the bank's tolerance for risk and the level of profitability the bank expects to achieve for incurring various credit risks.

Principle 2: Senior management should have responsibility for implementing the credit risk strategy approved by the board of directors and for developing policies and procedures for identifying,

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measuring, monitoring and controlling credit risk. Such policies and procedures should address credit risk in all of the bank's activities and at both the individual credit and portfolio levels.

Principle 3: Banks should identify and manage credit risk inherent in all products and activities. Banks should ensure that the risks of products and activities new to them are subject to adequate risk management procedures and controls before being introduced or undertaken, and approved in advance by the board of directors or its appropriate committee.

b) Operating under a sound credit granting process

Principle 4: Banks must operate within sound, well-defined credit-granting criteria. These criteria should include a clear indication of the bank's target market and a thorough understanding of the borrower or counterparty, as well as the purpose and structure of the credit, and its source of repayment.

Principle 5: Banks should establish overall credit limits at the level of individual borrowers and counterparties, and groups of connected counterparties that aggregate in comparable and meaningful manner different types of exposures, both in the banking and trading book and on and off the balance sheet.

Principle 6: Banks should have a clearly-established process in place for approving new credits as well as the amendment, renewal and re-financing of existing credits.

Principle 7: All extensions of credit must be made on an arm's-length basis. In Particular, credits to related companies and individuals must be authorized on an exception basis, monitored with particular care and other appropriate steps taken to control or mitigate the risks of non-arm's length lending.

c) Maintaining an appropriate credit administration, measurement and monitoring process

Principle 8: Banks should have in place a system for the ongoing administration of their various credit risk-bearing portfolios.

Principle 9: Banks must have in place a system for monitoring the condition of individual credits, including determining the adequacy of provisions and reserves.

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Principle 10: Banks are encouraged to develop and utilize an internal risk rating system in managing credit risk. The rating system should be consistent with the nature, size and complexity of a bank's activities.

Principle 11: Banks must have information systems and analytical techniques that enable management to measure the credit risk inherent in all on- and off-balance sheet activities. The management information system should provide adequate information on the composition of the credit portfolio, including identification of any concentrations of risk.

Principle 12: Banks must have in place a system for monitoring the overall composition and quality of the credit portfolio.

Principle 13: Banks should take into consideration potential future changes in economic conditions when assessing individual credits and their credit portfolios, and should assess their credit risk exposures under stressful conditions.

d) Ensuring adequate controls over credit risk

Principle 14: Banks must establish a system of independent, ongoing assessment of the bank's credit risk management processes and the results of such reviews should be communicated directly to the board of directors and senior management.

Principle 15: Banks must ensure that the credit-granting function is being properly managed and that credit exposures are within levels consistent with prudential standards and internal limits. Banks should establish and enforce internal controls and other practices to ensure that exceptions to policies, procedures and limits are reported in a timely manner to the appropriate level of management for action.

Principle 16: Banks must have a system in place for early remedial action on deteriorating credits, managing problem credits and similar workout situations.

2.1.13 STEPS IN THE LENDING PROCESS

Finding prospective loan customers most loans to individuals arise from a direct request from a customer who approaches a member of the lender's staff and asks to fill out a loan application (Rose and Hudgins, 2005).

i. Evaluating a prospective customer's character and sincerity of purpose

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Once a customer's decides to request a loan, an interview with a loan officer usually follows, given the customer the opportunity to explain his or her credit needs. That interview is particularly important because it provides an opportunity for the loan officer to assess the customer's character and sincerity of purpose. If the customer appears to lack sincerity in acknowledging the need to adhere to the terms of a loan, this must be recorded as a strong factor weighing approval of the loan request.

ii. Making site visits and evaluating a prospective customer's credit record

If a business or mortgage loan is applied for, a loan officer makes a site visit to assess the customer's location and the condition of propriety and to ask clarifying questions. The loan officer may contact other creditors who have previously loaned money to this customer to see what their experience has been. A previous payment record often reveals much about the customer's character, sincerity of purpose, and sense of responsibility in making use of credit extended by a lending institution.

iii. Evaluating a prospective customer's financial condition

If all favorable to this point, the customer is asked to submit several crucial documents the lender needs in order to fully evaluate the loan request, including complete financial statement and, in the case of a corporation, board of director's resolution authorizing the negotiation of a loan with the lender. Once all documents are on file, the lender's credit analysis division conducts a through financial analysis of the applicant, aimed at determining whether the customer has sufficient cash flow and backup asset to repay the loan. The credit analysis division then prepares a brief summary and recommendation, which goes to the appropriate loan committee for approval.

iv. Assessing possible loan collateral and signing the loan agreement

If the loan committee approves the customer's request, the loan officer or the credit committee will usually check on the property or other assets to be pledged as collateral in order to ensure that the lending institution has immediate access to the collateral or can acquire title to the property involved if the loan agreement is defaulted. This is often referred to as perfecting the lender's claim to collateral.

v. Monitoring compliance with the loan agreement other customer service needs

The new agreement must be monitored continuously to ensure that the terms of the loan are being followed and that all required payments of principal and interest are being made as promised. For larger commercial credits, the loan officer will visit the customer's business periodically to check on the firm's progress and see what other services the customer needs.

2.1.14 DEBT RECOVERY STRATEGY

Monitoring of credit faculties granted to customers a significant function in ensuring the success of the project for which repayments is made. Huppi and Feder (1990) revealed that effective monitoring leads to high recovery of loans by exposing possible danger (like loan diversion) and reminding borrowers of their obligations to the lending bank(i.e. calling for redoubling of efforts towards loan repayment).

2.1.15 PROCESS OF CREDIT MANAGEMENT

The process of credit management begins with accurately assessing the credit-worthiness of the customer base and his/her business viability. This is particularly important if the company chooses to extend some type of credit line or revolving credit to certain customers. Hence, proper credit management is setting specific criteria that a customer must meet before receiving the proposed credit arrangement. As part of the evaluation process, credit management also calls for determining the total credit line that will be extended to a given customer (Yalemzewed, 2013).

According to Agyman (1987), several factors used as part of the credit management process to evaluate and quality a customer for the receipt of some form of credits. These factors include;

- Gathering data on the potentials customer's current financial condition, including the current credit score.
- The current ratio between income and outstanding financial obligations
- Competent credit management which not only protects the vendor/bank from possible losses, but also protects the customer from creating more debt obligation that cannot be settled in a timely manner.

A good credit management system helps to reduce the amount of capital tied up with debtors (people who owe money) and minimize the exposure to bad debts. Good credit management is vital to cash flow.

According to Edwards (2004), Banks Credit Management process can be summarized in three main stages. Theses stages are:

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1. Credit initiation
2. Documentation and disbursement
3. Credit Administration

When the process of Credit Management function becomes, efficient, everyone involved benefits from the effort. The vendor /bank has a reasonable amount of assurance that invoices issued to a client will be paid within terms, or that regular minimum payments will be received on credit account balances. Customers have the opportunity to build a strong rapport with the vendor and thus create a solid credit (Habtamu, 2015).

2.1.16 CREDIT MANAGEMENT PRACTICE

As noted by Abebaw (2015), credit risk continues to remain the largest sources of risk for banking institutions in the world. Effective credit management is therefore vital to ensure that the banking institutions credit activities are conducted in a prudent manner and the risk of potential bank failure; of which success of banks hinge on their ability to manage their credit effectively. Even though there are no strictly laid down credit management practice, most financial institutions practice the following in order to maximize profit as well as to reduce credit risk.

LENDING

Lending is one of the core pillars of financial intermediation and for that matter a significant activity in the operations of banks. It is at the same time highly risky. This is asserted by McNaughton(1992), who emphasized that risk taking is central to banking and banks are successful when the risk they take are reasonably controlled and within their financial reserve and credit competence. McNaughton was also of the view that to survive the numerous lending risks and to prosper, bankers must re-examine their bureaucratic tendencies in order to become responsible to the financial need of the economy. The bureaucratic tendencies could thus cause lots of frustration for loan applicants to obtain credit at the right time, which may hamper the success of projects.

2.1.17 THE ROLE OF CREDIT ANALYSIS IN MINIMIZING CREDIT RISK

Credit risk analysis is the process of analyzing all available information to determine whether the loan meets the bank's risk return objective. It is essentially default risk analysis in which a loan officer

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attempts to evaluate a borrower's ability and willingness to repay (Koch and Macdonald, 2000), According to Greenbaum and Thakor (1995), credit analysis determines factors that may lead to default in the repayment of a loan and the principal objective of credit analysis is to determine the ability and willingness of the borrower to repay the loan.

In other words, the objective of credit analysis is to determine the repayment ability of a potential or existing customer, to assist in accept reject decision and the pricing policy as well as loan review evaluation. The problem is how willingness and ability can be measured because loans granted at present are paid back in the future, which depends on future happenings, and willingness to pay depends on personality characteristics which is even more difficult to measure.

Credit analysis involves examining all relevant qualitative and quantitative data in order to make a reasonable assurance that the loan will be paid. The depth of credit analysis depends on the size and complexity of the case and the cost benefit factors. Credit analysis for commercial lending involves identifying inherent risks in the operation of business by generating a list of factors that indicate what could harm a borrower's ability to pay, examining what managers have done or failed to do in justifying those risks, and structuring an acceptable loan agreement and controlling the risk of the bank in the supplying funds (Koch and Macdonald, 2000).

2.1.18 ADDRESSING RISK ASSOCIATED WITH RISK MANAGEMENT

According to Theodore (1962), credit risk has the repercussion of liquidity risk, which in the extreme can lead a bank to severe financial crisis, resulting in erosion of capital, insolvency and could ruin the bank. To identify and address the risk associated with credit management, the Basel Committee on Banking Supervision in its publication No.54 issued in September 2000 outlined the following measures:

- ❖ Establishing an appropriate credit risk environment
- ❖ Operating under sound credit granting process
- ❖ Maintaining an appropriate Credit administration, measurement and monitoring process.
- ❖ Ensuring adequate controls over credit risk

❖ The role of Supervisors

2.1.19 IMPLICATIONS OF LOANS ON BANKING INSTITUTIONS

Loans generate huge interest for Banks which contribute immensely to the financial performance of banks. However, when loans go bad, they have some adverse effects on the financial health of banks. This is because in line with banking regulations, banks make adequate provision and charges for bad debts which negatively impact their performance. National Bank of Ethiopia regulations on loan provisioning indicates that loans in the non-performing categories that is loans that are at least ninety days overdue in the default of repayment will attract minimum provision of 20%,50% and 100% for substandard doubtful and loss, respectively.(NBE,2008).

According to Bloem and Gorter (2001), though issues relating to non-performing loans may affect all sectors, the most serious impact is on financial institutions such as commercial banks and mortgage financing institutions which tend to have large loan portfolios. Besides, the large bad loans portfolios affect the ability of banks to provide credit. Huge non-performing loan could result in loss of confidence on the part of depositors and foreign investors who may start a run on banks, leading to high problems.

2.1.20 FINANCIAL ANALYSIS

Review, appraisal and follow-up are three basic elements in credit management and decision-making. At the time of considering fresh proposals or enhancement proposals, the banker reviews the past operations in order to judge the health status of the client. Timothy (1995) identified three basic elements used in credit management to evaluate the creditworthiness of clients.

a) Review is for the past. It should enable the banker to find out whether it is safe to lend to a particular client. In order to arrive at this decision, the banker has to satisfy himself about the risk and viability of the unit. Review of any unit involves assessment of solvency, liquidity and profitability of that unit as revealed by its financial statements, i.e. profit and loss accounts and balance sheets. Review, thus, involves classification of profit and loss account and the balance sheet according to bank's requirement and analysis of these statements.

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b) Credit appraisal implies consideration of fresh or enhancement proposals on the basis of futuristic data. While appraising proposals, the banker tries to find out: the financial need of the client, end-use of funds, viability of operations and risk involved.

In case of proposals involving working capital finance, the banker can ascertain the aforesaid factors only when he/she is supplied with the business plan of the borrower for the ensuring period. Business plan is expressed through operating statement, balance sheet, funds flow, and cash flow statements, all on projected basis.

c) Follow-up maybe defined as a continuous activity aimed at ensuring observance of stipulations laid down by the bank, picking up signals on health status of client's position, remedial action and ensuring results of action on a continuous basis. Safety, need-based finance and end-use are the key assumptions of lending.

A banker needs various types of data and information from the borrowers for taking the credit decisions. Such information is generally available in various financial statements such as income statement, balance sheet, cash flow statement, funds flow statement, etc. But mere collections of these financial data from the borrowers are of little help unless the banker is able to use these statements; arrange or classify them according to his/her needs and analyze them with a view to draw meaningful conclusions.

2.1.21 DEFAULT PROBLEMS

Non-payment of loans has several undesirable consequences. It gradually destabilizes the credit system. Costs of loan administration of overdue loans are high. Defaults pushup lending costs without any corresponding increase in loan turnover. Also defaults reduce the resource base for further lending, weaken staff morale, and affect the borrower's confidence. According to Pandmanabhan (1986), causes of delinquencies and defaults are classified as relating to three levels: borrower level, financing institution level, and economy level.

I. Causes at borrower level:

- Borrowers who deliberately divert loans to non-essential consumption find it difficult to meet repayment commitments on time.

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- Investments fail to generate sufficient incomes due to improper technical advice; absence of supporting services, inadequate marketing, and etc. investments also fail due to unforeseen causes like floods, drought, etc. In both cases repayment would be affected.
- When borrowers have liabilities towards informal lenders, they get precedence over institutional lenders.
- Contingencies at borrower household like death, sickness, etc., affect repayment performance. Formal institutions which do not extend consumption and emergency loans are liable to have higher default rates.

II. Causes at financing institution level:

- Defective procedures for loan appraisal in the financing institutions could lead to the financing of bad projects and consequent defaults.
- Quality of loan officers, their ability and knowledge in the field, and their capacity to judge borrowers as also the incentive packages available to them affect repayment performance.
- Fixing of inappropriate repayment schedules and lack of flexibility often result in defaults. Similarly, when the procedure for repayment is cumbersome borrowers tend to delay repayments.
- Defaults have a 'spread effect' particularly in the marginal cases. When lenders show reluctance to enforce sanctions against conspicuous defaulters, defaults tend to increase through a process of imitation.

III. Causes at economy level:

- When overall government policies, particularly those relating to pricing of inputs and outputs, marketing etc., discriminate against the specific sector.
- Faulty monetary and fiscal policies of governments could result in high inflationary conditions. Borrowers tend to delay repayments in such a situation to take advantage of the falling value of currency
- Interest rate policies of government have a vital role in the promotion of repayments. When the real rate is excessively low, borrowing and consumption will be much more profitable than saving and repayment.
- Excessive government intervention in the day-to-day administration of financial institutions could result in bad loans.

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- Calamities like drought .floods, market glut, etc. could result non-performing loans.

2.1. 22. COMMON SOURCES OF MAJOR CREDIT PROBLEMS

According to Habtamu (2005), the sources of major credit problems are mentioned below:

- Most major banking problems have been either explicitly or indirectly caused by weaknesses in credit management. In supervisors' experience, certain key problems tend to persist. Severe credit losses in banking system usually reflect simultaneous problems in several areas, such as concentrations, failures of due diligence and inadequate monitoring.
- Concentrations are probably the single most important cause of major credit problems. Credit concentrations are viewed as any exposure where the potential losses are large relative to the bank's capital, its total assets or, where adequate measures exist, the bank's overall risk level.
- Banking supervisors should have specific regulations limiting concentrations to one borrower or set of related borrowers, and in fact, should also expect banks to set much lower limits on single-obligor exposure. Most credit managers in banks also monitor industry concentrations. Many banks are exploring techniques to identify concentrations based on common risk factors or correlations among factors. While small banks may find it difficult not to beat or near limits on concentrations, very large banking organizations must recognize that, because of their large capital base, their exposures to single obligors can reach imprudent levels while remaining within regulatory limits.
- Many credit problems reveal basic weaknesses in the credit granting and monitoring processes. While shortcomings in underwriting and management of market-related credit exposures represent important sources of losses at banks, many credit problems would have been avoided or mitigated by a strong internal credit process.
- Many banks find carrying out a thorough credit assessment (or basic due diligence) a substantial challenge. For traditional bank lending, competitive pressures and the growth of loan syndication techniques create time constraints that interfere with basic due diligence.
- Some credit problems arise from subjective decision-making by senior management of the bank. this includes extending credits to companies they own or with which they are affiliated, to personal friends, to persons with a reputation for financial acumen or to meet a personal agenda, such as cultivating special relationships with celebrity.

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- Many banks that experienced asset quality problems in the 1990s lacked an effective credit review process (and indeed, many banks had no credit review function). Credit review at larger banks usually is a department made up of analysts, independent of the lending officers, who make an independent assessment of the quality of a credit relationship based on documentation such as financial statements, credit analysis provided by the account officer and collateral appraisals. At smaller banks, this function may be more limited and performed by internal or external auditors. The purpose of credit review is to provide appropriate checks and balances to ensure that credits are made in accordance with bank policy and to provide an independent judgment of asset quality, uninfluenced by relationships with the borrower. Effective credit review not only helps to detect poorly underwritten credits, it also helps prevent weak credits from being granted, since credit officers are likely to be more diligent if they know their work will be subject to review.

2.1.23 CREDIT CONTROL

According to Fatima (2010) credit control is concerned with the post approval and monitoring of the credit facility, to ensure that each credit remains qualitatively satisfactory during the tenure of the credit. It is very important to monitor (control) the facility after it has been approved to ensure that:

- (I) the borrower complies with the stipulated conditions
- (II) The facilities are utilized with the purpose for which they were approved
- (III) Any deterioration or negative trends in the customers' business or prospects are determined and corrective actions taken.

2.2. EMPIRICAL REVIEW

This part of the study takes a closer look on empirical studies on the subject matter.

Haron et al. (2012) assessed credit management system on loan performance of micro finance institutes and to establish the effect of credit term, client appraisal, credit risk control and credit collection policies on loan performance of the institute. The researchers used primary data source and quantitative research design to test the relationships of these selected variables. These researchers have found that credit term formulated by MFI has an effect on loan performance, involvement of

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client on credit term formulation affects loan performance, interest rate charged has a reverse effect on loan performance, credit risk controls adopted by MFI has an effect on loan performance and collection policies of the institutes have high effect on loan repayment performances. Therefore the research concludes that all the above mentioned variables have relationship with loan performance and hence lenders should make their loan extension in considerations of these factors.

Al Musharafa (2013), on his study has investigated some of the Bangladesh commercial banks to evaluate credit assessment activities and to forward possible suggestions. Up on his study the researcher used both primary and secondary data sources and both qualitative and quantitative data analysis methods to evaluate the banks credit assessment using banks loan and advance growth, income from loan, sector credit allocation and credit risk management and nonperforming loan status of the bank as measuring parameters. The research has found that growth of loan and advances are sustainable, better sector allocation of loans, better risk management and income from loan and advances are increasing despite some banks need to improve their general loan policy.

Afroz (2013), under his study the researcher tried to specify and estimate necessity of credit portfolio management of Bangladesh Kirishi Bank and describe present credit management practice of the bank along with his suggestions. The study used primary and secondary data sources with descriptive data analysis techniques. The research has found that: the framework of the bank's function is not clear, agro business financing is risky for the bank, very few activities on L/C and other purchase type financing has been made, poverty alleviation credit program of the bank is successful but very little portion of the total portfolio (only 3%-4%).

Agu and Basil (2013), on their study of Credit Management and Bad Debts in Nigerian Commercial banks, in order to determine major causes of bad debts in Nigerian banks using both primary and secondary data like interview, questionnaires other sources . The researchers also used both qualitative and quantitative data analysis using time series and regression data analysis tools to identify nature and causes of bad debts in Nigeria. Accordingly the researchers had found an overall inefficiency of the banks due to inadequate monitoring of borrowers on their borrowed fund utilization, an increase in lending rate, and failure in appropriate follow-ups, poor credit policy and weak credit administration practices.

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Omoijode (2014), has made a comparative research under the topic “*Critical Assessment of Credit Management in Nigerian Bank Sector*”. This comparative study had been made between Union and Zenith banks of Nigeria for the objective of establishing level of Union bank and Zenith bank advance and provision against doubtful debts, to evaluate of Union bank net competitive advantage or disadvantage on credit management and to establish if United bank net competitive advantage or disadvantage against Zenith bank of Nigeria in their credit management. The researcher used secondary data collected from Nigerian Union and Zenith banks financial reports of 2005/2006, united bank’s loan and advance. The researcher also employed qualitative analysis techniques and evaluate the two banks loan and advances (using balance score card map), financial perspective, loan and advance mix (O/D and loans against doubtful accounts provision), customer perspectives (customer service capability and geographic coverage), internal perspective (relationship management and credit monitoring), and learn and growth perspective (knowledge, innovation technology and reward system) to compare loan and advance of the two banks, against their provision for bad debts, to evaluate responsibility for increasing NPL for Union bank and to analyze competitive strength of the two banks using some success factors. The research findings show that there is an inverse relationship between Union bank’s loan portfolios against provision i.e. loan and advance of union bank is lower than Zenith bank’s but the provision for union bank is higher due to failure to monitor loan and advance efficiently. Success factor evaluation shows Zenith bank is much better than Union bank of Nigeria.

Joseph (2014), on his study on the Effectiveness of loan portfolio management in Rural Saving and Credit Cooperatives in Tanzania, the researcher has used both primary data in the form of questionnaire on seventy microfinance officers in fourteen microfinance institutes, using multi regressive and descriptive data analysis tools to identify factors that affect Credit Portfolio qualities, the finding has revealed that quality of loan portfolio has strictly influenced by loan size, gender (Female have better repayment history than men), loan type, borrower’s location, and insurance coverage and status of the loan.

Hagos (2010), which is a case study on “Credit Management Practice of the Wegagen Bank in Tigray Region” using both primary and secondary data and qualitative and quantitative data analysis tools, has found that the bank was managing its credit well in many aspects in this specific region. However

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the researcher has also indicated that very long loan processes, in adequate credit policy in terms of customers aspect discouraging credit customers, The researcher has also only short term credit facility resulted in repayment burden on the client within a short period that leads the customers to termination.

Daniel (2010), focusing on management of non-performing loan on private commercial banks in Ethiopia. The study employed the mixed type of research. The result showed that credit policy and supervision by the management has less contribution to the NPLs and most of the NPLs are caused by factors after the loan released, like Moral hazard of the borrower, ineffective monitoring, and operational loss of the borrower has created high NPLs in private commercial banks in Ethiopia.

Wondimagegnehu (2012), conducted a study on determinants of NPL in Ethiopia Banks, focusing only bank specific factors that cause NPLs by using mixed research method. The study conclude that poor credit assessment, failed loan monitoring, underdeveloped credit culture, lenient credit terms and conditions, aggressive lending, compromised integrity, weak institutional capacity, unfair competition among banks, willful default by borrowers and their knowledge limitation, fund diversion for unintended purpose, over/under financing by banks ascribe to the causes of loan default. Even if both studies are a very recent one, the gaps are there that are not touched by both researchers and need further investigation by others.

To the extents of my reviews of related research materials, did not find any general or specific study that made on the assessment of credit management practice in Berhan International bank. Therefore, it is the researcher's belief that it is appropriate to carry on the research on the established topic.

From the above empirical review of literatures the researchers observed that there are no studies conducted mainly to identify the problems related to lack of effective credit management assessed the bank and clients with reference to Berhan International Bank Share Company.

2.3. SUMMARY OF KNOWLEDGE GAP

Most studies which were conducted on credit management have been conceptual in nature and focused only on the industry in general and on big banks in particular. There are limited studies providing

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evidence to the credit management of emerging banks. Even if the issue of credit management is equally important for all banks, it is less focused on and few studies are conducted on the credit management on emerging commercial banks. However, as per the researcher's knowledge, no study is conducted on Berhan International Bank to assess the credit management performance. Hence, this study aims to fill the gap in the literature by concentrating on the assessment of credit management on Berhan International Bank. Thus, the researcher felt it is appropriate to assess the credit management problems and thereby to recommend courses of action that are assumed to promote quality loan growth and curtail non-performing loan.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

In order to achieve the study objectives a descriptive methods approach were adapted. To this end, both primary and secondary data sources were used to undertake this research. Primary data were collected through questionnaire. The secondary data sources are annual reports, manuals, credit policy and procedures of Berhan International Bank S.C and National Bank directories were used to identify the implementation, supervision, monitoring and repayment practice of Non-performance loans.

3.1 RESEARCH DESIGN

This is descriptive research based on a case study approach.

3.2 TARGET POPULATION AND SAMPLING TECHNIQUE

3.2.1 TARGET POPULATION

The target population of this study is Berhan International Bank S.C credit department employees who are involved in credit processing and administering and clients. From credit department employees all ninety seven staffs who are directly engaged in loan activities this means Loan section head, Loan analyst, Loan officers and Loan clerks in forty one branches in Addis Ababa and Head Quarter as of 2016 were included. Similarly one hundred clients from six branches engaged in the study. Accordingly all questioners were distributed to six branches evenly those have high number of client included in the study in order to verify the bank response.

3.2.2 SAMPLING TECHNIQUE

The technique used for the clients of this study is non-probability convenience sampling as the sampling is taking from easy accessible and to verify banks respondents as the bank is main study.

3.3 DATA COLLECTION PROCEDURE

The type of data used in the study includes qualitative data. Primary and secondary sources of data were used for the study. The main primary source of data was through the use of structured questionnaires for both bank staff and clients. The questionnaires were both open and close ended. The open-ended questions offered the respondents the opportunity to freely express themselves on the

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issues under consideration while the close-ended questions restricted the respondents on the options provided.

In case of secondary source of data, NBE directives and manuals used to collected data on procedures and policy. Books, journals as well as different thesis were used in the study.

3.4 DATA ANALYSIS METHOD

In order to achieve the objective of this study and answer the research questions the researcher followed qualitative because the basis of such an approach help to neutralize or cancel the limitations of applying any of a single approach. Both methods of analysis used the data collected through structured questioners and secondary sources.

Findings, which reflect problems, were selected from questionnaires; the raw data were analyzed, presented, and interpreted to give solution for the research problem. Moreover, most of the data were summarized and presented in tables, charts and figures, by the help of the Statistical program for Social Sciences, Version 20, (SPSS, and V20). Percentages for these data were computed in order to facilitate the analysis and to make it presentable for the readers. The data collected were more of qualitative in nature; thus, they were presented by using descriptive analysis. Hence, the nature of the study is descriptive.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRITATION

This chapter presents the findings and discussions of the study. It starts with the socio – demographic analysis of the respondents followed by the analysis of the subjects of the study.

As it is stated in the previous chapter, questionnaires were developed for respondents. A total of 97 questionnaires for employees (branches and head office) and 100 questionnaires for clients were distributed. Of all the questionnaires distributed to employees and clients 88 (90.7%) & 66 (66%) were filled and returned respectively. Therefore, the data discussed in the subsequent sections of this report is a summarized response of 154 respondents.

4.1. RESULTS FROM BANK STAFF

4.1.1. RESPONDENTS' PROFILE

This section presents profile of respondents in relation to their age group, educational level, service year and current positions as well as exposure level in the credit area of the bank.

As indicated in table 4.1 below, while 6.8 percent are in the age range 50 and above, 27.3 percent are between 40- 49 and 65.9 percent are in the age range of 20-39. This implies the bank has energetic and matured staff.

Table 4.1 Age category of respondents

Age Category	Frequency	Percentage
20-29 Years	20	22.7
30-39 Years	38	43.2
40-49 Years	24	27.3
50 and above	6	6.8
Total	88	100

Source: *Researcher's Survey result from Primary Data Sources*

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Table 4.2 Academic background of respondents

Educational Level	Frequency	Percentage
Bachelors' degree	77	87.5
Masters degree	11	12.5
Total	88	100

Source: *Researcher's Survey result from Primary Data Sources*

The educational level of employees is an important factor with regard to making business decisions. Education improves the skill, capacity, communication and access to development endeavors.

As it can be reviewed from table 4.2, that 77(87.5%) of the respondents are BA degree holders and 12.5 percent of the respondents are MA holders. This denotes that the majority of the Bank's employees working in the loan first area well skilled. This enables the Bank to perform most and become competitive in the industry.

Table 4.3 Years of service in credit area

Year of service in credit	Frequency	Percentage
0-5 years	44	50.0
6-10 years	23	26.1
11-15 years	11	12.5
16-20 years	7	8.0
21-25 years	3	3.4
Total	88	100

Source: *Researcher's Survey result from primary Data Sources*

The above Table 4.3 shows the percentage of the years of experience the respondents had working in credit management. This question was asked because the researcher wanted to know how experienced the respondents were in the area of credit management. The results showed that 50% have 0-5 years experience working in credit management area. Whereas,

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employees with credit management experience of 6-10, 11-15 and 16-20 years represented 26.1%, 12.5% and 8% respectively. Those with 21-25 years of experience represented 3.4%. This indicates half of the credit department staffs are well experienced in credit area that helps to accomplish their task as the bank mission.

Table 4.4 Current position of respondents

Credit Performing Employees	Frequency	Percentage
Credit Relationship Managers	7	8.0
Credit relationship Officers	36	41.0
Credit Analysts & Appraisal Experts	15	17.0
Credit Advisors and Approving Committee	2	2.2
Credit Clerk	27	30.7
Internal Credit Auditor	1	1.1
Total	88	100

Source: *Researcher's Survey result from Primary Data Sources*

According to Table 4.4 above all the respondents of the survey are currently credit performers at different levels and work in credit related jobs of the bank. Out of them more than 66 per cent of the positions are maintained by credit relationship managers, credit relationship officers and credit appraisal expert staff. This has helped to capture a good quality of data.

4.1 .2 Credit creation, policy and procedures

In compliance to the policy of the regulating body, all banks formulate their own credit policies and procedures which assist to provide different types of credit within each credit policy to their loan customers.

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Table 4.5 Credit creation, policy and procedures

Variables	Frequency	Percent	
Q1 How do you describe your Institution's credit policy and procedures?	Rigid	13	14.8
	Average	24	27.3
	Flexible	51	58
Q2 How do you rate the bank's credit analysis and procedure as NBE directives	Excellent	7	8.0
	Very good	15	17.0
	Good	35	39.7
	Fair	18	20.5
	Poor	13	14.8
	Very poor	0	0
Q3 How do you rate your Bank's credit providing procedure as NBE directives	Conservative	39	44.3
	Moderate	45	51.2
	Based on creativity	4	4.5
Q4 bank's loan approving and recommending procedures is based on?	Loan committee at all level	31	35.2
	Loan department	24	27.3
	Branch manager and president	16	18.2
	Board	17	19.3

Source: *Researcher's Survey result from Primary Data Sources*

Hence, in order to know the nature of the Bank's credit policy, the researcher raised questions for the employees of the Bank. Consequently, as revealed in Table 4.5, Q1 51(58%) and 24(27.3%) described the credit policy and procedure of the bank as flexible and average respectively. On the other hand, 13(14.8%) of the respondents described the Bank's credit policy as rigid. In an open ended question most of the respondents have agreed on the importance, attractiveness and convenience of flexible credit policies and procedures as it assists for loan creation and growth.

In relation to credit analysis, as indicated in table 4.5 Q2, 35(39.7%) of the respondents have rated the credit analysis of the bank good, 15(17%) rated very good, 7(8%) and 18(20.5) rated excellent and fair respectively while 13(14.8) respondents rated poor. Hence, there is a gap such as proper implementation of policy to be addressed to improve the quality of credit

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analysis and loan processing at both head office and branch level that enables to create quality loans arresting non-performing loans.

As can be seen from item Q3 of in table 4.5, 45(51.2%) of the respondent revealed the credit providing procedure of the Bank is moderate and 39(44.3%) acknowledged it as conservative. While 4(4.5%) of the respondents stated the credit delivery is based on creativity. It indicates that the bank has conservative procedure that helps to implement its policy.

In item Q4 of table 4.5, respondents were asked the bank loan approving and recommending procedure on the credit proposal 31(35.2%) agreed that based on recommendation loan committee at all level, 24 (27.3%) agreed based on recommendation of loan department, 16(18.2%) agree that it is based on branch manager and president. Specifically, 17 (19.3%) respondents agreed it is based on board recommending. It revealed that based on their capability each unit has its own level of decision making. This will help not to override decision making process.

4.1.3 Credit Processing and Appraisal

Credit processing and lending function is the core product of all banks in general as it contributes the major shares of revenue to its profitability. In other words loans and advances are known to be the main stay of all banks. They occupy an important part in gross earnings and net profit of the banks. The share advances in the total asset of the banks forms a lion share and as such it is known as the back bone of banking sector. The strength and soundness of the banking system primarily depends upon health of the advances.

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Table 4.6 Credit Processing /Appraisal

Item No	Description	Strongly agree		Agree		Neutral		Disagree		Strongly disagree		Total	
		Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%
Q1	The Bank Checks the borrower history before granting loans	35	39.8	24	27.3	9	10.2	11	12.5	9	10.2	88	100
Q2	The Bank properly assessed the customer ability to meet obligation	18	20.5	44	50	14	15.9	8	9.1	4	4.5	88	100
Q3	Crediting- granting approval process established accountability for decision taken	19	21.6	45	51.1	7	8.0	7	8.0	10	11.4	88	100
Q4	The Bank properly assessed collateral of the customer i.e. There is fair collateral estimation	25	28.4	43	48.9	11	12.5	8	9.1	1	1.1	88	100
Q5	The bank carried out credit processing activities independent of appraisals	26	29.5	23	26.1	18	20.5	10	11.4	11	12.5	88	100

Source: *Researcher's Survey result from Primary Data Sources*

As indicated in table 4.6 item Q1 respondents were asked whether the bank checks the borrower's history before granting loans or not. With this regard, 35(39.8%) of the respondents strongly agree on the issue while 24(27.3%) of employees agree that the bank checks the history of a borrower. On the other hand, 9(10.2%) respondents neutral on the

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issue, 11 (12.5%) of respondents disagree and 9 (10.2%) strongly disagree. This denotes to increase the tendency of non-performing loan since the history of the client not checked during assessment.

In same table item Q2 respondents were asked whether the bank properly assessed the customer ability to meet obligations. The majority of respondents 44(50%) agree with the idea. On the other hand, 18(20.5%) of respondents strongly agree, 14 (15.9%) of respondents neutral , 8 (9.1%) of respondents agree and 4 (4.5%) respondents strongly disagree. This infers that the bank has properly assessed the customers' ability to meet its obligation in the credit granting process.

As can be seen from item Q3 of table 4.3, 45(51.1%) of respondents agree that the credit granting process of the bank creates accountability for each decision making activity and 19 (21.6%) of respondents agree on the issue. Whereas 7 (8.3%) of respondents are neutral with the idea, 7 (8%) of respondents disagree, and the remaining 10(11.4%) strongly disagree. This implies that the bank's each credit staffs are accountable and responsible for their decision making in the loan granting process.

In item Q4 of table 4.3, respondents were asked whether there is fair collateral estimation. The majority of respondents, 43 (48.9%) agree, 25(28.4%) strongly agree and accept there is fair collateral estimation. Specifically, 11 (12.5%) respondents neither agree nor disagree, 8 (9.1%) of respondents disagree furthermore, the rest 1(1.1%) of respondents strongly disagree. Majority of the respondents agreed that there is fair collateral estimation this revealed the bank can collect the loan from defaulters.

As item Q5 of table 4.6 shows, 26 (29.5%) of respondents strongly agree with the idea that the bank carried out credit processing independent of the appraisal, 23(26.1%) agree, 18(20.5%) neutral and the rest 10(11.4%) and 11(12.5%) respondents are agree and strongly disagree respectively. These revealed there is segregation of duty in the credit department.

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4.1.4 Credit monitoring and control

Credit monitoring and follow up process guideline is included in the credit policy of the bank. Appropriate usage and implementation benefits the bank to arrest NPLs and have good relationship with clients.

Table 4.7 Monitoring and Control of Credits

Item No	Description	Strongly agree		Agree		Neutral		Disagree		Strongly disagree		Total	
		Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%
Q1	The bank strictly implement the conditions and sanctions set by different approving organs	13	14.8	44	50	15	17	8	9.1	8	9.1	88	100
Q2	Collateral coverage is regularly assessed and related to the borrower's financial positions	25	28.4	38	43.2	13	14.8	7	8	5	50.7	88	100
Q3	The bank monitor the business of clients after granting credits on regular interval basis	20	22.7	39	44.3	12	13.6	12	13.6	5	5.7	88	100
Q4	Customers are often given sufficient training on loan usage	12	13.6	18	20.5	15	17.0	30	34.1	13	14.8	88	100

Source: *Researcher's Survey result from Primary Data Sources*

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As can be seen from item (Q1) in table 4.7, 44(50%) of respondents agree and 13(14.8%) of respondents strongly agree with the proposition that the bank strictly implement the conditions and sanctions set by different approving organs. 15(17%) of respondents neither agree nor disagree .It is also found that, 8 (9.1%) of them disagree with the idea, 8 (9.1%) of them strongly disagree. This is an implication that the bank has a better stand in implement the conditions and sanctions set by different approving organs that helps to monitor and control its loans provided to creditors.

In item (Q2) of table 4.7, respondents were asked whether the collateral coverage is regularly assessed and related to the borrower's financial position. The majority of respondents 38(43.2%) agree, 25(28.4%) strongly agree. Whereas 13 (14.8%) of respondents are neutral with the idea, 7 (8%) of respondents disagree, whereas the remaining 7 (5.7%) strongly disagree this indicates that the bank uses assessing its Collateral coverage regularly to Monitoring and Control of Credits.

The result presented in item (Q3) of table 4.7 indicates that 20(20.7%) agreed the bank monitors the business of clients after granting credits on regular interval basis,39(44.3)% strongly disagree ,12(13,6%)of respondents neutral and also 12(13.6%) of respondents disagree whereas the remaining of the respondents 5 (5.7%) strongly disagree. As indicated this shows there is a monitoring on disbursed loans that help to mitigate increasing trend of NPLs.

It can be seen from item (Q4) of table 4.7 that 15 (17%) of respondents have responded neutral whether the customers are given sufficient training on loan usage or not, 18(20.05%) are agree, 12(13.6%) of respondents strongly agree and 13(14.8%) of respondent strongly disagree whereas 30(34%) of them disagree. In this case clients have not taken training by the bank might lead to default and can be lead to default and loan diversion.

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Table 4.8 Credit Administration

Item No	Description	Strongly agree		Agree		Neutral		Disagree		Strongly disagree		Total	
		Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%
Q1	The process of “ Credit administration “ is performed independently of individuals involved in the “ business organization” of credit	30	34.0	35	39.8	21	23.9	2	2.3		0	88	100
Q2	The Bank segregate the Workout activity from the area that originated the credit	8	9.1	44	50.0	14	15.9	14	15.9	8	9.1	88	100
Q3	The bank has well-structured documentation tracking systems for credit and collateral files	19	21.6	24	27.3	28	31.8	9	10.2	8	9.1	88	100
Q4	The bank has appropriate criteria for Credit classification and provisioning	25	28.4	38	43.2	17	19.3	8	9.1	17	19.3	88	100

Source: *Researcher’s Survey result from Primary Data Sources*

As we can see from table 4.8, item (Q1), respondents were asked whether the process of credit administration is performed independently of individuals involved in the business origination of credit. With this regard 30 (34.1%) of respondents strongly agree, 35

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(39.8%) agree, 21(23.9%) neither agree nor disagree, the rest 2(2.3%) of them strongly disagree. This shows the bank policy is implemented and embedded the accountability of credit staff to counter check by other staff.

In item (Q2) respondents were asked whether the bank segregates the workout activity from the area that originated credit. Among the respondents 14(15.9%) strongly agree that the bank segregate the workout activities, 59(67%) agree, 7(8%) neutral 5(5.7%) disagree and the rest 3(3.4%) strongly disagree. This shows the segregation of duty for each loan processing and granting

In item (Q3) respondents were asked whether the bank has employed well-structured documentation tracking system for credit and collateral files, their response suggest that 19(21.6%) strongly agree, 24(27.3%) agree, 28(31.8%) neutral, 9(10.2%) disagree and the rest 8 (9.1%) disagree. This revealed the availability of tracking system on collateral files.

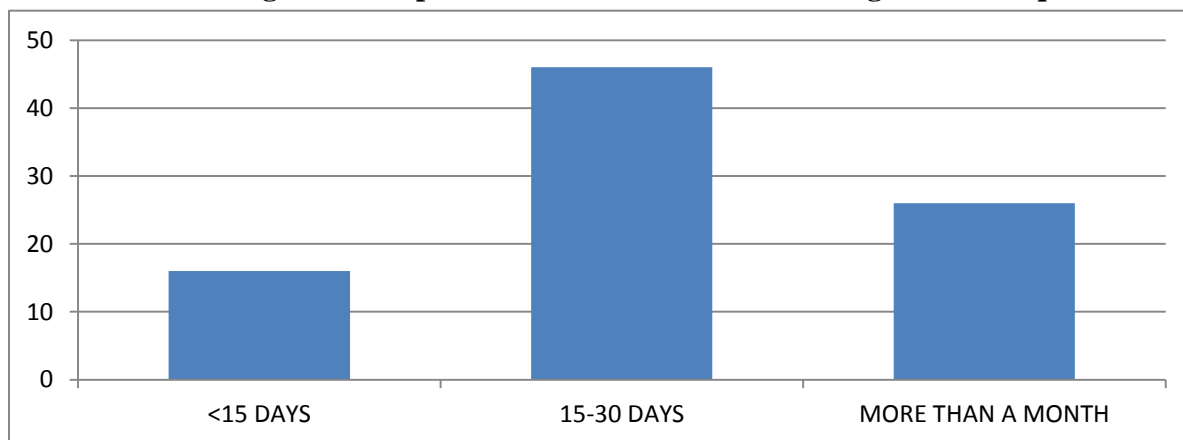
In same table item (Q4) respondents were asked whether the bank has appropriate criteria for credit classification, provisioning and write-off. The majority of respondents 38(43.2%) agree with the idea. On the other hand, 25(28.4%) of respondents strongly agree, 17(19.3%) respondents neutral and 8 (9.1%) of respondents disagree. It denotes that the bank has appropriate credit administration criteria that help to abide on its policy.

4. 1.5 Decision Making on Loan Request

As indicated below in Chart 4.1 respondents were asked how long it takes on average to process and make a decision on a single credit request. 15(18%) responds less than 15 days, 46(52%) responded a maximum of one month a minimum of 15 days while 27(30%) of respondents responded more than a month. This implies the bank provide credit request in short period of time that encouraged old and new clients.

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Chart 4.1 How long takes to process and make decision on single credit request



Source: Researcher's Survey result from Primary Data Sources

Table 4.9 Internal Factors Affecting Fast and Timely Decision of Credit

Item No	Description	Strongly agree		Agree		Neutral		Disagree		Strongly disagree		Total	
		Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%
Q1	Lack of Adequate Man power	13	14.8	10	11.4	24	27.3	13	14.8	28	31.8	88	100
Q2	Centralized decision making process	11	12.5	17	19.3	15	17.0	38	43.2	7	8.0	88	100
Q3	Submission of incomplete data by the prospective borrower	17	19.3	57	64.8	9	10.2	5	5.7			88	100

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Q4	Delay in Obtaining Credit Information	17	19.3	41	46.6	12	13.6	6	6.8	12	13.6	88	100
Q5	Lack of experienced analyst	21	23.9	21	23.9	19	21.6	13	14.8	14	15.9	88	100
Q6	Absence of performance management system of staff	25	28.4	38	43.2	13	14.8	7	8.0	5	5.7	88	100

Source: *Researcher's Survey result from Primary Data Sources*

In table 4.9, item (Q1), of respondents responded that lack of adequate manpower affect the decision making process, 13(14.8%) strongly agree, 10(11.4%) agree, 13(14.8%) disagree, 28(31.8%) strongly disagree and the rest 24(27.3%) neutral. This denotes that the bank decision making process not affected by lack of adequate man power

In the same table respondents were asked centralized decision making process as an internal factor that prevail fast and timely decision. And in item (Q2) 11(12.5%) strongly agree, 17(19.3%) agree, 15(17%) neither agree nor disagree, 38(43.2%) disagree and the rest 7(8%) strongly disagree. This implies that central decision making is not a factor hampered fast decision makings.

In item (Q3) of the same table submission of incomplete data by the applicant is as a cause for delay of fast decision making. Accordingly 17(19.3%) of them in favor of strongly agreed, 57(64.8%) agree, 9(10.2%) neutral and 5(5.7 %) disagree. This indicates that one factor for the delay of decision making on loan granting is submission of incomplete and irrelevant document by the clients.

In Item (Q4) delay in obtaining reliable credit information is strongly agreed by 17(19.3%) of respondents, agreed by 41(46.6%) of respondents, neither agreed nor disagreed by 12(13.6%)of respondents, disagreed by 6(6.8%) of respondents and strongly disagreed by 12(13.6%) of respondent groups. Lack of reliable credit information is one of the factors for the delay of decision making process of loan granting.

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In item (Q5) of the same table lack of experience analyst is strongly agreed by 21(23.9%) of respondents , 21(23.9%) respondents agree, 19(21.6%) neutral , 13(14.8%) disagree while the rest 14(15.9%) strongly disagree. This signifies that the lack of experience of loan analysts is not a factor for delaying on decision making of loan granting .

As shown in item (Q6) of the same table 25(28.4%) of respondents responded that the absence of performance management system affect the decision making process strongly agreed, 21(23.9%) respondents agreed, 19(21.6%) neutral, 13(14.8%) disagreed and the rest 14(15.9%) strongly disagree. This indicates there is no adequate appraisal system of staff engaging in the loan process and might leads to delay of decision in loan processing and granting.

4.1.5 Credit Analysis

Loan requests should be carefully analyzed and appraised in accordance with the prevailing credit policy and procedures. Financial statements should be analyzed to determine the financial soundness of the applicants. All type of risks such as ownership risk, management risk, business risk, financial risk, collateral risk and legal risk should be assessed with utmost care.

Table 4.10 Factors that Inhibited Access to Credits

Item No	Description	Strongly agree		Agree		Neutral		Disagree		Strongly disagree		Total	
		Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%
Q1	Customers credit History	20	22.7	24	27.3	19	21.6	14	15.9	11	12.5	88	100
Q2	Age of client					13	14.8	13	14.8	62	70.5	88	100

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Q3	Purpose of Loan	13	14.8	26	29.5	37	42.0	12	13.6			88	100
Q4	Cash flow / Financial position of the applicant	20	22.7	32	36.4	12	13.6	13	14.8	11	12.5	88	100
Q5	Stringent policy rule of the bank	26	29.5	24	27.3	12	13.6	26	29.5			88	100
Q6	Amount of request of the applicant	32	36.4	26	29.5	19	21.6	11	12.5			88	100

Source: *Researcher's Survey result from Primary Data Sources*

In table 4.10 Customer credit history is also cited as a factor that determine access to credit in item (Q1) 20(22.7%) strongly agree, 24(27.3%) agree, 19(21.6%) neutral, 14(15.9%) disagree and 11(12.5%) strongly disagree. Item (Q2) on the same table 62(70.5%) of respondents strongly agree that age of applicants for a factor to access credit, 13(14.8%) disagree while the rest 13(14.8%) has agreed. It implies that the bank done commercial risk analysis based on Pandey (1997) that is character or the client record meeting past obligation.

In item (Q3) of table 4.10 purpose of the loan is cited as factor that inhibit access to credit. From respondents 13(14.8%) strongly agree, 26(29.5%) agree, 37(42%) neutral and 12(13.6%) disagree. It reveals the purpose of loan that is not reliable and not considering the market and economic situation inhibited access to credit.

The cash flow/financial position of the applicant is mentioned as a factor for credit access in item (Q4) of the table and 20(29.5%) strongly agree,32(36.4%) agree,12(13.6% neutral, 13(14.8%) disagree and 11(12.5%) strongly disagree. As 80.7% bank respondents agreed that the result shows the bank done analysis of Cash flow based on Pandey (1997) commercial risk analysis that is capital to investigate financial strength of the applicant.

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In item (Q5) of table 4.10 above 26(29.5%) of respondents strongly agree that stringent bank policy as a factor to access credit while 24(27.3%) agreed, 12(13.6%) neutral and the rest 26(29.5%) has disagreed. It signifies that the policy is stringent enough to inhibit access to credit.

Item (Q 6) on the same table 32(36.4%) of respondents strongly agree that the amount of request of applicants is a factor to determine access to credit, 26(29.5%) agree and 19(21.6%) neutral while the rest 11(12.5%) has disagreed. This demonstrate that the applicants request amount is exaggerated from the cash flow and collateral limit it will hinder access to credit.

4.1.6 Credit collection and Recovery

The credit recovery method, used by the bank is treated in the same fashion as of credit collection methods. The measures that are used include strict follow up and insisting the client, debt rescheduling, court proceeding, and foreclosure.

In the bank, credit is transferred to the legal service when it fails to regularize or settle the loans in default and when all efforts to amicably settle the loans fail and it is ascertained that legal action is to be the last alternative.

Table 4.11 What Credit Collection Strategies that the Bank Adopt in Retrieving credit

Item No	Description	Strongly agree		Agree		Neutral		Disagree		Strongly disagree		Total	
		Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%
Q1	Consider prompt payment	13	14.8	51	57.9	24	27.3					88	100
Q2	Establish payment guide line	35	39.8	53	60.2							88	100

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Q3	Writing reminder letter	13	14.8	51	58.0	24	27.2					88	100
Q4	Provide incentive for prompt payment	13	14.8	12	13.6	26	29.5	25	28.4	13	14.8	88	100
Q5	Seek legal advice	25	28.4	25	28.4	12	13.6	26	29.5			88	100

Source: *Researcher's Survey result from Primary Data Sources*

In table 4.11 item (Q1) 13(14.8%) strongly agreed on the idea that considering prompt payment will be a strategy in retrieving credit, 51(57.9%) half of the respondents agreed on the idea, and 24(27.3%) neutral. In item (Q2) respondents were requested whether establishing payment guideline could be considered as a collection strategy and 35(39.8%) of them strongly agreed with the idea, and 53(60.2%) agreed.

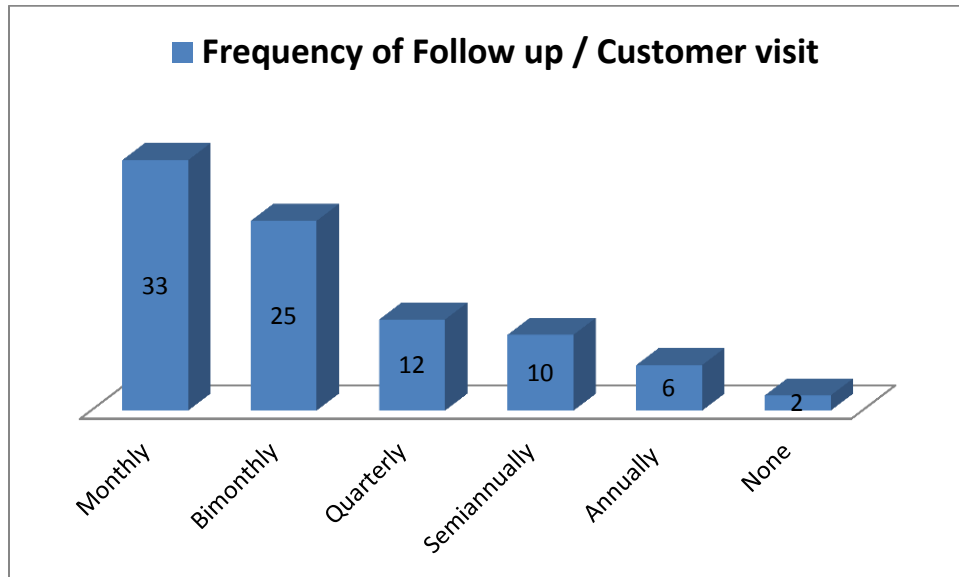
Same table item (Q3) 13(14.8%) of respondents strongly agreed that writing a reminder letter as a strategy in retrieving credit, 51(58%) agree, and 24(27.3%) neutral.

In item (Q4) providing incentive for prompt payment is requested as a strategy in retrieving credit and 13(14.8%) strongly agreed, 12(13.6%) agree, 26(29.5%) neutral and the remaining 25(28.4%) and 13(14.8%) disagree and strongly disagree respectively.

Item (Q5) of the same table has raised seeking legal advice as a strategy in retrieving credit and 25(28.4%) of respondents strongly agree 25(28.4%) of respondents agree and 12(13.6) neutral and the rest 26(29.5%) disagree.

This implies Prompt payment, establish payment guideline, writing reminder letter and seek legal advice are the best strategies to retrieve the loan. Whereas providing incentive is not better strategy for collection of credit..

Chart 4.2 Follow up Time Interval of the Bank after Loan Disbursement

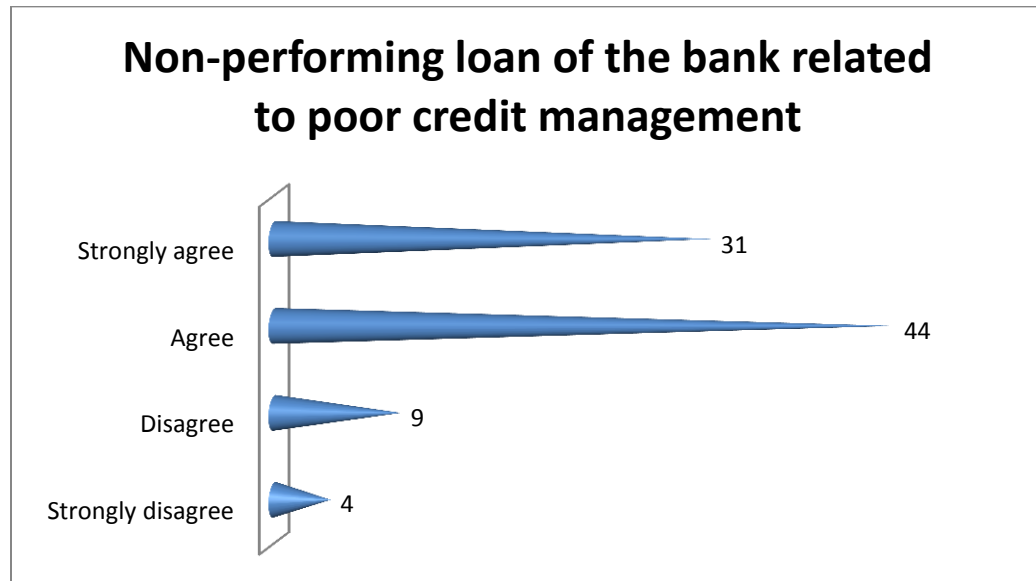


Source: *Researcher's Survey result from Primary Data Sources*

In figure respondents were asked the time interval that the bank deploys in conducting a visit after release of fund to the borrowers business site. And 33 (37.5%) responded monthly, 25(28.4%) of them bimonthly, 12(13.6%) quarterly, 10 (11.4%) semiannually, 6(6.8%) of the respondents annually and 2(2.3%) responded that no visit is conducted after disbursement of the loan.

The responses assure that the follow-up system of the bank is structured and a well-known business visit is conducted to assure the end use of the loan that the bank has granted.

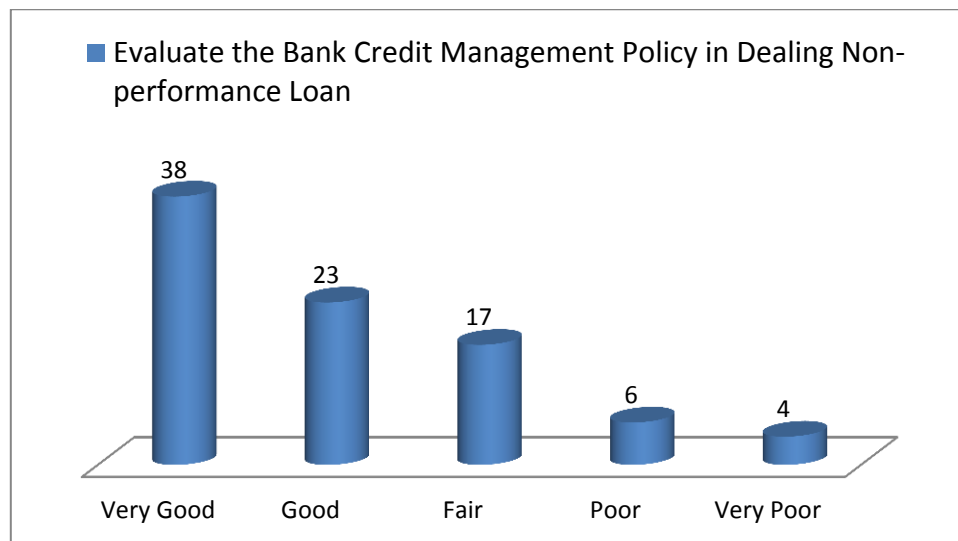
Chart 4.3 Non performing Loan vs Poor Credit Management



Source: *Researcher's Survey result from Primary Data Sources*

As chart 4.3, 75(85.3%) have responded that the banks non-performing loan is related to a poor credit management of the loan. 4(4.5%) have responded strongly disagree while the rest 9(10.2%) disagree on the issue. This indicated that there is relationship with poor credit management and increase trend of nonperforming loan.

Chart 4.4 Bank Credit Management Policy in Dealing with Non-performing loan



Source: *Researcher's Survey result from Primary Data Sources*

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How far the credit management policy of the bank policy is helps to deal with non-performing loans or not. 78(88.6%) have responded agree that the banks policy is dealing with non-performing loan. While the rest 10(11.3%) disagree on the issue. This indicates that the bank has stipulated policy which is effective and efficient to deal with non-performing loan.

Table 4.12 Instrument /techniques Use for Credit Risk Management of the Bank

Item No	Description	Strongly agree		Agree		Neutral		Disagree		Strongly disagree		Total	
		Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%
Q1	Prudential Limits	32	36.4	7	8.0	20	22.7	8	9.0	21	23.9	88	100
Q2	Credit Approval Authority	36	14.8	35	39.8	17	19.3					88	100
Q3	Risk ratings	8	9.1	11	12.5	16	18.2	44	50.0	9	10.2	88	100
Q4	Portfolio Management	6	6.8	17	19.3	23	26.1	29	33	13	14.8	88	100
Q5	Loan review Policy	29	33.0	11	12.5	18	20.5	20	22.7	10	11.4	88	100
Q6	Collateral	34	38.6	40	45.5	14	15.9					88	100
Q7	Diversification	19	21.5	37	42.0	26	29.5	6	6.8			88	100
Q8	Credit Audit and Problem Loan	28	31.8	34	38.6	21	23.9	5	5.7			88	100

Source: Researcher's Survey result from Primary Data Sources

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In item (Q1) of table 4.12 32(36.42%) responded strongly agree application of prudential limits, 7(8%) responded as agree, 20(22.7%) responded as neutral, 8(9.1%) disagree and 21(23.9%) responded strongly disagree. This implies that the bank is able to use prudential standard and its internal limit

In the same table, item (Q2) of the same table 35(39.8%) of respondents responded agree that there is credit approval authority in the bank as one credit management technique. While 36(40.9%) responded as strongly agree and 17(19.3%) responded as neutral. This reveals that the bank uses credit approval authority as credit risk management techniques.

Item (Q3), 5(5.7%) responded strongly agree, 39(44.3%) of respondents responded agree that risk rating is applied as a credit management tool, 36(40.9%) responded neutral as risk rating applied and the rest 8(9.1%) respond as disagree. It denotes that the internal rating system is applied insufficiently as a credit risk management techniques.

As per item (Q4) portfolio management is responded by 6(6.8%) of respondents as strongly agreed, 17(19.3%) as agree, 23(26.1%) as neutral, 29(33%) disagree and 13(14.8%) responded disagree. It implies that the bank is not properly taken portfolio management as credit risk management techniques.

Loan review policy (Q5) 29(33%) of respondents strongly agreed, 18(20.05%) of respondents, neutral 11(12.5%), respondents agree 20(22.7%) respondents disagree 10(11.4%) respondents disagree applied as a tool for credit risk management.

Collateral (Q6) as a tool for credit risk management is responded by 34(38.6%) as strongly agree, 40(45.5%) of respondents agree, 14(15.9%) of respondents neutral.

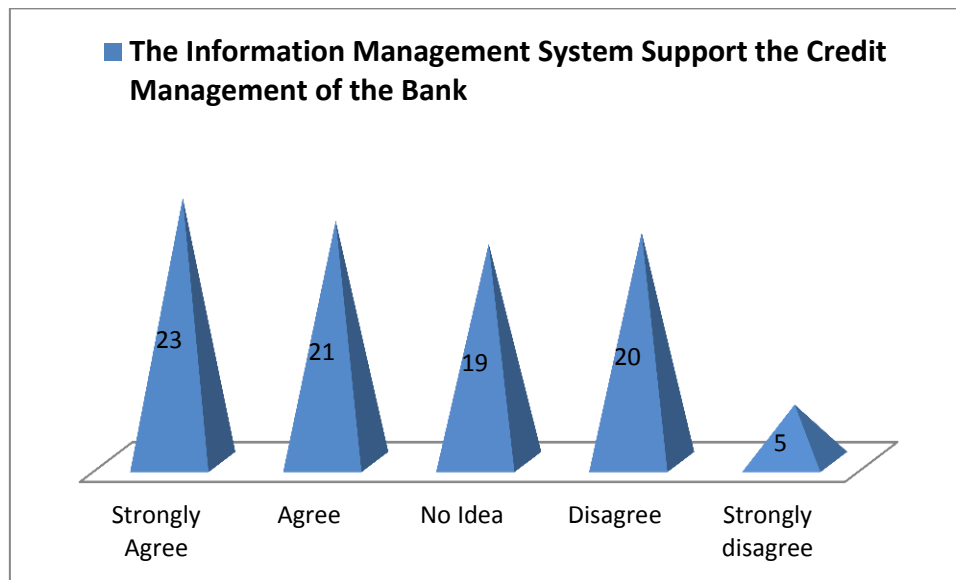
Diversification (Q7) as a tool for credit risk management is responded as strongly agreed by 19(21.5%), of respondents, agree as per the response of 37(42%) of respondents, neutral as per the response of 26(29.5%) of respondents, and responded strongly agree 6(6.8%) of the respondents.

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In item (Q8) of table 4.15, the tools like credit audit and problem loan management is used as a credit risk management techniques as rated by respondents, 28(31.8%) strongly agree, 34(38.6 %) agree, 21(23.9 %) neutral and 5(5.7%) disagree.

This signifies that loan review policy, collateral and diversification are also used by the bank as tools to credit risk management in the bank.

Chart 4.5 Information Management support Credit management of the Bank



Source: *Researcher's Survey result from Primary Data Sources*

As indicated in the above chart 4.5, 44(50%) of respondents replied that there is a management information system that helps credit management in the bank, whereas 19 (21.6%) respondents responded no idea and the rest 20(22.7%) disagree and 5(5.7%) strongly disagree on the help of the system.

Even if 50% of the respondents agree on the information management system support the credit management of the bank on the other hand 50% have no idea and disagree about the ability of the existing management information system in supporting the credit management task of the bank. This reveals the Information system support is not in full capacity.

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4.2 RESULT FROM CLIENTS

4.2.1 Characteristics of Respondents

In this research process the characteristics of respondents like type of business and year of conducting business are assessed.

Table 4.13 Type of business engaged

Type of business	frequency	Percent %
Trade	17	26
Industry	10	15
Construction	19	29
Import /export	20	30
Total	66	100

Source: *Researcher's Survey result from Primary Data Sources*

As we can see from the above table most of the credit client of the bank is in the import/export business sector which is around 20(30%) of the respondent, the remaining construction, trade and industry are 19(29%), 17(26%) and 10(15%) respectively.

Table 4.14 Year of conducting in business

Years of conducting business	frequency	Percent %
Below 5 years	19	29
5-15 years	26	39
16-25 years	14	21
Above 25 years	7	11
Total	66	100

Source: *Researcher's Survey result from Primary Data Sources*

Almost 68% of the respondent engaged in business for fifteen years and below, the remaining 14(21%) and 7(11%) have a business experience of 16-25 years and above 25 years respectively.

4.2.2 Loan Processing

Loan processing is one of the measurements of credit management in banks and other financial sectors. Hence, the processing procedure, transparency, and length of time are some of the factors determining the convenience of lending facilities which contributes to loan growth and lasting client - bank relationship. Therefore, knowing the outlook of loan clients is very important in reshaping credit policy and procedures of every bank.

Table 4.15 Initiation for loan

Who initiates first loan request	frequency	Percent %
Self	41	62
Loan clients of the bank	17	26
Bank staff	8	12
Total	66	100

Source: *Researcher's Survey result from Primary Data Sources*

As it is denoted in the above table 4.17, 41(62%) of the applicants approached the bank by own initiation and 17(26%) of the new applicants were approached to the bank by former loan clients of the bank. In addition 8(12%) of the new applicants approached the bank through the efforts of employees. Almost 88 percent of the bank client approach the bank through self-initiation and initiated by the loan client of the bank. From these the bank has already created dependable awareness among the potential applicants and well integrated with in the business community. It also shows when the former loan clients and employees participate in the effort of mobilizing and screening new clients.

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Table 4 .16 Loan processing

Item No	Description	Strongly agree		Agree		Neutral		Disagree		Strongly disagree		Total	
		Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%
Q1	Loan processing is short	9	14.0	11	17.0	8	12.0	21	32	17	26	66	100
Q2	There is fair collateral estimation	6	9.0	3	5.0	8	12.0	26	39.0	23	35.0	66	100
Q3	Application requirement and procedure are convenient	24	36.0	18	27.0	6	9.0	12	18.0	6	9	66	100
Q4	Assign staffs to visit your business site during your loan request	6	9.0	10	15.0	6	9.0	36	55.0	8	12.0	66	100
Q5	Information provided as per your request	31	47.0	18	27.0	8	12.0	7	11.0	2	3.0	66	100

Source: *Researcher's Survey result from Primary Data Sources*

As indicated in table 4.16 item Q1 respondents were asked whether the bank loan processing is short. With this regard, 9(14%) of the respondents strongly agree on the issue while 11(17%) of clients agree that the bank loan processing is short. On the other

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hand, 8(12%) respondents neutral on the issue, 21 (32%) of respondents disagrees and 17 (26%) of clients strongly disagree.

In same table item Q2 respondents were asked whether the bank properly assessed the customer collateral estimation. The majority of respondents 26(39%) disagree with the idea. On the other hand, 23(35%) of respondents strongly disagree which means that almost 74% of the respondents were not comfortable with the collateral estimation of the bank and only 13% which means 3 (5%) agree and 6 (9%) strongly agree. The remaining 8 (12%) were neutral.

In Q1 and Q2 the client's responded denotes that the bank has lengthy of loan granting process and unfair collateral estimation.

As the above table illustrate item Q3 24(36%) of respondents strongly agree that the application requirement and procedure of the bank are convenient and 18 (27%) of respondents agree on the issue. Whereas 6 (9%) of respondents are neutral with the idea, 12 (18%) of respondents disagree, and the remaining 6(9%) strongly disagree. This implies that the bank has proper and easy application procedure for loan applicants.

In item Q4 of the above table 4.16, respondents were asked whether the bank assigned staff for visit site during loan request. The majority of respondents, 36 (55%) disagree, 8(12%)strongly disagree. Specifically, 6 (9%) respondents neither agree nor disagree, furthermore, the rest 6(9%) and 10(15%) of respondents strongly agree and agree respectively. This implies that the bank has not frequent monitoring visit to clients that lead to non-performing loan.

As item Q5 of table 1.1 shows, 31 (47%) of respondents strongly agree with the idea that the bank provide information on loan as per request, 18(27%) agree, 8(12%) neutral and the rest 7(11%) and 2(2%) respondents are disagree and strongly disagree respectively.

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Table 4.17 Internal Factors Affecting Timely Decision Making of loan granting

Item No	Description	Strongly agree		Agree		Neutral		Disagree		Strongly disagree		Total	
		Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%
Q1	Lack of adequate manpower	4	6.0	19	29.0	12	18.0	8	12.0	23	5.0	66	100
Q2	Centralized decision making process	33	50.0	12	18.0	3	5.0	15	23.0			66	100
Q3	Submission of incomplete data	16	24.0	21	32.0	24	36.0	5	8.0			66	100
Q4	Delay in obtaining credit information	24	36.0	18	24.0	18	24.0	6	9.0			66	100
Q5	Lack of experienced analyst	1	2.0	24	36.0	18	27.0	9	14.0	14	21.0	66	100

Source: *Researcher's Survey result from Primary Data Sources*

As can be seen from item (Q1) in table 4.17, 23(35%) of respondents strongly disagree and 8(12%) of respondents disagree with the lack of adequate manpower in the bank. 12(18%) of respondents neither agree nor disagree .It is also found that, 19 (29%) of them agree with the idea, 4 (6%) of them strongly agree. This indicates lack of adequate man power is not the factor for timely decision making

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In item (Q2) of table 4.17, respondents were asked whether the centralized decision making process as a factor affects timely decision. The majority of respondents 33 (50%) strongly agree, 12(18%) agree. Whereas 3 (5%) of respondents are neutral with the idea, whereas the remaining 15 (23%) strongly disagree. It denotes that central decision making is bottle neck for timely decision making of loan grant as all loan are approved at head quarter.

As 68% of the respondent agreed with central decision making of the loan process highly affect the timely decision making of the bank. However, the bank respondents agree that it is not a factor for timely decision making.

In item (Q3) of table 4.17, respondents requested whether the client submission of incomplete data is one factor for the delay. With this regard, 16 (24%) of respondents responded that they strongly agree, 21 (32%) respondents agreed and 24 (36%) of respond moderate and 5(8%) are disagree.

The result presented in item (Q4) of table 4.8 indicates that delay in obtaining information is one factor that affect the timely decision making of the bank 24(36%) strongly agree, 18(24%)of respondents agree and also 18(24%) of respondents respond as neutral whereas the remaining of the respondents 6(9%) disagree that delay in obtaining information is one factor that affect the timely decision making of the bank. Both the bank and clients agreed that obtaining credit information from other institutions is a factor hampers fast decision making of loan granting

It can be seen from item (Q5) of table 4.17 that 24 (36%) of respondents have responded agree as a factor on the delay as lack of experienced analyst, 1(2%) are strongly agree, 18(24%) of respondents neither agree nor disagree and 14(21%) of respondent strongly disagree whereas 9(14%) of them disagree. This implies that lack of experienced analysts is a bottle neck for fast decision making of loan to the clients.

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Table 4.18 Credit collection strategy

Item No	Description	Strongly agree		Agree		Neutral		Disagree		Strongly disagree		Total	
		Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%
Q1	Consider prompt payment	23	35.0	18	27.0	9	14.0	12	18.0	4	6.0	66	100
Q2	Establish payment guide line	19	29.0	24	36.0	12	18.0	6	9.0	5	8.0	66	100
Q3	Writing reminder letter	18	27.0	26	39.0	10	15.0	5	8.0	7	11.0	66	100
Q4	Provide incentive for prompt payment	24	36.0	12	18.0	6	8.0	18	27.0	6	9.0	66	100
Q5	Seek legal advice	16	24.0	22	33.0	17	26.0	7	11.0	4	6.0	66	100
Q6	The bank has a culture of visit after loan granting	18	27.0	23	35.0	6	9.0	7	11.0	12	18.0	66	100

Source: *Researcher's Survey result from Primary Data Sources*

The researcher raised questions that the credit collection strategy of the bank in improving credit collection.

As can be seen in table 4.18 item (Q1) 23(35%) strongly agree, 18(27%) agree, and 9(14%) neither agree nor disagree, 12(18%) and 4(6%) respondents disagree and strongly disagree respectively on the idea prompt payment of credit to improve credit collection.

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Prompt payments agreed as a good strategy not only by the bank respondents but also by clients as a tool for credit collection. as most of responded clients have taken loan repeatedly.

In item (Q2) of the above table, 12(18%) of the respondents has neutral stand 19(29%) strongly agree, 24(36) agree and 6(9%) disagree and the remaining 5(8%) strongly disagree that the established payment guideline improve the collection of loan. It reveals that the payment guideline is effective tool as credit collection tool.

In item (Q3) of the same table, the researcher requested whether writing of reminder letter improve collection of loan process or not, of the respondents 18(27 %) strongly agree, 26(39%) respondent agree and 10(15%) neither agree nor disagree, the remaining 5(8%) and 7(8%) disagree and strongly disagree respectively.

In item (Q4) of same table provide incentive for prompt payment will improve the credit collection process or not .And 30(45.4%) of respondents strongly agree, 25(37.9%) agree, 6(9%) neutral, and the rest 5(7.6) disagree.

Clients response reflected that issue raised under item Q3 and Q4 (Writing reminder letter and Provide incentive for prompt payment) are key elements that the bank has to follow as a strategy because those two elements are the basic factors to encourage timely and effective collection of the loans. However, the reverse is true for the bank and argued that writing reminder letter and provides incentive for prompt payment is not the major and key element to collect the loan.

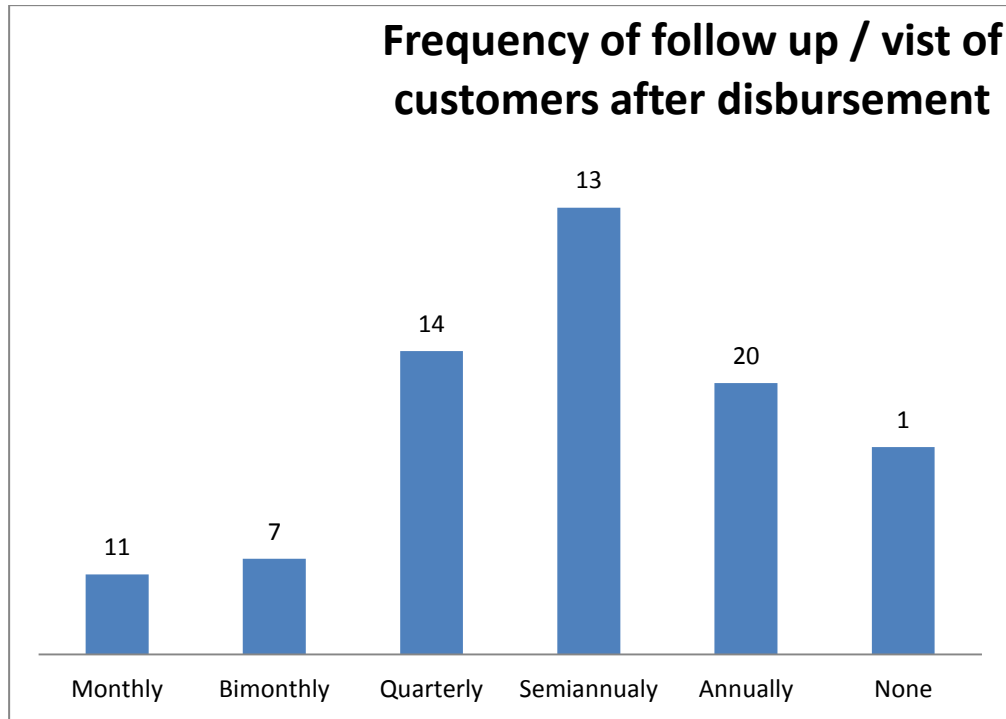
In item (Q5) of the same table, the researcher requested whether seek legal advice will facilitate the credit collection or not. Of the respondents 4(6%) strongly disagree for each, 7(11%) disagree, 17(26%) neither agree nor disagree, 22(33%) agree and the remaining 16(24%) strongly agree. This infers that as client respondents seeking advice by the bank is not a good strategy. Whereas the bank respondents agree as an effective tool to mitigate default of loan.

It can be seen from item (Q6) of table 1.3 that 23 (35%) of respondents have responded agree as the bank has culture of visit after loan granting, 18(27%) are strongly agree,

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7(11%) of respondents neither agree nor disagree and 12(18%) of respondent strongly disagree whereas 7(11%) of them disagree.

Chart 4.6 Monitoring and Follow up time interval of the bank after loan disbursement



Source: *Researcher's Survey result from Primary Data Sources*

In the above figure respondents have put their position in the time interval that the bank deploys in conducting a visit after release of fund to the borrowers business site. 20 (31%) responded annually, 7(11%) of them bimonthly, 14(21%) quarterly, 13(20%) semiannually, 11(17%) of the respondents monthly and 1(01.2%) responded that no visit is conducted after disbursement of the loan.

This indicates that majority of the respondent reflects the follow up time interval of the bank is semi quarter and above shows there is no frequent monitoring. However the majority of the banks respondent stated that the interval is from monthly to quarterly.

Question related to whether the loan service provided by the bank is as per your expectation or not and about 49 of the respondent which means that almost 74% agreed that the loan service

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provided by the bank is as per their expectation, And the remaining replied that the loan service provided by the bank is not as their expectation. And again the respondents have asked related question about whether the loan repayment period of the bank is convenient or not and most of them (83%) agreed that the time given by the bank to meet the obligation is convenient and the remaining 17% have a reverse stand with this idea.

If loans are not repaid as per the contract agreement and when due credit risk is involved, hence the value of the bank's business will be reduced. In order to continue lending, the bank must be able to collect its outstanding loans on time. Hence, in order to minimize the occurrence of bad loans strict follow up must be carried to the utmost degree and take timely action when necessary.

The researcher asked clients to understand what are the motivating factor to repay the loan timely and 39(59%) of the respondent revealed that they manage to pay their loan convincing themselves that loan repayment as per agreement is being an obligation and ethical while the rest 17(26%) and 10(15%) exposed that they repay their loan for the sake of protecting their property held as collateral and also to secure getting another loan from the bank.

Finally, clients asked to comment on which part of the service that the bank has to improve in order to have a good loan process and management. And most of the respondent agreed that the bank must improve its collateral estimation and its centralized loan approving process.

4.3 Comments forwarded by the bank and client respondents for improving credit management of the bank:

- As the clients comments the bank should clearly communicate the guide line to access credit and service both for esteemed and new customer without favoring.
- Furthermore, some credit controlling processes commented by bank respondents includes putting a strong and practical credit risk rating policy , developing the staff capacity at all level to manage the credit activity in general, visiting the business after disbursement on regular basis, and applying due care before granting the loan.

CHAPTER FIVE

MAJOR FINDINGS CONCLUSIONS AND RECOMMEDATIONS

In this chapter, conclusion of the research findings that has been discussed and analyzed in detail in the previous chapters is briefly presented. In addition, general conclusions that are highly related with the research objective of this paper is offered. Furthermore, possible recommendations based on the findings are made.

5.1 Major Finding

- The bank checks the borrower history. The bank assesses customer ability to meet obligations. The credit granting process creates accountability. The bank is not in a position to monitor or visit the clients business on regular basis after disbursement that creates a huge amount of non-performing loan. No sufficient training is provided by the bank with regard to loan usage.
- The bank regularly assess the collateral coverage with the borrowers' financial position though most credit approval is collateral based.
- The workout activity is segregated from the area that the credit is originated –helps to reduce conflict of interest.
- The bank has not yet deployed adequate measure to recover non- performing loans. The bank should improve the time allotted for centralized decision making of credit. The credit approval period shall be reasonable as soon as possible. The lack of manpower is not a case in the bank for determining the decision making process however; the bank should hire staff with the required skill and train them. Submission of incomplete data by the applicant is a reason for delay the loan officer or branch manager should use a checklist as first contact as the time of application and resolve the incompleteness.
- The bank has stated clear policy and guidelines on the required information on new credit, amendments, refinancing of existing credit.
- High dependability on collateral that leads to skewness of loan therefore the bank should reduce high dependability on collateral.

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5.2. Conclusion

The broad objective of this research was to assess the performance of credit management of Berhan International S,C. For this intention, the study was intended to answer quite specific questions which were derived from this broader objective. And hence, the study focused on loan appraisal, loan provision, and loan monitoring and credit collection with loan performance.

The overall credit management activity of the bank needs the attention of the management. The main problem in BIB is not lack of clear policy and procedure rather a problem in the implementation of the existing guidelines in proper manner. The finding of the study also assures existence of poor credit management including improper follow-up. The following conclusions are drawn.

- ✚ While the existing credit control activities of the bank and credit staff requirements are complied with the stipulated policy in a little or poor manner. This indicates that the mentioned activities are performed in deviation from the policy guideline.
- ✚ The bank does not undertake credit quality report so devising a strong risk management environment is mandatory.

5.3 Recommendations

Based on the in-depth examination and subsequent findings from the study, the following recommendations are forwarded; in the hope that they would help in order to curb the major problems identified in the study and facilitate the overall credit related activities.

- ✚ Berhan International Bank should formulate an appraisal process or procedures for loan granting that would encompass matters with basic identification of credit worthy customers, comprehensive credit analysis and authentic sanctioning process.
- ✚ The appraisal process should also capture consideration of basic 5cs, including capital adequacy, capacity of the applicant, value of the collateral (fair estimation), repayment history (character) and the overall business conditions. BIB should also make use of approved and certified feasibility report of the proposed project which was suggested by appropriate technical professionals before financing.
- ✚ Frequent contact or business visit shall be conducted to minimize loan loss since it helps the bank to advise the customers besides reduces diversion of the loan.

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- ✚ Even if the current credit information system of the country shows improvement from past years there is still a problem in obtaining reliable credit information, therefore the bank play its part in improving the overall credit information system (CIC) through updating its data in timely and accurate manner as well as work in collaboration with other banks in the industry.(Recommendation from findings)
- ✚ The Bank did not monitors the business of clients after granting credits on regular interval basis besides customers are not advised regarding loans usage but it should be undertaken to control the end use of the loan.
- ✚ The process of decision making is a factor for fast decision making so the bank shall equip itself with adequate and appropriate manpower, since it is a key in facilitating a credit decision making process.
- ✚ Visiting business on regular basis after disbursement , applying due care before granting a loan, establishing payment guideline, considering prompt payment, writing reminder letter, providing incentive for prompt payment, as best strategy in retrieving credit; but legal advice in retrieving credit is put at last by respondents.
- ✚ Employment of experienced staff on critical areas (Loan analyst). Challenge faced by the bank includes knowing the customer, dependency on collateral, lack of awareness of individuals work on credit about the credit policy and procedure of the bank
- ✚ The bank should design administration, measuring and monitoring process of credit.
- ✚ Credit staff should be assigned in required number and skill for each credit unit of the bank. This enables the bank to timely process the loan until the disbursement phase, which in the way helps to satisfy customers and to make adequate follow up process afterwards. This further helps to carry on sound and healthy credit management practice in general. BIB Management has to formulate a mechanism for upgrading the carrier of the employee's thorough continuous training.
- ✚ The credit controlling process of the bank needs training of the staff, improving control system , initiating legal process early in case of NPLs, designing effective monitoring system and serving reminder letter early as possible. (from finding to recommendation)
- ✚ The bank should assess the training need of the credit Department for both technical and management staffs to give appropriate training that enables to conceptualize, design, and

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made operational an internal credit rating system that suits the banks' operations to control risk exposures.

- ✚ The bank should perform periodic loan review which addresses all or at least majority of loans that are currently outstanding this activity is the main internal control which enable the bank to know the credit risk level of the total loan and to increase the effectiveness of loan portfolio management.

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ANNEX I

**St. MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDENTS, MBA PROGRAMME
QUESTIONNAIRE)**

For Bank Employees

Dear respondent,

This is a questionnaire designed to solicit first hand data that maybe helpful to conduct a research on the title of “ Assessment of Credit Management at Berhan International Banks S.C.” in partial fulfillment of master of Business Administration (MBA).

Hence, I kindly request you to attempt all the questions in the questionnaire to meet the aim of the study. Whatever information provided will be treated with confidentiality and strictly to be used for academic purpose only. No need to write your name.

Therefore, Please put a tick mark (✓) on the space provided for questions that need further explanation please use the space provided under each question.

Part I. Back ground of respondent:

1. Age group:

20__29 30-39 40-49 Above 50

2. Educational qualification

Diploma Degree

Masters Other, Please Specify _____

3. Years of service in credit area?

0- 5 years 6-10 Years 10-15 Years

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16-20 Years 21-25 Years Above 25 Years

4. Current position _____

Part II. Questions on Credit Management

1. Credit Creation , Policy and procedure

5. How can you see your institution's credit policy and procedure?

Rigid Flexible Average

6. How do you rate credit analysis and procedure followed by the bank in Extending credit?

Excellent Very good Good Fair Poor

7. How do you evaluate your bank's credit providing procedure?

Based on creativity Conservative Moderate

8. Your banks Loan approving /recommending procedures of the credit proposal of clients is based on

Loan committee at all level Branch Manager and president

Loan department Board

2. Credit Management Process

Please provide your level of agreement using the following rates (Where 1= Strongly disagree, 2= Disagree, 3= Neutral, 4 = Agree , 5 = Strongly agree)

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9.1 Credit Processing/Appraisal/	1	2	3	4	5
The Bank Checks the borrower history before granting loans					
The Bank properly assessed the customer ability to meet obligation					
Crediting- granting approval process established accountability for decision taken					
There are times credit granting and monitoring process is overridden by Directors, senior management					
The bank carried out credit processing activities independent of appraisals					
9.2 Monitoring and Control of Credits	1	2	3	4	5
The bank strictly implement the conditions and sanctions set by different approving organs					
Collateral coverage is regularly assessed and related to the borrower's financial positions					
The bank monitor the business of clients after granting credits on regular interval basis					
Customers are often given sufficient training on loan usage					
9.3 Credit Administration	1	2	3	4	5
The process of " Credit administration " is performed independently of individuals involved in the " business organization " of credit					
The Bank segregate the workout activity from the area that originated the credit					
The bank has well-structured documentation tracking systems for credit and collateral files					
The bank has appropriate criteria for Credit classification and provisioning					

10. How long it takes to process and make a decision on single credit request?

< 15 days

15-30 days

More than a month

11. What internal factors prevail affecting fast and timely decision of credit? (Where 1 = Not prevail , 2 = Moderately Prevail, 3= Prevail , 4= Highly Prevail , and 5= Very High prevail)

Factors	1	2	3	4	5
Lack of Adequate Man power					
Centralized decision making process					
Submission of incomplete data by the prospective borrower					
Delay in Obtaining Credit Information					
Lack of experience analyst					

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Absence of performance management system of staff					
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12. Rank the factors that inhibited access to credits? (Where 1= No inhibit , 2 = Moderately inhibited , 3= Inhibit , 4= Highly inhibit , and 5= Very highly inhibit)

Factors	1	2	3	4	5
Customers credit History					
Age of client					
Purpose of Loan					
Cash flow / Financial position of the applicant					
Stringent policy rule of the bank					
Amount of request					

13. How can the credit control process be improved? (Where 1= Strongly disagree, 2= Disagree, 3= Neutral and 4= agree and 5= Strongly agree)

Factors	1	2	3	4	5
Improve internal control system					
Training of staff					
Initiate legal process early					
Effective monitoring					
Provide reminder letters early					

14. What credit collection strategies does the bank adopt in retrieving credit? (Where 1= Strongly disagree, 2= Disagree, 3= Neutral and 4= agree and 5= Strongly agree)

Factors	1	2	3	4	5
Consider prompt payment					
Establish payment guide line					
Writing reminder letter					
Provide incentive for prompt payment					
Seek legal advice					

15. How frequently you connect a follow-up or a visit to your customer's site?

Monthly Bimonthly Quarterly Semiannually Annually None

16. How do you evaluate the bank credit management policy in dealing with non-performing loan?

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Very good

Good

Fair

Not supportive

Very supportive

17. Which techniques/ instrument do you use for credit risk management in your bank? (Please rank them Where, 1= Not used at all, 2= Less applied, 3= Applied, 4= Highly applied and , 5= Intractably applied

Techniques	1	2	3	4	5
Prudential Limits					
Credit Approval Authority					
Risk ratings					
Portfolio Management					
Loan review Policy					
Collateral					
Diversification					
Credit audit and problem Loan					

18. Does the Information Management system support the credit management of the bank?

Strongly agree

Agree

No idea

Disagree

Strongly disagree

19. What preventive measures do you think effective to be used before failing loans to default?

Thank you

ANNEX II

St. MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDENTS, MBA PROGRAMME
QUESTIONNAIRE (Amharic version prepared and distributed to loan clients)

For Clients

Dear respondent,

This is a questionnaire designed to solicit first hand data that maybe helpful to conduct a research on the title of " Assessment of Credit Management at Berhan International Banks S.C." in partial fulfillment of master of Business Administration (MBA). Kindly noted that this is an academic study and the findings will remain confined within academic interest. No part of this study will be disclosed. Your kind cooperation will be highly appreciated. No need to write your name.

Instruction:

Please encircle or /and fill in the blank spaces your possible answer to the corresponding question and comment on open questions.

I. Loan application and Processing

1. What is your business sector?

a) Agriculture b) Trade c) Industry d) Other (Please specify) _____

2. For how many years you are conducting this business?

a) Below 5 years b) 5-15 Years c) 15-25 years d) Above 25 years

3. Who initiates you to approach the bank for your first loan request?

a) Self b) loan clients of the bank c) Staff

Statements (SD=strongly Disagree, SA=strongly agree, D=Disagree, M=Moderate, A=Agree)		SD	D	M	A	SA
Loan processing:						
1	The loan process time is short and convenient					
2	There is fair collateral estimation					
3	Application requirements and procedures are convenient and simple					
4	The bank assigns staff to visit your business site during your loan request or before loan approval					

5	The relevant information is provided by the bank as per your request.					
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III. Internal factors prevail affecting fast and timely decision of credit

Statements (SD=strongly Disagree, SA=strongly agree, D=Disagree, M=Moderate, A=Agree)	SD	D	M	A	SA
6	Lack of Adequate Man power				
7	Centralized decision making process				
8	Submission of incomplete data by the prospective borrower				
9	Delay in Obtaining Credit Information				
10	Lack of experienced analyst				

IV. Credit collection strategies of the bank adopt in retrieving credit

Statements (SD=strongly Disagree, SA=strongly agree, D=Disagree, M=Moderate, A=Agree)	SD	D	M	A	SA
11	Consider prompt payment				
12	Establish payment guide line				
13	Writing reminder letter				
14	Provide incentive for prompt payment				
15	Seek legal advice				
16	The bank has a culture of visit after loan granting				

17. Have you met the loan provision service as your expectation?

- a)Yes b) No

18. In which part do you think the bank needs improvement?

- a) In accepting loan applicants c) In follow up & collection of loans
 b) In collateral estimation. d) In processing and approving loans
 e) Both b & d

19. Do you think the loan repayment duration convenient to your business?

- a) Yes b) No

20. Which of the following is/are the most important one/motivating you to repay your loan on time?

- a) Not to lose collateral
 b) To keep social status
 c) Expectation of getting another loan
 d) Knowing that paying bank loan per the agreement is ethical and an obligation
 e) Others,(specify); _____

21. If you have any idea, or comment towards improvement of overall credit Management of the bank, please write them on the space provided below _____

Thank You