ST.MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIES

ASSESSEMENT OF CREDIT APPRAISAL AND MANAGEMENT PRACTICE IN CASE OF UNITED BANK S.C.

BY: ASHENAFI KINDEYA

ID.No: SGS/0002/2008B

JANUARY, 2018

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A THESIS SUBMITTED TO ST.MARY'S UNIVERSITY, SCHOOL OF GRADUATE STUDIES IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION

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APPROVED BY BOARD OF EXAMINERS

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LIST OF ABBREVIATIONS AND ACCRONYMS

CIC-Credit Information Center

CAA-Credit Analysis and Appraisal

CPM- Credit Portfolio and Management

CRM- Credit Risk Management

IMF- International Monetary Fund

NBE -National Bank of Ethiopia

NPL- Non-performing loan

SD- Standard Deviation

UB- United Bank

ABSTRACT

The Bank act as an intermediary to mobilize the excess fund of surplus sectors to provide necessary finance, to those sectors which are needed to promote for the sound development of the economy, this study is then assessed the overall credit management practice of the Bank, in such a way that it assesses the credit appraisal, approval, disbursement, monitoring and controlling practices of the bank, so that it helps to make possible suggestions to improve present credit management practice in the banking sector in Ethiopia especially in the case bank. The study was also undertaken to get an in depth idea of the credit management practice of commercial Banks, and the main objective of this descriptive research study as highlighted above, is to assess the overall credit management practice of among the well-known Ethiopian commercial banks called United Bank S.C with a general objective of assessing the quality and adequacy of its credit policy, processing and appraisal techniques, and credit monitoring and controlling practice of the bank. Furthermore the researches deploys a mixed research approach, among the non-probabilistic sampling methods, purposive sampling technique were used, and structured questionnaire and interview were implemented as an instrument to collect primary data that are helpful to conduct the research work. From the study it was evident that the bank, maintained standard and adequate credit management policy though it requires some improvement in the changing market situation to ensure its profitability and sustainability in the industry.

Key words: Credit policy, Credit Analysis and Appraisal, Credit Risk Management, Credit Monitoring and Control.

CHAPTER ONE

INTERODUCTION

1.1 BACKGROUND OF THE STUDY

Credit management is a comprehensive process made up of the administering and monitoring of loan and advances, extension of different credit facilities, distinguishing the market segments as well as delineating the returns generated. The policy and procedures on credit management comprises systems, guidelines and principles that serve as a blueprint for employees in the credit department in awarding loans and steering the total collection of credit facilities. The policy on credit management is described as a combination of principles devised to reduce expenditure connected with loan delivery while taking full advantage of the gains that can be generated from them (McNaughton, 1996). One critical prerequisite for being able to supervise credit delivery effectively is the capacity to astutely and competently administer the lines of credit to clients. To be able to reduce the vulnerabilities associated with uncollectable loans, financial institutions must exercise a better understanding of economic capacity of clients, history of customers' credit rating and varying repayment arrangements. In order to make an intrusion into new markets as well as enroll more clients depends on the competence to rapidly and effortlessly make well-informed credit decisions and set appropriate lines of credit, (McNaughton, 1996).

It is obvious that the primary functionality of a financial institution is the provision of loan facilities to deserving clients located in their sphere of jurisdiction. Banks are in business with the sole aim of making profits and so, they seek to generate profits through giving out loans and investment in other assets. Against this backdrop, loan supply and delivery are part of the core business activities of financial institutions because without giving out credit in the form of loans and advances to individuals and firms, their main objective for being in business would be defeated. It will be a challenge to enact the most favorable credit policy as the best amalgamation of the variables of credit policy is quite arduous to acquire. An institution might decide to manipulate some of the variables within a period and observe the effect. It should be noted that the firm's loan guide is greatly influenced by economic conditions (Pandey, 2003). The guidelines of the firm on credit management may experience a shift as the prevailing conditions of the economy also metamorphose. The success of lending out credit depends on the methodology applied to evaluate and to award the credit (Ditcher, 2003) and therefore the credit decision should be based on a thorough evaluation of the risk conditions of the lending and the characteristics of the borrower.

United Bank S.C. was incorporated as a Share Company on 10 September 1998 in accordance with the Commercial Code of Ethiopia of 1960 and the Licensing and Supervision of Banking Business Proclamation No. 84/1994. The Bank obtained a banking services license from the National Bank of Ethiopia and is registered with the Trade, Industry and Tourism Bureau of the Addis-Ababa City administration. Over the years united Bank built itself into a progressive and modern banking institution, endowed with a strong financial structure and strong management, as well as a large and ever-increasing customers and correspondent base. Today, United Bank is a full service Bank that offers its customers a wide range of commercial banking services with a network of 190 Branches and 25 sub-Branches, and a number of additional outlets on the pipeline.

United Bank's priority in the coming years is to strengthen its capital base, maximizing its return on equity and benefiting from the latest technology in order to keep abreast with the latest developments in the local and international financial services industry. It therefore becomes imperative to establish a credit management system that seeks to effectively mobilize surplus funds that go out to deficit units promptly to guarantee sustainability of the financial institution in the sector.

MISSION

United Bank’s Mission is to render Quality Commercial Banking Services to the best satisfaction of its Customers; to enhance Shareholders’ value; to be one of the best employers in the industry; and, to discharge its corporate responsibility to both the community in which it operates and the environment which it shares with the world.

VISSION

United Bank’s Vision is to be "The Preferred Bank"

VALUE STATEMENT

- ✓ The customer is United Bank's lifeline
- ✓ United Bank invests in its employees and dignifies them
- ✓ United Bank strives to excel in its business and is committed to quality
- ✓ United Bank is a responsible corporate citizen
- ✓ United Bank works towards profitability and growth

1.2 STATEMENT OF THE PROBLEM

The existence of credit management in commercial banks could act as a catalyst for rapid development in their area of jurisdiction. By channeling available surplus funds to the immediate society, the operational policy of the banking system to a large extent will not only provide the space for economic development in the locality but also the structure and direction of growth as well as income distribution among a society,(Gray,2000).

Despite the fact that credit operation is major source of banks income and constitutes their major assets, maintaining low level of nonperforming loans and facilitates is crucial for the economic development of a country, Gray (2000). High level of NPL is linked with banks weak credit management and leads to financial crisis, and failure in banks may lead to economic slowdown and crisis as has recently been experienced in the developed world and as sighted by, Asrat (2013), thus, loan performance is a major constraint that affects the success and survival of financial institutions, which in turn affects their financing capability.

Moreover, many international and domestic related research works has in-sighted maintaining high level of non-performing loans, low profitability and liquidity trend is the result of weak credit management practice, especially inadequacy credit policy, and inefficient credit administering and controlling practices. But they didn’t address the internal inefficiency and integration among departments, credit staff members, the quality of credit analysis and appraisal practice and unable to make clear the overall strategic objectives to all staff members of the bank.

Therefore the above stated points leads to high NPL portfolio and reduction in the profitability and their ability to further perform the art of granting more credit to borrowers. Thus ultimately has a negative effect on the economy.

So, it is prudent that a bank requires an effective and efficient credit management department to grant quality of loans and advances so as to enhance the profitability and survival of it (www.credit management.com).

Now a day's most Ethiopian private commercial banks including the target bank united bank are facing severe problems as a result of poor and tight credit appraisal and management practice, and lead to maintain high percentage of nonperforming loans, poor profitability performance, though loans are fully secured by physical collaterals (NBE, 2015).

Almost all commercial banks' is extending loans and advances if it is fully secured by physical collaterals, so having the fact that the total collateral value held to secure a total outstanding loans of birr 11.99billion is birr 22.22 billion (UB Annual Report 2017).

The researcher is also need to assess the quality and efficiency of credit management department in processing and approving loans and advances so as to meet the right time of borrowers. Furthermore, the involvement of credit portfolio management department in following and timely workout of non-performing loans and advances, to minimize the percentage of non-performing loans maintained in the bank, moreover be its credit management or other operational inefficiency the bank's profitability trend is not a such satisfactory in the industry, the table below reflects the amount of loans and advanced extended and its profitability trend of the bank for the last six years.

Table 1.1 PROFITABILITY TREND OF THE BANK (in thousands of birr)

Description	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
Deposits	4,724,855	6,065,827	6,757,616	8,063,475	9,402,459	11,804,363	13,603,764
Loans and advances	2,613,610	3,276,959	4,085,376	4,710,752	5,069,624	6,860,084	8,508,908
Gross Profit	247,667	322,540	406,494	374,162	361,023	358,238	428,544
Loan to deposit ratio	0.55	0.54	0.60	0.58	0.53	0.58	0.62

Source: Annual Report

Generally, studies by Nardos (2013), Dagne (2016) were done so far on United Bank and are mainly focused on the determinants of credit risk management, the effect of liquidity on bank performance respectively, moreover other related studies were done on the credit appraisal and management practice of the Bank, but this research with different objective tends to assess the comprehensive approach of credit appraisal and management practice in United Bank S.C.

More over this research is done deliberately on United Bank because of various constraints not to include several Banks and some related researches with different research objective were done in other Banks as stated in the empirical review part.

1.3 RESEARCH GAP

As stated above many related research works were done by different domestic and international researchers, but still seems not sufficient enough to address the problems related to the subject matter. Among others stated in the empirical review part, lack of to assess whether credit policies of commercial banks maintained sufficient credit products, the efficiency work flow management system among different credit operating organs, more over they don’t address as to the strength of credit monitoring and controlling department is staffed with sufficient, capable and skilled man power that can efficiently administer extended credits and loan review processes, so that this research work is expected to fill the research gap.

1.4 OBJECTIVE OF THE STUDY

1.4.1 GENERAL OBJECTIVE OF THE REASEARCH

The general objective of this research is to assess the credit appraisal and management practice of United Bank S.C.

1.4.2 SPECIFIC OBJECTIVE

The following as assumed as a specific objective of the study

- To assess the adequacy of credit policies of the bank as to whether there is an appetite for various clean and consumer (personal) credit products.
- To examine the quality of credit practices of United Bank, in respect of the requirements of the National Bank of Ethiopia.
- To assess the communication and integration of braches with head office credit management during loan processing period.
- To assess the credit monitoring and controlling practice of the bank.

1.5 RESEARCH QUESTIONS

a) How adequate is the credit policies of the bank as to whether there is a room for various clean and consumer (personal) loans?

b) How is the quality of credit practices of United Bank, in respect of the requirements of the National Bank of Ethiopia?

c) Is there smooth communication and integration of braches with head office credit management during loan processing period?
d) How effective is the credit monitoring and controlling practice of the bank?

1.6 SIGNIFICANCE OF THE STUDY

This research shall be of great relevance to the bank under study as well as other financial institutions. The non-financial business firms whether manufacturing or service centered shall also benefit from the research findings. This is because the results of the study shall enable the users especially banks to be able to assess and evaluate their credit policies and to review their operations critically for a more result oriented approach in dealing with their credit facilities. So that, this study is believed to have the following significance:

- This study is believed to contribute to the academic knowledge on how to implement effective credit appraisal and management practices in the banking industry.
- The result of this study shall also contribute as a source document to formulate credit risk management policy, procedures and may serve as a stepping stone to future researchers by providing literature and also by provoking them to undertake further research in this area.
- This study serves as a stepping stone for other researchers
- This study can play a paramount importance to the management of the bank to further conduct a quality decision.

1.7 SCOPE OF THE STUDY

The researcher is not interested to incorporating all branches of united bank which are found in Ethiopia for this study because it makes the study non-manageable and difficult. Hence, the study is focused only at Addis Ababa because all branches of this bank that are located in Addis Ababa and performing credit operations are treated at head office level.

1.8 ORGANIZATION OF THE PAPER

The research work is divided into five chapters. The first chapter centers on the introduction, and It entails the background of the study, the statement of problem, objectives of the study, the research questions, the statement of the problem, significance of the research, the scope of the study, and organization of the research as well.

The second chapter focuses on the review of literature relevant to the research work being conducted.

The third chapter focuses on the research methodology as well as the organization profile of United Bank. The chapter consists of the population, the sampling size and the sampling method, the research instruments to be used for gathering relevant data and analyzing them as well as the profile of United Bank.

Chapter four presents an analysis of the data obtained from the research work as well as the discussion of the findings. Hence the data will be presented and analyzed in tabulation form to provide a greater comprehension of the findings.

The final chapter deals mainly with the summary of findings, conclusions and recommendations made by the researcher.

1.9. LIMITATIONS

Even though the topic under study is very important for all financial institutions, it would have been better results if it was studied in multiple banks. But due to the vast nature of credit management, that bad culture of almost all institutions of our country to provide data that help to undertake the research, and the fear to disclose weaknesses of the bank like what I have faced to make interview with the portfolio and risk management department managers, that they are always reflects as they have no time to respond, more over its was extremely difficult to get secondary data (NPL) from the department so it was helpful to compare with the primary data results, and the cost and time taking to collect data from several banks, the researcher is highly limited to this specific bank to conduct the research.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2. INTRODUCTION

This chapter summarizes the information from the available literature in the same field of study. It will review theories of credit management as well as empirical studies on credit management and financial performance in Ethiopia and in other countries, (Yaw Adu 2015).

2.1 THERETICAL LITRETURE REVIEW

2.1.1 CREDIT MANAGEMENT

Credit management is one of the most essential activities in any company and cannot be neglected by any entity involved in the supply of credit lines no matter the nature of its business. It is the mechanism to ensure that customers will pay for the products delivered or the services rendered. Myers and Brealey (2003) consider it to be made up of techniques and strategies used by an enterprise to ensure that an optimal level of credit and its effective management are kept. Besides, (Gray, 2000) addresses the issues of Credit management as a vital tool and an intrusion into new markets as well as enroll more clients depends on the competence to rapidly and effortlessly make well-informed credit decisions and setting an appropriate strategy. Gray also explains the operational policy of the banking system determines the bank's nurture and future.

This is one aspect of monetary administration including credit examination, credit assessment, and credit scoring and credit reports. Nelson (2002) considers credit management as apparently the way by which a bank superintends over its credit sales in a manner that creates greater opportunities for making higher profits. This is a prerequisite for any business engaged in provision of lines of credit since it is not possible to completely eliminate credit risk default.

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

This is because the failure of deposit banks is determined largely by the quality of credit decisions and thus the quality of the risky assets. He further notes that, credit management provides a leading indicator of the quality of deposit banks‟ credit portfolio. One important precondition for effective credit management is the ability to intelligently and efficiently manage customer credit lines. He continued by stating that to reduce over exposure to bad debts, overbooking and insolvency, financial institutions should have a better understanding of the financial strength of customers, credit account history and evolution of payment methods of clients.

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

Credit Management likewise alludes to the proficient mix of four noteworthy credit approach parameters to ensure convenient collection of advances conceded to clients and in the meantime build their trust in and devotion to the financial organization (Van Horne, 2007). The main variable is an evaluation of the nature of the client's record operation in the establishment. This takes into consideration the correct examination of the capacity of the clients to meet installments promptly. The second strategy variable is that of setting up the right credit period. In this manner, the bank should give sufficient time to permit loyal customers the chance of deriving the full advantages of the credit. Such period should not be too long to put the bank in a distraught position. The third parameter is the rebate or the sweetener given to clients as a way of inspiring them to reimburse their credit facilities on time. Such sweeteners must be sufficiently appealing before the goal can be accomplished. The last variable looks at the level of expenditure that can be permitted in the recovering of debts. The inference here is that the bank should not give out credit where the cost to be spent on retrieving the obligation will probably surpass the obligation itself. To mix these variables into a proficient workable framework obliges the establishment of a watchful arrangement, controlling and coordination of all accessible human and material assets Van Horne (2007).

All in all, as to the latest report released by World Bank (2011) the gap in credit management, staff competency and the like factors are some of issues that most Ethiopian private commercial banks as well as the governmental ones are facing severe problems .As a result of poor and tight credit appraisal and management practice, those banks maintain high percentage of nonperforming loans, poor profitability performance, though loans are fully secured by physical collaterals.

2.1.2 CREDIT CULTURE

Credit culture, according to Kamath et al (2010) can be defined as a bank's approach to all issues correlated to the administration of credit risk. He continued by stating that if it is to attain a healthy credit risk portfolio, it must be synchronized with the strategic direction and organizational culture of the financial institution. The culture must have the capacity to deliver the service required by the institution to meet the needs of its clients in a timely manner. It can only do this if it is in harmony with the overall strategic direction of the financial institution and is pioneered by the top echelon of the financial institution. Because the credit culture ought to maintain a balance between assuming new risks and imposing limits on the amount of risk at the same time, it is bound to run into all of kinds of resistance. Top management is the only source that can ensure that the culture not only supports appropriate credit standards, but is also profitable enough not to cause the bank to lose out on good business.

Solid credit standards, according to Rouse (2002), will unavoidably cost the bank some business, which in retrospect would have been beneficial. However, when the decision is being contemplated on, hindsight is unavailable. Credit culture which is an integral part of credit management takes into consideration the fact that there is some business the bank has to be willing to lose and so it becomes imperative for an agreement to be sought and a consensus reached as to the yardstick to be applied in determining which business to do away with throughout the bank. This policy has to be established by management and should articulate the type and level of risk the bank is ready to accommodate and the return it expects from taking on stated risk levels, both at the customer and portfolio level.

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

2.1.3 THE LOAN SYSTEM

Before endorsing any credit facility, it behooves a bank to ensure that the debtor has a practical and viable proposal. However, the marketability of a loan proposition does not depend all together on the quantum of collateral provided by the borrower. The financial intermediary needs to establish the amount of credit risk latent in the credit proposal and within the boundaries of that risk, a decision has to be made whether to accept or reject the proposal. An effective credit management system provides the right framework for such decisions to be made Puri and Poli (2013).

For any provision of credit line within the retail sector for instance, a borrower must have a preexisting capacity to repay the loan either from his/her salary or income from self-employed business or profession. But financing in the commercial sector is somewhat different. A borrower is not always required to have a pre-existing capacity to repay a working capital or a term loan that he or she seeks from the bank. The capacity to repay is built over the duration of the facility with the help of the bank loan. As the borrowers business expands, incremental cash flows are generated from which the debt can be serviced and repaid as per agreement. Growth of business in the right direction supported by the bank credit drives the cash flow of the business upwards. It is the assessment of incremental cash flows which helps the lender to determine the repayment capacity of the borrower to meet loan obligations in a timely manner. Bank lending is premised on the assertion that the debtor has the willingness and capability to requite the loan at all stages in their business transactions with the bank. However, the capacity to pay back depends on future income streams and the disposition to repay has to be based on the pre-existent commitment that has been undoubtedly demonstrated by the borrower. It is a statement of faith because the lender relies largely on the debtors’ adroitness and competence despite business downturns to at least guarantee future cash flows and ensure the flow of regular payments.

The three conditions which should be in existence at the time the borrower seeks a loan from the bank to be able to strengthen for instance his line of business according to Poli and Puri (2013) are:

i) Willingness or intention on the part of the borrower to repay the loan as per the agreement

ii) The purpose for which the loan is requested or sought for by the borrower

iii) The conditions which can set the trend for the future

The willingness or desire to pay back a facility granted is somewhat simple to establish for an existing borrower in practice. If a borrower happens to have a sound history of payment of loans including debt servicing, they are likely to continue making regular payments in the future as well. The only circumstance that could influence this pre-condition is an uncontainable event such as fire outbreak or a major infrastructural destruction. This condition is strenuous to judge for anyone, much less to talk of a new borrower, if he has no previous business experience or skill.

The purpose for which the loan is sought should be carefully documented. The bank must make sure that the final application of the credit should be for the documented purpose only. The conditions which form the basis on which future trends can be mapped are the inherent business risks, performance history of the borrower in terms of financial positions/trends, credit referencing that shows past dealings with lenders and repayment records, and the experience and skills the borrower possesses in running his/her business. These factors are necessary in carrying out an effective appraisal of the customer and provide the basis for making well-informed decisions as regards the credit granting process.

2.1.3.1 Principles of lending

Gaurav (2010) pinpointed certain criteria which are universally adhered to by most financial institutions in appraising credit propositions as follows:

- ❖ Safety: The banker must guarantee that the amount granted by him reaches the legitimate debtor and is appropriated in a manner that will make it secure at the time of giving as well as remain so throughout the period, and subsequent to fulfilling a valuable need in the business where it is utilized, is reimbursed with premium.
- ❖ Liquidity: The debtor ought to be in the capacity to make payments within a feasible time frame after a notice of repayment is sent. This is termed as the grace period and failure to meet it usually attracts a penalty.
- ❖ Purpose; The objective ought to be monetarily compensating so that the cash stays secured as well as provide an ensured wellspring of monetary streams to meet reimbursement plans.
- ❖ Profitability: the bank should be able to obtain some reasonable profit from the loan

- Security; Security is considered as a protection or a coverage to fall back upon in the event of a crisis
- Spread; ensuring that advances are spread across a broader spectrum of economic activities.

2.1.3.2 Credit appraisal techniques

Guidelines for Commercial Banks in Ethiopia (2009) indicate that banks should as a matter of need operate within a sturdy and well accentuated criterion for new loan portfolios as well as the broadening of existing credit lines. Credit facilities should be expanded within targeted markets and as well as the ambits of the lending strategy of the institution. Before allowing a credit facility, the bank must carry out an assessment of risk profile of the customer/transaction. This may include:

a) Credit analysis of the borrowers industry, and macro-economic factors.

b) The sole aim of the credit and source of repayment.

c) The credit performance / repayment history of borrower.

d) Assess/evaluate the repayment capability of debtor.

e) The Proposed terms and conditions as well as covenants.

f) Perfection and enforceability of collateral assignments

g) Approval from appropriate authority

All these components aid in the easy identification of any inherent risks which can provide solid information that eventually facilitates the evaluation of the customer's application as well as provide the necessary platform for an effective profiling of clients.

Essentially, problems arise because lenders are not well informed about the peculiarities of would be debtors, and so it becomes impracticable, for financial institutions to know which customers are good and which ones are not (Fraser, 2012). According to Ahmad (2004) there is no system that can provide a hundred percent protection against bad loans as situations can sometimes overturn the best credit strategies of borrowers. This implies that no amount of credit management measures put in place to forestall delinquencies can ensure a zero default rate.

However, they can aid in ensuring that defaults are brought to the barest minimum thereby leading to a healthy loan portfolio.

2.1.4 STANDARDS

These incorporate elements, for example, the profundity of assessment required and how far this is adjusted to suit the economic needs and peculiarities of the debtor. There is an exchange off to be made between a wish to comprehend all the components of a loan proposal and expenses involved. How far loan amounts are to be standardized and the extent to which they are to be custom-made to address individual issues of clients are all important in creating sustainable credit standards. Moreover, Santomero (1995) says “structuring facilities to protect the bank should be done in such a way and as far as possible that benefits eventually accrues to the client as well.” An installment plan for a term loan should be designed based on a customer’s cash flow.

Setting standards additionally suggests the recognition of how far the sensibilities of customers will be adjusted against the bank's desire to shield itself against debt exposures. Case in point, when a client's imperviousness to giving or enhancing security or giving data will be tolerated and considered, then there is the need to educate the customer adequately in order to build their capacity to be able to understand the issues at stake. In creating sound credit standards, it is imperative to include as a critical component, a proper degree of monitoring and control. The point of monitoring according to Hester and Pierce (2002) is to promptly identify deterioration of a loan portfolio and to take corrective measures. The efficiency of such a system depends not only on the ability to identify deterioration, but also the soundness and promptness of the response.

Credit principles should be maintained over the financial cycle and the status quo needs to be kept at all times. They ought not be relaxed in great economic times or over-fixated in awful times.

According to Dyer (2004), banks are confronted with a real dilemma in that if they decide to ignore the market forces and rigidly apply standards; they will avoid credit losses in the short term but will have to lose the good business and market share in the long term. This must be balanced against the need to meet shareholder aspirations. He further went on by stating that there are models of risk-adjusted capital that are widely utilized and the possibility of expected returns related to them.

Shareholders do contribute a significant amount of cash capital and expect returns for that. It is therefore hard for banks to sit with a great deal of genuine capital and continue disregarding the need to capitalize on it to its advantage. A strong credit culture can help establish the right symmetry. In the event that the bank truly comprehends its clients and has the right kind of association with them, Adams (2002) supposes it can decide when to buckle down on measures a little and when to stick to them, if conceivable, in the ambience of a solid client relationship to influence even the most troublesome of clients to see the bank's perspective.

Credit management as a consequence allows for the right application of credit standards and helps to maintain that equilibrium between rigidly applying administrative procedures and relaxing them to suit the needs of different categories of customers as well as varied economic conditions. Credit management therefore incorporates the right credit standards that allow a financial institution to be able to achieve its strategic objectives through the application of an effective and well-adapted credit regime capable of safeguarding the interests of the firm and at the same time meeting the needs of prospective loan clients.

2.1.5 CREDIT MANAGEMENT POLICY

It is defined as the tenets and systems set up by top administration that oversee the organization's credit division and investigates execution in the augmentation of credit benefits against set down procedures Jim Franklin (2010). It is essentially a situated composition of rules intended to minimize expenses connected with credit while expanding advantages from it.

Credit administration arrangements involve the credit strategies, credit measures and credit terms. This policy becomes the blueprint which guides the conduct and expectations of all employees entrusted with the responsibility of granting credit and also acts as a benchmark by which performance can be measured against standards set.

2.1.5.1 Credit Procedures

To accomplish the great objectives of credit administration strategy, Franklin (2010) instructed the endorsement and utilization of credit strategies. To Franklin, credit methods are particular routes in which top administration imposes expectations on the credit division to accomplish the credit administration policies. The credit systems incorporate guidelines on what information to be utilized for credit examination and investigation procedure, provide information regarding procedure, account supervision and cases needing administration's notice. Such credit gathering endeavors incorporate the utilization of reminders, adoption of insurance, the application of legal procedures, the factoring of debtors and final write-offs as highlighted underneath:

2.1.5.2 Credit Management Variables Key Credit management variables include

Client Appraisal

The initial phase in restricting the risk involved in granting a loan facility includes screening customers to guarantee that they have the readiness and capacity to reimburse the advance. A lot of financial institutions including the case bank, united bank tend to utilize the 5Cs model of credit also known as credit standards to appraise a customer as a potential borrower (Abedi, 2000). The 5Cs act as a guide for financial institutions to improve loan portfolio, as they get to know their customers better. These 5Cs are: character, capacity, collateral, capital and condition.

Character

This assesses the client's qualities in order to examine the willingness of the prospective client to meet the credit commitments. Kakuru (2000) highlighted the accompanying variables to consider when investigating applicant's character. This is carried out by factoring the client's savings conduct from the bank records, the level of training, mental status, occupation dependability, contact, connection to government offices and the past dealings with bank. The borrower who seeks to be a loan beneficiary of cash endowed to the bank by its depositors must be very honest someone who will keep their word and who can be trusted.

Current trends in technology allow for credit investigation to be carried out helping to not just uncover past impressive and awful conduct in reimbursement of advances and handling of obligations but will likewise uncover the degree of a man's acquisition of credit limit. The higher the building up of a person’s credit profile, the higher the response of the person to changes in interest rates or individual circumstances.

Capacity

This assesses the client's capacity to pay the obligation when given in the obliged time period. This is fundamental particularly for business, regardless of whether advances are included. This is determined by assessing the estimation of client's capital and resource offered as guarantee against the advance. The borrower must be, in any event, capable, if not a specialist at their employment or in their calling and should be able to produce strong evidence to support the viability or otherwise of the business.

Capital

This alludes to the general state of the organization. “This is ascertained by the analysis of the financial statements with special emphasis on the risks and the debt-equity ratios and also evaluating the customer's firm working capital positions” according to Floucks (2001). The budgetary supervisor can likewise survey the accounting report to discover how much the proprietor has put into the business as his own stake (BPP, 2000). A decent dependable guideline would be that a bank would not wish to put in more cash than the borrower.

Collateral

This alludes to properties like lands, houses, business and private bequests or whatever other property of quality offered as security of the estimation of the credit given out to the borrower (Kakuru, 2001). It is obtained by a lender as a claim on the borrower and on the asset that is secured, and provides a recourse that is available to a bank should the terms of the loan be breached by the borrower. The collateral ought to be secure, readily merchantable and that its quality ought to have the capacity to meet the obligation when sold off in the event that the borrower defaults in payment (Van Horne, 2007).

Conditions

These points to the predominant monetary and economic environment which may influence or be a hindrance to the borrower's capacity to pay the obligation and which may turn out to be unbeneficial to the creditor firm. Case in point, under inflationary inclinations, it is inappropriate to extend credit as the leaser is certain to incur forfeiture on the lent sum if not getting lower returns. The credit officer ought to carve a sensible judgment in regards to the possibilities of default and appraise the likelihood of losses under such conditions Pandey (2008). It is critical that the credit guidelines are situated based on individual applications, calling to attention the importance of gathering credit data, credit investigation and credit limits .

2.5.3 CREDIT RISK CONTROLS

Key Credit controls include loan product design, credit committees, and delinquency management. (Churchill and Coster, 2001).

Loan product design

Financial institutions can moderate a considerable segment of default risk by coming out with credit items that address customer issues. Credit product elements comprise the size and type of credit, interest rate and charges, reimbursement plan, guarantee necessities and some other peculiar terms. Loan products ought to be framed to address the particular reason for which it is being sought.

Credit Committees

The establishment of a committee of persons to take decisions with regard to the granting of loans and advances is a vital control in reducing credit (and misrepresentation) hazard. In the event that an individual has the ability to choose who will be loan beneficiaries, which advances will be written off or rescheduled, and the states of the advances, this level of influence can without much of a stretch be mishandled and concealed. While advance officers can serve on the credit board, no less than one other individual with more prominent power ought to likewise be included. The credit advisory group has the obligation for endorsing credit facilities, as well as for observing their advancement and, ought to get involved in delinquency management when borrowers start showing signs of non-repayment. Like others the case bank united bank has also different level of credit committees as branch credit committee, head office credit committee, workout and rescheduling committee, and credit risk review committee (UB policy manual), that can appraise and approve loans and advances.

Delinquency Management

To minimize such delinquency, financial institutions can use the following delinquency management methods:

Institutional Culture: One critical way of dealing with delinquency is building an organization ethic that is completely intolerant to defaults and is able provide the avenue where defaulting customers can easily be tracked for repayment.

Staff Incentives

Opportunities ought to be created for staff to be actively involved in the loan management process through the establishment of an incentive system that rewards performance. Staff can for example be given commissions for the effort put in the recovery of bad debts as a way of motivating them and this goes a long way to improve productivity as well as the financial position of the organization.

Loan Rescheduling

Considering how volatile the target market can sometimes be, it is sometimes commonplace to find customers who might have the eagerness to pay but lack the capacity to do so due to the changing terrain of market conditions. This can lead to terrible losses for some of these customers and under such peculiar circumstances, a loan rescheduling can be considered as an alternative to repayment which is done by extending the duration of the loan as well as decreasing the size of installment payments.

Collection Policy

Organizations tend to adopt various policies that help in ensuring the viability of its credit administration. A debt collection policy happens to be one of the key elements utilized by management to achieve results. This policy is important because not all loan customers demonstrate the same level of commitment as some honor their obligations on time while others do not. Some customers are slow payers while some are non-payers. The goal of such a policy should be aimed towards fast tracking the collectibles from non-committed customers or slow payers whiles reducing losses that may arise from debts that might be going bad (Kariuki, 2010).

Credit information

This comprises the utilization of dependable and opportune data which becomes useful in dealing with the credit system. This is important in that it leads to a reduction of losses that may arise as a consequence of disbursing available funds to untrustworthy loan customers. Such data ought to incorporate; the clients' years in present business, the time spent at the present area of operation, monetary information, credit assessment with different merchants and credit scoring organizations, and data about the directors of the organization and other related intelligence. Information is so vital in the credit management process as it provides the basis for a sound credit granting process. When information becomes scanty, the probability of loss outcomes becomes increased since, it does not provide the platform to put in place mechanisms that can help forestall any known dangers associated with the credit disbursement and this sets the ground for inheriting huge losses which could have been avoided. The goal of the research work is to help establish the kind of information that is also vitally needed and utilized by financial institutions in the credit management process.

Credit analysis

It is important as a major component of credit management to determine the level of eagerness and capacity of clients to meet the credit commitments on a timely basis per the repayment agreement. The financial institutions credit examination ought to guarantee that the advances meet the organization's set credit guidelines McNaughton (1996), and that it ought to take after a general household procedure stream starting with information gathering and moving to activity watching. The credit investigation is a vital viewpoint in outlining a credit arrangement since it eventually climaxes into the seasons which determine the measure of advance to be given to the loan applicant. This means that an effective credit analysis helps to know which period is appropriate for granting a certain category of loan based on economic factors as well as the capacity of customers premised on credit guidelines that have been outlined by a company in achieving set objectives.

Credit limit

This is the highest measure of credit which the bank can advance to clients at a particular point in time. The loan specialist's insight of the business sector and environment in which the client works is extremely crucial. In determining the extent of credit that can be disbursed, attention must be given to what it will take to augment profits in relation to customer’s level of trade and furthermore the money related qualities of the client to determine whether he will have the capacity to pay the credit commitment. It is critical to also establish whether the borrower's cash flow forecast can adequately cater for regular repayments with interest. All the more along these lines, as far as possible the limit ought to be adaptable and revisable so frequently to suit the dynamisms and capitalize on the advantages that are available in the business sector of operation to generate optimal returns on the loan given out.

Credit Terms

Credit terms allude to the conditions which guide the firm or the bank organization in offering funds to prospective clients Pandey (2008). They refer to the stipulations under which a monetary organization stipends credit to its clients. In the event that a financial establishment disburses a loan to a client, then the credit terms will indicate the credit period and interest rates.

This in this manner will have an impact on the execution of credits since it stipulates the season of advance reimbursements and subsequently establishing a platform where reimbursements can be made auspiciously thereby leading to a diminishing in default rate. Pandey prescribes the accompanying as the credit terms:

Credit period

This is the calendar of the interest installment and the last payment of the principal. It is duration between credit augmentation time and the time the client is relied upon to reimburse the loan.

2.1.6 MEASURES OF PERFORMANCE

There are certain performance measures that are used to evaluate the performance of financial institutions as a way of determining whether the institution is experiencing more growth through the making of gains or is retrogressing through the generation of losses and these include:

Profitability

Fundamentally, profitability is determined by the weighing of incomes against expenditure. Income is the returns generated from the various operations of the enterprise for instance, the interest revenue generated on advance commitments. Expense are the costs incurred in providing those operations carried out by the firm. Examples of some of the costs include the cost of deferred consumption on the loaned amount otherwise known as the opportunity costs since they are locked up in the hands of debtors, the costs of recurring expenditure of credit activities, the expenses incurred in collecting non-performing debts and the costs involved in recovering bad loans (Leong, 2009).

Profitability can be defined in terms of accounting or economic profits. Accounting benefits is the surplus income left after derivation of all costs. For a financial organization to run, it must be making gains. Then again, a single non-benefit monetary year may not cause any significant loss to the institution, however when the firm continues posting misfortunes in resulting years, this may jeopardize the suitability of that business (Don, 2009).

Economic profit is computed by subtracting the opportunity cost from the net revenue (Graham, 1996). The opportunity cost includes the funds, the effort and the managerial resources directed towards the control and administration of credit processes. The essence of economic profits is to provide the business with a prospect in the long-term to superintend its continuous operation of activities. Some of the measures of profitability include return on capital employed (ROCE), Gross margins and net profit margins.

Default rates

Credit default refers to the lack of capacity of a borrower to meet his or her advance commitment at the agreed time as per the loan agreement. As noted by Baku and Smith (1998) the expenses incurred as a result of the failure to meet commitment imposed on the loan customer would be felt by both counterparties. The loan firm ends up acquiring costs produced as a result of nonpayment situations, including wiped-off returns on risky assets, opportunity expense of primary, legal charges and related expenses. For the borrower, the choice to default is symmetry between the relinquishments in lost reputation from default as against the opportunity cost of foregoing investments because of the repayment of the current credit facility. The borrower consequently needs to weigh the alternatives precisely and settle on the right choice that will support the circumstances in which he discovers himself. Defaults therefore ought to be managed in a manner that makes it difficult for such situations to arise through the establishment of prudent credit management processes that seek to safeguard loan assets against inherent default risks.

Interest-Income

It is generally a term used by companies on their income statements for reporting the interest accrued on cash temporarily held in savings accounts, certificates of deposits or other investments. Because the interest wasn't part of the original investment, they record it separately, as interest income. It is also the difference between the revenue that is generated from a bank's assets and the expenses associated with paying out its liabilities. A typical bank's assets are made up of all forms of personal and commercial loans, mortgages and securities. The liabilities are, of course, the customer deposits. The residual revenue that is generated from the spread between interest paid out on deposits and interest earned on assets is the net interest income.

Recovery-Rate

One critical element of a strong risk management system is a bank's ability to evaluate the potential losses on its investments. One factor that determines the extent of losses is the recovery rate on advances and securities that are in default. The recovery rate measures the extent to which the creditor recovers the principal and accumulated interest due on a defaulted obligation.

While financial companies, their regulators, and researchers commonly assume that the recovery rate is constant, in practice, actual recovery rates vary significantly. The recovery rates are inversely related to the default rates and this is due to the fact that both indicators are usually strongly influenced by the economic environment of a country

2.1.7. MAINTAINING APPROPRIATE CREDIT ADMINISTRATION THROUGH MEASUREMENT AND MONITORING PROCESS

According to Theodore N. (1962), this process entails the following:

Banks should have in place a system for the ongoing administration of their various credit risk bearing portfolios and a system for monitoring conditions of inadequate credits, including determining the adequacy of provisions and reserves.

Banks are encouraged to develop and utilize an internal risk rating system in managing credit. The rating system should be consistent with the nature, size and complex it y of a banks activities. Banks must have information system and analytical techniques that enable management to measure the credit risk inherent in all on-and-off balance sheet activities. The management information should provide adequate information on the composition of the credit portfolio, including identification of any concentration of risk; Banks must have in place a system for monitoring the overall composition and quality of the credit portfolios and take into consideration potential future changes in economic conditions when assessing individual credits and their stressful conditions.

2.7.1. Ensuring Adequate Controls over Credit Risk

Theodore N. (1962), stated that banks must establish a system of independent, ongoing assessment of the bank's credit risk management process and the results of such reviews should be communicated directly to the Board of Directors and senior management.

Banks must ensure that the credit granting function being properly managed and the credit exposures are within levels consistent with prudential standards and internal limits; and must further have a system in place for early remedial action on deteriorating credit, managing problem and similar workout situations.

2.1.8. EMPIRICAL REVIEW

Among others the following are some of the empirical literature reviews that help to synthesize the knowledge and research gap.

Rana-Al-Mosharrafa (2013) conducted a research on "*Credit assessment practice of a commercial bank in Bangladesh",* the main objective of this study is was make possible suggestions to improve present credit situation prevailing in the banking sector in Bangladesh by analyzing a reputed commercial bank's credit activity. The study was undertaken to get an in depth idea of the credit appraisal system of a commercial bank and understand its importance. Beside this a case study of a well-known commercial bank's credit appraisal and risk grading technique were also revealed to identify some problems as well as propose some suggestions in this regard. From the study it was evident that the bank, maintained standard credit management policy in the changing market situation to establish a set of credit management policy the major findings from the study reveals

- To improve credit management system of bank credit management policy provides directional guidelines to all concerned parties in credit operations.
- Lending procedure of a bank possesses some implied risk. Proper risk management and policy regulation can help to reduce such risk to a great extent. The bank maintains centralized credit approval system to mitigate the credit risk at sanction stage, so that the e researcher provides the following as recommendations,
- The management of the bank should review their systems, policies, processes and product prices in line with the changing market reality.
- In order to reduce the classified loans and advances bank should be more cautious regarding preparing credit proposal, approval, disbursement, and monitoring and documentation formalities for a loan.
- Diversification of loan portfolio in different sectors is required to reduce large loan risk.

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

Soke Fun Ho and Yusoff (2009), in their study on *"credit risk management strategies of selected financial institutions in Malaysia"* pointed out that "losses incurred by majority of financial institutions and banks emanate from outright delinquency due to the customers' inability to fulfill obligations relating to lending, trading, settlement and other financial transactions. Credit risk arises from a bank's transactional activities with individuals, corporate, financial institutions or sovereign entities." A bad loan portfolio can trigger serious liquidity as well as credit risk.

The proficient administration of credit risk is a fundamental aspect of the entire administration framework of risks which is vital to every bank and in the end the survival of every monetary establishment. It is subsequently imperative that credit choices are made by solid investigations of hazards involved to avoid the eroding of profits. An effective credit administration is a vital part of a far reaching strategy to an enterprise risk administration framework and basic to the growth of every financial institution in the long-term.

According to the study undertaken by Omara (2007), by the title "*credit assessment process and repayment of banks loans in Barclays Bank of Uganda LTD*", the bank has faced poor management of its loan portfolio and this leads to the accumulation of bad loan portfolio, in that, the bank's provision and written off bad debits increased from 1.9 billion UgShs, In 2002 to UgShs 6.8 billion in 2004.

The main objective of the study was to examine the appropriateness of the credit assessment criteria's used by the bank and repayment of loans, It was a case study, and a sample survey was carried out to get the response of bank officials and customers through structured questionnaires.

The data collected was analyzed by SPSS and arranged in form of tables, frequencies percentages and charts. The result of the study shows that the bank doesn't make proper follow-up on customers and it lacks credible source of information on borrowers in that, during appraisal it relied primarily on information provided by customers about their previous borrowing history

Yalemzewud Taddesse (2013) has explored the *"credit management practice of Bunna International Bank"* with an objective, to determine the factors that influence access to credit, to analyze the collection strategies of the bank, to determine the credit control of the bank and the like, and the researcher applies survey sampling technique of all staff members involved in credit operations, and find out that the process of credit administration is performed inadequately of individuals involved in the business origination, the credit policy of the bank is stated as it is not clear, weak credit risk department is seen in the bank, and draws recommendations as the bank needs to hire the one who has high experience and qualification on credit risk management and the one who aware about its significant impact to banks performance. Moreover, the boards' of directors are responsible for each and every activities of the bank, so they have to devise a mechanism for upgrading the carrier of the employees through continuous training.

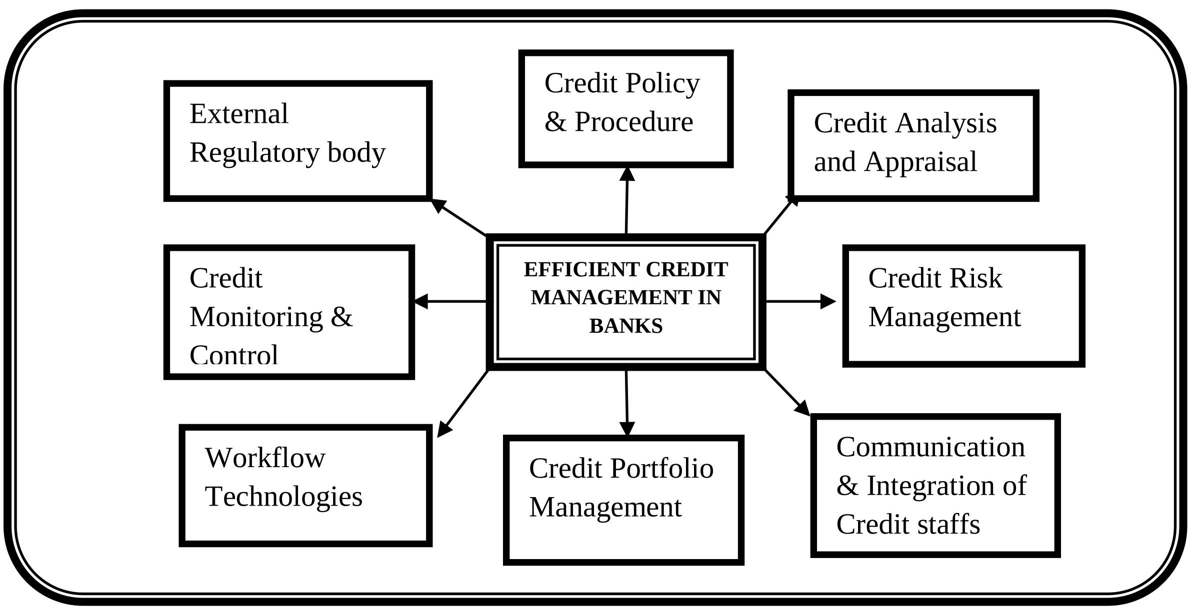
Chane Amare (2016), assesses the *"credit management practice in Commercial Bank of Ethiopia"* , with an objective of assessing the current credit control of the bank, the compliance of the actual lending activities with the established policies and the adequacy of the credit policy of the bank to guide the credit activities, his study area was focused in central processing unit of the bank at head office with census sampling technique, and the researcher reflect his findings as the bank has adequate credit policy to enable to guide the credit activity and established strong credit controlling department but he draws his recommendations as the bank should put in place and present in its credit policy document that appropriate credit limit to each economic sector to prevent possible risks raise from credit concentrations. And also he recommends the bank should size of its loan in its policy in line with its total deposit amount in its liability account, and strictly apply its credit monitoring and follow up process as it is set in the policy document in order to make timely identification of weaknesses in availed loans, to detect emergency risk and to give possible supervision and corrective actions.
Generally, what have been said from the above and other researches is that, they provided adequate knowledge about credit and risk management practice of commercial banks in Ethiopia as well as other countries, and they mainly assessed the adequacy of credit policies of each bank and the

efficiency of their risk management departments and the like. More over Most of them emphasizes on the determination of credit risk as it is the backed essential by every bank for its existence but still didn't focus on the quality of credit processes, Ethiopian commercial bank credit products/facilities/ and the integration and communication of related departments, So it is found essential to the researcher to come up with different objective so as to drop a new knowledge about the subject matter.

2.1.9 CONCEPTUAL FRAMEWORK

It is evident that credit management operates in conformity with established policies and procedures that guide the whole credit operations and responsibilities delegated to each credit organs, and goes to ensuring the adequacy of credit policy, adherence to regulatory directives, and credit administration, monitoring and control practices whether the extended credit facilities remain productive and enables the bank to maintain low level of non-performing loans and sustainable profitability, Omara (2007).

FIGURE2.1 **Conceptual framework of efficient credit management system in banks**



CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3. METHODOLOGY

This chapter specifies the research design and approach to be used, data source, sampling technique, instruments used for data collection, data processing and analysis.

3.1 RESEARCH DESIGN

In this study, a descriptive survey design method was applied. Orodho (2003), defines descriptive survey as a method of collecting information by interviewing or administering a questionnaire to a sample of individuals. Descriptive survey method was used because the variables involved in the analysis are quantitative in nature. Thus, this study is mainly based on primary data that was obtained through questionnaires from technical staffs of united bank with credit related functions.

Furthermore, Key Informant interview was conducted with the credit appraisal and analysis department manager, credit portfolio and management department manager, risk and compliance department manager, and various relevant documents, proclamations, directives, policy and procedure documents, broachers and annual reports was used to conduct this study. So that a mixed of quantitative and qualitative research approach is used just to triangulate the evidences gathered using both approaches.

3.2 SOURCE OF DATA

Primary and secondary data was collected from the entirely technical staffs of united bank with a direct credit related functions and from other published documents.

3.2.1 PRIMARY SOURCE

The main primary source of data for this study is data collected from respondents through questionnaires. The questionnaire is both open ended and close ended. And the three department managers are assumed a key informants being they are well experienced and have adequate knowledge on the area so structured interview was undertaken to collect qualitative data so as to enable the researcher to justify and triangulate the data collected using questionnaire and both was made to meet the above stated objectives.

3.2.2 SECONDARY SOURCE

In the case of secondary source of data various relevant documents, directives, policy documents, brochures and annual reports was used to collect any empirical data that could be helpful to conduct this study, more over directives are assumed to be legal documents announced publically to regulate and control commercial banks by government or regulatory body commonly NBE.

3.2.3 INSTRUMENTS OF DATA COLLECTION

Structured questionnaires and interview was used for the collection of data. As indicated earlier these questions are both open and close ended and they are based on factors like Credit appraisal and analysis process, credit portfolio and management process, credit risk mitigation process, so that, the variables are focused in order to help and answer the problems stated in the statement of the problem.

Questionnaire is adopted from different previous researchers, conducted in similar topics such as Nyarko George (2015), *Credit Appraisal Process And Repayment Of Loan At GN Bank*, a master thesis conducted in Ghana.

Chane Amare (2016), "*Credit Management Practice, a case study of commercial bank of Ethiopia"* and the like,

Moreover, the questionnaire is modified with consultation of some academic professors and researchers in order to comply and answer the research questions raised on the subject matter under study.

3.3 STUDY POPULATION AND SAMPLING TECHNIQUES

The study population are limited to a total of 101 staff members of united bank at Head office (three departments), and grade A & B of 34 branches who are directly involved in the credit operation process of the bank, this population size was limited deliberately because the three departments such as credit analysis and appraisal, credit portfolio management and credit risk management departments are the main departments which are directly involved in credit operations and likewise grade A & B branches were also selected those assumed could have loan officers but other grade branches are mostly don't have loan officers.

3.3.1 SAMPLNG

By using purposive sampling technique the total population size of 101 of credit staffs are considered, and data was collected from the total population of 101 credit officers using census method. Purposive sampling is chosen because only technical staffs are the target population to respond to questionnaires, more over the sample population is tabulated as follows.

TABLE 3.1. SAMPLING DISTRIBUTION

DEPARTMENTS /BRANCHES	TOTAL NUMBER OF STAFF	SAMPLE	SAMPLING PERCENTAGE
Credit Analysis And Appraisal Department	10	10	100%
Credit Portfolio & Management Department	8	8	100%
Credit Risk Management	6	6	100%
Grade A & B branch loan officers	77	77	100%
Total	**101**	**101**	**100%**

Source: *United Bank HRD Report.*

3.4 DATA PRESENTATION AND ANALYSIS

The quantitative data gathered through questionnaire was summarized by using the statistical package for social science (SPSS) software that is widely used data analysis technique by most researchers (Zikmund,2003), and the qualitative data gathered through interview was summarized using narrative analysis, so that quantitative data was presented through frequency and percentage, and analyzed and interpreted using descriptive statistical tools such as mean and standard deviation, the most widely used statistical tools to interpret population opinions as indicated by Likert scale 5 factor scale, so that results could be interpreted accordingly.

3.5 VALIDITY AND RELIABILITY

3.5.1 VALIDITY

Validity is concerned with whether the findings are really about what they appear to be about (Saunders *et, al*.., 2000). Or the ability of an instrument used to measure what it is intended to measure (Leedy et al 2005)In this research survey method is adapted and the data collection carried using structured questioner from work of the above researchers and widely used in credit management practice research topic. Moreover, they also got tested in the work of the above researchers and their validity is well understood.

3.5.2. RELEABILITY

Reliability estimates the consistency of the measurement or more simply, the degree to which an instrument measures the same way each time it is used under the same conditions with the same subjects. Reliability is essentially about consistency. That is, if measuring something many times and the result is always the same, then it can be said that the measurement instrument is reliable. Moreover, the researcher has made reliability analysis using Cronbach's alpha for the entire set of statements and found to be α=0.82 which is higher than the threshold value of 0.65, and this confirms that the questionnaire is reliable. The reliability result of the four topics are also presented as follows,

TABLE 3.2 RELIABILITY RESULTS

Research topics	Number of items	Cronbach's Alpha
Adequacy of credit policy	13	0.71
Quality of credit process and appraisal	10	0.68
Communication and integration of HO & Branches	11	0.75
Credit monitoring and controlling practice	11	0.80

3.6 ETHICAL CONSIDERATIONS

Bhattacherjee, (2012) list out four ethical principles in scientific research these are:

- Voluntary participation and harmlessness.
- Anonymity and confidentiality.
- Disclosure the purpose of the research.
- Analysis and reporting should be fit with the real finding of the researcher.

So that, all the above ethical principles as well as other concerns which are related to the conducted research are strictly uphold to preserve and protect respondents form any legal or organizational accountability.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1. INTRODUCTION.

This chapter comprises the presentation, analysis and discussion of the findings in view of the research questions raised in the first chapter of this research work. Primary and secondary sources of data were used to look on the findings. The data were summarized and analyzed using SPSS version 20 and presented using, tables, frequencies, percentages, statistically described using mean and standard deviation, more over data were collected from all credit staffs such as credit analysts, credit portfolio and recovery officers and city grade A and B loan officers, of the bank.

The first part of the analysis begins with the socio demographic profile of the respondents such as their sex/gender, age, educational qualification, banking experience and the like.

The second part comprised data presentation and analysis collected from respondents, regarding the research questions raised about the adequacy of the credit policy, the quality of credit processing and appraisal practice of the Bank, the communication and integration and communication of branches with head office credit departments and finally the credit monitoring and controlling practice of the Bank.

Finally and in the third part interview results from credit department managers will be summarized and presented in narrative form.

4.2 SURVEY RESULTS

As indicated in the sample size of the research, questionnaires were distributed to 101 employees of the Bank who are directly involved in the credit operations of the Bank. So out of the total questionnaires distributed 82 questionnaires were completed and collected, i.e. about 81% of the total population, having in mind the time devotion and effort of the researcher, it would be more relevant if it was fully collected but due to the poor and carelessness nature of most of our country respondents, the researcher feel comfort and convenient to conduct the research with the collected data.

TABLE 4.1. SURVEY RESULT RATE

Description	Response rate
Sample size	100
Completed and returned responses	82
Response rate	81

Source: survey outcome and mathematical computation.

Different authors and international research principles indicate that response rate of 74% and above is considered as acceptable and representative in conducting a research, so that the researcher found 81% response rate that is believed as more acceptable and representative.

4.2.1 Respondents profile

Respondents profile is dealt with sex, age, educational qualification, working experience, and the like as collectively tabulated below,

TABLE 4.2. RESPONDENTS PROFILE

S. No	Profile Description	Category	Frequency	Percentage
1	Sex	Male	58	70.7
		Female	24	29.3
		Total	**82**	**100**
2	Age	20-29	38	46.3
		30-39	39	47.6
		40-49	5	6.1
		Total	**82**	**100**
3	Educational level	Degree	59	72
		Masters	23	28
		Total	**82**	**100**
4	Service year	1-5	24	29.3
		6-10	54	65.9
		11-15	4	4.9
		Total	**82**	**100**
5	Service year in credit	1-5	26	31.7
		6-10	53	64.6
		11-15	3	3.7
		Total	**82**	**100**

Source: Questionnaire & SPSS output result.

As indicated in the above table of respondents out of the total 58(70.7) are male and 24(29.3) respondents are female, and more than 50% of the Bank's credit operation in maintained by male employees, this implies the Bank is emphasizing in hiring more male employees, due to the fact that credit operation don't requires absenteeism of employees due to various reasons.

Concerning the age group of the respondents as indicated in table 4.3, 28 (46.3%) of the respondents are in age group of 20-29, and 39(47.6%) are categorized in 30-39. The rest of respondents who are 5 in number of 6.1% of the respondents are categorized in 40-49 age groups. So, this implies that the Bank maintains young and energetic employees that can perform to the maximum of their capacity and on the other hand maintaining such age group employees have long years to become retired, so that the bank can sustainably improve its performance, more over young employees can easily understand the concurrent situation of the industry so that it would be helpful to get dependable opinion of young officers.

Again as indicated in the above table, 59(72%) of the respondent are degree holders and 23(28%) of the respondents are having master's degree. So it implies that credit department of the bank is required those employees who have academic qualification of degree and above, so that it help them to conduct their job effectively and efficiently to the best satisfaction of the bank, more over the researcher believed that educational qualification of respondents is adequate enough to respond and get quality data to conduct the research work.

Regarding the service year of respondents majority of them or 54(65.9%) are having between 6-10 service year this may imply the credit staff of the Bank have long stay in the Bank and are well known with the policy and procedures of the bank. On the other hand 24(29.3%) credit staffs of the Bank are having 1-5 service year, and only 4(4.9%) of the respondents are having 11-15 service year, and according to the data they are credit portfolio and recovery officers. More over and as stated above majority of employees have long service years and sufficient knowledge on credit area, so that it's found convenient to get such constructive data.

On the other hand the service year of respondents in credit operations, reflect that about 53(64.7%) of respondents are having 6-10 service year in the credit operations, 26(31.7%) of respondent are with service year of 1-5 on credit operations and only 3(3.7%) of the respondents are having 11-15 year of service in credit operation so that majority of the staff is well experienced in the credit operation of the Bank this data is more of similar as stated above.

TABLE 4.3 CURRENT POSITION OF RESPONDENTS

Category	Frequency	Percentage
Credit analysts	9	9.8
Loan officers	64	78.0
Credit recovery officers	3	3.7
Credit portfolio officers	7	8.5
Total	**82**	**100**

Source: Questionnaire & SPSS output result

The current position of respondent reveals that the majority which is 64(78%) of the total respondents are branch loan officers who can interact with customers gather relevant documents and made detailed analysis of customer requests, on the other hand 9(9.8%) of respondents are credit analysts who perform reviewing customer files, and it reflects inadequate staffing of the other departments may create work burden and inefficiency to accomplish credit operation, even though it’s not fully centralized.

4.3 CREDIT MANAGEMENT PRACTICE OF THE BANK

The researcher tries to assess the credit management practice of the Bank with four major parameters such as the adequacy of credit management of the bank in providing different credit products, the quality of credit processing and appraisal practice in respect to the national bank of Ethiopia (NBE), the communication and integration of branches with head office credit departments, and the credit monitoring and control practice of the bank. So the researcher presents the analysis separately as follows.

4.3.1 Assessment of Adequacy of credit policy to provide different credit policy.

This measuring parameter of adequacy of credit management, is measure with Likert scale 5 level responses ranging from 1 to 5 for “Strongly Disagree to Strongly Agree” and analyzed with the most commonly used measure of central tendency and variability mean and standard deviation (SD) for descriptive statistics as computed using the software called SPPSS. The measures of central tendency mean measure that, the average value of respondents nearest to the mode value that reflects the “positive”, “neutral” or “negative” responses on each dimension. Likert R. (1932) and the average distance of 1 to 2 or “ Strongly disagree” to “Disagree “ has same interval with 2 to 3 or “Disagree” to “Agree” and the like. The measure of variability, standard deviation is the magnitude of dispersion of variables among respondents so if

SD is >1 against the mean average, it implies there is highly dispersed (variable) response among respondents.

TABLE 4.4 ASSESSING THE ADEQUACY OF CREDIT POLICY OF THE BANK FOR DIFFERENT CREDIT PRODUCTS.

	STATEMENTS	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree		Mean	SD
		FQ	%	FQ	%	FQ	%	FQ	%	FQ	%		
1	Credit policy of the bank is adequate enough	2	2.4	18	22.0	20	24.4	33	40.2	9	11	3.35	1.02
2	Loan appraisal standards and guide lines are adequate	2	2.4	18	22.0	11	13.4	45	54.9	6	7.3	3.43	0.99
3	Well Organization of loan approving committee	4	4.9	7	8.5	7	8.5	48	58.5	16	19.5	3.79	1.02
4	Policies are in line with the strategic objective	3	3.7	8	9.8	17	20.7	42	51.2	12	14.6	3.63	0.98
5	Policies and procedures revised frequently	2	2.4	19	23.2	13	15.9	33	40.2	15	18.3	3.49	1.11
6	Customers are treated exceptionally	8	9.8	7	8.5	10	12.2	29	35.4	28	34.1	3.76	1.28
7	Collateral is requirement for all type loans	7	8.5	27	32.9	14	17.1	23	28.0	11	13.4	3.05	1.23
8	The bank has good appetite for clean loans	6	7.3	38	46.3	19	23.2	15	18.3	4	4.9	2.67	1.02
9	The policy contains enough credit products	2	2.4	24	29.3	19	23.2	28	34.1	9	11.0	3.22	1.07
10	There is Consumer/personal loan requests	2	2.4	21	25.6	20	24.4	26	31.7	13	15.9	3.33	1.10
11	Consumer/personal loans are entertained	6	7.3	27	32.9	26	31.7	16	19.5	7	8.5	2.89	1.08
12	Risk tolerance limit of the bank is appreciable	6	7.3	23	28.0	21	25.6	20	24.4	12	14.6	3.11	1.19
13	There is Credit risk management guide line	4	4.9	8	9.8	12	14.6	45	54.9	13	15.9	3.67	1.02
	Mean & SD Average											**3.33**	**1.08**

Source: Questionnaire & SPSS output result.

As indicated in table 4.4, majority, 33(40.2%) of the respondents positively agree that the bank's credit policy is adequate with mean and standard deviation of 3.35 and 1.02 respectively; this implies that the bank has good and rich in formulating its policy so as to meet the dynamic nature of the business environment, more over adequacy of its policy may help to regularly evaluate its capital structure, profitability, liquidity and the like, in contrary there are also few respondents who neutrally reply, that who don't know its adequacy.

With regard to the adequacy of loan processing guide lines, here also majority 45(54.9%), of the respondents their positive agreement that the loan processing guide lines are adequate for the current credit operation with mean average of 3.43 and SD of 0.99 so that it enables the bank to have efficient workflow management system, But there are also some respondents who disagree its adequacy, which the bank may require to let them know, or get feedback to improve its policy.

In relation to the organization of loan approving committee of the bank majority 48(58.5%), of the respondents has agreed and there are also respondents who strongly agreed as to the availability of well organizes credit committee in the bank with the mean average of 3.49 and standard deviation of 1.11, this may imply there is a management delegation of power and responsibility, and may help to accomplish tasks on time.

Respondents are also asked whether the current credit policy is in line with the strategic objective of the bank, accordingly majority of the respondents are agreed that it's in line with the strategic objective of the bank, with mean of 3.78 and standard deviation 0.98, So that there couldn't be confusion of performing credit operations.

Responses regarding the frequent revision of the credit policy, majority of the respondents has agreed that the policy of the bank is frequently revised, with mean and standard deviation of 3.9 and 1.11 respectively, this implies the bank is in conducting frequent research and development to sustainability perform profitable and satisfy its customers. But there are also respondents who disagree that they reflect as the policy doesn't revise frequently.

Majority of respondents has agreed and strongly agreed that customers of the bank is exceptionally treated, so as to satisfy its customers, this may be justified with the mean and SD vale of the variable 3.76 and 1.28 respectively this implies the flexibility of the policy as well as the top management. But some respondents replied on the open ended part of the questionnaire, that those customers who have good relationship with top management are only treated exceptionally regardless of their capacity and track record.

Regarding collateral requirement majority of respondents has disagreed that collateral is required for all types of loans at a little dispersed response and mean of 3.05 and SD of 1.23, this value reflects to negative or neutral response in contrary respondents on question raised regarding whether the bank has an appetite for clean loans majority of the respondents disagreed that the bank has no appetite for clean loans with mean value of 2.67 and SD of 1.02, this implies though its policy seems adequate, it has poor risk tolerance appetite, so that customers may move to other banks.

Majority of respondents agreed that the policy contains enough credit products, that it can satisfy its customers, with mean value of 3.22 and SD of 1.07, but almost equivalent to this frequency respondent has disagreed that the policy is doesn't contain enough products, in view of the mean result, the implication of this dimension is quite significant, that it may lead the bank to lose its competitiveness in the industry.

In relation to the question raised about whether there is consumer/personal loan requests majority of the respondents agreed that there is consumer loan requests, with mean value and SD of 3.33 and 1.10 respectively, more over on the next question regarding whether the bank is entertained those consumer loans majority of respondents disagrees that the bank don't entertained consumer/ personal loan with mean value 2.89 and SD of 1.08.

More over previous studies also state that the above dimension is the problem of almost all Ethiopian commercial banks that they don't entertained consumer/personal loans because of the Ethiopian banking culture and emphasizing on commercial loans.

Regarding risk tolerance of the Bank majority of respondents disagreed that the bank doesn't have appreciable risk tolerance, that why clean loans and consumer loans don't entertained as indicated above, its mean and SD are reflected as 3.11 and 1.19 respectively.

Finally with regard to the credit risk management guide line majority 45(54.9%), of the respondents agreed that the bank maintained a credit risk management guide line the it may use it to mitigate its risk environment at mean value of 3.67 and SD of 1.02.

Generally, as the credit policy is an important guide line to conduct each and every activity of the bank, for different economic and business environment, it is supposed to be adequate, so relying on the respondents result and analysis made and evidenced by the average mean and SD 3.33 and 1.08 respectively, United Bank credit policy is adequate enough though it requires some revision to incorporate different credit products, availing clean loans to those customers who have collateral gap , so as to better satisfy them and assure its profitability and sustainability of the bank in the industry.

4.3.2. The quality of credit processing and appraisal practices of United Bank in respect of the requirements of the NBE.

It's prudent that, every commercial bank in Ethiopia is under the control and regulation of national bank of Ethiopia accordingly, NBE under its directive No. 84/1994, the Licensing and Supervision of Banking Business reflects how banks are licensed and operate their business. So on this part the researcher is interested to assess the quality of credit processing and appraisal practice in respect to the NBE requirements and respondents were expressing the extent of their response.

TABLE 4.5. QUALITY OF CREDIT PROCESSING AND APPRAISAL PRACTICES OF UNITED BANK IN RESPECT OF THE REQUIREMENTS OF THE NBE.

STATEMENTS		Not at all		Little Extent		Moderate Extent		Great Extent		Very Great Extent		Mean	SD
		FQ	%	FQ	%	FQ	%	FQ	%	FQ	%		
1	Loan is processed when required documents are fulfilled	2	2.4	1	1.2	8	9.8	38	46.3	33	40.2	4.21	0.86
2	The bank relies more on documentation than others	2	2.4	3	3.7	24	29.3	39	47.6	14	17.1	3.73	0.88
3	There is quality credit analysis and appraisal technique	3	3.7	6	7.3	30	36.6	31	37.8	12	14.6	3.52	0.96
4	The capacity of loan officers to comply with the policy	2	2.4	4	4.9	16	19.5	34	41.5	26	31.7	3.95	0.97
5	There is Credit risk rating standards	2	2.4	6	7.3	7	8.5	42	51.2	25	30.5	4.00	0.96
6	NBE requirements are clearly stated in the policy	3	3.7	3	3.7	17	20.7	37	45.1	22	26.8	3.88	0.97
7	Credit officers are aware of NBE directives adequately	2	2.4	5	6.1	31	37.8	32	39.0	12	14.6	3.57	0.90
8	CIC is mandatory for all loan processes	3	3.7	2	2.4	5	6.1	20	24.4	52	63.4	4.41	0.98
9	There is an exception to skip CIC	34	41.5	8	9.8	7	8.5	16	19.5	17	20.7	2.68	1.65
10	The bank is strictly adhering NBE directives	2	2.4	8	9.8	15	18.3	22	26.8	35	42.7	3.98	1.11
	Mean & SD Average											**3.79**	**1.02**

Source: Questionnaire & SPSS output result

Respondents were asked to express the extent of their response whether loans are processed when full documents are fulfilled, and majority 38(46.3%), of the respondents agree with very great extent that loans are processed only and only when all required documents are fulfilled and evidenced by its mean value of 4.21 and SD of 0.86, more over this mean value is indicating an excellent picture of the bank in the respective dimension, further justified by its SD showing very narrow variability, in contrast similar previous studies reflect that some commercial banks operate their credit operation without fulfilling required documents, this may indicate that united bank is a bit conservative, or lacks flexibility, consequently customers may goes to those banks serving more flexibly and timely.

More to justify the above variable, majority of respondents respond the second question with great extent that the bank relies more on documentation, with mean and SD vale of 3.73 and 0.88 respectively, so that, here again it reflects that there is no exception and consideration until customers are processing/ fulfilling documents.

As indicated there seems a need to improve the quality of credit processing and analysis of the bank and majority of the respondents respond to moderately extent and evidenced with its mean value of 3.52 and SD of 0.96, it further implies improving its credit processing quality mean better satisfying customers, and becoming in line with the strategic objective of the bank and will reduce NPL loans.

With regard to the capacity of loan officers to comply with the policy of the bank majority of respondents replied with great and very great extent that loan officers are capable to comply with the policy evidenced by its appreciable mean value 3.95 and SD of 0.97, this helps the bank to utilize the capacity of loan officers to better perform credit operations and meet its objective. Likewise, there will not be a mishandling of loan files and interpretation of NBE directives.

Here again majority of the respondents replied with great extent for the question that whether there are credit risk grading standards or not, because of its importance of risk mitigation for bank credit operation, this may also evidence by the mean value of 4.00 and SD of 0.96, this mean value indicates that an absolute existence of credit risk standards, that the bank can prevent the occurrence of non-performing loans, and take early mitigation measures.

As indicated at the beginning of this sub title, it is mandatory for all commercial banks to adhere the directives of the national bank of Ethiopia, so that their policy should consist of those directives, accordingly majority of respondents agree with great extent that the bank clearly states NBE directives and requirements in its policy with mean value of 3.88 and SD of 0.97.

Furthermore, majority of respondents reflect with great extent loan officers are aware of NBE directives, so that they can follow accordingly and protect the bank with some irregularities, this is also evidenced with mean value of 3.57 and SD 0.90, so that complying with those directive helps the bank to build a good image and avoid subsequent penalties.

Collecting credit information of borrowers from national bank is a prerequisite and mandatory for banks before granting any loans and advances, so customers with bad credit history may not be eligible, accordingly so that more than 60% of the respondents replied with very great extent and 25% with great extent this further evidenced by its mean value and SD of 4.41 and 0.98 respectively. More over very few respondents reflect on the open ended part of the questionnaire when NBE credit reference bureau database gets down of there is temporarily possibility that the bank let its customers to write undertaking stating that the customer don't have any bad loan with other banks. So this may reflect CIC is critically mandatory document in credit processing.

Majority of respondents reply that not at all for the question stating whether there is an exception to skip CIC, the mean value 2.68 implies the majority 35(42.7%), of respondent reply as there is no way to skip CIC of borrowers, and some of the respondents reply with little extent considering the situation stated above, more over as majority of the respondents reply with very extent the bank is strictly adhering for NBE directives with mean value of 3.98 and SD of 1.11. All this implies for prudent selection of borrowers track record.

Having said so, and as indicated in the literature part of this research, it is mandatory and crucial to follow the rules and regulations of National Bank of Ethiopian, so that as the average mean and standard deviation values 3.79 and 1.02 respectively, evidences united bank has a quality credit processing and appraisal practice in respect to NBE requirements, so that this may benefit the bank to maintain lower NPL percentage. More over previous researches state that some of the commercial banks are suffering with high NPL percentage due to poor quality of loan processing and appraisal practices.

4.3.3. Assessing the communication and integration of branches with head office credit department during loan processing period.

Effective and smooth communication and integration of branches with head office departments leads to better operational performance of the bank, so that having stated the weak operational performance of the bank as stated in the chapter one, the researcher tries to assess the credit communication and integration of branches with head office credit departments, such as credit analysis and appraisal department, credit portfolio management department and credit risk and compliance departments, so as to enable the bank to improve its credit operation.

TABLE 4.6. ASSESSING THE COMMUNICATION AND INTEGRATION OF BRANCHES WITH HEAD OFFICE.

	STATEMENTS	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree		Mean	SD
		FQ	%	FQ	%	FQ	%	FQ	%	FQ	%		
1	Loan is processed and approved timely	9	11.0	31	37.8	25	30.5	15	18.3	2	2.4	2.63	0.99
2	There is efficient credit workflow management	2	2.4	21	25.6	15	18.3	37	45.1	7	8.5	3.32	1.03
3	Customers are evaluated in similar understanding	5	6.1	12	14.6	16	19.5	40	48.8	9	11.0	3.44	1.07
4	Loan officers have smooth communication with head office credit department.	5	6.1	11	13.4	13	15.9	42	51.2	11	13.4	3.52	1.08
5	Loan Officers Have Excellent Relationship With Customers	3	3.7	4	4.9	14	17.1	42	51.2	19	23.2	3.85	0.96
6	Credit services are as per customer’s preference	5	6.1	14	17.1	21	25.6	24	29.3	18	22.0	3.44	1.19
7	Customers make complain during loan processing	4	4.9	5	6.1	28	34.1	33	40.2	12	14.6	3.54	0.98
8	HO credit department respond requests timely	11	13.4	32	39.0	20	24.4	16	19.5	3	3.7	2.61	1.06
9	Credit analysts are efficient in reviewing files	3	3.7	18	22.0	30	36.6	25	30.5	6	7.3	3.16	0.97
10	HO credit department is Cooperative	5	6.1	17	20.7	29	35.4	26	31.7	5	6.1	3.11	1.01
11	Both HO and branches are in line with the strategic goal of the bank.	4	4.9	12	14.6	28	34.1	28	34.1	10	12.2	3.34	1.03
	Mean & SD Average											**3.27**	**1.03**

Source: Questionnaire & SPSS output result

Smooth and effective communication and integration leads to efficiently process credit requests timely, as it is known timely approval of loans and advances are advantageous to customers to meet their projects plan. So that as majority 31(37.8%), of the respondents disagree that loans and advances is proceed and approved timely with mean value of 2.63 and SD value of 0.99, as the mean value indicate as poor communication and integration of HO with branches, and this may lead the bank to poor credit performance and profitability. Furthermore, related studies indicate that communication and integration of credit operation organs in other banks is well organized and effective enough evidenced by higher average mean value. This helps them to better serve their customers.

Though the majority of respondents agree with the availability of efficient credit workflow management, and 25% of the respondents disagree with its efficiency. It’s just evidenced by the mean value of 3.32 and SD of 1.03. This mean value is not as such satisfactory to measure the required dimension, so that, Inefficient loan approving process, dissatisfying customers due to long time taking, and the like are the implication of weak workflow management.

With regard to the evaluation of customers in similar understanding, majority of the respondents agree that there is similar evaluation of customers both in branches and head office credit departments, with mean value of 3.44 and SD of 1.07, so that that it will help in approving the recommended amount and better serving credit customers of the bank.

As majority or 51% of the respondents agree that loan officers have smooth relationship with head office credit staffs that enables them to conduct their jobs. Moreover officers who have direct contact with customers should be skillful in handling and scanning the character of their customers, so that customers will prefer the bank to better satisfy their needs, and this is evidenced by the mean value of 3.85 and SD of 0.96, moreover the mean value positively implies all credit operating parties are moving in similar understanding of towards the accomplishment of the bank’s strategic objective

It seems dispersed responses as indicated in the table concerning the credit services rendered to customers, but majority of respondents agrees that credit services are as per the customer preferences, like wise many of respondents reflect as neutral response. So a bank serving credit customers according to their commercial preference is more relevant but it should be in line with the growing and demanding economic sectors and it’s evidenced by the mean value of 3.44 and SD of 1.19, following the good mean value of the dimension also indicate the bank is better serving its credit customers by understanding their credit gap, this helps the bank to maintain its customers and support the economy too.

Following the above response, it’s obvious that “customers are the lifeline of the bank” (United Bank motto) majority of the respondents agree that customers make complain after they present loan requests, so that its observed that the is a time taking during loan processing is too long as reflected by its mean value and SD of 3.54 and 0.98 respectively, its implication also goes to losing prominent customers and poor credit performance, because of the existence of stiff competition in the industry so that the bank should be in line with its motto.

As respondents reflect for the question stated above here again majority of the respondents disagree with the question head office credit department responds requests timely, so if HO don’t respond customer requests at the right time, it is inevitable that customers to reflect complain and move to look for another opportunity, so this may be difficult to the bank to remain competitive, for that matter if loans and advances could not granted on the right time, it will create misuse of the credit facility and customers may face with repayment burden consequently the bank at the end may face with lots of non-performing loans ,here it’s evidenced by its bad mean vale of 2.61 and SD of 1.06.

Even though there reflects some inconsistencies among analysts majority of the respondents agree that credit analysts have sufficient capacity to undertake their duty. As evidenced by the mean of 3.16 and SD of 0.97. So it is required that for banks to be efficient in its credit operations, credit analysts should also efficient enough, furthermore weak credit analysis may imply to weak credit performance to the bank.

With regard to the cooperativeness of head office credit department to branch, there should be as parenting styles in guiding, motivating, and assisting loan officers, so as to achieve the common strategic objective. but as majority of respondents reflect neutrally respond, it seems the HO credit is not as cooperative as the other departments. Finally equally dispersed respondents agreed and neutrally reflect their response as the both the

HO and branches are operating in line with the strategic objective of the bank. As indicated on the mean value 3.34 and SD 1.03, so that the bank may need to develop and make awareness of its strategic objective to all staff members of the bank, and achieve its objective.

In general regarding the above assessment is important for any departments; the bank should implement efficient management information system so as to improve the communication and integration of HO credit departments with the rest of branches, but as the average mean and SD reflects 3.27 and 1.03 respectively, reflects that there is still a need to improve for good communication and integration among branches, because of its great implication in meeting the overall strategic objective of the bank. More over and as its supported on the literature and stated above too, related studied also reflect similar findings but with higher mean value.

4.3.4. ASSESSING CREDIT MONITORING AND CONTROLLING PRACTICE OF THE BANK:

As the researched has discussed about the monitoring and controlling practice of banking sector in the literature part, it is found critical that monitoring and control departments of banks play a great of post disbursement loan activity in administering, inspecting, workout, and rescheduling of loans. So that the activities of credit portfolio and management department and credit risk and compliance department are assessed in thesis part of the research, the detail data is presented in the table stated below.

TABLE 4.7. ASSESSING THE EXISTING CREDIT MONITORING AND CONTROLLING PRACTICE OF THE BANK.

	STATEMENTS	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree		Mean	SD
		FQ	%	FQ	%	FQ	%	FQ	%	FQ	%		
1	Periodic loan review is performed	2	2.4	12	14.6	18	22.0	40	48.8	10	12.2	3.54	0.97
2	Adequate credit follow up is done regularly	2	2.4	11	13.4	7	8.5	51	62.2	11	13.4	3.71	0.95
3	Strong credit inspection is made timely	2	2.4	5	6.1	17	20.7	49	59.8	9	11.0	3.71	0.84
4	The existing credit control enables to classify loans based on their weakness level	3	3.7	6	7.3	12	14.6	42	51.2	19	23.2	3.83	0.99
5	Credit control activity of the bank is sufficient to prevent credit risk	3	3.7	6	7.3	15	18.3	46	56.1	12	14.6	3.71	0.94
6	The existing credit monitoring and control activity enables to confirm if loan is utilized only for approved purpose.	7	8.5	15	18.3	21	25.6	36	43.9	3	3.7	3.16	1.05
7	Credit control activity of the bank enables early identification of problem loans	5	6.1	9	11.0	12	14.6	39	47.6	17	20.7	3.66	1.11
8	Credit control. staffs have adequate skill and expertise to carry on controlling activity	4	4.9	4	4.9	22	26.8	47	57.3	5	6.1	3.55	0.88
9	Credit monitoring and control jobs are independently carried on	5	6.1	4	4.9	30	36.6	34	41.5	9	11.0	3.46	0.97
10	Credit monitoring and control of the bank is sufficiently staffed	3	3.7	11	13.4	11	13.4	35	42.7	22	26.8	3.76	1.11
11	Credit monitoring and controlling reports published regularly.	4	4.9	11	13.4	10	12.2	40	48.8	17	20.7	3.67	1.10
	TOTAL											**3.61**	**0.99**

Source: Questionnaire & SPSS output result

As periodic loan review is a basic function of banks to prevent occurrence of bad loan and misuse of facilities or documents, the bank is highly require to establish strong monitoring and controlling unit. Accordingly majority 40(48.8%), of respondents agree that the bank is conducting periodic review of loan files evidenced by mean value of 3.54 and SD of 0.97, the mean value indicates the bank has a good tend in establishing and performing periodic loan review, so that it helps the bank to early avoid mal operation and make consecutive corrective measures.

Regarding the adequate follow up again majority of the respondents agree that portfolio department is adequately follow loans and advances before it become sick loans to enable the bank either to take measure or workout the loan, and as indicated by the good mean value of 3.71 and SD of 0.95 it shows almost similar or very little variation on the responses given. Likewise majority of respondents agree that there is a strong inspection conducted regularly by the controlling department as evidenced by its SD 0.84.

In view of the regularity and sufficiency of credit controlling to enable the bank to classify loans and their weaknesses majority of the respondents has agreed that the current controlling practice of the bank is sufficient to mitigate sick loans and their weaknesses, and evidenced by its mean vale and SD of 3.71 and 0.94 respectively. The mean value justifies that the bank has good monitoring and controlling practice.

There is slightly variable responses with regard to whether the existing credit monitoring and follow up of the bank is capable to ensure that approved loan are utilized for only the requested purpose or not, that is evidenced by its mean value of 3.16 and SD of 1.05. implies less efficient in controlling such activity, and this may lead the bank to hold excessive non-performing loans. But due to the nature of the activity and the nature of borrowers it is highly likely to diversify approved loan for different purpose. This may be one of the major parameters for customers to become unable to pay their obligations and regularize there repayments and finally goes to bankruptcy.

In relation to the question raised on the current monitoring and controlling activity of the bank majority of the respondents agree that controlling department of the bank enables to early identify problem loans, and this enables either to assess the problem and take measure on it or extends a work out option before becoming NPL, as evidenced by its mean value and SD of 3.66

and 1.11 respectively, moreover it is viewed neutrality and strongly agreement among the respondents, that's why it shows a slight dispersed figure of SD.

Regarding the skill of the credit control staffs, majority of the respondents agreed that they have adequate knowledge and skill that the job requires, as evidenced by the mean value of 3.55 and SD of 0.88. Moreover it is expected that more than any staff of the bank monitoring and controlling staffs of the bank is required to have sufficient knowledge and skill to enable the monitor and control credit operations.

As it's also observed from the data, majority 40(48.8%), of the respondents has agreed that the monitoring and controlling activities are undergoing independently and sufficiently staffed in the bank as it is reflected in the mean value and SD of 3.46 and 0.97. this mean value quite good and reflecting that the bank will further strengthen this department to better regularly perform their duties.

Generally, and as we have discussed in the literature part of the study and at the beginning of this sub title, and previous researches too, credit controlling and monitoring and controlling departments are the backbones of banking sectors, in that it helps to identify potential sick loans , to conduct workout and rescheduling, to prevent from different credit risks. More over as evidenced in the total average mean and SD of 3.61 and 0.99, it reflects that the bank has good credit controlling and monitoring practice that can mitigate different risks arising during credit operation.

4.3.4.5. SUMMERY OF INTERVIEW RESPONSES

Interview were supposed to be conduct with the three department managers such as credit analysis and appraisal, credit portfolio management and credit risk and compliance department managers, but credit portfolio and risk managers were too much busy and got occupied with some strategic project implementation, so the researcher is forced to conduct his interview only with the credit analysis and appraisal department manager. Accordingly he provided the following opinions on each specific interview questions:

- The current credit policy of the bank is already entertaining different credit products. Yet it has been put to entertain additional credit products which lie within the regulatory frameworks as policies are meant to define the scope within which each credit product is meant to operate. But in relatively medium term policies are revised to align them the changing situations in terms of changes in strategy and regulatory framework. Effort to align the policy with the functional as well as the corporate strategies of the bank is of paramount important.

- The current credit policy of the bank is laid out in line with the rules and regulations of the NBE and such is communicated to the NBE up on issuance. NBE has put in place working procedures to ensure the subsequent procedures and practices are adhering to its regulations via requiring establishment of Risk and Compliance department. Apart from the prevailing control mechanisms that the bank is required to maintain, this department is endowed with ensuring the bank is operating in the best interest of the shareholders and the (depositor) public at large independent of the bank's management. In addition, such is ensured in the periodic on site and off site inspection of the NBE. Systems are in place to timely identify deviations and take corrective measures not to guarantee pure non discrepancy.
- The integration and communication of head office credit and branches is an ongoing flow that needs continuous improvement. Currently with the implementation of the Loan origination system the workflow has been significantly improved. Yet credit operations require a lot more communication apart from the document flow. Furthermore He said that there is a lot that needs to be done to improve the integration through continuous standardization of the credit requirements which are at times prone to subjective interpretations which lay on the line the smooth integration service delivery. Moreover, the credit department shall be organized in such a way that the prevailing competitive market requires it and to fit to the changes in the number of branches, credit portfolio, credit products etc.
- In order to enhance the service delivery the department has to be reorganized in such a way it responds to the changes in the credit portfolio and branch network and effort needs to be exerted to further standardize (though standardization has a lot to do with external parties too) the credit analysis to improve the service delivery. Moreover he believe that the current national move towards the adoption of IFRS by all businesses and banks would pave a new way towards the standardization.

CHAPTER FIVE

DICUSSION OF FINDINGS, CONCLUTION AND RECOMMENDATIONS

This part of the research reflects that the overall findings observed on the process of the study, the conclusion based on the findings that the researcher has obtained and the possible recommendation are forwarded on the following findings. Moreover it highlights researchers to conduct for a further research on the subject matter.

5.1 DISCUSSION OF FINDINGS

As it is clearly stated in the first chapter of the research work, the researcher was interested in investigating the overall credit management practice of United Bank with four major assessment objectives, such as the adequacy of credit policy in providing different credit facilities, the quality of credit processing and appraisal techniques of the bank in respect to the NBE requirements, the communication and integration of head office credit related departments, and finally the credit assessment of credit monitoring and controlling practice of the bank.

Even though respondents provide their own opinion on each research questions, there appeared different answers gathered that reflects agreement and disagreement on the each variable. So that among the scattered findings, the following are the major ones that are assumed to create significant impact on the overall credit management practice of the Bank.

- Though the credit policy of the bank is adequate to perform the credit operation, as some of the respondents reply, it reflects some gap in containing consumer/personal credit products, there are many personal loan requests presented to the bank, but unless engaged in commercial business activities, it is difficult to entertain consumer loans, even those who have enough salary or personal income, couldn't get a loan equivalent to their borrowing capacity to improve their lifestyle. So the researcher advises the bank to look for this opportunity for better entertain and satisfy its customers.

- The other finding in relation to the adequacy of the policy is that the bank is less likely to entertain clean loans, due to the fact that almost all Ethiopian commercial banks want operate on risk free credit operation, so that it mostly demand physical collaterals. The impact of this gap is for those entrepreneurs who operate their business successfully unless they present physical collateral there is no room to get credit facilities to assist their working capital requirements.

- As it is observed the bank revises its credit policies frequently, but some of the respondents also reflect their opinion on the open ended part of the questionnaire, though it revises its policy frequently, it's becoming tighter and tighter that doesn't consider the current economic situation of the country, and seems more of impractical revision.

- In respect to the credit processing quality, the bank is performing quality credit process, practices and strictly adhering to the directives of the National Bank of Ethiopia. Moreover almost the total population/respondents agreed that there is no exception to skip out CIC during loan processing.

- The bank relays more on documentation, be it legal or personal, unless required documents are fulfilled, the bank couldn't perform loan processing activity. So the researcher here extends his advice to the bank, that it has to make cross check with the actual existence of the applicant's business activities through conducting business visit or ether means.

- It is also observed that the bank don't respond credit requests timely, be it lack of efficient communication or efficiency of the management they don't approve and respond timely. This may be hazardous to the bank if customers couldn't treated timely, they will look for other banks which can better serve them, so that the bank may lose its competitiveness in the industry. Moreover, some respondents on their open ended part has raised, the very challenging part is that engineering department of the bank is not efficient to perform all branches property estimation on time.

- There is also a finding that reflects the head office credit department and branches depart from the common strategic objective of the bank; this may also be critical gap or weakness of the bank. Unless every unit of the operation is arranged in line with strategic objective of the bank, its performance and sustainability is in doubt. Furthermore as some of the respondent's state on the open ended part of the questionnaire, sometimes the head office staffs are assumed themselves as if they are for the bank and branch loan officers for the customer. So it is strictly advised the bank to clearly communicate its common strategic objectives to all staff members if the bank.

- The credit monitoring and controlling activity if the bank is undergoing with less efficiency, but the credit portfolio management department of the bank is performing good in flowing and administering loans, conducting workout/rescheduling activities on those loans tending to be non performing.

- As it has been reflected on the majority of the respondents the credit controlling department of the bank conducts review of loan files, but it’s less efficient, and it has to be organized with sufficient and capable staffs, so as to prevent the bank from maintaining bad loan. Moreover, it reflects that the controlling department is required to assess whether approved loans are utilized for its target. In general all concerned staffs around should exhaust their dedication for post disbursement evaluation and follow-up.

- Finally the researcher finds out from the data collected from respondents through questionnaire and interview is that, there is almost a common sense of reflection towards the problems and findings raised above.

5.2 CONCLUTION

Like any other segment of the economic policy, credit is very important for any financial institution as it generates profit and gear up economic activities of a country. In other words, credit is a business entity and it is input in the production process of the country. Since credit has an inherent risk, therefore proper utilization of the loans are essential to meet the requirements of the borrower. The loan applied for by the borrower must not be employed for unproductive purpose. In this regard, the bank must closely follow the progress of the loan and the way the borrower is utilizing the funds. In the assessment processes the bank will determine any fraudulent activities on the part of the borrower. The bank always trying to improve their credit policy for minimizing loss and maximizing profit and various measures are undertaken to develop the credit management system.

The researcher established that the bank had a comprehensive credit management system which considered the character of customers seeking credit facilities, the nature of the collateral with a very great extent, the capacity of the customer to repay as well as being able to effectively identify and access any inherent risks by deploying standard credit risk grading. Again the researcher established that credit risk control was considered as a major strategy in the credit management process which included compliance with internal guidelines and procedures as well as ensuring that all pre and post-disbursement conditions were meet by customers.

There for the following conclusions are given up on concluding the research work.

- The credit policy of the bank is showing some gap that, it doesn't entertained consumer/personal loans though there is high demand and frequent requests presented.
- The bank has very limited appetite for clean loans that it doesn't extend loans on clean basis for those entrepreneurs who don't present physical collateral, even though there exist a well-established business and performing well.
- The bank relays more on fulfillment of documentations, rather than scanning credit customers in different credit risk parameters.
- Strong adherence and implementation of national bank directives is reflected, and there seems, no exception to treat customers by skipping national bank directives, and this may considered as the strength of the bank, that apply quality of credit processing practice.
- There appeared inefficient communication and integration of head office credit management and branch credit managements during loan processing.
- Though there is frequent loan administering, monitoring and controlling practice, it's still pointed as insufficient and requires continuous improvement.

5.3 RECOMMENDATION

In view of the above findings, observations and subsequent conclusions, the following recommendations are put forward hoping that they would help in order to resolve the major problems identified in the study and facilitate the overall credit related practices.

- The Bank should incorporate sufficient credit products in its policy and make practical and marketable, so as to better satisfy its customers, and remain competitive in the industry.
- It's recommended that the bank should improve its coordination of workflow management system to create smooth and efficient communication and integration

between head office credit departments and branches, to avoid the time taking during loan processing and avoid customer complains.

- The bank is required to provide awareness of its strategic objective and place all credit staff members in line with its strategic objective, so that it enable for better profitability and sustainability in the industry.
- The bank is advised to keep up its strict adherence to national bank directives and other regulatory body regulations, to better provide quality loans and minimize credit risks. Moreover, it should look out credit customers in different credit risk measuring parameters, rather than focusing on fulfilling the physical documents.
- The bank should create a strong and efficient credit administration, monitoring, and controlling practice that regularly reviews loan files, scheduling post disbursement business visits to ensure whether approved loans are utilized for the requested purpose, and early loan workout and rescheduling mechanisms should exhaustively implemented to avoid non-performing loans and minimize overall credit risks of the Bank.

Finally, the researcher would like to recommend that further research be conducted on credit management practices of several banks in order to overcome with the overall obstacles of credit management practice.

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APPENDIX

St. Mary's University

School of Graduate Studies

RE: QUESTIONNIER

Dear Sir/Madam

I'm a student of St. Mary's University undertaking a master of Business Administration, and I'm conducting my postgraduate thesis on "Assessment of Credit Management Practice of United Bank SC." As partial fulfillment of the requirement of degree of masters, I would appreciate your favorable considerations the enclosed questionnaire the research endeavor. Your response to this Questionnaire will serve as a source of information for the thesis purpose. Any response you provide here is strictly held confidential and will be used exclusively for the research purpose only. Your honesty and professional response is vital for the research outcome to be reliable.

HOW TO COMPLETE THE QUESTIONNIERE

Please answer the questions by making either (√) in the appropriate box or whichever the mark that best describes your situation that corresponds to the most appropriate response in each point, you may also write if any additional points supposed to be raised in the space provided at the end of every section.

I thank you in advance for your cooperation.

For any ambiguity or clarification please don't hastate to contact me on 0911932996 or my email address: *ashukid2014@gmail.com*.

PART 1. SOCIO DEMOGRAPHIC PROFILE OF RESPONDENTS

1.1. What is your sex

Male ☐ Female ☐

1.2. Which age group do you belong?

20-29 ☐ 30-39 ☐ 40-49 ☐ above 50 ☐

1.3. Your level of education?

Diploma ☐ First Degree ☐ Masters ☐ Other ☐

1.4. Which year of service are you in the bank?

1-5 years ☐ 6-10 years ☐ 11-15 years ☐

16-20 years ☐ 21-25 years ☐ above 25 years ☐

1.5. Indicate your experience in credit operations

Less than one year ☐ 1-5 years ☐ 6-10 years ☐

11-15 years ☐ above 15 years ☐

1.6. Your current position in the bank

Credit Dep't Manager ☐ Credit Analyst ☐ Loan Officer ☐

Credit Recovery Officer ☐ Credit Portfolio Officer ☐

Credit Risk & Compliance Officer ☐

Part 2. Assessing the adequacy of credit policy of the bank for different credit products.

Please indicate the degree of agreement or disagreement on the statements regarding the adequacy of the credit policy in respect credit products.

	Statements	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
2.1	Credit policy of the bank is adequate enough					
2.2	Loan appraisal standards and guide lines are adequate					
2.3	Well Organization of loan approving committee					
2.4	Policies are in line with the strategic objective					
2.5	Policies and procedures revised frequently					
2.6	Customers are treated exceptionally					
2.7	Collateral is requirement for all type loans					
2.8	The bank has good appetite for clean loans					
2.9	The policy contains enough credit products					
2.10	There is Consumer/personal loan requests					
2.11	Consumer/personal loans are entertained					
2.12	Risk tolerance limit of the bank is appreciable					
2.13	There is Credit risk management guide line					

Do you believe that the current credit policy of the Bank is adequate enough to entertain different credit products?

YES ☐ NO ☐

If your answer is no, please notify the gap:

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Part 3. The quality of credit processing and appraisal practices of United Bank in respect of the requirements of the NBE.

To what extent is the bank credit appraisal process is in respect to the NBE.

Statements		Not at all	Little extent	Moderate extent	Greet extent	Very great extent
3.1	Loan is processed when required documents are fulfilled					
3.2	The bank relies more on documentation than others					
3.3	There is quality credit analysis and appraisal technique					
3.4	The capacity of loan officers to comply with the policy					
3.5	There is Credit risk rating standards					
3.6	NBE requirements are clearly stated in the policy					
3.7	Credit officers are aware of NBE directives adequately					
3.8	CIC is mandatory for all loan processes					
3.9	There is an exception to skip CIC					
3.10	The bank is strictly adhering NBE directives					

Do you think that the entire current credit appraisal process is in conformity with the rules and regulations of the NBE?

YES ☐ NO ☐

If your answer is no, please notify the gap:

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Part 4. Assessing the communication and integration of branches with head office credit department during loan processing period.

Please also indicate the degree of agreement or disagreement on the statements regarding the communication and integration of branches with head office credit department.

	Statements	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
4.1	Loan is processed and approved timely					
4.2	There is efficient credit workflow management					
4.3	Customers are evaluated in similar understanding					
4.4	Loan officers have smooth communication with head office credit department.					
4.5	Loan Officers Have Excellent Relationship With Customers					
4.6	Credit services are as per customer's preference					
4.7	Customers make complain during loan processing					
4.8	HO credit department respond requests timely					
4.9	Credit analysts are efficient in reviewing files					
4.10	HO credit department is Cooperative					
4.11	Both HO and branches are in line with the strategic goal of the bank.					

Do you thing that the communication and integration of branches with head office credit department is smooth and in respect to the overall strategic objective of the bank?

YES ☐ NO ☐

If your answer is no, please state the gap:

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Part 5. Assessing the existing credit monitoring and controlling practice of the bank.

Please indicate the degree of agreement or disagreement on the on the monitoring and controlling practice of the above departments.

Statements		Strongly disagree	Disagree	Neutral	Agree	Strongly agree
5.1	Periodic loan review is performed					
5.2	Adequate credit follow up is done regularly					
5.3	Strong credit inspection is made timely					
5.4	The existing credit control enables to classify loans based on their weakness level					
5.5	Credit control activity of the bank is sufficient to prevent credit risk					
5.6	The existing credit monitoring and control activity enables to confirm if loan is utilized only for approved purpose.					
5.7	Credit control activity of the bank enables early identification of problem loans					
5.8	Credit control staffs have adequate skill and expertise to carry on controlling activity					
5.9	Credit monitoring and control jobs are independently carried on					
5.10	Credit monitoring and control of the bank is sufficiently staffed					
5.11	Credit monitoring and controlling reports published regularly.					

Could you specify some of the possible weaknesses you have observed on the above department?

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St. Mary's University

School of Graduate Studies

INTERVIEW QUESTIONS

The following are among the interview questions to be presented to department managers.

1. Do you think that the current credit policy of the bank is adequate enough to entertain different credit products so as to enhance the growth and sustainability of the bank?
2. How do you see the general credit practice of the bank in respect to the rules and regulations of NBE?
3. How do you evaluate the communication and integration of head office credit department with branches in order to efficiently manage the credit workflow?
4. What do you suggest about the possible weaknesses of your department?
5. What are you going to recommend about the general credit practice of the bank to be adequate for better decision making?

DECLARATION

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of my advisor Abebaw Kassie (PhD). All source of material used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree.

______________________________ ____________________

Name Signature

St. Mary's University, Addis Ababa **January, 2018**

ENDORSEMENT

This thesis has been submitted to St. Mary's University, school of graduate studies for examination with my approval as a university advisor.

______________________________ ____________________

Advisor Signature

St. Mary's University, Addis Ababa January, 2018