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**SCHOOL OF GRADUATE STUDIES  
MASTERS OF BUSINESS ADMINISTRATION PROGRAM**

**AN ASSESSMENT OF CREDIT MANAGEMENT PRACTICES: IN  
THE CASE OF BANK OF ABYSSINIA S.C.**

**BY**

**SAMRAWIT MEKONNEN**

**ADVISOR**

**ASMAMAW GETIE (Asst.Prof.)**

**Jan 2018**

**ADDIS ABABA, ETHIOPIA**

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**A THESIS SUBMITTED TO ST. MARY UNIVERSITY, SCHOOL OF GRADUATE  
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**APPROVED BY BOARD OF EXAMINERS**

\_\_\_\_\_  
**Dean, Graduate Studies**

\_\_\_\_\_  
**Signature & Date**

\_\_\_\_\_  
**Advisor**

\_\_\_\_\_  
**Signature & Date**

\_\_\_\_\_  
**Examiner External**

\_\_\_\_\_  
**Signature & Date**

\_\_\_\_\_  
**Internal Examiner**

\_\_\_\_\_  
**signature & Date**

## DECLARATION

I, Samrawit Mekonnen hereby declare that, ‘ ‘ **Assessment of credit management practices in the case of Bank of Abyssinia S.C.** ’ ’ is my original work, prepared under the guidance of Asmamaw Getie (Asst.prof.). All sources of materials 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.

Samrawit Mekonnen Tefera

Name

Signature

## **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: Asmamaw Getie (Asst.Prof.)**

**Signature:** \_\_\_\_\_

**Date:** \_\_\_\_\_

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## ACKNOWLEDGMENTS

*“If you want something very badly, you can achieve it. It may take patience, very hard work, a real struggle, and a long time but it can be done. That much faith is a prerequisite of any understanding, artistic or otherwise.” Margo Jones (1913-1955)*

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## **LIST OF ABBREVIATIONS AND ACRONYMS**

BOA- Bank of Abyssinia

LWO- Loan Workout Officer

DM- Division Manager

LPMO- Loan Portfolio Management Officer

CRO- Credit Relationship Officer

SCRO- Senior Credit Relationship Officer

CAAO- Credit Analysis & Appraisal Officer

SCAO- Senior Credit Analysis Officer

SPSS- Statistical Package for the Social Sciences

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## **ABSTRACT**

*To explore the credit management practice of the banks this study conducted under the title **Assessment of credit management practices in the case of Bank of Abyssinia S.C.** The main objective of the study is to assess the credit management practices by taking a case study on Bank of Abyssinia S.C. To achieve the objective of the study, primary and secondary data were collected through questionnaire from BOA branches that are found at Addis Ababa area, mainly from the head of credit department. Questionnaires were distributed for ninety-nine respondents. The study adopted stratified, purposive and simple random sampling methods to select respondents. The data collected through questionnaire were analyzed using descriptive statistical analysis method and SPSS as a tool of data analysis. The result of the study indicated that, the bank most of the time identified qualified borrowers by gathering information from different financial organs. Concerning the bank, ask guaranteed materials the study indicates that the bank highly depends on the collateral capacity of the customers and loan history of the creditors. Based on the findings of the study, the researcher forwards some major recommendations like; the bank should focus on profitability of the business and the customer's capital rather than focusing only strength of collaterals. Because some collaterals may exposed or damaged naturally or deteriorated and also to minimize late repayment the bank can use rewarding on time payment applicants and strengthening follow up procedures to observe & ensure that loan is used for the intended purpose only, the bank advisable to implement & strength strong policy manual to control and manage its credit management system.*

*Key words: Credit management, loan repayment, diversification of fund*

## CHAPTER ONE

### 1, INTRODUCTION

#### 1.1 Background of the study

The existence of banks in our economy has indefinite purpose to increase the day to day activity of every business profit. Banks main activity in the economy is to facilitate money from who have much and want to get interest by putting their cash on safe place, relates to those who have a business plan but whom seeking the finance. Without having credit facility from banks firms cannot be expand their business, also every activity goes to limited. Therefore, a bank as an entity can link to a community and thus has its own culture, which acts as a mirror on how it carries out its own activities. Actions or behaviors out of this culture were going against the roles or norms of the bank. A bank's credit culture is the policies, practices, philosophy and management style that are being put in place to act as a guide for the lending manager or personnel to carry out their credit management function (Eveline, 2010).

Attracting and retaining profitable customers, and increasing revenue from those customers, is a priority of the managers of all banks in today has globalized market place, because without getting the financial source of the customer there is no money which can be transferred to those actively seeking it (Bridge and Harvey, 2000). Credit plays a great role in the economic growth and stability of country by increasing productivity of capital, Also credit helps in maintaining price stability in the country. The central bank control price fluctuation through credit control policy.

Credit management is a comprehensive process made up of the monitoring of loan facilities, extension of credit, distinguishing the market segments as well as delineating the returns generated. The policy on credit management contains its own system or mechanisms that guide the employees wherever they try to start their activity and on the collection of the loan repayments (Asante, 2015).

According to Asiedu (2011), credit management involves different issues, which is the most important for granting the credit facility to some individuals or to many firms. The policies and formal system of the credit management lead appropriately the designated staffs who are on the positioned to grant the credit, and the credit history of the customer should submit on

the right flow of the policy. Additionally, the credit policy and procedures should indicate the loan, which is given out for profitable activities or for businesses that 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.

Lending practice or credit management combined three key elements namely: the systematic identification of risk taking capability of the customers or the borrowers when they are bring the loan application, the methods they set in order to compensate this risk when the loan reach at approval and the borrowers acceptance on the implementation of procedures when payments are not maid timely or on the time frame. Everyone agrees on that financial institutions are very important in any economy. Their role is similar to that of blood circulates in the human body, because financial institutions pump financial resources for economic growth from the depositories to where they are required (Afande, 2014).

## **1.2 BACKGROUND OF THE ORGANIZATION**

The present-day bank of Abyssinia was established on February 15,1996 (90 years to the day after the first but defunct private bank was established in 1906 during emperor Menelik 2<sup>nd</sup>). In accordance with 1960 Ethiopian commercial code and the licensing and supervision of banking business proclamation no. 84/1994.BOA started its operation with authorized and paid up capital of birr 50 million, and birr 17.8 million respectively, and with only 131 shareholders and 32 staff. The bank has been undertaking significant organizational changes in order to put into practice new business strategies and respond to a changing external environment. With a view to become more accessible to the public at large, BOA has been aggressively expanding its branch networks. To this effect, during the period ended June 30, 2016, the bank opened 53 new branches and sub-branches thereby bringing the total number of branches to 185. Of these new branches, 23 were city branches while the remaining 30 were outlying ones (Annual report, of Bank of Abyssinia 2015/2016). Currently, employing the state-of-art banking technology, the bank provides excellence domestic, international and special banking services to its esteemed and valuable customers ([www.Bank of Abyssinia.com](http://www.Bank of Abyssinia.com)). Bank of Abyssinia beings one of the institution, it provides credit for the society who need to borrow money and perform business activity.

Credit management is one of the most important activities in any company and cannot be over looked by any economic enterprise engage in credit irrespective of its business nature. A

key requirement for effective credit management is the ability to intelligently and effectively manage customer credit lines (Kagoyri & Shukla 2016).

The credit management process starts with identifying and recruiting potential credit customers and ends with collecting the entire loans extended by the BOA. So far as possible that the borrower be able to make scheduled payments with interest in full and within the required time. Policies and procedures must apply for granting credit to customers, collecting payment and limiting the risk of non-payments (Bank of Abyssinia credit procedure, 2012).

### **1.3 STATEMENT OF THE PROBLEM**

In modern economic world business, activity without the help of banking service is impossible and unthinkable. Our society we live in is a credit society. Banks play a great role in economic growth and development of any nations. Banks have credit policies that guide them in the process of awarding credit. Each banks credit policy sets the rules and procedures on the credit practices of who can access the bank credit, for what purpose does the borrower want the credit, when the customer's needs the credit and more of that the credit policy states the repayment arrangements and necessary collaterals. Credit assessment helps the banker to ensure selection of right type of loan proposals/projects/ventures/enterprise and to select right type of borrower. In order to select the right borrowers, security should not the only thing to rely up on. Therefore, responsibilities of the bankers to investigate the client from different view point i.e. the strength and weakness of the client business, profitability, generally the financial flow of the business so that the client were be able to repay the bank loan as repayment schedule with profit or not can be assess (Mosharrafa, 2013).

When the credit guaranteed to customers he/she want to perform some activity that can be replace credit with additional profit but, converting its usage may led the customer to loss and that's show to others that the bank hasn't the follow up mechanisms which can direct the customer. The poor credit management department may not have enough information to credit control and its risk assessment. Trying to know under which of the foregoing groups a company falls is just one point but the most important is their information availability for easy lending decision taking. These act as a guarantee for the competence of the loan granting and repayment. If from the information, a bank sees that a company does not have a good financial strength or stand, this may restrict them on the amount of credit to grant. The collateral security that the company possesses also acts as a very big determining force implying that the greater the financial strength and collateral availability, the greater the loan

granting possibility (Eveline, 2010). Therefore, that is lead to bank focuses more on collateral. Many banks failed to recognize early signs that asset quality was deteriorating and missed opportunities to work with borrowers to stem their financial deterioration and to protect the bank's position. This lack of monitoring led to a costly process by senior management to determine the dimension and severity of the problem loans and resulted in large losses (Lagat, Mugo, Otuya, 2013).

Lawra, (2010) state on her research about the skill set and size of credit management administrators in Irish credit unions. Moreover, try to assess the credit management process by observing how it is conduct, monitor and updated in Ireland credit unions.

There are some studies, which is conduct on credit management in Ethiopia. Tekeste (2016) assessed the performance of credit management in emerging private commercial banks in Ethiopia. His study focused on the credit management practices how it contribute to the performance of the bank and how insure them to undertake accepted banking credit practices and procedures. The study also identifies the credit practices of loan management, loan growth and causes of loan default. Solomon (2013) assessed the credit risk management practices at Nib International Bank S.C. His study focused on the entire review of the credit risk management techniques and practices.

Most researchers in Ethiopia conducted their studies on the base of credit risk management. Even if studying the problems that financial institutions face on credit risk management important at all. However, the first mechanism to identify problems should be assess the methods, policies and procedures of credit management practices of the institution, and try to identify which method led the institution to credit risk. Regarding to this, these study try to assess the procedures and measures taken at Bank of Abyssinia in order to manage credit flow and to examine how the bank overcome and correct the problem related to some borrowers whom not to repay the loan as per the payment schedule due to diversification of fund from the intended objective.

#### **1.4 Research Questions**

In order to clarify the gap, the researcher tries to address the following questions;

- ✓ How the bank does evaluate performance and ability of customers to pay loan?
- ✓ What is the method that the bank adopts for credit analysis and follows up mechanism?
- ✓ How BOA manage the problem that happens at the time of loan repayment?

- ✓ Does the bank relying on credit procedures when they making a decision on the loan request

## **1.5 OBJECTIVE OF THE STUDY**

### **1.5.1, General objective**

The main objective of this study is to assess the credit management practices of Bank of Abyssinia.

### **1.5.2, Specific objective**

The study is design to meet the following specific objectives:

- ✓ To assess credit management experience of the bank
- ✓ To examine the bank method on recruiting potential credit customer, i.e., the customer nature, type and eligibility
- ✓ To examine the analysis, appraisal and follow up mechanisms taken on credit management
- ✓ To assess the bank techniques on reviewing and making a decision on the loan request.
- ✓ To investigate the problems faces the bank while try to manage the loan repayment.

## **1.6 SIGNIFICANCE OF THE STUDY**

The study is very important for the bank, the customers, other researchers and academicians who want reliable information on credit.

The study have a very important in giving direction to the bank for credit management and the study has great important for other researchers to conduct further study on the area. In addition, the researcher going to provide important information regarding the credit management practice that how can be the credit repayment collect in the case of Bank of Abyssinia.

## **1.7 SCOPE OF THE STUDY**

The study was conduct on the Bank of Abyssinia branches, which are found at Addis Ababa area from selected branches and highly on credit department. To make the study manageable in terms of time, finance and other factors, the study is limited to the credit management practices even though there are number of activities performed by the bank.



## **1.8 LIMITATION OF THE STUDY**

Whenever conduct a research study, the research may face certain problems that limit effectiveness of the study. In the same way, the research faces the following challenges:

The problem of generalizing the idea about other private banks practices regarding credit management system because of the researcher take the one bank scenario about credit management practices.

At the time conducting research, secondary sources taken as the method of data collection but in collecting complete data on credit management on department level are so difficult because of confidentiality of banking business.

## **1.9 ORGANIZATION OF THE STUDY**

The study was organized to the following parts. It contains five chapters dealing with different issues.

Chapter one, which is the introduction, considered the following sub-themes: Background of the study, Background of the organization, Statement of the problem, Research questions, Objectives of the study, Significance of the study, Limitation and scope of the study.

The second chapter, is deals with literature review that include various issue about credit management and practices.

Chapter three, looks at the methodology of the research. Thus, this section deals with the various methods used in gathering information used for the study. This section also brings out the population, research instrument used and data analysis plan of the study.

Chapter four, focuses on the results of the study. That is, it involves the data analysis and discussions based on the findings from the data collected. And,

Chapter five, is the final chapter of the research and deals with the summary of the research findings, conclusions, recommendations of the topic as to whether the objectives of the study were attained. Bibliography and appendices follows.

## CHAPTER TWO

### 2. LITERATURE REVIEW

#### 2.1 Theoretical Review

Credit is the amount of money that the borrower can get from a lender, credit is also the ability to purchase goods with-out payment and pay for them later. Credit transactions for the economic development have high value to the modern world. Credit puts to use property that would otherwise lie idle, thus enabling the world to fully utilize its resources (Ahiabile, 2012).

Credit; the international dictionary of management defines credit as “borrowing up to certain amount given by financial institutions like the bank to an individual of an organization”. According to Wood, (1993) credit derived from a Latin word “credre” which means, “believe”. From this, he defines credit as an expression of belief- in a person’s ability and willingness to repay a loan. By getting credit, it is believed that credit boosts income levels at the household level and thereby boosts economic development. Credit enables poor people to overcome their liquidity constraints and undertake some investments especially in improved farm technology and in puts thereby leading to increased agricultural production (Frank, Mbabazize, and Shukla, 2015).

Management; is the process of controlling directing and coordinating the activities of the organization. According to Asiedu, (2011) credit management involves establishing formal legitimate policies and procedures that can ensure that proper authorities grant credit, the credit goes to the right people. In addition, Asiedu-Mante indicated that the credit granted for the productive activities or for businesses, which are economically and technically viable, the appropriate size of credit granted, the credit is recoverable and there is adequate flow of management information within the organization to monitor the credit activity. The interest cost of late payment is less visible and can go unnoticed as a cost effect. It is infrequently measure separately because it is mixes in with the total bank charges for all activities. Credit managers can measure this interest cost separately for debtors, and the results can be seen by many as startling because the cost of waiting for payment beyond terms is usually ten times the cost of bad debit losses (Gatuhu, 2013).

#### 2.2 Features or essential of credit

The following are some essential features of credit:

Trust and confidence; it is the fundamental element of credit that occurs between the borrower or buyer and lender to access for both side benefit.

Transfer of goods and services; If the lender let enough credit to borrower in order to transfer goods and services then the buyer or borrower, promise to pay back to the lender on future date.

Willingness and ability; credit always depend its first line through the willingness of the lender, same the borrower willingness and the ability of the borrower to pay back the repayment of the loan.

Security; whenever the lender wants to permits amount of loans to different borrowers, the most important issue is the security to pay back the amount of loan on the specified period (Jhingan, 1997).

### **2.3 TYPES OF CREDIT**

Depending on the length of time, for which the loan is outstanding, credit can be classified in three categories: long, medium and short-term credits. Credit transactions on the basis of whether or not the lender received collateral security, they can be classified as secured loan and/ unsecured loans (Tekeste, 2016).

The main styles of credit or systems of financing prevalent in banks are;

Cash credit system; is the main method of leading by banks in Ethiopia and account for about 10 percent of total bank credit under the system the banker specifies a limit, called the casher edit limit for each customer, up to which the customer is permitted to borrow against the security of tangible assets or guarantees. The customer withdraws from his cash credit account as and when he/she needs the fund and deposit, any amount of many which he/she at the finds surplus with him/her on any day.

Overdrafts; when current account holder is permitted by the banker to draw more than what stands to his/her credit. Such an advance called an overdraft. The banker may take same collateral security or may grant such advance on the personal security of the borrower. The customer has to repay it by means of deposit in high account as and when it is feasible for him/her. Interest is charged on the exact amount over draw by the customer and higher rate than loans.

Loans system; loan is the form of accommodation provided by the banker to his customer who is in need of money. A banker grants loans after satisfying the following facts; Customer who is in genuine need, Loan for productive purposes, & adequate and good security is offered by the customer the funds not be locked up for a long time etc (R, mitta 2002).

#### **2.4 General Lending Procedures and Processing Credit Applications**

Getting started and preliminary discussion with the customer: It is the first stage that the customers who seek credit and the branch manager or the supervisor communicate each other. On this part customer preference and the bank credit policy verified to the borrower or to customer and their ability to offer that, kind of loan and the collateral value can identify. Processing the credit and loan application: the second step after loan request of a borrower can processed, lending officers shall follow a detailed procedure in the appraisal of credit request and execution of the necessary documentation.

Documentation and bank format: Trade license, registration certificate, investment certificate from the appropriate ministry or bureau, financial statements (preferably audited and reflecting the current years position) including cash flow statement and other documents which show the customer business. Bank can also arrange its own format that the borrower were have to fill in his assets and liabilities especially if the applicant does not have a ready financial statement or is not able to submit one.

Credit Information and Credit Investigation: if the borrower or the applicant is new to the bank, information related to his/her honesty, ability, stability, managerial capacity, operational efficiency, financial history, etc. The information can gathered from various sources, including banks, trade partners, suppliers and the like. The Investigation process mainly depend on credit information's that collects about the borrower then that led to making credit decisions.

Credit analysis and the credit decision: The nature of the financial analysis is determined by or depends upon the specific interest of the analyst. By analyzing, various credit factors such as capacity, capital, collateral, and others credit decision given. Formalizing or Execution of the loan documents: All documents relative to the transaction should be completed and executed properly. The loan documents include a loan contract, any mortgage or assignments required to secure the indebtedness, evidence of adequate insurance coverage and the like (Gebru, 2015).

## **2.5 Loan appraisal and terms**

This is the process of evaluating a loan application, before disbursement with the view of determining whether the applicant have the ability to pay back the money borrowed without the society taking measures to enforce recovery. There are many terms which can be consider in loan appraisal from those list the researcher takes the highest affecters of every business;

Capacity, this refers to the ability of the borrowers to pay back the money borrowed with the interest. Since the customer business, profitability affects the loan repayment schedule the bank should refer the customer business periodically. The other one is Character, this indicates the borrower has established reputation in the community; societies seek to deal with honest people who are dependable. Past loan repayment, performances could obtain from references like micro finance institutions or banks from which the applicant borrowed in the past. The third one is Condition, these consists economic or market dynamics for example; competition, inflation that are beyond control or influence. The lenders take note and consider the intended use of the requested loan or read the impact of the condition on repayment (Frank, Mbabazize and Shukla, 2015). The other collateral is the most preferable term in every credit facilities. Collaterals are assets they may classify as movable and unmovable properties, pledged against the performance of an obligation (Solomon,2013).

## **2.6 CREDIT CONTROL INSTRUMENT IN BANKS**

The use of credit also makes feasible the performance of the complex operations involved in modern business without the constant handling of money. Credit operations are carried out by means of documents known as credit instruments, which include bills of exchange, money orders, checks, drafts, promissory notes, and bonds. These instruments are usually negotiable; they may legally be transferred in the same way as money (Ahiabile, 2012).

Promissory note; the promissory note is the earliest type of a credit instrument. It is an "I.O.U"(I owe you) which is written promise by a debtor to pay to another person a specified sum of money by an agreed given date usually within a year with three days of grace. It is drawn by a debtor and has to be accepted by the bank in which the debtor has his account for it to be valid.

Cheque; a cheque is an order on the bank, written by the drawer who has his deposit with that bank, to pay on demand the stated sum of money to the person named in the cheque. It may be a bearer cheque or an order cheque or crossed cheque.

Credit card; a recent addition to a credit instrument the issue of credit cards by banks. Credit card holders are allowed credit facilities by the concerned bank for specified period without any security from them (Jhingan, 1997).

### **2.7 Credit information i.e. Credit investigation & analysis**

Information constitutes only the basic details of the customer. For a firm to grant /extend trade credit to customers, it requires to gather more information about the customer and the market that the customer operates in. Depending on the industry and market, a firm has a number of sources from which information on its customer can be obtained.

However, it should be appreciated that the amount of time and resources required to collect, assess and analyse the information and then putting it to work together create long-term credit relationship with profit generating clients or to reduce credit risk can be considerable (The Malta Association of Credit Management [MACM] 2011).

### **2.8 Credit Granting Decision and Firm Profitability**

Firms may grant credit to their customers for various reasons, which include but not limited to the following: When there is a lot of competition in an industry, a firm may grant its customers credit to attract them for patronage. The nature of the business may demand that goods be sold on credit instead of in cash.

Credit granting decision should ensure that the period of credit or the discount for prompt payment is well determined; firms can sell their products at different prices depending on the demand elasticity of customers. In a long-term perspective, trade credit might give future profits by establishing and maintaining permanent commercial (Kipkoech, 2015). According to samoei Kipkoech, the debt collection has a momentous effect on firm profitability. A sound credit management put in place was in effect preventing late payment by debtors and the outcome of this leads to increased profitability. credit granting decision requires additional information about customers because whenever loan process conducted for them they must make repayment at the specified period otherwise the firm going to be in loss of finance than profitability.

### **2.9 REVIEW OF EMPIRICAL LITERATURE**

Among the articles written on the subject, the researcher has selected two local and one overseas study of literature ideas:

The study conducted by Laura (2010), the article were used data aims to assessment of the credit management process of Irish credit unions. The study was conducted to examine what tools, interventions and standards are exercised in Irish credit unions. The research is done on the base of different relevant books, journals, articles and other publications. In addition, the study used Personal debt levels in Ireland 1999-2010 data were studied to make recommendations. For data gathering process the study use triangulation approach was utilized in achieving the research objectives. The study also conducted on the base of a survey, which disseminated to three credit union Chapters in Ireland in order to obtain an insight into their daily credit management process. To complement this survey, the researcher conducted interviews with four credit union administrators. The key results underline that credit unions appear to be deficient in the credit control department; namely in the areas of experience, personnel levels and the consistency of interventions used. Moreover, the study result is the lack of technology operated in the loan decision process. The research concludes that credit unions should incorporate stress testing into their credit management process. Moreover, given extant studies other technologies like neural networks, decision trees and credit scoring models should be considered. However the research give an emphasis for other researcher on that further research is required pertaining to the capacity of credit unions to implement more complex technologies. Finally, the recommendation also made by using a sequential model constructed which illustrates the areas where credit unions need to focus on in order to facilitate a sustained business performance.

Tekeste (2016), the objective of the study is to assess credit management performance in emerging private commercial banks in Ethiopia: in the case of Berhan international bank S.C. the study target population is Berhan international bank S.C. Credit department employees who are involved in credit processing and administering and clients. The research use a survey study research methodology for the study is population census for the bank staff and convenience non probability sampling for clients. The type of data used in the study is qualitative data. Primary and secondary source of data were used in the study. By analyzing, the collected data the researcher summarize some points, which lead the researcher to recommendations. The result show that the bank check the borrowers history and assessing the customers ability to meet the obligation, but the bank not in the position to monitor or to visit the borrowers business. Moreover, the result shows the bank has not yet deployed adequate measure to recover non-performing loans. The study also show there is the centralized decision making process and the study also indicates there is time taking at the

time of decision making. The recommendation set by looking the findings on the bank should visit the customers business periodically. The other recommendation on the process of decision making, the bank should hire the skilled and sufficient manpower for the credit area.

Hagos (2010) the study conducted to evaluate the performance of credit management of Wegagen Bank in Tigray region as compared to National Bank requirements vis à vis its credit policy and procedures. The researcher target groups in the study are the loan clients of the bank and the employees who are directly involved in credit processing and administering. The sampling technique used for the purpose of the study is stratified random. By reviewing the objectives of the study, the researcher used Proportionate Stratified Sampling (PSS) approach in order to select the number of respondents. In order to collect the data both primary and secondary data are used. Interviews and questionnaires are prepared to collect primary data. Secondary data collected from clients' files, reports, directives, manuals and bulletins of the bank by the researcher. Data was analyzed, summarized and presented in tables and Figures, by the help of the Statistical Program for Social Sciences, version 16.0, (SPSS, 2005). The researcher finding shows that the bank provided a loan for short term repayment schedule (Mostly for the purpose of working capital). The researcher indicates that this may be due to the limitation of capital base of the bank. However, it is currently causing burden of installment repayment and most of loan clients prefers to improve as most of the time faces difficulty to manage it accordingly. Because of these reason, the researcher conclude on this may be the major cause for loan client termination from the bank. The other finding show, default problem in the bank is due to market problem, environmental problem, loan diversion, and policy problem like the credit policy of the bank related to loan duration and amount. These all leads to credit risk that has bad consequences on the Bank's financial stability, clients' business performance, and economy of the region. The researcher recommendation on current loan processing and approving direction of the bank is moderate inclined to be conservative especially regarding collateral and analysis. Moreover, the researcher indicates that this is highly retarding the loan growth of the branches in particular and the Bank in general. Researcher indicates the recommendation on that the bank should follow creative way of loan processing and approving direction that assists to meet the loan demand of potential loan applicants and the required level of loan growth as it is the main source of income for the banking industry. The other recommendation rise on it is disclosed in the analysis part of the study most of the loan clients and bank employees have complaints



on the credit policy and guidelines regarding valuing property offered for collateral, loan discretion, length of loan processing time, repayment schedule, and excessive requirements for analysis. These are the major factors impeding client reputation and retarding to attract potential loan clients. Hence, the bank should made remarkable changes on its credit policy and procedure guidelines regarding the above previously mentioned drawbacks in order to solve the current problems and achieve the client reputation.

## **2.10 LITERATURE GAP**

Theories are well available in various literatures about credit management. However, some of the study conducted in our country is mainly focus their assessments on credit risk managements.

To the knowledge of the researcher there is no theoretical and empirical studies done regarding to credit management practices in the case of bank of Abyssinia S.C. Although the research made by (Tekeste, 2016) focused on assessment of credit management performance in the case of Berhan international bank S.C. Additionally, (Hagos,2010) study focused on in Wegagen bank Share Company as a case study of credit management performance of the Bank by considering the seven branches in Tigray Region. Even if there are studies, which conducted on other banks business practices but, the current credit management practice and activities of BOA did not analyzed as like the other private banks in Ethiopia. Finally, this study is different from previous works done by others; specifically it assesses the credit management practice and the diversification of the credit fund from the intended objectives in Bank of Abyssinia S.C.

## **CHAPTER THREE**

### **3. METHODOLOGY**

This part shows that what material and method were used at the time of conducting the study. Researcher collected and received documents and information for achieving the objective by using both primary and secondary data.

#### **3.1 RESEARCH DESIGN**

The research adopted a descriptive survey research design. The major purpose of descriptive survey research design is to describe the state of affairs as it is at present. A descriptive survey research design help in collecting data in order to answer questions concerning the status of the subjects in the study. The descriptive design refers to a set of methods and procedures that describe variables (cooper and schindler, 2003). Descriptive research design is chose because it enables the researcher to generalize the findings to the large population. Primary and secondary sources adopted to search information for the study.

#### **3.2 DATA COLLECTION SOURCE & TYPE**

Data was collect using a combination of both quantitative and qualitative methods. Quantitative data primarily is from the financial statements of the credit management. Quantitative research is to test theories and to gather descriptive information. The questionnaires formed the basis for generating the primary data. Qualitative research is focus on the contexts and meaning of credit management ideas and experiences for identifying the credit facility ways in the bank that driven to show research result. Qualitative methods facilitate the collection of data when measures do not exist and provide a depth of understanding of concepts. It is exploratory in nature and through induction; it builds theories (creswell, kalassen, clark and smith, 2010).

Qualitative data were collected using questionnaires that done purposively. Secondary data was collect also from annual reports of credit size, loan rates, credit performance as well as interest income from 2013 to 2016. Questionnaires were administerd to each respondent in the study and they had both open and close-ended questions.

### **3.3 SOURCE OF DATA**

#### **3.3.1 PRIMARY SOURCE OF DATA COLLECTION**

Primary data were collected through questionnaire from employees. Researcher was distribute questionnaires to the selected population, and after the précised and exact response, the researcher were collect the distributed questionnaires and analyze for further interpretation.

#### **3.3.2 SECONDARY SOURCE OF DATA COLLECTION**

Secondary source of data also collected from the banks material like; manuals, annual reports, and from policy and procedures of the bank.

### **3.4 METHODS OF DATA COLLECTION & INSTRUMENT**

The data that was collected depend up on time factor, availability of funds, nature and objective of the study. The collection method also varied according to source of data has used. Both primary and secondary data were used in this research paper. The researcher has been relies on structured questionnaires as the main data collection instrument to obtain the desired information and data. The questions were be self-structured. This is done to achieve the main objective of conducting the research. The questionnaire was selected because almost all the people in the defined population can read and write. The questionnaires were prepared to spell out answers that were given with answers to the objectives of the study as well as the research problem in general. The purpose of the study to were realized through the questions posed by the researcher in the questionnaire.

### **3.5 Target Population and Sampling Design**

#### **3.5.1 Population**

The target population for this research was from the Addis Ababa area, and specifically the main credit department that controls all the activities of each branches credit facilities. The researcher expects that all staff members of the credit department and credit officers at branch level give the answer for the questionnaires that the researcher distributes for them.

#### **3.5.2 Sampling Technique**

The study adopted stratified, purposive and simple random sampling methods to select respondents. Stratified sampling was adopted because the population of the study divided in to sub-population or strata based on the grade that given to some branches regarding their high customer number and the performance of the branch that give operation for long time of

periods. Purposive because the researcher select credit area only even if there are other departments on the bank the researcher main point consists credit department. In addition, simple random sampling was used to select respondents from each stratum accordingly which is from functional areas credit department managers and Senior Officers working on loan processing, Credit Analysts, Credit follow-up and Monitoring officers, Credit Directors, Relationship Managers and Recovery Officers.

### 3.5.3 Sample Size

The researcher taken sample from Addis Ababa area selected branches. The researcher had taken selected branches from the total population. Due to the fact the bank credit area practiced by few employees, not all branches and employees taken as the population. The sample frame base is branch managers, credit officers, credit analysis, credit appraisal team, credit monitoring and the others who participate on credit areas are selected population. At BOA branches has their own grade by the branch year of experience and by many number of customers so the branch taken as grade three branch. By taking this identification method the researcher taken grade three and grade two branches in order to select the population. From grade three each branches the researcher try's to select two credit officers and one branch manager if the branch manager not found the researcher replace by assistance branch manager as sample frame. From grade two one credit officer and one-branch managers from and from the credit department.

**Table 1, Respondents number from each sub population**

<b>Branch classification</b>	<b>Branch numbers</b>	<b>Selected employees number from each branches</b>
Grade three branches	20	60
Grade two branches	35	70
Credit department	Head	40
	Total sample size	170

Source: BOA human resource report 2016

The total number of the selected branch employees were one hundred seventy (170). This particular study thus has taken 99 of these employees, as respondents for questionnaire. Sample size for this research has been determined by using Yemane (1967) formula.

$n = \frac{N}{1 + n(e)^2}$  where n is the required sample size, N is the population size  
and e is the level of precision

$$n = \frac{170}{1 + (170)(0.10)^2} = \frac{170}{1 + 170 * 0.01} = \frac{170}{1.71} = \underline{99}$$

By using the above formula, 99 respondents were selected from the total population of 170 of the selected area. The 99 respondents were selected from each Branch and from credit department on proportion basis. The number population taken from each Branch and credit department indicated in table 3 below.

**Table 2. Proportionate sample for each division**

<b>Branch classification</b>	<b>Total No. of Employees</b>	<b>Sample proportion (%)</b>	<b>Sample Size</b>
Grade three branches	60	0.35	35
Grade two branches	70	0.41	41
Credit department	40	0.23	23
Total	170	0.99	99

Source: Own Survey

After the sample taken from each branches and from credit department on proportion base questionnaires were distributed to all branch managers, assistance branch managers, CRO, SCRO, CAAO, SCAO, LPMO, DM and for LWO purposive distribution of questionnaires' were applied.

### **3.6 METHODS OF DATA ANALYSIS AND INTERPRITATION**

After the accomplishment of data collection, the next job was data processing and analyzing which follow by the interpretation. By referring Yemane (1967) formula, the researcher high sample size ninety-nine(99). Therefore, data was processes by classifying, organizing and editing the information to make it suitable for analysis. The data collected going to be analyzing with the use of analysis tool frequency, percentage, mean and standard deviation. After the required data were collected, it was processed, and analyzed by using SPSS. Due to the nature of the data collected from the respondents through the questionnaires, both qualitative and quantitative method of data analysis was found appropriate. The research therefore uses both method of data analysis for this research paper, tables were applied in the analysis and interpretational data collected.

## CHAPTER FOUR

### 4. DATA ANALYSIS AND INTERPRETATION

In this chapter an overview of the data obtained in the study were analyzed, presented and discussed. The questionnaires distributed to Bank of Abyssinia branches that is found in Addis Ababa based on their grade performance and to credit department.

#### 4.1. General

A structured questionnaire distributed to credit department employees, branch managers and assistant branch managers. From the total seventy questionnaires, thirty distributed to branch managers and assistance branch managers the other forty was distributed to credit department employees. The questionnaire distributed in person to seventy employees (whose positions related to bank lending) out of those seventy questionnaires; sixty-three questioners were collected the other seven discarded due to incomplete response (see Table 1 below). Accordingly, the analysis of this study based on the number of questionnaire collected.

**Table 3. Survey response rate**

<b>Respondents</b>	<b>Size</b>
Sample size	99
Completed and returned questionnaire	70
Discarder questionnaire	29
response rate	70%

Source: Survey outcome

#### 4.2. Profile of Respondents

Profile of the respondents like position in the bank they work for, banking work experience and specific experience in credit (loan) area of respondents are presented and subsequently discussed as follows.

**Table 4. Working position in BOA**

<b>position in bank of Abyssinia S.C.</b>	<b>Frequency</b>	<b>Percent</b>
<b>Branch manager</b>	16	22.9
<b>Assistance manager</b>	13	18.6
<b>credit department</b>	41	58.6
<b>Total</b>	70	100.0

Source: Survey Questionnaire 2017

Table2. Explains in terms respondents profile, the majority of respondents are 41 (58.6%) of survey respondents are works in credit department. The other 16 (22.9%) respondents are branch managers and the remaining 13 (18.6%) assistant branch managers who perform activity as branch manager or they are on acting. As the majority of the respondents number found on the credit area that indicates the respondents know more about credit activities and they can gave the appropriate response on the questionnaires that distributed for them.

**Table 5. Credit department respondents position category**

<b>position in credit department</b>	<b>Frequency</b>	<b>Percent</b>	<b>Valid Percent</b>
LWO	2	2.9	4.9
DM	1	1.4	2.4
LPMO	1	1.4	2.4
CRO	25	35.7	61.0
SCRO	3	4.3	7.3
CAAO	6	8.6	14.6
SCAO	3	4.3	7.3
Total	41	58.6	100.0
Missing System	29	41.4	
Total	70	100.0	

Source: Survey outcome and own computation

The above table shows the respondent position on credit department and the researcher takes the valid percent value in order to express the position of the respondents the other missed values occurred because the rest taken as branch managers or assistance branch managers. So



the respondents position on credit department explains 25 (61%) of the respondents are CRO, 6 (14.7%) of CAAO while the other 19.5% has a position on bank by LWO, SCRO and SCAO and the remaining 4.8% employees has a position of DM and LPMO. As the result explains, the high number of the respondents has a position of CRO that indicates the bank has more relationship officers who can perform the credit facility only. In addition, the bank has some CAAOs but when we looking their number may not high as like the CROs group.

**Table 6. Respondents experience in the banking industry**

<b>Experience in Banking Industry</b>	<b>Frequency</b>	<b>Percent</b>
1-4years	13	18.6
5-8 years	16	22.9
9-12 years	24	34.3
12 and above	16	22.9
Total	69	98.6
Missing 24	1	1.4
Total	70	100.0

Source: Survey outcome and own computation

In terms of banking experience, the absolute majority 24 (about 34.3%) of the respondents reported to have served the banking industry for more than 8 years, of which that the high number of respondents were long serving employees and having many years of work experience in the industry. On the other hand, about 16 (22.9%) of the respondents had experience more than 12 years on the banking industry only. The others 16 (22.9%) of respondents have an experience from five to eight years on the banking area medium as one to seven years of banking experience. The rest 13 (18.6%) respondents had one up to four years of experience. Therefore, the above table result shows the respondents have many years of experience on the banking industry that has led the researcher to conclude they have more experience so they can easily understand what kind of activities performed and how they can done their business transactions. Also their experience can create an advantage to handle customers as like the norm says as like king and queen because they can adopts managerial and negotiation skill through time.

**Table 7. Respondents experience in Credit area**

Year of experience in credit	Frequency	Percent	Valid Percent
1-4 years	34	48.6	61.8
5-8 years	11	15.7	20.0
9-12 years	9	12.9	16.4
above 12 years	1	1.4	1.8
Total	55	78.6	100.0
Missing 24	15	21.4	
Total	70	100.0	

Source: researchers Survey result from primary data source

In terms of the respondents experience on lending area only the majority (61.8%) of the respondents had one up to four years of experiences particularly in lending (or credit area), of which (20%) reported to have acquired more than five years of exposure in the area. the others (16.4%) has an experience for more than nine years on credit area only. Additionally, the other (1.8%) had above twelve year of work experience on credit department. The fact that such a majority of the respondents had ample experience in credit activities believed to have influenced the dependability of the data quite positively. Their number indicates that there are also junior employees at the credit department that can may be good in creating new generation who take the responsibility on each bank field. Therefore, the bank has on good place to creating young customer relationship officers.

#### 4.3 General employee's response on the questionnaires

**Table 8. Information about creditors**

Statement	Strongly agree	Agree	Neutral	Disagree	Strongly Disagree	Missing value	Mean	Std.deviation
identify qualified borrowers through interview and by checking credit history	29	29	6	6	0	0	1.84	0.911
The bank collects enough information about the creditor before granting the loan.	36	21	10	3	0	0	1.71	0.870
The bank has appropriate criteria for credit classification and provisioning	31	27	10	1	1	0	1.77	0.854

Source: researchers Survey result from primary data source

The Likert scale rate implication on this particular study is SA (strongly agree) starts from one and SD (strongly disagree) ends on five. Whenever the mean increased the implication shows the high number of respondents disagree on the point, but whenever the mean decrease that indicates on this study the majority of the respondents agree on that particular issue the implication also same on the standard deviation.

The study sought to establish the level at which respondents agreed or disagreed with the above statements relating to information about creditors. From the findings majority of respondents strongly agreed on that the bank collects enough information about the creditor before granting the loan as shown by a mean of 1.71. In addition to that, bank has appropriate criteria for credit classification and provisioning as shown by a mean of 1.77. For that reason, the bank also has identified qualified borrowers through interview and by checking credit history of creditors is a viable method for credit management as shown by a mean of 1.84. The study show that the bank perfectly gather information about each credit borrowers before granting the loan that can help the bank to control each borrowers and to set periodically overview the borrowers business. The bank has its own criteria to classify the loan type and provision.

**Table 9. The bank depends on some issues to select credit applicants**

Statement	Strongly agree	Agree	Neutral	Disagree	Strongly Disagree	Missing Value	Mean	Std. deviation
The bank highly depends on the collateral capacity of the customer to select credit applicants.	28	26	10	4	2	0	1.94	1.020
The bank highly depends on loan history of customers to select credit applicants.	13	41	9	3	2	2	2.12	0.873
The banks highly depends the customers capital to select credit applicants.	14	31	14	8	3	0	2.36	1.064

Source: researchers Survey result from primary data source

The study sought to establish the level at which respondents strongly agreed or disagreed with the above statement relating to the bank depends on some issues to select credit applicants. From the findings, the study established that majority of the respondents strongly agreed that the bank highly depends on the collateral capacity of the customer to select credit

applicants as shown by a mean of 1.94. On the other hand, the other respondents agree on the issue that the bank highly depends on loan history of customers to select credit applicants as shown by a mean 2.12. Regarding to the above issue others agreed that, the banks highly depends the customers capital to select credit applicants as shown by a mean 2.36.

As the table result, the high number of respondents strongly agree on that the bank highly accepted formality to select the credit applicants is the collateral capacity of the customer. Therefore, the result indicates the collateral capacity of the borrowers is highly accepted in the bank. In addition to the above, more of the respondents also agree on the loan history of the borrower take in to consideration to select the credit applicants. The rest of respondents agree on customers capital accepted as a formality to select the credit applicant. By depending on the table result, the researcher set the side on collateral capacity is the best method to select credit applicants whereas customers capital may not be the right method to select credit applicant because if the capital may more accepted therefore in order to get the credit the borrowers may submits unnecessary financial implications to the bank so that the bank may permit the credit for creditors. Because of this reasons the loan history of the customers and collateral capacity of the customers can be the accepted methods to select credit applicants.

**Table 10. Timely decisions way of credit process**

Statement	Strongly agree	Agree	Neutral	Disagree	Strongly Disagree	Missing value	Mean	Std.deviation
The bank carried out credit processing activities and appraisals timely	25	30	10	5	0	0	1.93	0.890
Timely decisions of credit may sometimes affected by centralized decision making process	19	28	18	5	0	0	2.13	0.900
Timely decisions of credit may also affected by delay of obtaining credit information	16	31	16	4	3	0	2.24	1.013

Source: researchers Survey result from primary data source

The above table indicates the respondent's assumption on timely decisions way of credit process. More of respondents agree on the bank carried out credit processing activities and appraisals timely as the mean indicate by 1.93. Analyzes and appraises based on the due diligence and other supporting documents as per BOA's Credit Policy and Procedure, pertinent directives of NBE and the national regulations. Based on a proper appraisal of the borrower's circumstances both from financial and non-financial aspects forwards her/his own recommendations that is supported by justifiable reasons. The Credit Analyst and Appraiser may request for whatever information she or he needs from the Relationship Manager and/or the Branch Manager and independently conduct a detailed appraisal of the credit timely (BOA credit procedure manual, 2017).

The others also agree on the issue that timely decisions of credit may sometimes affected by centralized decision making process as the mean shown 2.13, and the rest of employees agree on the idea timely decisions of credit may also affected by delay of obtaining credit information as the mean shown 2.24.

The result indicates there is delaying on when the bank obtains credit information about the applicant that also restrict the bank when they try to make a decision timely. Regarding to the above issue timely decision also affected by centralized decision-making process. Decisions must be not overdone by one group on credit area it should be idea sharing between loan workout groups, loan portfolio officers or other who work on the credit area because all groups on the credit department look the applicants file and documents when the borrowers submit to the department. While the bank carried out loan processing activities and appraisals timely as the respondents agreed on the issues.

**Table 11. The reason for borrowers number increasing**

Statements	Strongly agree	Agree	Neutral	Disagree	Strongly Disagree	Missing value	Mean	Std.deviation
Bank credit policies and practices increase the number of borrowers.	12	26	26	5	1	0	2.39	0.906
Lending capacity of the bank increase the number of borrowers	22	36	10	1	1	0	1.90	0.801
National bank policy increases the number of borrowers.	2	8	28	21	11	0	3.44	0.987

Source: researchers Survey result from primary data source

The above table shows the result on statement of the reason for borrowers number increasing. With this regard, the high numbers of respondents agree on the statement of lending capacity of the bank increase the numbers of borrowers as mean indicates by 1.90. The others respondent agree on the issue that the bank credit policies and practices increase the number of borrowers by refer the mean 2.39. On this issue, the rest more respondents neither agree nor disagree on the statement listed. Additionally, while the others also neither agree nor disagree on the statement of National bank policy increases the number of borrowers as the mean shown 3.44.

The result shows the bank lending capacity highly increase the number of borrowers. As the report indication, the total outstanding loans and advances of the Bank in the fiscal year 2014/15 stood at Birr 5.99 billion, surpassing the preceding fiscal year's balance by Birr 844 million (16.4%). The total outstanding loans and advances of the Bank in the Fiscal Year 2015/16 stood at Birr 8.0 billion (net of provisions), surpassing the preceding Fiscal Year's balance by Birr 2.1 billion (35.6%). The report shows the bank-increasing amount of capacity for loans and advances in each fiscal year. As the bank report show at the fiscal year 2015/16 the bank increase its total outstanding loans and advances by birr 2.01 billion (Bank of Abyssinia annual report of 2014/15 and 2015/16).

**Table 12, High value money lends for different purpose**

Statement	strongly agree	Agree	Neutral	Disagree	Strongly Disagree	Missing value	Mean	Std. deviation
The bank lends money highly for manufacturing purposes.	4	9	28	17	8	4	3.24	1.039
The bank lends money mostly for Foreign/international trade services.	6	24	17	17	5	1	2.87	1.110
The bank lends money mostly for Domestic trade services and small-scale businesses.	17	33	12	2	5	1	2.64	1.834

Source: researchers Survey result from primary data source

The survey results of the above table indicates bank identify for which purpose permits lending money highly. As the above table implications, majority of the respondents agree on

the statement, the bank lends money mostly for Domestic trade services and small-scale businesses as the mean show 2.64. Most respondents also agree on the issue the bank lends money mostly for Foreign/international trade services as the mean shows by 2.87, Whereas most respondents did not agree or disagree on the issue the bank lends money highly for manufacturing purposes as the mean show by 3.24.

The result indicates BOA highly lends credit for domestic trade services and small-scale business. That shows the bank promotes the domestic trade service in order to minimize the import trade as the economists suggest the less import due to high export increase the country growth. The distribution of loans and advances by economic sectors depicted that domestic trade, export, import, construction and industry have registered an absolute growth of Birr 299 million (13.3%), Birr 228 million (23.3%), Birr 93 million (13.6%), Birr 75 million (9.1%) and Birr 64 million (26%) from the preceding period, respectively(Bank of Abyssinia annual report 2014/15). The distribution of loans and advances by economic sector indicates that export, domestic trade, import, and transport have registered an absolute growth of Birr 767 million (63.5%), Birr 456 million (17.9%), Birr 419 million (54%), and Birr 209 million (144%), respectively from June 2015 (Bank of Abyssinia annual report 2015/16). As the annual report shows the high capital of the bank run to domestic trade services.

**Table 13. The bank has base to set maximum limit for permit the loan**

Statement	Strongly agree	Agree	Neutral	Disagree	Strongly Disagree	Missing value	Mean	Std. deviation
The maximum limit of the credit depending up on value of collateral and purpose of the loan	20	26	11	10	3	0	2.29	1.156
The maximum limit of the credit depending up on duration of loan	7	22	23	13	5	0	2.81	1.081
The maximum limit of the credit depending up on value of collateral	17	21	20	9	3	0	2.43	1.124
The maximum limit of the credit depends up on the ability of the bank to lend money	18	34	8	6	4	0	2.20	1.098

Source: researchers Survey result from primary data source

The study shows the bank maximum limit to permit the loan. Majority of the respondents agree on the statement the maximum limit of the credit depends up on the ability of the bank to lend money as the mean show 2.20. In addition to the above issue the other more respondent also agree on the statement the maximum limit of the credit depending up on value of collateral and purpose of the loan as the mean indicate 2.29. The others agree on the issue the maximum limit of the credit depending up on value of collateral as the mean show 2.43. Whereas the other respondents didn't give any agreement or disagreement on the statement the maximum limit of the credit depending up on duration of loan as the mean show 2.81.

The result shows if the bank have high budget and if the bank have a capacity to set a high budget therefore there can going be more borrowers at that bank, and the bank can set the maximum limit by referring the budget in order to compromise the capacity and the ability to lend money on each years. The other result found is collateral capacity of the borrowers also the tool to set the maximum limit on the loan.

**Table 14. Late credit repayment on the bank**

Statement	Strongly agree	Agree	Neutral	Disagree	Strongly Disagree	Missing value	Mean	Std.deviation
Late repayment happens at the time of collecting the payment	14	27	14	10	2	3	2.39	1.072
Diversification of fund from the intended objective is the first reason for late repayment.	17	27	19	3	4	0	2.29	1.065

Source: researchers Survey result from primary data source

The table indicates the idea that if in the bank late repayment happens. On the issue the respondents give their perspective on each issue the highest number of respondents agrees on the statement of diversification of fund from the intended objective is the first reason for late repayment the mean show 2.29. With this regard, the equal number of respondents like the above respondents accepts that late repayment happens at the time of collecting the payment as the mean also indicates by 2.39.



By this implication as the diversification of fund from the intended objective existed on loan usage. Therefore, borrowers may not timely set-off their loan, and if the borrowers did not pay their payment at the bank schedule, the late repayment rate going to rise time to time.

**Table 15. Selected methods for credit control mechanism**

Statement	Strongly agree	Agree	Neutral	Disagree	Strongly Disagree	Missing value	Mean	Std. deviation
The bank take strict follow up of the customer business in order to enforce timely repayment of loan.	18	29	10	10	3	0	2.30	1.134
Additionally the bank controls the repayment system by visiting business of creditors periodically and through financial report.	13	22	16	13	6	0	2.67	1.224
The bank provide reminder letters early in order to improve timely credit repayment	16	26	18	7	3	0	2.36	1.077

Source: researchers Survey result from primary data source

The study explained the result on the bank has selected methods for credit control mechanism. The majority number of respondents agrees on the bank take strict follow up of the customer business in order to enforce timely repayment of loan as the mean show 2.30,

The follow-up groups make a periodic assessment of the health of the loans and advances by looking into some of the key indicators of the performance of the borrower. Such as the profitability, level of her/his activity and the management of the unit, and ensure that the assets created are effectively utilized for productive purposes and are well-maintained (BOA credit procedure manual 2017). In addition to the above, they also agree the bank provide reminder letters early in order to improve timely credit repayment as shown by a mean of 2.36. With this aspect, some agree on the bank controls the repayment system by visiting

business of creditors periodically and through financial report as the mean 2.67. The purpose of the visit is to verify or evaluate the information contained in a customer's letter of application and the supporting documents through observation and to make an objective assessment of the business (BOA credit procedure manual 2017).

As the high number of respondents, agree on late repayment existence in the bank. Respondents also agree on the bank use different methods in order to minimize late repayment occurrences. As the table shown the bank mostly provide remind letter before the date of loan repayment and bank follow the customers business in order to make enforce payment if they're not pay the loan as their time schedule.

**Table 16. Other additional questions related to credit management**

Statement	Strongly agree	Agree	Neutral	Disagree	Strongly Disagree	Missing value	Mean	Std. deviation
The bank gives training to employees in order to increase their performance on the area of loan	20	29	11	9	1	0	2.17	1.035
The bank transfers the risk to the family of decease if the creditor dies before the repayment of the loan.	6	19	29	6	9	1	2.90	1.113
The bank has well-structured documentation tracking systems for credit and collateral files	24	30	9	3	1	3	1.91	0.900
Customers are often given sufficient training on loans usage	1	9	22	23	14	1	3.58	1.006
The bank enhancing latest technology in order to give fast and error free credit facility for creditors	11	23	20	13	2	1	2.59	1.062
The bank collects feedback from customers about credit providing services.	12	18	18	15	5	2	2.75	1.202

Source: researchers Survey result from primary data source

The researcher also tries to explore some issue with regarding credit management system of the bank to find answers on each statement. More over the respondents give their idea on each statement. As the mean show 1.91 respondents agree on the statement that state the bank has well-structured documentation tracking systems for credit and collateral files, in this table the other issue which most respondents accept or agrees on the bank gives training to employees in order to increase their performance on the area of loan as the mean show 2.17. In addition, on the idea that explains the bank enhancing latest technology in order to give fast and error free credit facility for creditors the respondents agree as the mean indicates 2.59. Some respondents agree and others neutral about the bank collect feedback from customers about credit providing services as the mean implication 2.75. Other statement raised by the researcher on the bank transfers the risk to the family of decease if the creditor dies before the repayment of the loan, with this point high number of the respondent nor agree or disagree and some of them agree on the statement as the mean show 2.90. Nevertheless, the respondents disagree on the statement that Customers are often given sufficient training on loans usage or not most of respondents disagree as the mean also show 3.58.

On this different issues the researcher find differ perspectives from each respondents. The first thing is the bank has structural way to set creditors document, which can led the bank to summarize and make a follow up arrangement on the borrowers business. The other issue that the bank give training facility to employees in order to create awareness or in order to increase effectiveness on the loan area. That's indicates the bank adopts it's self to the environmental change and create alert to employees mind about the change. In addition to the above point the bank, also adopt its area with other environmental change by enhancing latest technology to employees.

## CHAPTER FIVE

### 5. SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

#### 5.1 Summary

Credit management has become a crucial issue; currently. As it is of a paramount importance for the successful achievement of any business entity's objectives. It is also a well-known fact that credit management is an extremely significant part of the overall business tasks as it pursues to improve business organizations performance through growth of production or manufacturing purposes.

On the basis of the above fact; this particular study tried to assess the credit management practices in the case of BOA particular branches which found in A.A and credit department. This study holds an objective of assessing and finding out the credit management experience of the bank, the bank methods on recruiting potential credit customer, i.e., the customer nature, type and eligibility, the analysis, appraisal and follow up mechanisms taken on credit management, the bank techniques on reviewing and making a decision on the loan request and besides the problems faces the bank while try to manage the loan repayment assessed.

Taking the ninety-nine sample size from branches and from credit department employees as a representative sample among all BOA branches from A.A; the study under took the research activities on these respondents. The study deployed self-administered questionnaire and document review as its data gathering techniques. Therefore, the result was analyzed by descriptive method applying the basic statistical tools. Hence, this chapter aims to revisit the research objectives, analysis and it further aims to summarize and concludes the results and findings chapter that have discussed in details earlier in previous chapter. As analysis show in the previous chapter some points summarized by the researcher below:

- BOA run its credit area by whom extremely work on the banking industry for long period of times and by most of experienced employees mainly on credit area.
- BOA collects information about the borrowers from different institutions like insurance, from financial statements and by self interview with the creditors before granting the loan.
- The bank highly depends on collateral capacity and loan history of the borrowers in order to recruiting potential credit applicants.

- Credit processing and credit appraisals can be affected by delay of obtaining credit information and by centralized decision making process.
- Lending capacity of the bank the major reason for increasing or decreasing borrowers number time to time.
- Most of the bank credit facility opens to domestic trade service and for small-scale business.
- As the bank, lending capacity is the reason for increasing or decreasing the number of borrowers so the maximum limit of the credit also depending on the ability of the bank to lend money.
- Due to diversification of fund existence at the credit usage that also affect the timely repayment of the loan.
- The bank take strict follow up of the customers business and send the reminder letter to borrowers in order to control the repayment system and to enforce timely payment.
- BOA give training for employees and enhancing latest technologies in order to adopt them with the environmental changes.
- BOA also has well documentation tracking mechanisms for credit and collateral files.
- The bank did not have the habit of collecting feedback from customers in order to improve its service providing quality
- The bank also did not give the advice to the borrowers about how can be effective in the usage of the credit

## **5.2 Conclusion**

The study incorporated the analysis of technique is descriptive to analyses the quantitative data obtain via questionnaire and document review. Based on the findings of the analyses and the summery results obtained, the study has drawn the following conclusion;

The result of the study shows that bank of Abyssinia as like the other financial institution done its credit facility for whom seeking it. With addition to that, the bank contains experienced employees on the credit area in order to give the service to the whole society. BOA take a strict follow on identifying qualified borrowers by using different mechanisms like; collect information from other financial institution, trade partners, suppliers and collect financial statements about the business that run by the borrowers also by conducting additional interview with the creditors. From the result obtained, the researcher identifies that

vast majority of the respondents perceived that the bank collects enough information before accessing the credit to particular individual. That explains from the information and from the interview the bank can also identify the information related to the creditors honesty, ability, stability, managerial capacity and financial history of the borrowers.

As the measure of delay on giving service, if the bank didn't timely collect information about the borrowers the happening of waiting time to give service for the customers increase as the majority of respondents agree on timely decisions affected by delay of obtaining credit information.

From the findings of the study, the bank needs guaranteed when the creditors submit their request of the loan. Mainly accepted guaranteed thing in the bank is collateral capacity of the customers and loan history of the creditors/or customers. The study also shows lending capacity of the bank increases the number of borrowers and the bank credit policy and procedures may sometimes decrease the borrower's number.

The result shows the high value of loan permitted for domestic's services or for small-scale business. The bank can permit the loan to foreign or international trade too but the value not equal with the domestic trade service.

The study has made the conclusion based on the analysis conducted on the response obtained from questionnaires that the bank has well-structured documentation tracking system to collateral files. The bank also gives training to employees in order to increase their perspective on the loan area, the bank enhancing the latest technologies through time in order to increase their service quality and to decrease time delay of providing service to one customer.

The finding shows that loan late repayment happens at the time of loan collection. Moreover, the result indicates that the first reason for late repayment is diversification of fund from the intended objective is the major factor. However, the bank uses some methods in order to minimize the late repayment. From the study result the researcher see that the bank strictly follow the customers business in order to enforce timely repayment, the bank also provide remind letters early in order to improve the loan repayments system.

The result also indicates, the bank transfer the repayment settlement to the family of decease if the creditor dies before the settlement of the loan. Bank sometimes collects feedback from

customers but this activity not strong as the other activities since the feedback shows the uncovered problems the bank must work hard on this issue.

### **5.3 Recommendation**

Based on the conditions made above sections; this particular study has made efforts to point out some valuable recommendations as remedial solutions to some of the weaknesses witnessed in the bank's experience of adopting the best credit management practices. Some of the important remedial solutions to the currently existing weaknesses of the bank are listed below;

- Since effective credit management and practices is determined by the bank's ability to evaluate and identify potential borrowers and acquire full credit information about the borrowers, regarding this bank policy is encouraged.
- While selecting potential borrowers among applicants it is better if the bank focused more on profitability of the borrowers business and capital rather than focusing on the loan history of the customer and strength of the collateral is pledged as a criteria of selecting. This is because the pledged collaterals may exposed or damaged, the price of collaterals are depreciated or loss its value over time, which at the end it may be insufficient to cover the loan amount on the time of default. According to Yaw Adu (2015) these point 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. The profitability of the firm can be the major criteria whenever they access the credit facility
- The bank can also use some other techniques in order to minimize late repayment. A mechanisms like; giving intensive technical advice to borrowers, strengthening follow-up procedures to observe and ensure that loan is used for the intended purposes only and additionally rewarding on time repayment applicants. And also the bank can be added some additional techniques on the remind letters future before the repayment date expires to the customers. As the Oesterreichische Nationalbank (OeNB) (2004) explanation, reminder procedures are part of the credit monitoring of individual credit exposures. In order to avoid forgetting to send out reminders hard letter, credit institutions should apply standardized and automated reminder procedures. The bank IT department can take an initiation on this point and also the IT department should collaborate with the credit department in order to create system

manageable reminds repayment schedule for the borrowers therefore the system can periodically sent the reminder text on the borrowers telephone number.

- The bank advisable to increase its methods to collect the information about the creditors in order to decrease its delay on the loan decision making process. While the delay for getting the loan may lead the bank to lose potential borrowers. Gathering data on the potential customer's current financial condition, including the current credit track record that discloses the character of a customer in meeting obligations as well as collateral value. The current ratio between income and outstanding financial obligations should be considered when the bank collects information about the borrowers Hagos (2010).
- The bank also advisable to implement its decision making method. As the bank used centralized mechanism to the credit decision the majority of the loan area employees did not have the idea about decision criteria but the bank can share the decisions between the employees at list before approving the loan. After reviewing and determining the applicant's creditworthiness in the course of assessing the exposure, the process leading up to disbursement of the credit can be initiated. A credit decision should always involve people that do not belong to the sales department (double vote). In addition, the level of authority should be commensurate with the experience of the employees in charge of assessing the credit exposure. Determination activities work out by lower level employees therefore they can easily understand for whom the decision maid and in what criteria the credit decision approved Oesterreichische Nationalbank (OeNB) (2004).
- Finally, even if the bank procedure and practices set by referring the national bank proclamation the researcher suggests that bank can be set the method to re-evaluate the credit decision and it should not be rigid, it should be flexible to the situation that makes the business smooth and effective.



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## APPENDIXES

### St. Mary's University School of Graduate Studies

#### General MBA Program

#### Questionnaire to be filled by Bank of Abyssinia S.C Employees

Dear respondent,

The purpose of this questionnaire is to collect first-hand information for a study being conducted on the topic, "**Assessment of credit management practices in the case of Bank of Abyssinia S.C.**" as partial fulfillment of Masters of Business Administration (MBA) program at St Mary's University. To this end, researcher kindly requests you to provide genuine information, to the best of your knowledge, so that the findings of the study would be legitimate. The study is purely academic research.

Therefore, for sure, all your responses will be kept confidential. Researcher would like to thank you for your willingness, effort and sharing precious time to fill the questionnaire and returning it the earliest possible.

**Instruction:** Please use tick mark (√) or mark (X) in the boxes provided to choose from the options given and answer in writing where appropriate. You don't have to write your name.

#### Part I: Respondent's Profile

1. What is your position in Bank of Abyssinia S.C?

- Branch manager\_\_\_\_\_
- Assistant Branch manager\_\_\_\_\_
- If you're working in credit department please write your current position-----

2. Work experience in the banking industry

- 1-4years -----
- 5-8years\_\_\_\_\_
- 9-12years\_\_\_\_\_
- 12 and above years

3. Year of service in credit area-----

- 1-4years
- 5-8years
- 9-12years
- Above 12 years

**PART II - Questions on credit management practices :** Please read each statements in this part carefully and show the extent of your agreement on the statements by putting "√" or "X" mark in the boxes using the following rating scales( likert scales): Strongly agree = (SA), Agree = (A), Neutral = (N), Disagree = (D), and Strongly disagree = (SD)

S. NO		SA	A	N	D	SD
1	The bank identify qualified borrowers on the base of interview and by checking credit history from different institutions					
2	The bank collects enough information about the creditor before granting the loan.					
3	The bank highly depends on the collateral capacity of the customer to select credit applicants.					
4	The bank highly depends on loan history of customers to select credit applicants.					
5	The banks highly depends the customers capital to select credit applicants.					
6	The bank has appropriate criteria for credit classification and provisioning					
7	The bank carried out credit processing activities and appraisals timely					
8	Timely decisions of credit may sometimes affected by centralized decision making process					
9	Timely decisions of credit may also affected by delay of obtaining credit information					
10	The bank gives training to employees in order to increase their performance on the area of loan					
11	Bank credit policies and practices increase the number of borrowers.					
12	Lending capacity of the bank increase the number of borrowers.					
13	National bank policy increases the number of					

S. NO		SA	A	N	D	SD
	borrowers.					
14	The bank lends money highly for manufacturing purposes.					
15	The bank lends money mostly for Foreign/international trade services.					
16	The bank lends money mostly for Domestic trade services and small scale businesses.					
17	The maximum limit of the credit depending up on value of collateral and purpose of the loan					
18	The maximum limit of the credit depending up on duration of loan.					
19	The maximum limit of the credit depending up on value of collateral					
20	The maximum limit of the credit depends up on the ability of the bank to lend money					
21	Late repayment happens at the time of collecting the payment.					
22	Diversification of fund from the intended objective is the first reason for late repayment.					
23	The bank take strict follow up of the customer business in order to enforce timely repayment of loan.					
24	Additionally the bank controls the repayment system by visiting business of creditors periodically and through financial report.					
25	The bank provide reminder letters early in order to improve timely credit repayment					
26	The bank transfers the loan to the family of decease if the creditor dies before the repayment of the loan.					
27	The bank has well-structured documentation					

S. NO		SA	A	N	D	SD
	tracking systems for credit and collateral files					
28	Customers are often given sufficient training on loans usage					
29	The bank enhancing latest technology in order to give fast and error free credit facility for creditors					
30	The bank collects feedback from customers about credit providing services.					
24	Additionally the bank controls the repayment system by visiting business of creditors periodically and through financial report.					
25	The bank provide reminder letters early in order to improve timely credit repayment					
26	The bank transfers the loan to the family of decease if the creditor dies before the repayment of the loan.					
27	The bank has well-structured documentation tracking systems for credit and collateral files					
28	Customers are often given sufficient training on loans usage					
29	The bank enhancing latest technology in order to give fast and error free credit facility for creditors					
30	The bank collects feedback from customers about credit providing services.					

How do you see your institution's credit policy and procedure? Is it rigid or flexible? How do you explain it?

Please indicate any additional suggestions that you think important for the above question

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**THANK YOU FOR YOUR COOPERATION!**