ST.MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIES

ASSESSMENT OF CREDIT RISK MANAGEMENT PRACTICES IN DASHEN BANK S.C

PREPARED BY

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ADDIS ABABA, ETHIOPIA

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APPROVED BY BOARD OF EXAMINERS

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DECLARATION

I, the undersigned, declare this thesis is my original work, prepared under the guidance of Simon Tarekegn (Asst. professor). All sources of materials used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either part or in full to any other higher learning institution for the purpose of earning any degree.

SIYANIE SEYIFU

Signature_____________________________

St.Mary's University, Addis Ababa, 2019

ENDORSMENT

This thesis has been submitted to St.Mary's University, School of Graduate Studies for examination with my approval as a university advisor.

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ABSTRACT

Credit risk management has become an important topic for financial institutes, especially since the business sector of financial services is related to conditions of uncertainty. The turmoil of the financial industry emphasizes the importance of effective risk management practices. The main objective of this study is to assess the practice of credit risk management in Dashen Bank S.C. In this light, the study in its first section gives a background to the study and the second part is a detailed literature review on banking and credit risk management. Descriptive type of research design is employed under the qualitative and quantitative research design survey methodology. The data were collected from Dashen Bank S.C credit risk management office workers by distributing the questionnaires to the respective participants, conducting interview and reviewing the related secondary. The primary data were collected from all 190 employees who are working in credit area in Dashen Bank and 30 randomly selected frequent credit customers. Analysis of primary data were made using descriptive statistical tools. This leads the researcher to find in the last section that the bank in general doesn't have an effective and efficient credit risk management practices in an integrated manner with the overall strategy of the bank. So the result of this study showed that, even if the bank is with good credit risk management policies and quality of loan granted, there is somehow certain loan defaulters which in turn leads for credit risk. And from the analysis it was concluded that to become competitive and profitable the bank should improve its management of risks by formulating well defined credit criteria, establishing a process for continuous review of credit risk management strategies and strive match to improve its practices in terms of basic factors which affect the practices of credit risk management for better performances.

Key words*:-credit risk, credit risk management, integrated manner with the overall strategy Financial Institutions and Dashen Bank S.C.*

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ACRONYMS

FI	Financial Institutions
CR	Credit Risk
CRM	Credit Risk Management
BIS	Bank for International Settlements
NPL	Non Performing Loans
DB	Dashen Bank
IRaFX	Interest Rate and Foreign Exchange
LRM	Liquidity Risk Management
i.e	That means
S.C	Share Company

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CHAPTER ONE

1. INTRODUCTION

1.1 Background of the study

Risk is the element of uncertainty or possibility of loss that prevail in any business transaction in any place, in any mode and at any time. In the financial area, enterprise risks can be broadly categorized as Credit Risk, Operational Risk, Market Risk and Other Risk. Credit risk is the possibility that a borrower or counter party will fail to meet the agreed obligations. Globally, more than 50% of total risk elements in Banks and Financial Institutions (FI) are credit risk alone. Thus managing credit risk for efficient management of a FI has gradually become the most crucial task (Lalon , 2015).

Credit risk management is an essential component of successful business ventures (especially in high finance), as it controls and guides a profitable business through transactions. Credit risk management has arguably existed since the beginning of banking. The underlying principle of banking is lending and risk mitigation. Determining a borrower's ability and propensity to repay is essential to successful lending. As banking and finance have evolved, so has credit risk management (Nigatu, 2011).

Banks face different elements of risk that require identifying, understanding, measuring and managing. Banks should now have a keen awareness of the need to identify, measure, monitor and control credit risk as well as to determine that they hold adequate capital against these risks and that they are adequately compensated for risks incurred. The importance of strong credit risk management for building up quality loan portfolio is of paramount importance to robust performance of commercial banks as well as overall economy (Charles and Kenneth, 2013).

Banking in Africa is still in embryo, no doubt about it. It is neither fully mature nor in the mold of banking in advanced financial markets. As the industry matures and consolidates, its future development will depend on how well risk is managed. The significance of this point cannot be overemphasized. Risk should be efficiently managed if African banks are to attain world class standards of financial performance. That is also why and how the banks may effectively serve the needs of the public and return good wealth to their stakeholders (Kiseľák, 2013).
Efficient risk management is, in a word, key. It is the base for confident and successful banking in Africa and elsewhere. Two main reasons justify this view. Firstly, risk imposes on the capacity of banks to do business. Secondly, banking in Africa tend to be volatile and unusually in flux. Thus bankers in Africa must work with a thorough prognosis of the future of their business. They should do so in the context of influence of risk and uncertainty on their performance outcomes (Verma,2005).

The problems of the African banking industry became exacerbated and peaked in the aftermath of the global financial meltdown of 2007 – 2009G.C.The monster – credit risk –continues to ravage and take its toll on banks and the financial system. Unfortunately, the state of the industry shows that some of the operators have not learned from past mistakes. In general, due to lack of diligence, bank management in several African countries was unaware to the buildup of crisis. This underscores the need for bank management to always stay on top of things. Often the road to credit risk crisis builds on breaches of internal credit policy over time. The process of remedying the crisis is always painfully harsh and usually demands some urgency (Onyiriuba,2015).

There are more studies on credit risk management in Ethiopia shown that banking system had been not given enough attention before 2010 G.C specially regarding to the development of modern system of assessing, controlling and managing risk in banking operation in line with the changing environment and global financial standard .Risk management guideline of 2010 G.C paved the way for the latest development of risk management practice in Ethiopian banking industry. Commercial banking earn profit out of managing risk as a result banking business is all about managing risk. As no gain no loss principles of nature that ‘Profiting without exposing to risk is like trying to live without being borne’. Risk and return are therefore the core reason for the existence of commercial banks. Banks should have sound and effective risk management system in the view of the fact that their fund is highly leveraged or public fund. As a result, sound risk management system and practice in bank is not an alternative rather it is a matter of survival for not only safety of individual bank and depositors but also for national and global financial stability (Acharya, 2003).

From the above discussions points we can understand that practicing an effective risk management system play great role in protecting consumers and investors against risk of losing their deposits and capital not only through maintaining soundness, liquidity, profitable and stability of banking industry but also through enhancing competitive advantage, improving mobilization and deployment of fund as well as optimizing risk – return trade off and reducing cost.

Specifically when we come to the unit analysis of Dashen Bank S.C, it is a privately owned company established in 1995. Dashen Bank coined its name from the highest peak in the Country, mount Dashen, and aspires to be unparalleled in banking. It operates through a network of 196 Branches, nine dedicated Forex Bureaus, 220 ATMs and 958 plus Point-of-Sale (POS) terminals spread across the length and breadth of the nation. In addition, it has established correspondent banking relationship with 464 banks covering 71 countries and 175 cities across the world. Dashen Bank S.C has the most reputable brand in the domestic banking market; a reputation earned through consistent delivery of values and preeminence unmatched by its competitors (Annual report of the Bank, 2017). Nowadays the bank has a wide range of clients and volume of credit transactions which resulted in the need full-fledged risk management systems. Hence, the study tries to assess the practices of credit risk management in Dashen Bank S.C.

1.2 Statements of the problems

Globally, commercial banks are in the risky business, specifically in the process of providing financial services, they assume various kinds of financial risks. In performing these roles they generally act as a principal in the transaction. As such, they use their own balance sheet to facilitate the transactions and to absorb the risks associated with it. The very nature of the banking business is also sensitive because more than 85 % of their liability is deposits from the depositors (Saunders and Cornett, 2007). Banks use these deposits to generate credit for their borrowers, which in fact is a revenue generating activity for most banks. These credit creation processes expose the banks to high default risks which might led to bankruptcy. All the same besides other services, banks must create credit for their clients to make some money, grow and survive stiff competition at the market place. In addition, credit risk is the risk of a loss resulting from the debtor's failure to meet its obligations to the Bank in full when due under the terms agreed .Credit risk has the highest weight among risks taken by the Bank in the course of its banking activities (Raghavan, 2003).

In Ethiopia , among all the services provided by commercial banks ,credit creation is the main income generating activity for banks but this activity involves extremely high risks area to both the lender (financial institution) and the borrower (client) due to lack of efficient practices in credit risk management and in ability to inculcate possible credit risk management practices that fit with the environment (Asfaw,2015).

The present market in Ethiopia is very dynamic and fluctuating. As most banks in Ethiopia are creating credit by lending to the construction ,manufacturing ,agriculture ,import/export ,trade and service and transport sectors and the current foreign exchange shortage is above the expected level which bring challenge to borrowers to repay their credit on time ,as result banks may face risk that should be managed in line with the current market situation (Loan portifolo management, 2019 Dashen bank).

When we come to specific unit of analysis of Dashen Bank S.C, a very recent pre-test survey ,which was conducted by the researcher by selecting deliberately 10 individuals who are working in credit area at H.O on the basis of their skills, knowledge and experiences that they have towards the subject matter, and also the critical observation of the researcher have in sighted that there is a gap in having efficient and effective practices in managing the credit risks, Since the majority (more than 50%) of the respondents have given their negative feedbacks on the existence or having efficient and effective practices in managing credit risks.

Few researches were conducted in Ethiopia in the area of credit risk managements such as Sahlemichel (2009), Atakleit (2015), Wondimagegnehu (2012). Most of the studies reviewed focuses were on factors affecting the credit risk management and their impact of tackling credit default, assessment of determinants of NPLs and its performance on banks instead of evaluating the full implementation of credit risk management pillars. For instance, Nigatua (2011) assessed credit risk management techniques and practices of Dashen Bank S.C but the research did not consider the revised risk management guidelines of national bank of Ethiopia (2010) as a benchmark. Consequently, this research will focus on an entire review of the credit risk management techniques and practices of the Bank and assess the existing credit risk management of the bank and how is it capable of managing the continuous changing credit risk environment in current market and to show the gap in credit risk management of the Bank in present market.

Therefore, the above problems in addition with the knowledge gaps associated to evaluation of the full implementation of credit risk management pillars is the principal concern of this paper. And also the existence of poor practices of credit risk management both theoretically as well as practically under the phenomenon of the study. Considering implementation of proper credit risk management is key tool that helps to mitigate risk failure depending on its application. So the researcher has become initiated to conduct the study on this research topic.

1.3 Research Questions

In order to readdress the above problems the following basic research questions are raised in the following manner:-

1. Does the policy and practices of credit risk management of the bank aligned with the overall strategy of the bank?
2. What tools/techniques of credit risk management are used by the Bank?
3. How does the Bank, identify, measure, monitor and control credit risk?
4. What type of grants does the bank give to its customers?
5. What gaps exist between the credit risk management system of the Bank and the core theories and principles?

1.4 Objectives of the Study

1.4.1 General Objectives of the Study

The general objectives of the study is to assess the practices of credit risk management in Dashen Bank S.C

1.4.2 Specific Objectives

Specifically, the research is aimed to achieve the following objectives;

1. To assess the policy and practices of credit risk management of the bank whether it is aligned with the overall strategy of the bank or not.
2. To describe the mechanisms used by the bank to handle credit risk.
3. To identify the type of credit risk management orientation used by the bank.
4. To identify the gap in relation to best practice in credit risk management.

1.5 Significance of the Study

It is likely certain that some significance will derive from the study. The study will be useful for Dashen Bank in order to assess the practices of credit risk management practices for better or effective practices to have. The Bank may consider the recommendation to improve its existing credit risk management processes which in turn will help to protect the Bank from future damages. The study will also show and present important credit risk management ways which will be useful in managing its risk to be successful in the current banking system. Finally, it can be used by other researcher as a reference who wants to study further in this or related areas or to serve as a reading material for anyone who is interested.

1.6 Scope of the Study

The applicability of the outcome of the study is at Dashen Bank HQ/branches on the area of credit risk management practices. And methodologically, the primary data were collected from all 190 employees who are working in credit area in Dashen Bank both at head office and its respective four districts in Addis Ababa and 30 randomly selected frequent credit customers.

Because it is considered manageable both in terms, the time given and the available resources to collect such data from all employees of the respective district and branches of the bank as they are located in a far dispersed manner.

1.7 Limitations of the Study

It would have been better if the study is conducted in a comparison way by taking into account different organizations in the banking industry, but the given or the available resources (both in terms of time and money) brings a burden to limit the study on a single organization. There were also external (uncontrollable) variables that prevent to carry out the study smoothly, for instance, there were lack of cooperation on the side of the respondents and their commitment to complete filling the questionnaires properly. Therefore, the data collected is limited to the bank personnel.

1.8 Definition of key term

Credit Risk (CR): refers to the probability of loss due to a borrower's failure to make payment on any type of debt (Basel Committee on Banking Supervision, 2000).

Credit Risk Management (CRM):is a practice of mitigating losses by understanding the adequate of a bank's a capital and loan loss reserves at any given time; process that has long been a challenge for a financial institution (Basel Committee on Banking Supervision, 2000).

Financial Institutions (FI): are institutions that keep money flowing throughout the economy among customers, businesses and government. These institutions including commercial banks, saving and loan associations and credit unions (Argimon et al, 2018).

1.9 Organization of the study

The study is organized in five chapters; the first chapter is contained an introduction for the study which comprises background of the study, statement of the problem, objectives of the study, significance of the study, and scope of the study and operational definition of terms. The second chapter focuses on review of literatures related to the study, in these chapter general concepts and definitions, basic issues related to the credit risk management are discussed in detail. Third chapter devoted to research design, population and sampling technique, sources of data, data collection tools, procedures of data collection and the methods of data presentation. The fourth chapter concerned with discussing the findings, analysis and interpretation in which the collected primary and secondary data analyzed and organized in meaningful manner. The last chapter focused on summary, conclusions and recommendations.

CHAPTER TWO

2. LITERATURE REVIEW

2.1 Theoretical Review

This chapter dowels on defining the variables which are considered in the study and discussed the various concepts or issues related with them and also about an effective practices of credit risk management including its basic models in the achievements of the goals of the organization in general.

2.2 Definitions of Credit Risk

Credit risk is defined as the probability that some of a bank's assets, especially its loans, will decline in value and possibly become worthless. Because banks hold little owners 'capital relative to the aggregate value of their assets, only a small percentage of total loans need to go bad to push a bank to the brink of failure (Raghavan, 2011).

Credit risk, is the uncertainty of bad debts, in case a borrower fails to meet his commitments in accordance with the agreed loan terms (Kapoor, 2017).

2.3 Credit Risk Management

2.3.1 Definitions

Credit risk management is the practice of mitigating losses by understanding the adequacy of a bank's capital and loan loss reserves at any given time – a process that has long been a challenge for financial institutions. The credit risk management is one the most important tasks for the financial liquidity and stability of banking sector in connection with increased sensitivity of banks to the credit risks and changes in the development of prices of financial instruments (Kiseľáková and Kiseľák, 2013).

The most significant impact on performance of the enterprise has just financial risk. The unsystematic risks have a higher impact on performance of the enterprise as systematic risks

(Kiseľáková et al, 2015). Credit risk management can be summed up as how a bank measures, manages, and monitors its exposures to achieve a desired return on its capital.

Credit risk has the highest weight among risks taken by the Bank in the course of its Banking activities. Credit risk management in the Bank is carried out using the following main procedures:

1. putting in place limits for operations to limit credit risk;
2. putting in place indicative limits for credit risk concentration and the share of unsecured loan portfolio;
3. Creation of security for credit operations;
4. Setting value conditions for operations with respect to payment for risks taken;
5. Permanent monitoring of risks taken and preparation of management reporting for the Credit Committee, the Bank's management and units concerned;
6. Evaluation of regulatory and economic capital necessary to cover the risks taken in respect of the Bank's operations and ensuring its sufficiency;
7. Carrying out hedging operations;
8. Permanent internal control over the Bank's units in respect of observing regulations on operations procedure and risk assessment and management procedures by independent units.

2.3.2 The Bank's Risk Management Envisages

1. Applying systematic approach to overall Bank's loan portfolio risk management and separate operations with certain borrowers/counterparties (group of related borrowers/counterparties);
2. Applying unified methodology for identification and quantitative assessment of credit risk which is adequate to the nature and scale of the Bank's operations; and
3. Balanced combination of centralized and decentralized decision-making in respect of operations related to taking credit risk.

The main tool to restrict and control the credit risk taken by the Bank is the credit limit System. The following types of credit risk limits are put in place:

- ✓ counterparty limits;

- ✓ limits for independent risk-taking by the Bank's branches; and
- ✓ Credit risk limits by countries/industries/regions.

Credit risk limits are determined by the Credit Committee and approved by the Bank's Management Board (in case the Credit Committee does not have the required authority). A part of authorities for putting credit limits in place is delegated to Branch Credit Committees (for standard credit operations within the special limit for independent credit risk-taking by branches), as well as to the Small Credit Committee and the Moscow Region Credit (Raghavan,2003).

2.3.3 How to Manage Credit Risk

According to Clerc (2004) participants analyzed the different risk management techniques by taking a look at the following two aspects: the emergence of a risk culture and the prevention of risk by building up regulatory capital in proportion to the level of risk exposure of each credit institution. Pillar 1 of the new Basel II framework provides banks with several options for calculating their capital requirements relative to their credit risk and their operational risk. The most innovative one is the possibility that banks have been given of using under the control of the supervisory authorities i.e., their internal assessment systems. Because calibrating these models tends to come up against the problem of the reliability and availability of data in some emerging economies, the Basel Committee has proposed a simplified standardized approach designed specifically for these economies.

The development of credit derivatives markets is taken into account when drawing up standards that better capture risk and recognizing the most advanced techniques at the prudential level. The following conclusions were drawn from the presentation of the results of the survey conducted under the aegis of the ESCB Banking Supervision Committee: the liquidity of credit derivatives markets has increased sharply, and, contrary to expectations, the transfer of credit risk to insurance companies has marked time.

In Europe, activity thus appears to be principally concentrated in the banking sector. The most standardized instruments, such as credit default swaps (CDSs) account for the lion‘s share of transactions. As yet, credit risk transfer activities do not appear to have substantially impacted European banks ‘provisioning needs over the last business cycle. However, a few aspects remain unclear. They relate to the amounts actually transferred and the complexity of some of the instruments used, such as the CDOs of CDOs (Collateralized Debt Obligations), which seem particularly obscure.

Participants also commented on the decision taken by the Basel Committee in October 2003 to calibrate capital requirements against unexpected losses. This mechanism could have penalized banks that make greater provisions for their expected losses and resort more too dynamic provisioning. In order to prevent this undesirable effect from arising, excess provision amounts are to be integrated into banks' additional capital up to a certain limit, while any shortfall of provision amounts compared with expected losses is to be deducted from banks' own funds, up to 50% from their core capital (Tier 1) and 50% from their additional capital (Tier 2).

2.3.4 Credit Assessment and Risk Grading

2.3.4.1 Credit assessment

A thorough credit and risk assessment should be conducted prior to the granting of loans, and at least annually thereafter for all facilities. The results of this assessment should be presented in a Credit Application that originates from the relationship manager/account officer (―RM‖), and is approved by Credit Risk Management (CRM). The RM should be the owner of the customer relationship, and must be held responsible to ensure the accuracy of the entire credit application submitted for approval. RMs must be familiar with the bank's Lending Guidelines and should conduct due diligence on new borrowers, principals, and guarantors (Santomero, 2007).

It is essential that RMs know their customers and conduct due diligence on new borrowers, principals, and guarantors to ensure such parties are in fact who they represent themselves to be. All banks should have established Know Your Customer (KYC) and Money Laundering guidelines which should be adhered to at all times. Credit Applications should summaries the results of the RMs risk assessment and include, as a minimum, the following details: (Santomero, 2007).

- ✓ Amount and type of loan(s) proposed.

- ✓ Purpose of loans.
- ✓ Loan Structure (Tenor, Covenants, Repayment Schedule, Interest)
- ✓ Security Arrangements

In addition, the following risk areas should be addressed according to Santomero (2007).

Borrower Analysis: The majority shareholders, management team and group or affiliate companies should be assessed. Any issues regarding lack of management depth, complicated ownership structures or inter group transactions should be addressed, and risks mitigated.

Industry Analysis: The key risk factors of the borrower‘s industry should be assessed. Any issues regarding the borrower‘s position in the industry, overall industry concerns or competitive forces should be addressed and the strengths and weaknesses of the borrower relative to its competition should be identified.
Supplier/Buyer Analysis: Any customer or supplier concentration should be addressed, as these could have a significant impact on the future viability of the borrower.

Historical Financial Analysis: An analysis of a minimum of 3 years historical financial statements of the borrower should be presented. Where reliance is placed on a corporate guarantor, guarantor financial statements should also be analyzed. The analysis should address the quality and sustainability of earnings, cash flow and the strength of the borrower‘s balance sheet. Specifically, cash flow, leverage and profitability must be analyzed.

Projected Financial Performance: Where term facilities (tenor > 1 year) are being proposed, a projection of the borrower‘s future financial performance should be provided, indicating an analysis of the sufficiency of cash flow to service debt repayments. Loans should not be granted if projected cash flow is insufficient to repay debts.

Account Conduct: For existing borrowers, the historic performance in meeting repayment obligations (trade payments, cheques, interest and principal payments, etc) should be assessed.

Adherence to Lending Guidelines: Credit Applications should clearly state whether or not the proposed application is in compliance with the bank‘s Lending Guidelines. The Bank‘s Head of Credit or Managing Director/CEO should approve Credit Applications that do not adhere to the bank‘s Lending Guidelines.

Mitigating Factors: Mitigating factors for risks identified in the credit assessment should be identified. Possible risks include, but are not limited to: margin sustainability and/or volatility, high debt load (leverage/gearing), overstocking or debtor issues; rapid growth, acquisition or expansion; new business line/product expansion; management changes or succession issues; customer or supplier concentrations; and lack of transparency or industry issues.

Loan Structure: The amounts and tenors of financing proposed should be justified based on the projected repayment ability and loan purpose. Excessive tenor or amount relative to business needs increases the risk of fund diversion and may adversely impact the borrower‘s repayment ability.

Security: A current valuation of collateral should be obtained and the quality and priority of security being proposed should be assessed. Loans should not be granted based solely on security. Adequacy and the extent of the insurance coverage should be assessed.

Name Lending: Credit proposals should not be unduly influenced by an over reliance on the sponsoring principal‘s reputation, reported independent means, or their perceived willingness to inject funds into various business enterprises in case of need. These situations should be discouraged and treated with great caution. Rather, credit proposals and the granting of loans should be based on sound fundamentals, supported by a thorough financial and risk analysis.

2.3.4.2 Risk grading

All Banks should adopt a credit risk grading system. The system should define the risk profile of borrower‘s to ensure that account management, structure and pricing are commensurate with the risk involved. Risk grading is a key measurement of a Bank‘s asset quality, and as such, it is essential that grading is a robust process. All facilities should be assigned a risk grade. Where deterioration in risk is noted, the Risk Grade assigned to a borrower and its facilities should be immediately changed. Borrower Risk Grades should be clearly stated on Credit Applications (Mohammad and Nahar Onni, 2015).

The more conservative risk grade (higher) should be applied if there is a difference between the personal judgment and the Risk Grade Scorecard results. It is recognized that the banks may have more or less Risk grades; however, monitoring standards and account management must be appropriate given the assigned Risk Grade.

2.4 Best Practices in Credit Risk Management

The first step in effective credit risk management is to gain a complete understanding of a bank's overall credit risk by viewing risk at the individual, customer and portfolio levels. While banks strive for an integrated understanding of their risk profiles, much information is often scattered among business units. Without a thorough risk assessment, banks have no way of knowing if capital reserves accurately reflect risks or if loan loss reserves adequately cover potential short-term credit losses. Vulnerable banks are targets for close scrutiny by regulators and investors, as well as debilitating losses (Tenguh, 2008).

According to Tenguh (2008), the key to reducing loan losses – and ensuring that capital reserves appropriately reflect the risk profile – is to implement an integrated, quantitative credit risk solution. This solution should get banks up and running quickly with simple portfolio measures. It should also accommodate a path to more sophisticated credit risk management measures as needs evolve. The solution should include:

1. Better model management that spans the entire modeling life cycle.
2. Real-time scoring and limits monitoring.
3. Robust stress-testing capabilities.
4. Data visualization capabilities and business intelligence tools that get important information into the hands of those who need it, when they need it.

2.4.1 Setting up an Ideal Credit Risk Environment

The bank's board of directors, in an ideal credit risk environment, should involve and take the responsibility of periodically reviewing the credit risk policies of their bank. The policy, as and when undertaken by the board, should clearly state the bank's tolerance level for risks, and also the interest rate spread it requires for taking such risks. The top-level management is then obligated to implement the credit strategy approved by the board for classifying, measuring, monitoring and regulating the credit risk. Such policies should be religiously followed across the organizational line for individual as well as portfolio credits. Banks should periodically monitor the inherent credit risks in all its products and services. For new launches, it should identify risks in advance and price-them out by ensuring that adequate risk management procedures are initiated before the product is introduced (Kapoor, 2017).

2.4.2 Formulating a Full Proof Credit Granting Process

It is essential for banks to operate within well-defined credit criteria. These criteria should clearly lay down the bank's target market, the borrower's credential requirements, purpose and structure of credit, and the source of repayment. Financial institutions should set an overall credit limit for all individual borrowers, as well as for connected counterparties, as specified in the credit policy. Banks should also explicitly define its approval guidelines for new credits, renewal, refinancing, and premature terminations. Deviation in guidelines shouldn't be entertained without the recommendation of the board (Kapoor, 2017).

2.4.3 Securing Control over Credit Risks

Banks must establish a process for continuous review of credit risk management strategies. Results of such assessments should be forwarded directly to the board of directors.
The reviews are intended to provide valuable insights on whether the bank's credit granting functions are being accurately managed within the defined standards and limits. Banks must enforce an internal control mechanism to make sure those exceptions of policies, limits, and procedures are communicated to the appropriate authority in time. There should be a streamlined system in place for early detection of fraudulent activities, and for corrective action on deteriorating credits (Kapoor, 2017).

2.4.4 Intelligent Recruitment of Human Resource

It is also a responsibility of the management to ensure that sufficient and competent resources are allocated to control and manage the credit risks. Credit managers should –

- Have a comprehensive perception of the risks associated with the bank's credit activities.
- Be capable of understanding relevant factors and conditions which can directly or indirectly affect the credit quality and risk profile of the institution.

Immediately report a change in the risk profile or credit portfolio to the concerned authority for consideration. The bank management should consistently organize credit training programs to equip its personnel with adequate knowledge about the institution's credit standards and culture (Kapoor, 2017).

2.4.5 Incorporation of Effective Information System

Banking institutions must have an information system in place to effectively manage the inherent credit risks in its activities.

The information system should enable the bank to:

- Use analytical to maintain a database for credit research.
- Report high exposures.
- Track the status and account performance.
- Monitor and control limits.

Financial service providers should tally its credit risks with the overall spread of an account relationship. Credits should be priced in such a way that, together with other revenues earned from an account, it would compensate all the associated costs and risks incurred by the institution (Kapoor, 2017).

2.5 Types of Financial Risk

2.5.1Credit risk

According to the Bank for International Settlements (BIS), credit risk is defined as the potential that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms. Credit risk is most likely caused by loans, interbank transactions, trade financing, foreign exchange transactions, and bonds and so on. In simple words, if person A borrows loan from a bank and is not able to repay the loan because of inadequate income, loss in business, death, unwillingness or any other reasons, the bank faces credit risk. Similarly, if you do not pay your credit card bill, the bank faces a credit risk (Aboli, 2015).

Factors like unsteady income, low credit score, employment type, collateral assets and others determine the credit risk associated with a borrower. As stated earlier, credit risk can be associated with interbank transactions, foreign transactions and other types of transactions happening outside the bank. If the transaction at one end is successful but unsuccessful at the other end, loss occurs. If the transaction at one end is settled but there are delays in settlement at the other end, there might be lost investment opportunities (Aboli, 2015).

2.5.2 Market Risk

McKinsey defines market risk as the risk of losses in the bank's trading book due to changes in equity prices, interest rates, credit spreads, foreign-exchange rates, commodity prices, and other indicators whose values are set in a public market. Bank for International Settlements (BIS) defines market risk as the risk of losses in on- or off-balance sheet positions that arise from movement in market prices. Market risk is prevalent mostly amongst banks that are into investment banking since they are active in capital markets (Aboli, 2015).

2.5.3 Operational Risk

According to the Bank for International Settlements (BIS), operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputation risk. Operational risk can widely occur in banks due to human errors or mistakes. Examples of operational risk may be incorrect information filled in during clearing a check or confidential information leaked due to system failure (Aboli, 2015).

2.5.4 Liquidity Risk

Risk stemming from the lack of marketability of an investment that cannot be bought or sold quickly enough to prevent or minimize a loss or it is the risk that may disable a bank from carrying out day-to-day cash transactions (Taleker, 2005).

2.5.5 Business

Risk as the possibility that a company will have lower than anticipated profits, or that it will experience a loss rather than a profit. In the context of a bank, business risk is the risk associated with the failure of a bank's long term strategy, estimated forecasts of revenue and number of other things related to profitability (Clerc, 2008).

2.6 Principles of Risk Management

Basel Principles for Credit Risk Management

2.6.1 Establishing an appropriate credit risk environment

Principle 1:

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

Principle 2:

Senior management should have responsibility for implementing the credit risk strategy approved by the board of directors and for developing policies and procedures for identifying, measuring, monitoring and controlling credit risk. Such policies and procedures should address credit risk in all of the bank's activities and at both the individual credit and portfolio levels**.**

Principle 3:

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

2.6.2 Operating under a sound credit granting process

Principle 4:

Banks must operate within sound, well-defined credit-granting criteria.

These criteria should include a clear indication of the bank's target market and thorough understanding of the borrower or counterparty, as well as the purpose and structure of the credit, and its source of repayment.

Principle 5:

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

Principle 6:

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

Principle 7:

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

2.6.3 Maintaining an Appropriate Credit Administration, Measurement and Monitoring Process

Principle 8:

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

Principle 9:

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

Principle 10:

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

Principle 11:

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

Principle 12:

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

Principle 13:

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

2.6.4 Ensuring adequate controls over credit risk

Principle 14:

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

Principle 15:

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

Principle 16:

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

2.6.5 The Role of Supervisors

Principle 17:

Supervisors should require that banks have an effective system in place to identify measure, monitor and control credit risk as part of an overall approach to risk management. Supervisors should conduct an independent evaluation of a bank's strategies, policies, procedures and practices related to the granting of credit and the ongoing management of the portfolio. Supervisors should consider setting prudential limits to restrict bank exposures to single borrowers or groups of connected counterparties (Basel Committee on Banking Supervision, 2000).

2.7 Challenges to Successful Credit Risk Management

Effective credit risk management is essential for a banks to maintain the financial strength necessary to overcome severe stress situations while securing commitments made to policyholders and customers. To firmly establish a credit risk management culture, companies are increasingly looking for help from new technology, which can assist in the set up and dissemination of new processes, but also support changes in personnel behavior. But there are more challenges to encounter credit risk management in way to be successful in management system of the banks (Tinubu Square, 2014)

1. **Inefficient data management**. An inability to access the right data when it's needed causes problematic delays.
2. **No group wide risk modeling framework**. Without it, banks can't generate complex, meaningful risk measures and get a big picture of group wide risk.
3. **Constant rework**. Analysts can't change model parameters easily, which results in too much duplication of effort and negatively affects a bank's efficiency ratio.
4. **Insufficient risk tools.** Without a robust risk solution, banks can't identify portfolio concentrations or re-grade portfolios often enough to effectively manage risk**.**
5. **Cumbersome reporting**. Manual, spreadsheet-based reporting processes overburden analysts and IT.

2.8 Empirical Review

Various studies have shown that credit risk management is an important predictor of bank financial performance thus success of bank performance depends on risk management. They consider default rate as one of the risk management indictors is a major predictor of the bank financial performance to the extent of 56% and followed by capital adequacy ratio at 25% (Aktan, and Bulut, 2008).

Credit risk management is crucial on the bank performance since it have a significant relationship with bank performance and contributes up to 22.6% of the bank performance. Among the risk management indicators, default rate management is the single most important predictor of the bank performance whereas cost per loan assets is not significant predictors of bank performance (Acharya, 2003)

In a study “Credit risk management and profitability of commercial banks in Ethiopia” by Tibebu Tefera (2011). The researcher examines the impact level of credit risk management towards the profitability of commercial banks in Ethiopia in general. It argues that credit risk management has significant impact on profitability of banks of Ethiopia. The researcher purposively takes seven banks that have ten year and above life span in Ethiopia (Tibebu, 2011).

“Bank Performance and Credit Risk Management in Qatar” which was studied by Takang Felizachou & Ntui Claudine Tenguh in 2008. In their study result shows that ―There is a significant relationship between bank profitability and credit risk management (in terms of loan performance). (Takang & Ntui Claudine, 2008).

Private Banks are more serious to implement effective credit risk management practice than state owned banks. A study conducted by (Kuo and Enders,2004) of credit risk management policies for state banks in China and found that mushrooming of the financial market; the state owned commercial banks in China are faced with the unprecedented challenges and tough for them to compete with foreign bank unless they make some thoughtful change. In this thoughtful change, the reform of credit risk management is a major step that determines whether the state owned commercial banks in China would survive the challenges or not.

In relation to credit risk and banks performance the study conducted by Girma Mekasha (2011), on "Credit Risk management and its impact on performance in Ethiopian Commercial Banks." With the aim of better understanding of credit risk management and its impact on performance (return on asset). The result of the study revealed that the most common way of communicating effectively to reduce risk is developing understanding between management team and employee. The study also reveals banks with higher profit potentials can better absorb credit losses whenever they crop up and therefore record better performances. Furthermore, the study shows that there is a direct but inverse relationship between return on asset and the ratio of non-performing loans to total loan (NPL\TL) and loan provision to total loan. Finally the study concludes that, banks with good credit risk management policies have a lower loan default rate and relatively higher return on asset.

Most Studies on risk management practice of commercial banks mostly have been conceptual in nature, often drawing the theoretical link between good risk management practices and improved bank performance. There are limited studies providing empirical evidence to the risk management practices. However, as per the researcher's knowledge no study is conducted to see risk management practice widely. So this paper to assess the gap existing in credit risk management of the bank and how is it capable of managing the continuous changing credit risk environment in current market and to show the gap in credit risk management of the Bank in present market. Hence, this study aims to fill the gap in the literature by focusing on the risk management practices of the Dashen Bank S.C.

From the above discussion points, since risk management in general has very significant contribution to bank performance, we can say that, the banks are advised to put more emphasis on risk management. In addition, in order to reduce risk on loans and achieve maximum performance the banks need to allocate more funds to default rate management and try to maintain just optimum level of capital adequacy.

CHAPTER THREE

3. RESEARCH DESIGN AND METHODOLOGY

3.1 Research design

Kothari (2004) stated that the research design is the conceptual arrangement within which the research conducted; it constitutes the blueprint for the collection, measurement and analysis of data. Therefore the research is made based on descriptive research type or design. According to Kothari (2004), descriptive research includes different kinds of surveys and fact-finding enquiries.

The major purpose of descriptive research is description of the state of affairs as it exists at present. The design is used to describe the characteristics of the variables. This helps to obtain information concerning the current status of the phenomenon to describe what the current situation is with respect to the variable of the study, the practices of credit risk management. The same author asserts that in descriptive design the problem is structured and well understood and gives a report on things as they actually are. In addition to this, (Adams et al, 2007) states that such type of research describes the phenomena as well as explains why behavior is the way it is.

So this research has applied descriptive survey type of research since it attempts to describe the phenomenon of the study using possible descriptive statistical tools since the study has focused in assessing the existing actual practices of credit.

3.2 Research approach

Mixed approach method (both qualitative and quantitative) has been introduced to have better results out of the study by utilizing the benefits of both approaches. And, the data for quantitative one were collected through distributing questionnaires to the respective participants and also by reviewing secondary sources. For the study both the qualitative as well as the quantitative/mixed approach/ were used to have best understanding about the research problems and also achieve better outcome from the study. The qualitative one to describe the perception of respondents towards credit risk management that is introduced in the Dashen Bank head office and the quantitative approach involves the generation of data in measurable form which can be subjected to quantitative analysis. For qualitative one, the data were collected through interview and reviewing recent articles, journals and books to have various ideas or concepts for the study.

In this connection, the analysis of the quantitative data have been analyzed using possible statistical tools with the help of SPPS and the qualitative one, the data were analyzed using content analysis on the basis of the similarity of the majority responses.

Finally, the data interpretation were carried out by triangulating the analysis results of the quantitative with the qualitative one and present those using possible tables and charts or diagram in such a way that they give meanings for the study.

3.3 Population and sampling techniques

Those employees working in credit area both at head office and its respective four districts were Considered as population of the study. Since the number of employees in the credit departments are manageable i.e. 190, the study were used all of such employees as respondents. In addition, it also included30 individuals of credit customers which were deliberately selected on the basis of their long years of relationship that they have with the bank in using credit products and their easy accessibility to substantiate the outcome of the study.

Finally, for having additional information from an in-depth interview, deliberate selection or purposive sampling technique /i.e., non-probability sampling technique/ have been introduced to select those participants having rich experiences and know how about the subject matter.

3.4 Sampling Frame

For the study sampling frame were lists of employees who are working in credit area both at head office and their respective four district offices in Addis Ababa and customers.

3.5 Data Source and Data Type

Both the primary as well as the secondary data type was utilized for the study. And concerning the data sources, the primary data were acquired through distributing questionnaires, which include both closed and open ended questions and making structured interview with those deliberately selected participants considering their skill and knowledge that they have to the subject matter in order to substantiate the outcome of the study if the quantitative data analysis results is perceived to be not enough by the researcher.

And the secondary data in terms of qualitative (concepts and idea) and quantitative (number and monetary figure) were collected through reviewing recent articles, journal, books, and research findings of other scholars in the related discipline and the bank‘s document itself.

3.6 Data Collection Methods

The primary data have been collected through distributing questionnaires, in which both open and closed ended types of questions, to the respective participants i.e. 190 which comprises all employees who are working in credit area both at head office and four district offices. And also 30 questionnaires to those credit customers who were selected deliberately.

And the other primary data have been collected through conducting an interview both physically or through phone ,which ever was convenient, with those deliberately selected employees working under credit department considering their work experience and knowledge to the subject matter in Dashen Bank S C .

In this connection, interviews were made immediately after the quantitative data are collected and analyzed to have additional information to substantiate the outcome of the study in general.

Concerning the secondary data collection, the data were collected through reviewing articles and journals, recently published books, magazines internet, Dashen Bank S.C websites and other related previous research work in the organization to assess the practice of credit risk management system in the Dashen Bank S.C.

3.7 Data Analysis and Presentation

The qualitative data which were acquired using primary and reviewing secondary sources in terms of idea and concepts were analyzed qualitatively or contextually using content analysis (i.e., categorizing and summarizing on the basis of similarities of concepts and idea).

The quantitative data which were acquired through primary and secondary sources were analyzed using possible descriptive statists (i.e., mode of frequencies and percentage) with the help of software known as SPSS (version 18) after the data are coded and entered in to the mentioned software.

Then finally the results of both quantitative as well as qualitative were combined together by triangulating them to make the desired interpretation, conclusion and recommendations accordingly.

3.8 Validity and Reliability Test

3.8.1 Validity Test

Validity refers to the extent to which a test measures what actually wish to measureable to achieve dependably and accurately. In other way round, the validity of a research instrument can be ensured if the results of the measure is frequently produce the same results dependably at different points of time and also when they are accurate. So in short reliability of the outcome of the measures along with accuracy are the prerequisite for the validity test of the measure.

In this connection, to ensure that the study measures what it intendeds to measure, different books were reviewed. To mention some of them;

Mugenda and Mugenda (2003) stated that the accuracy of data to be collect largely depend on the data collection instruments in terms of validity and reliability.

According to Patton (2001) Validity is the strength of the research conclusions, inferences or propositions and more formally he defined it as the best available approximation to the truth or falsity of a given inference, proposition or conclusion.

To establish the content validity of the research instrument the researcher sought guidance from professional in the university and ensure that the questionnaire can able to measure what it intends to measure. This helps to improve the content validity of the data that were collected and facilitates the fundamental amendment and adjustment of the instrument subsequently. And also content validity which were employed by this study can measure the extent to which information gathered using instrument (questionnaire) speaks to a specific domain or content of a particular concept.

3.8.2 Reliability of research instrument

The reliability of a research instrument is established by including numerous comparative things on a measure, by testing various example of people and by utilizing uniform testing methods .The researcher select a pilot group of 20 sample respondents which were selected randomly from the target population to test the reliability of the research instruments as recommended by (Simon,2010)

Reliability test, ensures the accuracy and precision of a measurement procedure (Kothari, 2004). The coefficient alpha, developed by (Cronbach,1951), is the most commonly used index for estimating the reliability of measurement instruments such as scales, multiple item tests, questionnaires, or inventories (Raykov, 1997).

Hence,for internal consistency of the measures, the most frequently preferred is Cronbach Alpha (Cronbach, 1951), can be used for three, four, or five points liker scale items. Alpha is easily interpreted and ranges from 0 to 1 gives low to very high internal consistency. Different authors accept different values of this test in order to achieve internal reliability, but the most commonly accepted value is 0.70 as it should be equal to or higher than to reach internal reliability (Hair et al., 2003)

To these effects, therefore, The Cronbach alpha has been used to measure the reliability of the instrument (questionnaire) which was prepared using five points Likertscale questions. The results of the test has indicated a score value of 0.835 which was made with the help of software known as SPSS and ensured the reliability of each field in the questionnaire.

Therefore , Cronbach's Alpha equals 0.835 for the entire questionnaire means, the instrument (questionnaire) is deemed acceptable for research and enough to measure what it would like to measures i.e., the dependent variable

Table 3. 1 Reliability test table

Cronbach's Alpha	N of Items
0.835	35

Source: own survey, 2019

3.9 Ethical Considerations

When questionnaires are distributed, the researcher informed respondents on the introduction part of the paper about the title and objective of the study. Besides to develop respondents confidence, they were informed that their responses will be kept confidential and the information uses only for academic purpose. To avoid misunderstanding and problems related with questionnaires in acquiring information from the respondents, the researcher designed the questionnaires in clearly and understandable manner.

CHAPTER FOUR

4. DATA ANALYSIS AND PRESENTATION

4.1 Introduction

This chapter deals with the brief description of the practices risk management in Dashen Bank S.C towards maintaining the quality of credit or loan granted by the bank. Data analysis and presentation are also included in this chapter. The data analysis have been made based on the primary data collected through distributing 190 questionnaires to all the respective respondents who are working in credit area in Dashen Bank head offices and branches and out of which 165(86%) questionnaires were properly filled and returned for the analysis.

In addition, 30 questionnaires were distributed to those credit customers accidentally and out of which 20 were properly collected and used for analysis. The other primary data were collected and used for analysis by holding interviews with those deliberately selected staff members on the basis of their skill and knowledge that they have towards the subject matter and also those who were working at higher levels of management whose day to day activities mainly concerned with the subject matter. In addition to these Dashen Bank S.C internal documents have been reviewed and used to substantiate the outcome of the analysis.

Table 4. 1 Summery response rate

Description	Distributed questionnaires	Responded properly	Response rate in %
Employees working at head office and four district offices	190	165	86%
Total	190	165	86%

Source: own survey 2019

Thus, the response rate was 86% and indicated that it was enough to represent and describe about the general population of the phenomenon.

4.2 Analysis Results of Back Ground Information

Table 4. 2 Background information of the respondents

No.	Description	Response	Respondents	
			No.	%
1	Educational Background	Certificate	28	17%
		Diploma	81	49%
		BA Degree and above	56	34%
		Total	165	100%
2	How long have you been in DB?	Service years	No.	%
		Below 2 years	28	17%
		2-5	56	34%
		6-10	81	49%
		And above 10	0	0 %
		Total	165	100%
3	Current position	Position	No.	%
		Managerial	44	27%
		Supervisor	48	29%
		professional	65	39%
		Other support staff	8	5%
		Total	165	100%

Sources: own survey 2019

When we see the above table 4.2, the educational background distributions of the respondents show that most of them have educational qualification of Diploma, BA degree and above, which is 83% of the respondents.

In addition , The respondents constitutes 27% of Managerial employees working (both at higher and middle levels of the BANK), 29% of the respondents constitute supervisors both at middle and lower levels of management , 39% of the respondents were professional (both at higher ,middle and lower levels of the corporation . This has an advantage to the research in that it mainly comprises those managers, supervisors (in cumulative 55%) involved in the subject matter of Dashen Bank.

As far as the distribution of service years of the respondents are concerned, majority of the respondents (49%) stayed in the organization for more than five years. And a little less of that (34 %) also stayed in the bank for 2-5 years. only 17% of the respondents below 2 years. So the researcher can say that the data were obtained from experienced employees and the desired information can be obtained from them.

4.3 MATTERS OF DIRECT RELEVANCE OF THE SUBJECT OF STUDY

Table 4. 3 Risk Management Practice

Description	Response	Frequency	Percentage %
Do you think that the bank possibly have well organized Risk management practice?	YES	50	30
	NO	115	70
	TOTAL	165	100

Source: own survey 2019

As can be seen in table 4.3 above, 115 (70%) of the respondents i.e. majority replied that ‘No ‘there is no organized risk management practice with in the bank. While the rest 50(30%) of them said ‘yes’ there is organized risk management practice with in the bank. Form this one can easily understand that, the risk management practice of the bank somehow doubtful.

Regarding, policies and procedures with in the bank are in line with the overall strategy of the bank, the researcher asks the respondents, accordingly the responses presented as follows.

As we can see from table 4.3.1 , out of those respondents who have got two years and above work experiences majority 41%(67) of the respondents have confirmed the nonexistence of well-organized risk management practice, while less proportionate 23 % (39) number of respondents have confirmed the existence of well-organized credit risk management practices in the organization . And from those respondents who have got less than two years of experience, only 7%(12) of them have given their positive feedback to the related such question, but the remaining or more proportionate 29%(48)of them have given their negative responses towards the existence of well-organized credit risk management in the organization.

Table 4.3. 1Summary of responses as to the practice of credit risk management relative to their work experience

Description	Response	Service years of employees								Total	
		< 2 yrs		2-5 yrs		6-10yrs		>10yrs			
Do you think that the bank possibly have well organized Risk management practice?		N	%	N	%	N	%	N	%	N	%
	YES	12	7%	16	10%	22	11%	-	-	50	30%
	NO	48	29%	39	23%	28	14%	-	-	115	70%
	TOTAL	60	36%	55	33%	50	25%	0	0	165	100%

Source: own survey 2019

So from the above discussion points we can deduce that the bank doesn't have well organized credit risk management practices and there is a gap as to the level of understanding of having and also what are the basic components should be considered to confirm or ensure that there is well organized credit risk management practice or not among the credit performers, even though less proportionate number of respondents have supports its existence.

As can be seen in table 4.4 majority of the respondent's i.e. 112 (68%) replied that 'Yes 'risk management policies and practice in line with the overall strategy of the bank. However the remaining 53(32%) said' No'. Besides this, data obtained from the management evidenced that the policy and practice of credit risk management are relatively as similar as the overall strategy.

Table 4. 4 The Compliance between the Bank's Policy, Practices and Strategy

Description	Response	Frequency	Percentage %
Do you believe that credit risk management policies and practices are in line with the overall strategy of the bank	YES	112	68
	NO	53	32
	TOTAL	165	100

Source: own survey 2019

From this analysis results we can imply that even though the majority of the respondents have given their positive feedback or response, on the side of the negative feedback of the respondents ,there are indications that there are some area on credit risk policy and practices that are not developed and practiced in line with the overall strategy of the bank ,so still much to be done to integrate them for better achievements of the overall goals of the organization .In general, however, from this one can infer, the bank polices and practice of credit risk management is in line with overall strategy.

As we can see from table 4.4.1 below, out of those respondents who have got two years and above work experiences, majority 38%(63) of the respondents didn’t believed that the credit risk management policies and practices are in line with the overall strategy of the bank, while less proportionate 26% (43) number of respondents have given their consent as to the alignment of the credit risk management policies and practices with the overall strategy of the bank. And from those respondents who have got less than two years of experience, 18% (30) of them have given their positive feedback to the related such question, but more proportionate, 53%(87) of them have given their negative responses towards its alignment. So from the above discussion points we can deduce that there is a gap in aligning the credit risk management policies and practices with the overall strategy.

Table 4.4. 1 The Compliance between the Bank’s Policy, Practices and Strategy on the basis of work Experience and Education level of the respondents

Description	Response	Service years of employees								Total	
		< 2 yrs		2-5 yrs		6-10yrs		>10yrs			
Do you believe that credit risk management policies and practices are in line with the overall strategy of the Bank		N.	%	N	%	N	%	N	%	N	%
	YES	10	6%	20	12%	23	14%	-	-	53	32%
	NO	49	30%	38	23%	25	15%	-	-	112	68%
	TOTAL	59	36%	58	34%	48	30%	0	0	165	100%

Source: own survey 2019

As can be seen item 1 of table 4.4 below, majority of the respondents i.e. 102 (62%) of them replied that, they do have the opportunity to involve or participate on the risk management developmental activities and practices process. While the rest 63(38%) of them said, ’No’ and they are not participated in risk management developmental activities and its practices process of the bank.

Table 4. 5 Participation of Employees on Risk Management Process

Description	Response	Frequency	Percentage %
At the best of your understanding can we say risk management practice of the bank is participative?	YES	102	62
	NO	63	38
	TOTAL	165	100
If your answer for the above question is Yes what type of risk management activity are conducted by the bank?	Credit risk management	61	60
	Liquidity risk management	31	30
	Interest rate & foreign exchange	10	10
	Other	-	-
	Total	102	100

Source: own survey 2019

Item 2 of the same table above, 61(60%) and 31 (30%) of them have to participated on credit risk and liquidity risk management activities respectively. While the rest 10(10%) of them said they involve on interest rate risk management.

Moreover, the word obtained from the management evidenced that, relatively active involvement of employees in the overall risk management activity presented in the bank manual, however due to various unforeseen reasons their application is rare. In this connection also, the interview results of majority of the respondents who are working as credit officer under the credit department, have given their negative feedback or reservation as to the existence of participations in the risk management developmental activities and in its practice process.

In general, from these analysis results, even though most of the respondents agreed on such matter, it is very difficult to conclude that, employees are active participant in credit risk management process.

Table 4.5. 1 Summery of response as to the Participation of Employees on Risk Management Practices in relation to their educational background

Description	Response	Educational back ground								Total	
		Certificate		Diploma		BA Degree and above		Others			
At the best of your understanding can we say risk management practice of the bank is participative?		N.	%	N	%	N	%	N	%	N	%
	YES	18	11%	43	26%	31	19%	-	-	92	56%
	NO	10	6%	38	23%	25	15%	-	-	73	44%
	TOTAL	28	17%	81	49%	56	34%	0	0	165	100%

Source: own survey 2019

As we can see from the above table 4.5.1, 11% of the respondents out of certificate holders, 26% of respondents among the diploma holders and 19% out of BA Degree and above holders have witnessed as to the practices of CRM being participatory, while, the remaining 6%, 23%and 15% out of the certificate, diploma and BA Degree holders have given their negative responses towards its being participatory. From this analysis results we can say that there is still a gap on CRM practices in being participatory.

Table 4. 6 Effectiveness of Risk Management

Description	Response	Frequency	Percentage %
Are you satisfied with the effectiveness of credit risk Management system Adopted by Dashen Bank?	YES	66	40
	NO	99	60
	TOTAL	165	100

Source: own survey 2019

As can be seen in table 4.6 above, 99(60%) of the respondents i.e. majority said they are not satisfied by the quality of credit risk management system of the bank, because, the system could not consider possible factors that should incorporate; while the remaining 66(40) said ‘yes‘ they are satisfied. This implies that, the management of the bank have some inconsistency and poor activities with regard to the quality of credit risk assessment.

Table 4. 7 Credit Risk Identification Practice

Description	Response	Frequency	Percentage %
To what extent you credit risk are identified properly by the Bank?	To very great extent	-	-
	To great extent	50	30
	To some extent	110	67
	To lower extent	5	3
	To very lower extent	-	-
	Total	165	100

Source: own survey 2019

As can be observed in table 4.7 above, Majority of the respondents i.e. 21(67%) replied that, to some extent credit risk identified properly with in the bank under study. While the rest, 50(30%) and 5(3) % of them said to great extent and lower extent respectively to credit risk is identified properly. From this, one can easily understand that the bank has the possibility of minimizing credit risk but a lot have to be done to properly or effectively identify the possibility of credit risk by including that could be incorporated in the identification process.

Table 4. 8 Credit Risk Management System of the Bank

Description	Response	Frequency	Percentage %
To what extent you know about the credits risk management system adopted by Dashen Bank?	To very great extent	-	-
	To great extent	50	30
	To some extent	115	70
	To lower extent		
	To very lower extent	-	-
	Total	165	100

Source: own survey 2019

As shown in table 4.8, Majority of the respondents i.e. 115(70%) replied that, to some extent they are aware of credit risk management system of the bank, whereas the remaining, 50(30%) of them said they rate their awareness to great extent. This implies that, it is difficult to say respondents have a proper understanding in credit risk and its management.

Table 4. 9 Qualification of Credit Officers

Description	Response	Frequency	Percentage %
To what extent credit employees are Qualified to handle their job effectively based on their level of education and their position?	To very great extent	-	-
	To great extent	132	80
	To some extent	33	20
	To lower extent		
	To very lower extent	-	-
	Total	165	100

Source: own survey 2019

Table 4.9 above indicated that, majority of the respondents i.e. 132(80%) replied that to great extent the credit officers of the bank are qualified to handle their job. The rest 33(20%) of them said credit officers are to some extent qualified to handle their job. This indicates that the bank have no doubt with regard to competence of its credit officers.

As can be seen table 4.10 below, majority of respondents i.e. 106(64%), replied that, sometimes the bank assess borrowers' profile. Whereas the remaining, 59 (36%) of the respondents replied that, they are neutral/ do not know about the question asked. This implies that, there is poor practice in relation to borrower's assessment which exposes them to credit risk.

Table 4. 10 Assessment of Borrower's Profile by the Bank

Description	Response	Frequency	Percentage %
How often does the bank Assess borrower's profile?	Very often	-	-
	Often		
	Neutral /do not know	59	36
	Sometimes	106	64
	Not at all	-	-
	Total	165	100
To what extent the Bank's loan fall under NPL?	To very great extent		
	To great extent		
	To some extent	84	51
	To lower extent	46	28
	To very lower extent	35	21
	Total	165	100

Source: own survey 2019

When we come to Item 2 of the same table above, Majority of the respondents i.e. 84 (51%) rate, to some extent the bank's loan fall under NPL. While the rest 46 (28%) and 35(21%) of the respondents agreed to lower and very lower extent the bank's loan fall under NPL. From this one can confirm that, the level of loans disbursed to customers have great possibility exposed to credit risk. Moreover, according to the data obtained from the management indicted that, the bank take an assessment of its borrower always before lending the loan, but the level of its tightness may not be insurable.

As it is depicted in table 4.11 item 1 below, all of the respondent's i.e. 165 (100%) replied that the bank has its own follow up mechanism to its customers after granting the loan. While none of them complain the presence of follow up mechanism.

Table 4. 11 Follow up Mechanism of the Bank

Description	Response	Frequency	Percentage %
Is there any follow up mechanism of your customers after granting a loan?	Yes	165	100
	No	-	-
	Total	165	100
If your answer in the above questions is yes how often?	Monthly	25	15
	Quarterly	132	80
	Semi annually	8	5
	Annually	-	-
	Total	165	100

Source: own survey 2019

Item 2 of the same table indicted that, majority of the respondents i.e. 132(80%) replied follow up of customers undertake on quarterly base. From this one can infer, the frequency of conducting follow up of its customer is taken on quarterly base. In addition to the response obtain from respondents, the management of the bank testify the availability of following up mechanism and it is conducted in every three months of the year.

As can be seen table 4.12 below, majority of respondents i.e. 115 (70%), replied that, the bank use risk prevention orientation. Whereas the remaining, 50 (30%) of the respondents replied that, the bank use risk reduction handling orientation. This implies that, the bank remedial action ahead of time in order to prevent the occurrence of credit risk over the bank as well as the customer.

Table 4. 12 Credit Risk Handling Orientation of the Bank

Description	Response	Frequency	Percentage %
What kind of credit risk handling orientation used by the bank?	Risk prevention	115	70
	Risk reduction	50	30
	Risk avoidance	-	-
	Others		
	Total	165	100

Source: own survey 2019

Finally data obtained from open ended questions indicated that, the bank has somehow good credit, risk management system. However, most of them remain on paper and /or they are not converted in to practical actions. This may weaken the effectiveness of its credit risk management system.

4.13 Summary of Analysis of Interview

In order to aid the research, the following information were gathered and summarized on the basis of their similarities by the way of interview from the management member of Dashen Bank who were selected deliberately on the basis of their skill and knowledge that they have towards the study. The following findings are essential points that were gathered through the interview

- ✓ Most of the respondents of members of the management have said that to some extent bank tried to apply the risk management science and believed that much has to be done to be effective enough to apply it.
- ✓ Majority of the respondents (i.e., members of the management) evidenced that the policy and practice of credit risk management are relatively as similar as the overall strategy.
- ✓ Majority of the respondents of the management evidenced that, relatively active involvement of employees in the overall risk management activity presented in the bank manual, however due to various unforeseen reasons their application is rare.
- ✓ Majority of the respondents of the management of the bank testify the availability of following up mechanism and it is conducted in every three months of the year.
- ✓ Most of the respondents of the management have indicated that, the bank take an assessment of its borrower always before lending the loan, but the level of its tightness may not be insurable.
- ✓ Most of the respondents have given their negative feedbacks as to the frequency of assessing the borrowers profile periodically.

Analysis of Data Obtained from Customer

Table 4. 13 Duration of stay at the Bank

Description	Response	Frequency	Percentage %
For how long have you been Customer of the bank?	Less than on year	-	-
	1-2 years	9	45
	3-4 years	6	28
	More than four years	5	27
	Total	20	100

Source: own survey 2019

As can be seen table 4.13 above, majority of respondents i.e. 9(45%), replied that, they are customer of the bank for the last two years. Whereas the remaining, 6(28%) and 5(27%)of the respondents replied that, they are customer of the bank between three and four years , and greater than four years respectively . This implies that, customers of the bank are well informed about the credit risk management practice of the bank.

Table 4. 14 Credit Facility of the Bank

Description	Response	Frequency	Percentage %
Credit facility of the bank is very efficient?	Strongly agree	-	-
	Agree	5	23
	Neutral		
	Disagree	15	77
	Strongly disagree	-	-
	Total	20	100

Source: own survey 2019

As can be observed in table 4.14, majority of respondents i.e. 15(77%), replied that, they are disagreed by the efficient facility of the bank credit facility. Whereas the remaining, 5(23%) of the respondents replied that, they are agreed with the efficient credit facility of the bank. This indicated that, the credit facility of the bank needs some sort of amendment by the management.

Table 4. 15 Loan Approval Requirement of the Bank

Description	Response	Frequency	Percentage %
How do you rate loan approval requirement of the Bank?	Very good	-	-
	Good	2	10
	Medium	7	36
	Poor	11	54
	Very poor	-	-
	Total	20	100

Source: own survey 2019

As can be seen from table 4.15 above, majority of the respondents i.e. 11(54%) of them replied that the loan approval requirement of the bank is poor. While the rest 2(10%) and 7(36%) of them said good and medium respectively. This implies that the task left by the management of the bank in making amendment on it.

Table4. 16 Credit risk faced by the customer

Description	Response	Frequency	Percentage %
Have you ever been faced with credit risk?	YES	14	68%
	NO	6	32%
	TOTAL	20	100

Source: own survey 2019

As can be observed in table 4.16, majority of respondents i.e. 14(68%), replied that, 'yes 'they face credit risk during the relation they have. Whereas the remaining, 6(32%) of the respondents replied that, no they are not faced credit risk ever before. This indicated that, customers of the bank faced credit risk and this may affect the credit worthiness of the bank.

Finally, according to the data obtained from open ended question indicated, some of the customers are not satisfied by the service obtained from the bank, due to this reason they may shift to other banks those provided better credit facility.

4.14 Secondary Data Analysis

One of the tools used by the researcher used in order to meet the object of the study is secondary data collections. The Bank's policy, procedures annual and quarterly reports, central bank directives and financial report status (unofficial) were critically examined to in order to further examined to show the actual Credit Risk Management. The analysis made on evaluating the existing position of the Bank rather than predicting the trend.

Dashen Bank was established as per the intent of new policy and the Ethiopian investment code. It came into existence on September 20, 1995 according to the commercial code of Ethiopia, 1960, and the licensing and supervision of banking business proclamation No. 84/1994. The first founding members were 11 businessmen and professional that agreed to combine their financial resource and expertise to form this new private bank with initial capital of Birr 14.9 million. Upon securing license from the national bank of Ethiopia, Dashen opened its doors for service on the 1st of January 1996 with eleven fully fledged branches.

Continued growth in the Bank's market outreach through branch expansion and deployment of digital channels had been instrumental towards customer attraction and retention, which in turn boosted resource mobilization endeavors. During the fiscal year the Bank had been able to operationalize 70 new branches across the length and breadth of the country. On the back of increased market outreach, the Bank's customer base exhibited a growth of 6.2 % and reached 1.9 million by the close of the reporting period. At the end of June 2018, customer deposits totaled Birr 36 billion, growing by a record Birr 8.1 billion or 29% year-on-year. The Bank achieved to mobilize Birr 136 million from Interest Free Banking services. There had been marked surge in fixed time deposits during the fiscal year. To tame unwarranted growth in cost of funding, efforts had been made to boost savings deposits. By the end of June 2018, deposit performance by category revealed that Savings deposit accounted for 64%, giving solid assurance on the stability of the Bank's funding source. Current and Fixed Time deposits took 23% and 13% share, respectively. At the close of the reporting period, the Bank's outstanding loans & advances, net of provision, stood at Birr 23 billion, up by Birr 5.2 Billion or 28.9% from last year same period. As a result, the loan to deposit ratio of the Bank stood at 0.64:1; which happened to be equivalent to last year's same period position.

The main activities of the Bank are mainly focused on playing the intermediary role or mobilizing deposit from surplus section and delivering in the form of credit to the needy sector, to perform such activities the Bank has deliver different product and services to its customers. Among the activities the account management activities like saving account, demand deposit, are the key to mobilize deposit from surplus section and to support the cash movement transactions to its customers. On the other part, transactional service activities, such us money transfer foreign and local, foreign letter of credit and facilitating export transactions are the main ones. In addition the Bank also gives different service to its customers such as, Card banking, mobile banking, the conventional banking service of Domestic banking and international banking service.

Prudent risk management has become an integral part of the Bank's day-to-day business. Periodic measurement of the Bank's risk exposure against key risk metrics had been conducted and alerts were signaled for proactive intervention. The Bank endeavors to pursue its business prudently with unwavering commitment for compliance to applicable national and international rules and regulations.

The Board of Directors and Managements of the bank recognize that the banking industry experiences significant and rapid change, including increased competition from other non-bank financial services providers. The industry is also subject to liquidity requirement change, reserve requirement change, interest rate change, changes in banking laws and regulations and foreign currency rate change. Therefore the Board of Directors and Management recognize that a comprehensive credit, liquidity, operational and market risk policy is essential to effectively manage the bank’s risks and to meet regulatory requirements. The bank earnestly strives to apply best practices in identifying, evaluating and cost-effective controlling of risk to ensure that any residual risks are at an acceptable level. Whilst it is not possible to eliminate risk absolutely, the bank actively promotes and applies best practices at all level and to all its activities, including its business relationship with external partners. With this framework, the bank ensures that:

a) The bank’s risk exposure is within the limits established by the Board of Directors (BoD)
b) Risk taking decisions are in line with the business strategy and objectives set by BoD.
c) The expected payoffs compensate the risks taken
d) Risk taking decisions are explicit and clear
e) Availability of sufficient capital for the prevailing risk exposure

In line with this, Dashen Bank S.C considers risk management as an integral part of its day to day core business activities.

CHAPTER FIVE

5. SUMMARY OF FINDINGS, CONCLUSIONS ANDRECOMMENDATIONS

5.1 Introduction

After all the detailed analysis is done in the previous chapter, all the data gathered were presented analyzed and interpreted. Since the research discusses and analyzes the risk management practice of Dashen bank, based on the analysis major findings are summarized, conclusions are drawn and possible recommendations are forwarded to the management of the Bank here under in the following manner.

5.2 Summary of Findings

In this section, the findings from the respondents will be presented in a summarized and Informative manner.

- ✓ According to the study majority of the respondents i.e. 83% are those diploma and degree holders and working five and more than five year with in the bank.

- ✓ The study reveals that, the risk management practice of the Bank is not organized in the manner to assist the day to day operation.

- ✓ Majority (68%) of the respondents testify, policies and practices of credit risk management is in line with the overall strategy as indicated by the study.

- ✓ The study has shown that, majority (60 %) of the respondents has the chance to participate only in the area of credit risk management activities.

- ✓ As indicated by the study, it is difficult to say respondents have better understanding about the credit risk and its management. The study revealed that, the bank assesses borrowers profile not at satisfactory level.

- ✓ The study has indicated that, the bank has its own customers follow up mechanisms which were used in every quarterly base.

- ✓ According to the study the bank uses credit risk prevention orientation as a credit risk handling mechanism.

- ✓ The study revealed that, customers of the bank are not satisfied by the efficiency of its credit facility.

- ✓ According to the study, the bank credit facility provided to customers exposed them to credit risk.
- ✓ The study has revealed that, the bank has the possibility of minimizing credit risk but a lot has to be done to effectively identify the possibility of credit risk by including other better factors that could be incorporated in the identification process.

- ✓ The study revealed that, the management of the bank has some inconsistency and poor with regard to the quality of credit risk assessment.

- ✓ Finally the respondents disagree on the statements that bank has documented risk management guidelines and specifically looks to recruit trained and qualified people in risk management.

5.3 Conclusions

After all the major findings were summarized in the previous section on the basis of the results the analysis, the following conclusions are drawn.

- ✓ The Bank has adequate policies and procedure, limits and granting criteria as well as documented credit risk management guidelines. In addition the Bank has also established risk management Department, which is independently organized and accountable to the Bank' Board. Therefore, policies and practice of credit risk management is in line with strategies based on the assessment and the benchmark set by the bank, this might result reduce problems integrity.

- ✓ Relevant tools and management information systems have been provided to ensure adequate and consistent identification, measurement, monitoring and controlling as well as reporting on the various risks the bank is exposed to.

- ✓ The level of employee's participation in the risk of credit risk management is somehow good, which may assist its effective application.

- ✓ The quality of risk management system of the bank has problem which affect proper prevention as well as protection of risk that could occur in the operation.

- ✓ Employees are not good enough in understanding credit risk and its management; this might cause to maximize the probability of credit risk occurrence.

- ✓ The bank use credit risk prevention orientation, this can assist to customers as well as the bank to protect them before entertaining loss.

- ✓ Customers are not satisfied by the efficiency of its credit facility, this might affect the level of the bank’s customer base and create opportunity to see somewhere else.

- ✓ Effective controls have also been put in place to ensure compliance to the tenet of the bank’s risk management framework. The bank conducts follows up on its customers on a quarter bases, this help to reduce the customer’s exposure to credit risk.

- ✓ An appropriate environment has been established for managing risk. This included a, solid governance structure with clear obligations and policy documents approved by the board containing procedures, processes and techniques for handling various risks.

- ✓ Based on secondary data analysis generally Dashen Bank S.C considers risk management as an integral part of its day to day core business activities.

5.4 Recommendations

The banking sector is more sensitive area and the area do not tolerate big mistakes and require tid control and close supervision. Banking is interesting because you are talking about high profit but risky. To control the risk in this industry we need to have well-crafted policy, procedure and manuals, just tailored to your bank by well-educated and experienced people. For effective attainment of study objective, all data were presented, analyzed and interpreted .findings are summarized and conclusion made are drawn and based on the conclusions drawn the following recommendations are forwarded.

- ✓ Methodologies: these could be suitable for the market that you operate in. In order to get full benefit from its risk management system, Dashen Bank is strongly advised to create mechanism for effective application of the system.

- ✓ Policies: well-structured and tailored for the bank. The Bank is advised to farther improved its risk management policies and practice with its strategy for effective achievement its goal.

- ✓ Management: Banking institutions are required to have an independent credit review department/ unit. In order to make in view its credit risk management, it is recommended that the bank enhance the level of employees, participation in the area of credit management.

- ✓ Training for employees: In order to reduce possible errors made in credit management, the bank is advised to facilitate ways that enhance understanding of its employees.

- ✓ Stress analysis: Banking institutions are required to conduct stress analysis at least once every four to six months based on dashen bank credit risk follows up principle. The Bank is strongly recommended to further improve the frequency of customer follow up, in order to ensure customers from exposure of credit losses.

- ✓ Monitoring: The Bank is strongly advised to evaluate its credit risk as well as risking management practice regularly, in order to being compatible with current financial environment.

- ✓ Limitations: The bank are required to set an internal limit on single customer exposure. In order to retained customers within the bank, it is advisable to improve efficiently of credit facility of the bank.

- ✓ Finally infrastructure: the bank needs to prepare the macro infrastructure and for the bank to be success, needs to prepare the best infrastructure according to the complexity of the bank. The bank is advised to review its credit risk management system, in order to make its risk handling system reliable.

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APPENDICES A

ST. MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIES

Questionnaires to be filled by employees of Dashen Bank

Dear respondent

This questionnaire is prepared by a student researcher prospective graduate of year 2019 in the field of Management. The outcome of this questionnaire is meant to support a research report to be presented for St. Mary's University College. The response provided by the respondents only used for academic purpose. Therefore you are invited respectfully to provide genuine response.

Thank you in advance for your cooperation.

N.B:- No need to write your name

Put '_' or 'X' mark on your answer for close ended questions

Respond on the space provided for open ended question

I. PERSONAL INFORMATION

1. Sex Male ☐ Female ☐
2. Educational Background

   Diploma ☐ MA/MSC ☐

   1st Degree ☐

3. Work Experience

   Below 2years ☐ 6 -10 years ☐

   2-5 years ☐ above 10 years ☐

II. QUESTIONS DIRECTLY RELATED TO THE STUDY

4. Do you think that the bank possibly have well organized risk management Practice

Yes -------

No-----------

5. Do you believe that the credit risk management policies and practice in line with the overall strategy of the Bank?

Yes-----

No----------

6. At the best of your understanding can we say risk management practice of the bank is participative?

Yes-------

No--------

7. If your answer in question No. 6 is "Yes" what type of risk management activities are conducted by the Bank?

Credit risk management---------

Liquidity risk management---------

Interest rate and foreign exchange risk management----------

Other----------

8. Are you satisfied with the quality if credit management system adopted in Dashen Bank?

Yes---------

No-------

9. If not what do you think is the problem?

----

10. To what extent credit risks are identified properly by the Bank?

To very great extent----------

To great extent-----------------

To some extent--------------

To lower extent-------------

To very lower extent ---------------

11. To what extent you know about the credit risk management system
Adopted by Dashen Bank?

To very great extent---------

To great extent----------------

To some extent-----------------

To lower extent------------------

To very lower extent -----------

12. To what extent credit officers are qualified to handle their job effectively?

To very great extent ------------

To great extent ------------------

To some extent ----------------

To lower extent----------------

To very lower extent---------------

13. How often does the bank asses borrower’s profile?

Very often -----------------

Often----------------------

Neutral/do not know -----

Sometimes-------

Not at all--------

14. Is there any follow-up mechanism of your customers after grating a loan?

Yes------

No---------

15. If your answer in question No. 14 is “Yes” how often?

Monthly-----------

Quarterly----------------

Semi Annually-------------

I am not quite aware of it ------------------

16. What kind of credit risk handling orientation used by the Bank?

Risk Prevention----------

Risk reduction------------

Risk avoidance -----------

Other, please specify-------

17. What kind of trend registered in credit risk management of the Bank?

Stable----------

Fluctuated-------

Continuous increase------

Continuous decrease--------

ST. MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIES

Questionnaires to be filled by credit customers of Dashen Bank

Dear respondent

This questionnaire is prepared to gather information regarding credit risk management practice of Dashen bank for the partial fulfillment of bachelor of degree in St. Mary's University College. The response provided by the respondents only used for academic purpose. Therefore you are invited respectfully to provide genuine response.

Thank you in advance for your cooperation.

N.B:- No need to write your Name

Put 'X' mark on your answer for clause ended questions

Respond on the space provided for open ended question

a. Personal Information

1. Sex Male ☐ Female ☐

2. Age 18 – 23 ☐ 30-35 ☐

24-29 ☐ 36-41 ☐

Above 41 ☐

3. Type of business engagement

Private business ☐

Cooperative business ☐

Some other business ☐

b. Questions directly related to the study

4. For how long have you been customer of the bank?

Less that 1 year ☐ 3-4 year ☐

1-2 year ☐ greater than 4 year ☐

5. Credit facility of the bank is very efficient?

Strongly agree ☐ disagree ☐

Agree ☐ strongly disagree ☐

Neutral ☐

6. How do you rate loan approval requirement of the bank?

Very good ☐ poor ☐

Good ☐ very poor ☐

Medium ☐

7. To what extent the bank loan provision practice expose customer to credit risk?

To a very great extent ☐ To lower extent ☐

To great extent ☐ To a very lower extent ☐

To some extent ☐

7. Have you ever been faced with credit risk?

Yes ☐ No ☐

9. If you said "Yes" for the above question please specify the risks!

____

10. The bank properly follows up borrowers after disbursing the loan to reduce risk?

Strongly agree ☐ disagree ☐

Agree ☐ strongly disagree ☐

Neutral ☐

11. If you said disagree/strongly disagree please specify your reason!?

12. If you have any comment and/or suggestion regarding credit risk management practice of the bank please specify.

APPENDICES B

SCHOOL OF GRADUATE STUDIES

The following interview questions were delivered to the management of Dashen Bank by the study.

1. To what extent the Bank properly apply risk management practices and are?
2. To what extent employees participate in credit risk management?
3. How often the Bank assess borrower's profile?
4. Is there mechanism to follow up borrowers?
5. How often the Bank conducts follow up of its customers