ST. MARY'S UNIVERSITY

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ASSESSMENT OF CREDIT RISK MANAGEMENT PRACTICES IN NIB INTERNATIONAL BANK S.C.

BY

DANIEL TEKA

JANUARY, 2019

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ASSESSMENT OF CREDIT RISK MANAGEMENT PRACTICES IN NIB INTERNATIONAL BANK S.C.

BY
DANIEL TEKA

APPROVED BY BOARD OF EXAMINERS

___________________________	____________________
Dean, Graduate Studies	**Signature**
Dr. Zinegnaw Abiy	____________________
Advisor	**Signature**
Dr. Gidey G/Hiwot	____________________
External Examiner	**Signature**
Asst. Professor Dejene Mamo	____________________
Internal Examiner	**Signature**

Declaration

I the undersigned, declared that the thesis entitled "ASSESSMENT OF CREDIT RISK MANAGEMENT PRACTICES IN NIB INTERNATIONAL BANK S.C." is my original work, prepared under the guidance of Dr. Zinegnaw Abiy. All the sources of materials used for this thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree.

NAME: DANIEL TEKA

SIGNATURE: ____________________________

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Endorsement

This is to certify that a thesis entitled "ASSESSMENT OF CREDIT RISK MANAGEMENT PRACTICES IN NIB INTERNATIONAL BANK S.C." submitted to St. Mary's University, School of Graduate Studies department of business administration in accounting and finance for the award of masters of business administration in accounting and finance is a research work carried out by Daniel Teka under my guidance and supervision.

ADVISOR'S NAME: DR. ZINEGNAW ABIY

SIGNATURE: ___________________________________

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List of acronyms

NBE	National Bank of Ethiopia
NIB	Nib International Bank
NPL	Non-performing Loan
CRM	Credit Risk Management
KYC	Know Your Customer
RM	Relation Manager
CEO	Chief Executive Officer
MIS	Management Information System
SMEs	Small scale and Medium Enterprises
BOD	Board of Directors
PESTLE	Political, Economic, Social, Technological, Environmental, Legislation
HOCC	Head Office Credit Committee
SPSS	Statistical Package for Social Science

Abstract

Credit risk management has become an important topic for financial institutions, especially since the business sector of financial service is related to conditions of uncertainty. The turmoil of the financial industry emphasizes the importance of effective risk management procedures. The purpose of the research is to assess the credit risk management practices of NIB International Bank S.C. through examining the policy and procedures, the tools of credit risk management the credit granting process, performed activities of credit risk management reporting system and credit risk management process. The researcher applied purposive (judgmental) sampling technique. The idea behind purposive sampling is to concentrate on people who are directly involved in credit processing and administering because they would better be able to assist with the relevant research data. Qualitative and quantitative (mixed) research method was used. The type of data used for the study includes qualitative and quantitative data. Primary and secondary sources of data were used for the study. The main primary source of data is through the use of questionnaires for credit and risk management related staffs and borrowers of the bank and interview for management staffs. In the case of the secondary data, annual and quarterly reports are used. Data collected from 100 employees who are involved in the lending decision and risk management and from 28 borrowers of the bank. The researcher used descriptive tools of data analysis such as frequency and percentage. From the findings the study concludes that the bank has well organized credit policy that counter to credit risk they are exposed to and it also conclude that the bank has good credit granting practice and uses suitable credit risk assessment tools and techniques including loan follow-up, measuring, evaluating, monitoring and controlling mechanism. However, the study also concluded that the bank has pitfalls such as absence of training for employees which results to less understanding and identification of risks, absence of credit risk model that predict the risk level of the business and the priority sectors of the bank in terms of credit facility are highly exposed to credit risk which directly contribute to the increment of NPL. Thus, it is recommended that Nib International Bank S.C. should develop a flexible and conditions based policy and procedure to manage credit risk and prepare training for that credit related staffs to manage credit risk effectively.

Key words: *Risk management, credit risk management*

CHAPTER ONE
INTRODUCTION

1.1 Background of the study

Banks are exposed to different types of risks, which affect the performance and activity of these banks, since the primary goal of the banking management is to maximize the shareholders' wealth, so in achieving this goal banks' managers and loan related staffs should assess the cash flows and assumed risks as a result of directing its financial resources in different areas of utilization.

Credit risk is one of the most significant risks that banks face, considering that granting credit is one of the main sources of income in commercial banks. Therefore, the management of the risk related to that credit affects the profitability of the bank (Li and Zou, 2014).

Williams (1998) defines risk as a potential variation in outcomes and exposure to a potential loss. Similarly risk is defined as uncertainty about economic losses due to the occurrence of as an event; Economic losses are caused by perils such as crimes, fire and accidents. It is the possibility of an adverse deviation from desired outcomes that is expected.

According to Trieschmary (1998) risk management is a managerial process that involves the executive function of planning, organizing, leading and controlling those activities in a firm that deal with specified types of risks in order to maximize the value of organization. The risk manager is charged with minimizing the adverse impact of losses on the achievement of company's goals. Risk management is the scientific approach to the problem faced by business that deals with the techniques of forecasting future so as to plan, organize, direct and control efforts to minimize the adverse effects of those potential losses. It is the reduction and prevention of the unfavorable effects of risks at a minimum.

Credit is that it is originated from the Latin word "Credo" which means 'I believe'. Credit is a matter of faith in the person and no less than in the security offered. Credit is purchasing power not derived from income, but by financial institutions either as an offset to idle by depositors in the banks, or as a net addition to the total amount of purchasing power. In fact, no economy can function without credit; all economic transactions are settled by means of credit instruments today. It is the very life blood of modern business and commercial system (Cole, 2000).

Credit risk management can be treated as the heart of any commercial banks. It plays the vital role in the performance of financial institution as it analyzes credit-worth-ability of borrowers. If there is any loophole in credit risk assessment, then recovery of the provided loans and advances is challenged greatly, as a whole profitability falls in a great uncertainty.

A bad loan often arises from different factors or combination of factors, but the most important reason is the absence of proper loan classification system. It can identify problem loans immediately and take necessary steps to minimize potential defaults and consequent losses. Poor credit risk management is the main consideration in case of bank's unsatisfactory performance and often the reason of bankruptcy (Md. Moeid, 2014).

Amongst the many factors that can lead to bank problems, poor credit risk management has always been pointed out by different writers as being the cause of bank problems and failures. This is basically because since banks make their profits from interest gotten after lending money to customer, a poor credit risk management during the lending process will also have negative results on the bank at the end and vice versa. Directors should be aware that, as accountants already know, non-payment is one of the most critical risks a company faces and all practical steps should be taken to mitigate this risk (Roberts, 2010). The failure has chain effect to influence payment systems and thus affect the whole economy in the long run. Despite the consequences of credit risk, it cannot be avoided because it is associated with the core activities of the bank. Banks like any other business entity makes their profit through loan granting so; a collapse is assured with the least mistake in the course of the process. The root cause of this problem has always been poor and unreliable information that lenders get from borrowers even through other factors including poor risk management can be associated.

Effective management of credit risk is inextricable linked to the development of banking technology, which will enable to increase the speed of decision making and simultaneously reduce the cost of controlling credit risk. This requires a complete base of partners and contractors (Lapteva, 2009).

Credit risk is one of significant risks of banks by the nature of their activities. Through effective management of credit risk exposure banks not only support the viability and profitability of their own business but also contribute to systemic stability and to an efficient allocation of capital in the economy (Psillaki, Tsolas and Margaritis, 2010 P.873).

1.2. Statement of the Problem

The loan portfolio is typically the largest asset and the predominant source of revenue for the bank. As such, it is also one of the major sources of risk for the bank's safety and soundness.

Loans are the most important resources held by banks. Lending activities require banks to make judgment related to the credit worthiness of a borrower. However, the judgments do not always prove to be accurate and the credit worthiness of a borrower may decline due to various factors. Consequently, banks face credit risks. Credit risk is the risk that obligations will not be repaid on time and fully as expected or contracted, resulting in a financial loss or non-Performing loans. The borrower may fail to meet the terms of the underlining loan agreement (Seifu, 2013).

The magnitude and far reaching consequences of this exposures force business organizations to put in place a structure that makes possible systematic approach to the management and hence subsequent minimization the impact of such risks on their overall performance. Accordingly, different organizations employ different risk management techniques, which they determine best suites them to achieve their business objectives.

Credit assessment helps the banker to ensure selection of right type of loan proposals and right type of borrower. For selecting the borrower, security should not the only thing to be relied up on. So responsibilities the bankers to investigate the client from different view point. i.e. the strength and weakness of the client so that the client will be able to repay the bank loan as repayment with profit. To prevent future financial crises, it is necessary to improve the borrowers' financial literacy, the lenders' process of transparency and to better assess loan product affordability & suitability.

Most importantly, banks are exposed to credit risk since their principal profit making activity is making loan, to their customers. Lending represents the heart of the industry. Loans are dominant asset at banks; they generate the largest share of operating income and represent the banks greater risk exposure (MacDonald and Koch, 2006).

Credit risk occurs when a debtor / borrowers fails to fulfill his obligations to pay back the loans to the loans to the principal / lender. In banking business, it happens when "payment can either be delayed or not made at all, which can cause cash flow problems and affect a bank's liquidity" (Grevning and Bratanovic, 2009). Hence, credit risk management is a bank basically involves its practices to 'manage', or in other words to minimize the risk exposure and occurrence.

Researches were conducted in Ethiopia in the area such as that of Nigusu, (2009); Tekle, (2011); Girma, (2011); Wondimagegnehu, (2012); Solomon, (2013) and Alebachew, (2015). Some of the studies reviewed were focused on part of the credit risk management in banks like investigating factors affecting loan recovery, evaluating credit analysis practice, determinants of NPLs and its impact on performance and the credit risk management practice.

The researcher is interested to do on this due to diversified and intensified investments in the country in the last five to ten years; there is an increase of loan demands among investors from banks in the country. There was a policy revision in the bank, because of this revision the branch discretion limit increased to one million. NBE declared a regulation on credit ceiling or credit cap of banks. At the end of second quarter November 30, 2017 the level of non-performing credit in NIB International Bank S.C. report shows 9.46% NPL position above the required threshold set by National Bank of Ethiopia (Source: Appendix I), still forced the bank to maintain a huge amount of provisioning expenses which is 1.1 Billion birr as considerable amount of loans are classified bad credits, in terms of sector wise Hotel & Tourism term loan alone contribute about 23.74% of the total non-performing credits; foreclosure activities of this year is highly increased from the previous years and the loan interest rate changed three times from the previous studies (September 2015, 2016 & November 2017). Because of the above mentioned points the researcher interested to do on this topic.

As indicated in the 2016/2017 annual report, it has been possible to mobilize a total of deposit of 4 billion birr that makes the banks' deposit position 16.42 billion birr. During 2016/2017 budget year, the bank disbursed a total loan of 3.2 billion and also provision for doubtful debt increase from 32.5 million to 41.9 million. Therefore, these researches assess credit risk management practice of the bank and ways of controlling credit risk will be assessed in the research.

This research will investigate the credit approval procedure and credit portfolio management of NIB Bank S.C. Specifically in city branches.

The main research questions are:

- What are the credit risk management techniques and tools used by the bank?
- The action that NIB Bank takes in the past to control or minimize the bank's NPL?
- What kinds of mechanisms are used by the bank to handle credit risk?
- How the bank does identifies, measure, monitor, evaluate, and control credit risk?

1.3 Objective of the Study

It is important to conduct critical assessment of the viable factors, which determine approval of credit mechanisms and evaluation of acceptability of loan request presented using appropriate standards. The objectives of the study are described as follows

1.3.1 General Objectives of the Research

The general objective of the study is to assess the credit management practice in the case of NIB International Bank S.C.

1.3.2 Specific Objective

- To assess the bank identification, measurement, monitor, evaluation and control mechanism of credit risk
- To assess the credit risk management techniques and tools used by the bank
- To assess the procedure that the bank has used to reduce the amount of NPL in the past
- To identify the mechanisms used by the bank to handle its credit risk

1.4 Significance of the Study

This research would be significant to diagnose the existing credit risk management practice of the bank. Thus, the bank might reconsider and improve the existing credit risk management practice based on the recommendations given to the problems. It could also have practical relevance to the Ethiopian banks by providing data to a policy environment for the credit risk management operation of banks in the economy. Thus, it would also valuable lesson for the banking sector of Ethiopia.

Finally, the study could also contribute to the existing body of knowledge regarding the credit risk management and can serve as an insight or input for further research on the area.

1.5 Scope of the Study

The scope of the study cover the assessment of credit risk management practice of NIB international bank and the researcher mainly focus on credit appraisal department, credit analysts, credit information and portfolio management division, customer relation managers (CRM) department, risk management department and eighteen branches that have a significant loan disbursed amount branch managers, loan officers and associate loan officers.

Therefore, the study is limited to the credit activity and risk management area of NIB international bank on head office departments and eighteen branches in Addis Ababa.

1.6. Organization of the Study

The research report organized in five chapters. Chapter one provided the general introduction about the whole report. Chapter two describes the review of related literatures. Chapter three provide detail description of the methodology employed by the research. Chapter four contains data presentation analysis and interpretation. Finally, the last chapter concludes the total work of the research and gives relevant recommendations based on the findings.

CHAPTER TWO

LITERATURE REVIEW

2.1 Theoretical Literature

This section will give a theoretical perspective to this study regarding the corporate governance and credit risk management. The emergence of new theoretical perspective and new models of corporate governance helped in guiding researches toward productive avenues of study. These theories include agency theory, stewardship theory, stakeholder theory, resource dependency theory, political theory, legitimacy theory and social contract theory amongst others (Yusoff & Alhaji, 2012).

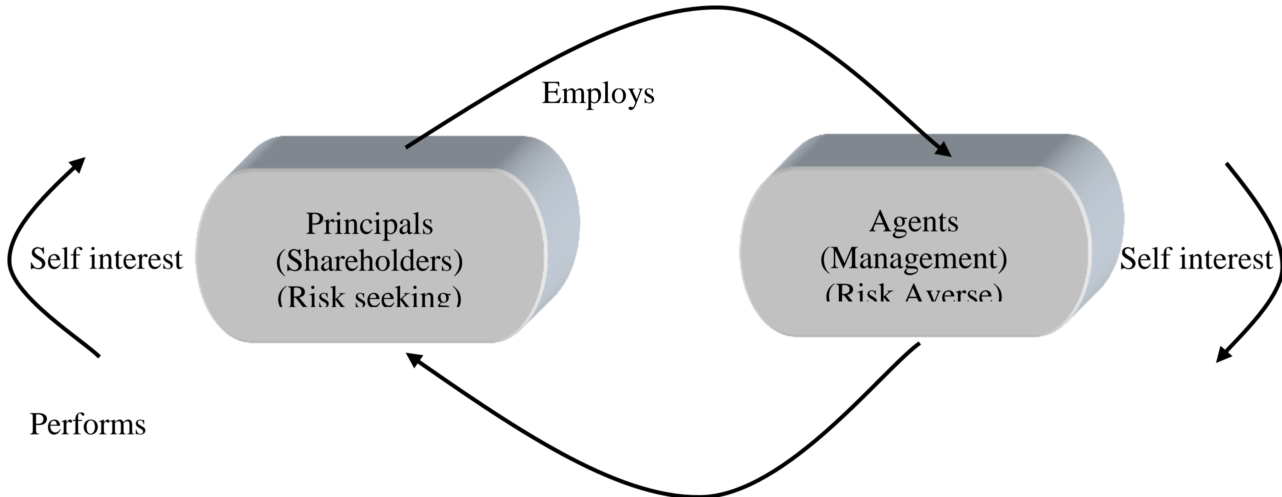
2.1.1. Agency Theory

Agency theory is one the oldest theory in finance that have been used to explained principal-agent relationship. Lately, the theory has also been use in explaining the role of risk in the relationship between ownership and firm performance, especially in the financial (banking) sector of many economies. An explicit analogy of the agency theory within the context of ownership structure, risk taking and firm performance is illustrated in Fig 2.1. As shown below, the theory opens the black box of firms revealing the contract among factors of production in relation to actual production (performance), with each factor motivated by its self interest (Jensen & Meckling, 1976). The principal area of immense contribution of the agency theory is on how employee motivation is used to reconcile each stakeholder's self-interest while pursuing corporate interest (which is performance) amidst each group's differing risk preferences (Perrow, 1986). Therefore, the interrelationships among dimensions of ownership structure as explained in this study confined to exploring the self-interest of the stakeholder as a measure to enhance the performance of firms.

In addition to above discussion, Jenson and Meckling (1976) gave a comprehensive explanation of principal-agent relationship. They described agency relationship as an agreement between two parties, in which owners (principals) assign various tasks or responsibilities to the mangers (agents) for execution on their behalf. More precisely it can be defined as shareholders delegate some responsibilities to a team of experts while keeping in mind that they will perform best for the success of their organizations. Generally, two problems occurred in the relationship of principal and agent.

Firstly, conflict arises due to difference of both parties interests. Secondly, difference of attitude of risk taking between shareholders and managers (Eisenhardt, 1989). Figure 2.1 elaborates the agency model:

Figure 2.1 Agency Model



(DeZoort et al, 2002) described the role of board in monitoring the chief executive officer and firm's management. They further elaborated board generally form a subcommittee that has expertise and knowledge to administer the management activities on their behalf. Audit committee is the sole sub-committee of board of immense important in the framework of corporate governance and monitors the some responsibilities which are delegated by board.

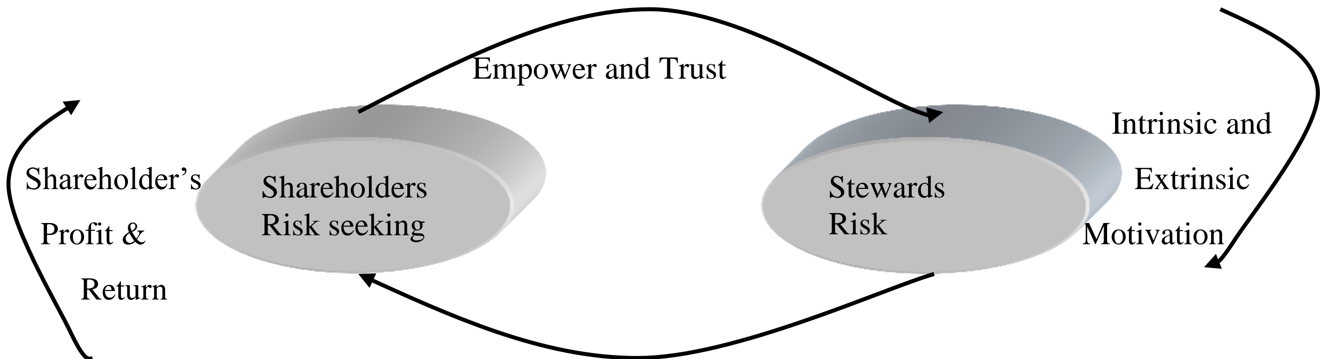
2.1.2 Stewardship Theory

Another important theory of corporate governance is stewardship theory which is opposite to agency theory. The roots of the stewardship theory are stemmed out from organizational psychology and sociology and defined by Davis, et al., (1997) as "a steward protects and maximizes shareholders' wealth through firm performance, because by so doing, the steward's utility functions are maximized". Stewardship theory articulates that managers are hired for handling the firm's operations in a well manner and a manager's achievement and success is measured by satisfaction he gets from the performance of the firm; therefore the manager's primary objective is to maximize the firm value. Better firm performance is motivational spot for corporate managers who are stewards of firm and consider the organizational objective as their own. Thus, managers choose pro organizational behavior that is aligned with wealth of shareholders rather than their self-serving objectives (Davis, et al., 1997). Major difference between agency theory and stewardship theory is that the stewardship theory replaces the lack of

trust on managers whereas agency theory refers to authority and monitoring to maintaining the inclination of ethical conduct.

The main issue in stewardship theory is ignorance of intrinsic nature of man. Many studies showed that moral hazard problem is the main cause explaining why mangers do not work with good faith and honesty in order to increase wealth of owners (Acharya & Viswanathan, 2011).

Figure 2.2 Stewardship Theory



Protect and Maximize
Shareholder's wealth

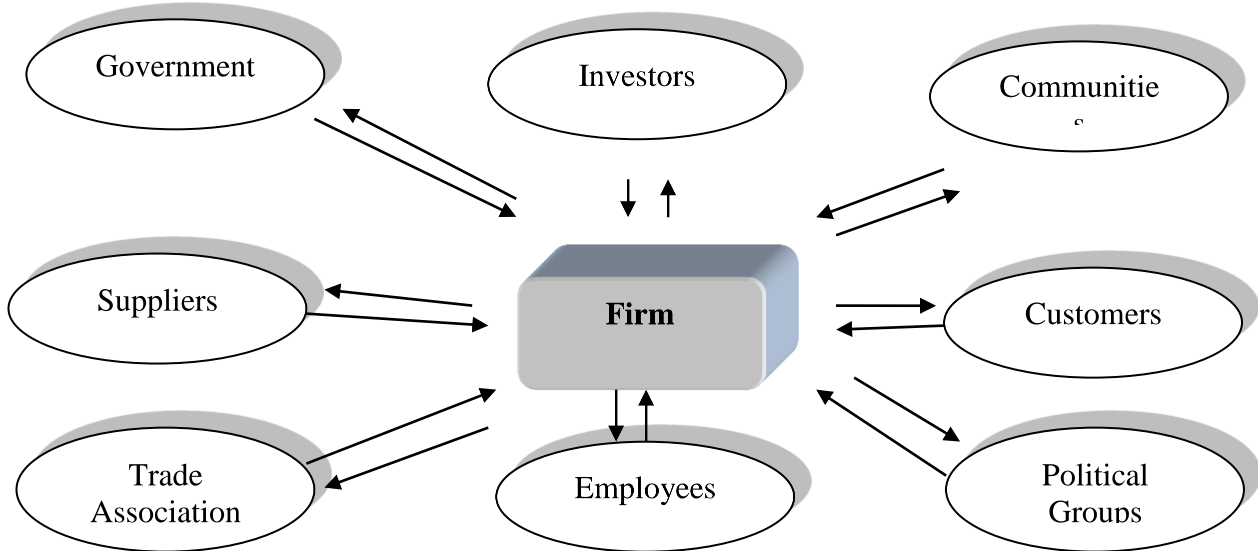
2.1.3 Stakeholders Theory

Stakeholder theory was embedded in the management discipline in 1970 and gradually developed by Freeman (1984) incorporating corporate accountability to a broad range of stakeholders. Wheeler et al, (2002) argued that stakeholder theory derived from a combination of the sociological and organizational disciplines. Indeed, stakeholder theory is less of a formal unified theory and more of a broad research tradition, incorporating philosophy, ethics, political theory, economics, law and organizational science. Stakeholder theory can be defined as "*any group or individual who can affect or is affected bythe achievement of the organization's objectives*". Unlike agency theory in which the managers are working and serving for the stakeholders, stakeholder theorists suggest that managers in organizations have a network of relationships to serve – this include the suppliers, employees and business partners. And it was argued that this group of network is important other than owner-manager-employee relationship as in agency theory (Freeman, 1999).

Stakeholder theory proposed that organizations are separate entities and they are connected with many parties while achieving their targets (T. Donaldson & Preston, 1995). Moreover, they explained that it is management's duty to make sensible decisions and put their best efforts in

attaining the benefits that satisfy all stakeholders. In addition, Wang and Dewhirst (1992) that highlighted board of directors should not ignore their responsibilities towards protecting interests of stakeholders.

Figure 2.3: Stakeholder Model



2.1.4 Resource Dependency Theory

Whilst, the stakeholder theory focuses on relationships with many groups for individual benefits, resource dependency theory concentrates on the role of board directors in providing access to resources needed by the firm. Hillman, Canella and Paetzold (2000) contend that resource dependency theory focuses on the role that directors play in providing or securing essential resources to an organization through their linkages to the external environment. Indeed, Johnson et al, (1996) concurs that resource dependency theorists provide focus on the appointment of representatives of independent organizations as a means for gaining access in resources critical to firm success. For example, outside directors who are partners to a law firm provide legal advice, either in board meetings or in private communication with the firm executives that may otherwise be more costly for the firm to secure.

Hillman and Dalziel (2003) found board of directors as the main source for the achievement of different resources require by the firms. Generally, resource dependence theory argues the availability of efficient skills of boards that are involved in the accessibility of resources. On one hand, agency theory suggests the important of boards in monitoring the managerial activities, on

the other; resource dependence theory highlighted another role of board directors as the resource providers.

2.1.5 Transaction Cost Theory

Transaction cost theory was first initiated by Cyert and March (1963) and later theoretical described and exposed by Williamson (1996). Transaction cost theory was an interdisciplinary alliance of law, economics and organizations. This theory attempts to view the firm as an organization comprising people with different views and objectives. The underlying assumption of transaction theory is that firms have become so large they in effect substitute for the market in determining the allocation of resources. In other words, the organization and structure of a firm can determine price and production. The unit of analysis in transaction cost theory is the transaction. Therefore, the combination of people with transaction suggests that transaction cost theory managers are opportunists and arrange firms' transactions to their interests (Williamson, 1996).

2.1.6 Political Theory

The major concern of the political theory is how ownership is distributed between the shareholders of a firm may influence the decision making into the firm and its corporate governance structure. It emphasizes on the approach of developing voting support from firm's shareholders instead of purchasing of voting power to influence company management. The role of political government is of much important in effective management of corporate and public and monitory shareholders' interest is safeguarded through government participation into decision making of corporate affairs (Pound, 1993). The political theory shed light on the distribution of corporate powers, profits, and benefits are determined by the government and the government, being the representative of public and minority shareholders, will protect shareholders' rights. As the government has been observed to have a sturdy radical interference into firms' decision making, the role of government into ownership and corporate governance structure is of much importance (Hawley & Williams, 1996).

2.1.7 Sociological Theory

The sociological theory of corporate governance mainly focuses on the composition and structure of corporate boards and it provides implications for power and wealth distribution in the society. Problems of director interlocking (multiple directorships in various organizations) which is concentration of corporate power in the hands of few privileged members of the society

which form business groups are considered as major challenges to the social equity and economic progress of society. The sociological theory assumes that outside dominated boards, transparent accounting disclosures and corporate accountability are effective and essential tools to promote impartiality and fairness in the society which are considered as the socio-economic objectives of a corporate firm.

2.2. The Concept of Risk Management

Management in the simplest understood definition can be defined as the act of planning, directing, controlling, monitoring and testing for desired results to be obtained. Or it is simply the act, manner, or practice of managing; handling, supervision, or control (Stephen, 2012). Risk on the other hand can be defined as the possibility that something unpleasant or dangerous might happen (Macmillan Dictionary, 2002). When companies spoil in business, it is obvious that they will be exposed to one type of risk or another which in most cases is an uncertainty although at times it can be certain that it will occur. Banks are one of such businesses whose risk is very sure because they don't function in isolation given the dynamic environment in which they operate, the volatility of the Financial Markets in which they participate, diversification and the competitive environment in which they find themselves, (Williams et al., 2006). Even though it is certain that risk will occur, it is not always possible in most cases to eliminate, reduce or ameliorate it (Keith, 1992). So, the best possibility for companies is to try to manage the risk so as to reduce the possibility of occurrence or to reduce the consequences. These possibilities can range from „do nothing at all" to attempting to nullify the effect of every identified risk (William et al., 2006). But, because of the nature of the banking activity, a bank can't find itself in a position to do nothing at all or to nullify the risk. So, all it does is to live with it but look for means to manage it. Given the riskiness of its activities, a bank does not wait to introduce risk management at a certain stage of its activities but does so right from the start. This is so because its activities are so correlated in such a way that if not well handled, the effect or consequences can be connected and can even lead to bankruptcy. For this goal to be attained, decision makers need to first of all identify the risk involved, measure its intensity, assess it, monitor it and then look for measures on how to control it. This act of managing the risk is called Risk management (RM). RM is "a course of action planned to reduce the risk of an event occurring and/or to minimize or contain the consequential effects should that event occur" (Keith, 1992). This course of action linked, gives rise to a Risk Management process which involved a number of stages.

Risk management is very important and forms a main part of any organization's activities because its main aim is to help all other management activities to reach the organization's aims directly and efficiently since it is a continuous process that depends directly on the changes of the internal environment of the organization (Tchankova, 2002).

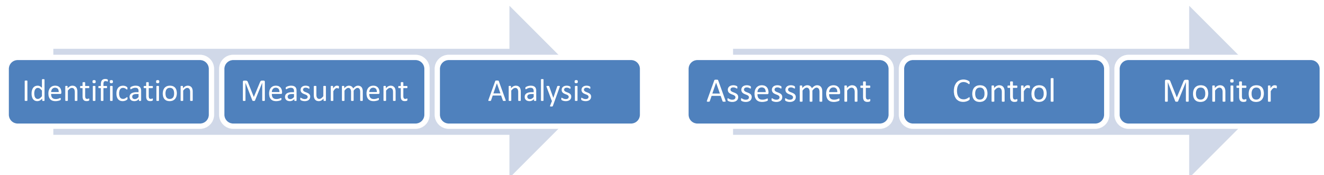


Figure 2.4: Risk Management Process

Source: Keith, 1992

2.2.1 Risk Identification

Risk Management cannot be implemented when first of all the risk has not been identified. This means if there is no risk identified, there is thus no need for risk management. This identification is done by using different techniques depending on the company in question to ascertain all forms of threats it can be faced with both present and future. So, risk identification is the first stage of the Risk Management process which develops the basis for the next stages. If success is not attained at this stage, then the risk will be non-manageable. This means that the company will not account for the risk and will not take any action related to it and the consequences could be much unexpected (Tchankova, 2002). This way, risks related to gains and losses must be identified. The inability to identify the risks of one is as inappropriate as to identify the other. Risk identification thus involves a comprehensive analysis of all present and future risks in the business operations, asset management and support services (Keith, 1992). During the process of risk identification, the bank is able to study its activities and the places where its resources are exposed to risk. This will help it especially when it has to carry out a future duty, in terms of developing and implementing new programs for risk control. Although all banks may be conscious of being faced with the same type of risks, the risk identification techniques for each of them can be different. It is always important for managers to identify all the possible risks they can be faced with because any neglected risk can have very negative consequences on the whole system.

2.2.2 Risk Analysis or Assessment

The risk assessment task is to understand what is at risk and what events could potentially cause harm or benefits. The risk is being assessed in terms of the severity of the impact, likelihood of occurring and controllability (Gray & Larson, 2006). When this is done, it helps the bank to know the chances that the risk might occur, and if it occurs, the impact it can have on the bank and how they can possibly control it. Risk assessment is done by prioritizing the risk either by using risk analysis or risk evaluation (Williams et al., 2006)**.** This risk analysis is based on the likelihood and consequences. Likelihood depends on the probability that the risk will occur and how frequently it will take place. While, consequences on the other hand can be measured by looking at the effects on results or on the enablers of results (Williams et al,. 2006). Knowing the frequency of occurrence of the risk and the effect it will have should it occur, gives the bank the base to know how important the risk is. Risk evaluation is then carried out when a good risk analysis has been undertaken. An evaluation is done against an appropriate risk-acceptance criterion to give a ranking (Williams et al., 2006).

2.2.3 Risk Control

Risk control involves using physical measures, techniques, tools and /or training staff to avoid, reduce, prevent or eliminate the perceived threat / its financial consequences and other undesirable results of risks (Keith, 1992).Naturally, risk cannot be avoided or eliminated so the only option is to control it. Banks like other organizations have different ways of approaching risks and the amount of risks each is ready to accept differs. Some will decide either to prevent the risk to allow it happen and then start looking for measures to tackle it, while others will decide whether to transfer or insure it.

There may also be a wide gap between the level of control possible and the level of control practiced. Risk tolerance is another domain in which banks may vary; some may be risk averse while others will be prepared to run calculated risks. This means the amount of risk that one bank may accept to tolerate differs from that of another bank. So, it is very important that all the aforementioned points be considered when assessing risk control (Keith, 1992).

2.2.4 Risk Monitoring

A plan is always made for the activities that are used to manage risk. To be sure that the activities attain the desired goal of the business, monitoring is very important so that the results gotten are in line with the set down goals. If it is noticed that the results are going contrary,

readjustment should be done immediately. Risk monitoring is very important and it goes hand in hand with risk control. Risks in banks need to be monitored just like any project in progress. The risk manager needs to constantly do assessment and make updates where there is need so as to be sure to handle any unforeseen risks at the right time before it is too late (Gray & Larson, 2006).

2.2.5 Definition of Risk

There is no single definition of risk. Economists, behavioural scientists, risk theists, statisticians, and actuaries each have their own concept of risk. Therefore, the researcher will try to give different authors view and definition for the word risk.

According to (Williams, 1998) risk is a potential variation in outcomes and exposure to a potential loss. It can also be defined as uncertainty about economic losses due to the occurrence of as an event. Economic losses are caused by perils such as crimes, fire and accidents. It is the possibility of an adverse deviation from desired outcomes that is expected.

According to Trieschmary, risk can be defined as uncertainty concerning losses. Risk surrounding a potential loss crates significant economic burdens for businesses, governments, and individuals. As further indicted by Trieschmary, billions of dollars are spent each year on strategies for financing potential losses. But when losses are not planned for in advance, they may cost even more. Businesses as well as individuals may try either to avoid risk as much as possible or to reduce its negative consequences. Overall, an entity's cost risk is the sum of outlays to reduce risk, the opportunity cost of activities forgone due to risk considerations, expenses of strategies to finance potential looses and the cost of un reimbursed losses (Trieschmary, 1998).

2.2.6. Types of Financial Risk

Financial risks, which this study specifically deals with, in turn comprise two types of risks. Pure risk including liquidity, credit and solvency risks-can result in loss for a Bank if they are not properly managed. Speculative risks, based on financial arbitrage, can result in a profit, if the arbitrage is correct or a loss if it is incorrect. Financial risks are subject to complex interdependencies that may significantly increase is normally exposed to currency risks, but also be exposed additionally to liquidity risk are interest rate, currency and market price risk (Sonja, 2003).

2.2.6.1 Liquidity Risk

Liquidity risk is a condition of an individual or business where in a high percentage of the assists can be quickly converted into cash without involving any considerable loss by accepting sacrifice prices. Liquidity implies a high degree of correctness and solvency in the equality sense; the ability of current assets will be able to meet current liabilities as they mature. Liquidity risk can also be defined as uncertain future outcomes that either improve or worsen the present liquidity position of the company. It may mean that holding idle cash on the hand or failure to meet financial commitments when they are due on the other.

Fund mobilization, fund application, quality service, branch expansion, and application of new technology are the critical issues that can be emphasised by management in minimizing liquidity risk. Fund raising is not limited to deposit mobilization. Borrowing and equity contribution are other sources of fund raising (Williams, 1998).

2.2.6.2 Credit Risk

"Loan is the thing that is lent, specially a sum of money, the action lending something or the state of being lent". For each lender a loan is an investment comparable to bounds, stocks or other assets. One the other hand, for each borrower, a loan is a debt, an obligation to repay the borrowed money plus interest" (Thomson's Dictionary of Banking)

Banks grant loans to borrowers assuming that they will pay the agreed interest and principal amount according to their contractual agreement. However, the borrower may fail to do so. This results in non perfuming loans (NPL). Non- performing loans are those loans which are past their due dates. According (Williams, 1998) to they are classified into three categories as shown below:

1. **Sub-Standard:-** Non-performing loans or advances past due 90 days or more but less than 180 days shall at minimum be classified sub-standard.
2. **Doubtful: -** Non –performing loans or advances past due 180 days or more but less than 360 days will be referred as doubtful.
3. **Loss: -** Non-performing loans or advances past due 360 days or more will be classified as loss.

2.2.6.3. Foreign Exchange Risk

The term foreign exchange refers to the simultaneous purchase of one currency and selling of another as currencies are traded in pair. Foreign exchange risk results from changes in exchange rates between a Bank's domestic currency and other currencies. It is a risk of volatility due to a

mismatch and may cause a Bank to experiences losses as a result of adverse exchange rate movements (Sonja, 2003).

There are a number of factors that affect a foreign exchange markets influencing the value of currencies. Some of these are: changes in interest rates of a currency affects the value of currencies in that the rise in interest rates of inflation that is the higher the rate of inflation, in the economy of a country, the lower will be the demand for the currency to result in decrease of the value. The country's economic and political stability have also an impact with the demand and supply of currency there by affecting the value. The more stable the political and economic condition of a country, the local currency will be strong, National Bank intervention is either in interest rates or exchange rates has an impact on value of currencies depending on the position taken by such bank, the larger the market orders for commodities, services or currencies which prevail in a given country, the more volatile will be foreign exchange rates depending on the level of supply.

2.2.6.4 Interest Rate Risk

According to (Sonja, 2003) Gardener interest rate risk refers to the exposure of an economic unit to movements in the market rates of interest. It is an important part of balance sheet management system, which is concerned with making the corporate trade-offs, sticking the correct balance between profitability, liquidity and capital adequacy (solvency).

All financial institutions face interest rate risk. When interest rates fluctuate, a Banks earning and expenses, as well as the economic value of its assets, liabilities and balance sheet positions also change. This risk is by its nature a speculative type of risk since its consequences may result in a profit or loss.

2.2.7 Credit Risk

Credit risk is most simply defined as the potential that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms. The goal of credit risk management is to maximize a bank's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters. Banks need to manage the credit risk inherent in the entire portfolio as well as the risk in individual credits or transactions. Banks should also consider the relationships between credit risk and other risks. The effective management of credit risk is a critical component of a comprehensive approach to risk management and essential to the long-term success of any banking organization (Basel Committee documents, 2000).

Credit risks appear in banking institution because of the uncertainties plagued the financial system. The uncertainties remain a major challenge in country. Still, the major approaches applied by the banks are the continuing efforts on research and close monitoring. Banks believe that the research and monitoring are the key sources of uncertainties like data generating institutions and the treasury (Uchendu, 2009). The market structure is important in banking for it influences the competitiveness of the banking system and companies to access to funding or credit investment. The economic growth affects the structure and development of the banking system. In addition, the vast knowledge in risk assessment and managerial approach is recognized as part of the development. Moreover, because the banks and the processes are highly regulated, it became very useful in assessing the effects or impact of the credit risk management in the banks and even in other financial sources (Gonzalez, 2009).

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 (Raghavan, 2003).

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: these procedures are putting in place limits for operations to limit credit risk; putting in place indicative limits for credit risk concentration and the share of unsecured loan portfolio; creation of security for credit operations; setting value conditions for operations with respect to payment for risks taken; permanent monitoring of risks taken and preparation of management reporting for the credit committee, the bank's management and units concerned; evaluation of regulatory and economic capital necessary to cover the risks taken in respect of the Bank's operations and ensuring its sufficiency; carrying out hedging operations; Permanent internal control over the Bank's units in respect of observing regulations on operations procedure and risk assessment and management by independent units.

The Bank's risk management envisages: Applying systematic approach to overall Bank's loan portfolio risk management and separate operations with certain borrowers/counterparties (group of related borrowers/counterparties); 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 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 bank has certain types of credit risk limits. These are counterparty limits, limitation 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). (NIB, 2017)

2.2.8 Credit Analysis and Appraisal

Credit analysis is the evaluation of borrower's capacity in properly servicing the loan. It is done to ensure that loans are made in appropriate terms to clients who can and will pay it back. What analysis is needed and in what scope, is primarily determined by the type and size of loan, but the ultimate purpose is to place good loans so that both parties can benefit from it and meet their objectives. In properly analyzing the credit worthiness of borrowers, lenders often look at some five factors that are known as the five C's of credit (James, 2003).

2.2.8.1 Character

It is the extent to which the borrower is willing to pay the loan. The debt repayment capacity is useless without the will of the borrower to repay the debt. Character is about the manner of the borrower in terms of having a well defined purpose, and a responsible attitude toward using the borrowed sum. Responsibility, truthfulness, serious purpose, and intention to repay are important elements in evaluating character. The credit officer can ensure this through serious interviews (James, 2003).

2.2.8.2 Capacity

It represents the debt repayment capacity of the borrower. Earning can be taken as a good indicator of loan repayment capacity. For instance, for a poor farmer, the capacity can be determined by looking the possible discretionary income he/she can have. That is income left after meeting essential requirements like food, and clothing. The average family size should be taken in to consideration since it affects the discretionary income to a large extent. A family with three members can have better discretionary income than a family with six members because the total income that seems to be fixed is going to be shared by large number as the family size increases. Another factor that can dictate the capacity of the borrower is the indebtedness of the borrower so far. For instance, if he is indebted to someone else (may be to local informal money

lenders), he may use the proceed he gets from selling the product towards the payment of his earlier debt (James, 2003).

2.2.8.3 Capital

The success of the business depends on the motivation attached to ownership interest, Banks will have to make sure that there is proportionate risk of the owners in the venture; hence the level of capital will have to be evaluated to ensure that the risk is shouldered by the party with ownership interest. In this connection factors like customers net worth, equity in home and other assets should be taken as indicators (James, 2003).

2.2.8.4 Condition

The environment surrounding them affects borrowers. For instance, climatic condition (absence of rain, for example) is one factor that affects the agricultural sector. Farmers are much affected by drought, hail, and uneven rainfall. The ability of farmers to repay their debts is directly linked to such risk in terms of successful crops, selling stocks etc… In addition to this, market for the product is another condition that affects the capacity of farmers to pay back their loans. For instance, if the productivity in other areas of the country is good, then the price for agricultural product will decline which adversely affect the cash flow of the farmer. All conditions that can affect the borrower in the future should be assessed before the loan is granted. Failure to recognize such things may lead to bankruptcy especially if the loan portfolio is concentrated on certain regions (Lulseged, 2002).

2.2.8.5 Collateral

In the event of default, a bank has claims on the collateral pledged by the borrower. The greater the priority of this claim and the greater the market value of the underlying collateral, the lower the exposure risk of the loan (Thomas, 2002).

2.3 Review of Empirical Evidence

Different researchers were conducted on this area of studies in different banks. Girma (2011) point out on his study credit risk management and its impact on performance in Ethiopian commercial banks that the default ratio of any bank in Ethiopia depends on credit risk management quality of the institution.

Solomon (2013) studied credit risk management practice of Nib International Bank of Ethiopia and in his assessment the researcher come across that factors lead to wrong decision making and increase NPL level of the bank are concentration of credit in few sector and borrower, collateral as number one technique of credit risk management, absence of credit risk model of credit

portfolio, lesser attention for MIS and advisory service to customers and absence of proper follow up.

Kwaku, (2015) studied assessing credit risk management practices in the Banking Industry of Ghana: Processes and Challenges and obtained the following findings. Some of the key findings from the study revealed that the bank has documented policy guidelines on credit risk management with a senior manager having oversight responsibility for implementation. However, the study showed that there were some implementation challenges of the credit risk policies which have resulted to low quality of loan portfolio of the bank. It is being submitted that bank's risk policies should be reviewed frequently.

Chen and Shuping, (2012) conducted a Research on the Credit Management of Commercial Banks of Lianyungang City for the small scale and medium enterprises (SMEs). Investigators have found out that the risk management plan and operation method that really suit for credit demand for the SMEs is still not mature and it caused that the bad debts and dead loan were overstocked in Lianyungang commercial bank, thus it seriously impact on the capital operation of commercial banks, and then it has caused some adverse impact to the development of local economy. Therefore, it is necessary for commercial banks in Lianyungang city to supervise and manage the whole process of credit of the small and medium-sized enterprises.

Hagos, (2010) has investigated Credit Management on Wegagen Banks. The main objective of the study is to evaluate the performance of credit management of Wegagen bank in Tigray Region as compared to National Bank's requirements in comparison with its credit policy and procedures. The following findings were the result of the investigation: the issues impeding loan growth and rising loan clients complaint on the bank regarding the valuing of properties offered for collateral, lengthy of loan processing, amount of loan processed and approved, loan period, and discretionary limits affecting the performance of credit management.

Ahmed, Takeda and Shawn (1998) in their study found that loan loss provision has a significant positive influence on non-performing loans. Therefore, an increase in loan loss provision indicates an increase in credit risk and deterioration in the quality of loans consequently affecting bank performance adversely.

David, (1997) Bank Risk Management: Theory .This paper is conducted to discuss why risk management is needed. It outlines some of the theoretical underpinnings of contemporary bank

risk management, with an emphasis on market and credit risk. This paper merely focuses on theory it doesn't get in to the practical aspects of the title.

According to Basel committee (1999) on the management of credit risk, the following was observed: Many credit problems reveal basic weaknesses in the credit granting and monitoring processes. While shortcomings in underwriting and management of market-related credit exposures represent important sources of losses at banks, many credit problems would have been avoided or mitigated by a strong internal credit process. They noted too that many banks find carrying out a thorough credit assessment (or basic due diligence) a substantial challenge. For traditional bank lending, competitive pressures and the growth of loan syndication techniques create time constraints that interfere with basic due diligence. Globalization of credit markets increases the need for financial information based on sound accounting standards and timely macroeconomic and flow of funds data. When this information is not available or reliable, banks may dispense with financial and economic analysis and support credit decisions with simple indicators of credit quality, especially if they perceive a need to gain a competitive foothold in a rapidly growing foreign market. Finally, banks may need new types of information, such as risk measurements, and more frequent financial information, to assess relatively newer counterparties, such as institutional investors and highly leveraged institutions.

NBE conducted the first survey on risk management practices of Ethiopian commercial banks by taking sample of nine members of bank's board of directors in 2009. It was specially aimed to identify the status of risk management practice of Commercial bank and to improve its strength further through providing fruitful recommendation on weakness. Inadequate risk management training, inefficient allocation of risk management budget, lack of up to date and relevant economic and business data for decision making, lack of documented risk management strategy and program, lack of reviewing risk management document regularly, and poor internal communication and lack of comprehensive risk limits system were identified as weakness of risk management system and practice of some Ethiopian Commercial banks while having qualified risk management staffs, existence of policy and procedure of Risk management, having committed BOD, awareness of risk in banking operation, contingence plan for operational and credit risk were the major strength of the banks. Generally, the dominance of all those weaknesses over the strength witnesses the existence of poor Risk management system and practice in Ethiopian Commercial banking industry.

The study of NBE (2009) identified and ranked three important types of risks in which Credit risk was ranked firstly and then followed by operational and liquidity risk

Richard E. et al., (2008) conduct research on the credit risk management system of Tanzanian commercial banks and found that checklist with the help of 5C (character, capacity, condition, credit history, and collaterals) was used to assess borrowers creditworthiness. Researcher also found that the quantitative credit scoring model was not used as a result of poor record keeping and lack of effective data base system in different sectors with in the country. Researcher further noted the difficulty of using modern credit risk management model due to lack of information and other financial infrastructure in under developed country.

Wondimagegnehu, (2012) conducted a study with a purpose of identifying the determinants of non-performing loans the case of Ethiopian banks. The study covered the period between 2005 up to 2010. The researcher identified deposit loans and total asset variables as affecting NPL of Ethiopian banks. Accordingly, the researcher found that there were no statistically significant relationship between all independent variables and NPL.

2.3 Summary and Knowledge Gap

As it has been stated above in the literature, several studies have suggested their findings with regards to credit risk management practices in the banks. Among others Solomon, (2013) found that collateral as a number one techniques of credit risk management and lesser attention to MIS and advisory service to customers. The researcher collected primary data through questionnaires and interview to evaluate the banks credit risk management and practices as a tool. The questionnaires are developed only for staffs of the bank not included borrowers. In addition, Alebachew (2015) in his study he assess the credit risk management policies and practices in Nib international bank S.C. the study found that poor credit policy. The researcher collected primary data through questionnaires and interview to evaluate the banks credit risk management policies and practices. The same as the previous study in the same topic the researcher questionnaires prepared only for staffs.

Therefore this study aim to fill the previous studies gap on research made on Nib international bank S.C. by applying different techniques of risk management tools like risk identification, risk understanding, risk evaluation, monitoring and controlling. According to the researcher those tools are major tools for assessing credit risk management. The interaction of our country’s

economy to the globe is increasing time to time NBE (2010) the evaluation of the bank risk management practices is very essential.

This study uses to measure the credit risk management practices of Nib international bank S.C. through collecting primary data and secondary data, the questionnaires were adapted to staffs and borrowers of the bank.

CHAPTER THREE

RESEARCH METHODOLOGY

This chapter discussing the methodology that used during the collection, analyzing and interpretation of data, it also the research design, population size and sampling techniques, data collection instrument and methods of data analysis discussed on this chapter.

3.1 Research design

A research design constitutes the blueprint for the collection, measurement and analysis of data. The study used descriptive research methods which incorporate with questionnaire and interview in the study area.

The study employed descriptive research design in order to assess the credit risk management practice of Nib International Bank S.C. The study used a mix of qualitative and quantitative research method to collect and analyze data relevant for the study. Descriptive research involves gathering data that describe events and then organizes, tabulates, depicts and describes the data collection (Glass & Hopkins, 1984).

3.2 Population Size and Sampling Techniques

The study populations drowning from Nib International Bank professionals and clerical employees those are working at Addis Ababa & outline branches. There are 568 credit related employees working on the bank and 2,235 borrowers throughout 215 branches. For this study only credit appraisal department, credit analysts, credit information and portfolio management division, customer relation managers (CRM) department, risk management department and selected eighteen branches that have a significant loan disbursed amount from the total loan disbursed by the bank. There are a total of 58 employees in the departments and 44 employees and 30 borrowers from those selected eighteen branches a total of 102 employees and 30 borrowers included in the research as a sample size.

In order to select relevant respondent used non probability sampling specifically purposive or judgmental sampling for credit and risk management staffs and convenience sampling for borrowers of the bank. Purposive or judgmental sampling is a strategy in which particular settings persons or events are selected deliberately in order to provide important information that cannot be obtained from other choices (Maxwell, 1996).The selection criteria set by the researcher made first, all credit related department managers and head office organs (credit appraisal department, credit analysts, credit information and portfolio management division,

customer relation managers (CRM) department, risk management department) considered as a whole sample. Second, those eighteen branches, which are selected for study, should have a largest amount of loan disbursed from the total outstanding loan of the bank. In this study, the researcher utilized purposive sampling technique in order to select participants of the study. The idea behind purposive sampling is to concentrate on people who are directly involved in credit processing and administering because they would better be able to assist with the relevant research data. Additionally in order to select relevant respondent on customers side used convenient or accidental sampling. Convenience sampling is selecting participants because they are often readily and easily available. Typically, convenience sampling tends to be a favored sampling technique among students as it is inexpensive and an easy option compared to other sampling techniques (Ackoff, 1953).

3.3. Data Collection Instrument

For the purpose of the study, both primary and secondary data's used. Primary data collected through questionnaires distributed to respondents that involve professional working in the banks such as branch managers, credit analysts, customer relation managers, loan recovery officers & loan officers as well as loan customers of the bank. In addition, interview employed for management members as primary data sources to supplement the questionnaire. The secondary data collected from financial statements and annual reports of the bank.

3.4 Data Analysis

In order to evaluate the credit risk management practices of Nib International Bank, more of qualitative methods of analysis is employed in addition to quantitative methods of analysis used the data collected through the semi structured questionnaires, interviews and secondary sources.
Moreover, most of the data were summarized and presented in tables, by the help of the Statistical Program for Social Sciences, version 20.0. Percentages for these data were calculated in order to facilitate the analysis and to make it presentable for the readers. The data collected were more of qualitative in nature; thus, they were presented by using descriptive analysis. Hence, the nature of the study is descriptive.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATIONS

The current section presents descriptive statistical analysis of the questionnaire and interview data. Throughout the analyzing process, statistical analysis method such as frequency, total scores and percentages method employed. Moreover tables are used to present the finding of the study.

The questionnaire was designed and distributed to 102 employees of the bank who was currently working in eighteen Addis Ababa branches and five departments located at head office. Accordingly, 100 questionnaires were returned, which is about 98% of the total distributed questionnaires.

Table 4.1 Demographic characteristics of questionnaire respondent's by age

Demographics	Frequency	Percentage	Cumulative Percentage
Age (Years)			
18 – 25	6	6	6
26 – 35	69	69	75
36 – 45	24	24	99
Above 45	1	1	100
Total	**100**	**100**	

Source: Researcher's survey result from primary data source

Table 4.1 describes a brief summary of different demographic characteristics the age range of the majority of the respondents lies between 26 – 35 years which is a share of 69% in the total data; this implies that the bank human resource especially in credit related staffs are younger aged. Youngsters are energetic and are easy to customize themselves with technology as such behavior could benefit the bank.

Table 4.2 Demographic characteristics of questionnaire respondents by Education Qualification

Demographics	Frequency	Percentage	Cumulative Percentage
Educational Qualification			
Diploma	0	0	0
Degree	74	74	74
Masters & Above	26	26	100
Total	**100**	**100**	

Source: Researcher's survey result from primary data source

Table 4.2 described that majority of the respondents educational qualification is degree holder which is 74% of respondents and 26% of respondents are holding their masters degree. Overall the result shows that the bank has in a good position in terms of the necessary educated manpower as the human resource management policy of the bank requires educational level of first degree and above for the job of credit.

Table 4.3 Demographic characteristics of questionnaire respondents by place of work

Demographics	Frequency	Percentage	Cumulative Percentage
Place of work			
Department	56	56	56
Branches	44	44	100
Total	**100**	**100**	

Source: Researcher's survey result from primary data source

Table 4.3 describes that the work place of the respondents 56% from head office five departments credit appraisal department, credit analysts, credit information and portfolio management division, customer relation managers (CRM) department, risk management departments and 44% from eighteen branches. Such a segregation of the respondent is important to suppose the research choose the right respondents to get validity of information, all files are analyzed in departments except the branch desecration limit because of this more information gathered from departments.

Table 4.4 Demographic characteristics of questionnaire respondents by work experience

Demographics	Frequency	Percentage	Cumulative Percentage
Work experience (Years)			
1 – 4	25	25	25
5 – 8	48	48	73
9 – 12	18	18	91
13 and Above	9	9	100
Total	**100**	**100**	

Source: Researcher's survey result from primary data source

Table 4.4 describes that the work experience of the respondents range between 2 years to 30 years, all respondents have above 2 years work experience in the total data. As a result the researcher believes that the respondents have a good work experience. Due to their experience respondents came across many credit risk exposures. This might have helped them to clearly understand the current credit experience management practice of the bank and they can easily identify the strength and weakness of same in the bank.

Table 4.5 Participants' Responses on manuals and procedures

Items	Measurement	Yes	No
The bank's credit policy is it flexible based on conditions	Freq. & %	62 (62%)	38 (38%)
The bank uses internal credit rating system for all credit facilities	Freq. & %	95 (95%)	5 (5%)
The bank's credit risk management policy easily understandable	Freq. & %	86 (86%)	14 (14%)
The guidelines support the objectives of credit risk management	Freq. & %	81 (81%)	19 (19%)

Source: Researcher's survey result from primary data source

In compliance to the policy of regulating body, all banks formulate their own credit policies and procedures which assist to provide different type of credit within each credit policy to their loan customers. Hence, in order to know the nature of banks' credit policy, the researcher raised

question credit policy and procedure is flexible based on conditions. Consequently, in table 4.5 shows 38% of the respondents said the credit policy and procedure of the bank is rigid, while, 62% of them said that the credit policy of the bank flexible. Most of respondents agreed on the importance, attractiveness and convenience of flexible credit policies and procedures as it assists for loan creation and growth.

The result show that in table 4.5 95% of the respondents uses internal credit rating system, the internal credit rating system has been developed by looking different factors type of loan, type of financial statement (financial standing), quality of management and banking relationship are some of them. From the above table it can be concluded the financial institution have developed internal credit rating to manage their credit risk. Well-managed credit risk rating system promotes bank safety and soundness by facilitating informed decision making. Rating systems makes credit risk and differentiate individual credits and groups of credits by the risk they pose. This allows bank management and examiners to monitor changes and trends in risk levels. The process also allows bank management to manage risk to optimize returns (Comptroller's hand book 2001).

In table 4.5 showed 86% of respondents understood the risk management guideline or policy. But 15% did not understand the risk management guideline or policy. From the table it can be generalized that almost all the credit staffs understand the guidelines that developed by their bank, this enables the employee to manage the credit risk that arise in their bank. As Hasanali (2002) and Department of State and Regional Development (2005) argue, one of the most important aspects of effective risk management is organizational structure. Organizational structure provides concepts, guidelines, direction and support to employees that conducted by the steering committee. The respondents understand the risk management guideline or policy.

Table 4.5 shows that 81% of respondents have guidelines that support the goals and the objectives of the credit risk management. All of the respondents believe that the guideline supports the goals and objectives of credit risk management.

Table 4.6 Participants' Responses on credit creation and procedure

Items	Measurement	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
The bank's have excellent credit analysis procedure followed by the bank in extending credit	Freq.	11	25	1	63	
	%	11%	25%	1%	63%	
The branch lending limit has sufficient to your branch grade level to serve the borrowers	Freq.	6	17	8	66	3
	%	6%	17%	8%	66%	3%

Source: Researcher's survey result from primary data source

In relation to credit creation and procedure, as indicated in table 4.6 36% of respondents agreed in excellent credit analysis and procedure followed by the bank in extending credit. 63% of respondents don't agree. Hence, there is a gap needed to improve the quality of credit analysis and loan processing at both head office and branches level to the status of excellent level that enables to create quality loan arresting non-performing loans.

All loans and advances of the bank is recommended or approved by the loan committee at branch level as per the discretions provided. As it is shown in the table 4.6 69% of the respondents disagree with the given discretion limit. This indicates that there is not power full and extends the process time for a small amount of loan sent the document to head office for approval purpose.

Table 4.7 Participants' Responses on collection

Item	Measurement	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
The credit collection technique used by your bank is effective	Freq.	5	85	6	4	
	%	5%	85%	6%	4%	

Source: Researcher's survey result from primary data source

In relation to credit follow-up and collection, as indicated in table 4.7 90% of respondents agreed in effective collection techniques used by the bank. 4% of respondents don't agree the rest 6% of

respondents neither agreed nor disagree. Hence, there is a good collection technique and follow up continuously insisting and remember the customers before payment date due two or three days.

There are different reasons why customers of the bank become unable to pay their periodic repayment. They include market problems, environmental problems, loan diversion, inadequate information about customer credit worthiness, lack of training, lack of follow-up, and so on. Thus, to find out the major causes for default in the study area, the researcher raised questions to employees of the Bank. Accordingly, the summaries of responses given are depicted in the subsequent tables. Some of these problems were from the Bank's side while the others were from the clients' side. The remaining factors were from external factors, like environmental and market problems.

Table 4.8 Participants' Responses on major reasons for default of credit in their bank

What do you think is / are the major reason /s/ for default in your bank?	Measurement	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Lack of follow – up	Freq.	9	38	1	50	2
	%	9%	38%	1%	50%	2%
Lack of training to credit related staffs	Freq.	8	55	5	30	2
	%	8%	55%	5%	30%	2%
Inadequate information about customer credit worthiness	Freq.	9	63	17	10	1
	%	9%	63%	17%	10%	1%
Loan diversion	Freq.	20	63	5	10	2
	%	20%	63%	5%	10%	2%
Lack of market for clients' product	Freq.	5	62	22	10	1
	%	5%	62%	22%	10%	1%
Unfavorable environment conditions	Freq.	14	70	11	4	1
	%	14%	70%	11%	4%	1%

Source: Researcher's survey result from primary data source

According to Table 4.8, 67 percent of the respondents agreed who are unable to pay their periodic repayment indicated that the major reasons for default were market problem 22 percent

of the respondents neither agreed nor disagree the rest 11 percents disagree with the major problem for default with market problem, 83 percent used the loan for other purposes like consumption (loan diversion), 5 percent of the respondents neither agreed nor disagree the rest 12 percents disagree on loan diversion the customers are used their loans for intended purpose, and 84 percent of the respondents agreed with unfavorable environment conditions on the business, 52 percent of the respondents disagree with lack follow-up is the major reason for default loan, 72 percent of the respondents agreed with there is inadequate information about customer credit the most important things to prepare the analysis is adequate information this indicates that the bank faces more credit risks because of lack of information. In bank loan diversion is the most common problem of defaults which bank usually take care of and exert possible efforts to protect from it through proper business viability assessment analysis, supervisions, and loan reviewing made before and after the loan provision. Inadequate information about customer's creditworthiness, lack of follow-up and supervision are the other major reasons for default.

Table 4.9 Participants' Responses on measures taken by the bank to improve the repayment situation

What measure /s/ is/are taken on the side of the bank to improve the repayment situation?	Frequency	%
Loan rescheduling	29	29%
Additional loan	1	1%
Frequently insisting the client	70	70%
All of them		

Source: Researcher's survey result from primary data source

As it is indicated in table 4.9 70% used preventive measure before failing loan through frequent follow up and insisting the loan client. Moreover 29% of respondents have replied the bank reschedules loans when the cause of default occurs justifiable. This indicates that the bank to improve on the repayment situation by frequently insisting of borrowers protects them to fail in credit risk.

Table 4.10 Participants' Responses on most effective and convenience forcing measurements

Which one of forcing measurements do you think most effective and convenience?	Frequency	%
Foreclosure	62	62%
Court proceedings	2	2%
Both	36	36%

Source: Researcher's survey result from primary data source

As it is indicated in table 4.10 62% respondents choose the most effective and convenience forcing measurement is foreclosure. Moreover 36% of respondents have replied both foreclosure and court proceedings are most effective and convenience forcing measurements to collect the default loan amount.

The credit recovery method used by the bank is treated in the same fashion as of credit collection methods. The measurements that are used include strict follow up and insisting the client, loan rescheduling, court proceeding, and foreclosure. In the bank credit is transferred to legal service when it fails to recognize or settle the loans in default and when all efforts to amicably settle the loans fail and it is ascertained that legal action is to be the last alternative.

Table 4.11 Participants' Responses on effective communication to reduce credit risk

How does your organization effectively communicate to reduce credit risk?	Measurement	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagre
Creating clear and trustworthy information	Freq.	37	49	2	12	
	%	37%	49%	2%	12%	
Developing understanding between management team and employee	Freq.	23	67	4	6	
	%	23%	67%	4%	6%	
Fast and sharp communication between management team and stakeholders	Freq.	24	56	15	5	
	%	24%	56%	15%	5%	
Regularly communicating among management and staff	Freq.	27	57	9	7	
	%	27%	57%	9%	7%	
Creating and maintain a clear communication	Freq.	27	56	7	10	
	%	27%	56%	7%	10%	

Source: Researcher's survey result from primary data source

In table 4.11 the researcher would like to know how the organization effectively communicates in order to reduce credit risk. The result show that most common way of communicating effectively to reduce credit risk is developing understanding between management team and employee with 90 % of respondents agreed. It means that most of the respondents think that developing this understanding is a first priority for the bank. The next result was regularly communicating among management and staffs 84%. Creating clear and trust worthy information and fast communication management team and customers followed with 86% and 80% respectively. The 83% agreed was creating and maintaining a clear communication. The respondents believed that developing understanding between management and staff, create information clear and trustworthy, maintaining clear to communication and fast and sharp communication in bank all is support effective communication in credit risk management practices. This indicates that the banks management has a good communication with employees and there is an advantage to know the early signals of credit risks.

Table 4.12 Participants' Responses on time of provide credit risk management training

How often does your organization provide credit risk management training courses?	Frequency	%
Never	60	60%
1 time per year	34	34%
2 times per year	4	4%
More than 2 times per year	2	2%

Source: Researcher's survey result from primary data source

In table 4.12, it was asked the respondents about frequency of credit risk management training in their organization. The result shows that 60% most of the respondents of the bank have no taken credit risk management training, 34% have a credit risk management training course one time per year, and more than 2 times per year 4%. Since the purpose of training is to improve knowledge, skill and attitudes to job satisfaction it is better to know how frequent the bank provides training for employees. According to table 4.12 it can be conclude that the bank doesn't give training to employees. The bank must give training and enables employees to understand the credit risk management practices and to do better effort on behalf of the bank benefit.

Credit risk management becomes a part of good business practice and should include training staff appropriately. The main reason for a training program is to ensure that the members are

comfortable with the system and increase the expertise and knowledge level of the members. The purpose of training is to improve knowledge, skills, and attitudes that in turn increase confidence, motivation and job satisfaction (Fill and Mullins, 1990).

The challenges that the respondents face in credit risk management lack of experience, lack of technology to manage portfolio data, inadequate human capacity, problem of collateral estimation and registration, low level of awareness to ward credit risk management, unable to get full information about customer from external sources, use of traditional or simple measurement tools, and absence of relevant information on time, the time of credit analysis the analysts not consider the 5Cs to benefit the customer this is a big challenge for credit risk, lack of clarity on loan file, loan administration, character of the borrower, external factors (PESTLE factors), in recent years the country was hit by great demonstrations following economic meltdown. As a result all economic participants suffer the consequence that affected the financial institutions highly. The bank doesn't have credit risk registration, KYC not done effectively, proactive management of credit risk not done; managing problem loans should not be done. The top management is not create environment to which information are passed to the officers and mangers at branch level. Also the management may act deciding on high risk credit facilities at their level depending on relationship and friendly, even branch managers at branch discretion limit. There is no training rather the staffs most of the time communicate the case with phone. If there is training the case may be shared all over the staff and easily solved right now no such kind. This leads to increase the risks. The customer may not have got full information this leads to increase default loans and the bank incur in high utility expense. Additionally unpredictability of the market situation, currency devaluation and high rate of economic inflation, evaluation of customer trustworthiness are another challenges faced by the credit related staffs.

The study has incorporated four items to measure the risk understanding a brief summary of responses is reported in table 4.13.

Table 4.13: participants' responses on risk understanding

Risk understanding								
No.	Items	Measurement	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1	There is a common understanding of credit risk management in the bank	Freq.	4	34	1	61	
		%	4%	34%	1%	61%	
2	There is a proper system for understanding credit risks implemented in the bank	Freq.	4	30	4	62	
		%	4%	30%	4%	62%	
3	Responsibility for risk management is understood throughout the bank	Freq.	4	28	3	65	
		%	4%	28%	3%	65%	
4	Accountability for risk management is understood throughout the bank	Freq.	5	17	5	73	
		%	5%	17%	5%	73%	

Source: Researcher's survey result from primary data source

61% in which the participants have been viewed to assess there is no a common understanding of credit risk management across their bank. It is evident that the credit related staffs of the bank have no common understanding of credit risk management. It may provide an indication regarding the unable to identify and manage their potential risk exposure in future. In item two 62% of the respondents have no proper system understanding of credit risk. This indicates that the system not support the credit risk management of the bank. In item three 65% of the respondents disagree with the understanding of the responsibility for risk management throughout the bank. This indicates the credit related staffs don't know their responsibility. Item four has 73% in which respondent's there is no understanding about the accountability for credit risk management throughout their bank has been judged. This indicates that the understanding regarding the accountability for credit risk management in bank is relatively diminishing as compared to understanding. However, all four items have exceeded the disagree compared to agreed respondents on the Five-point Likert scale and reports that the credit staffs of the bank have no a risk understanding in general.

In order to measure the risk identification, four questions have been asked. Table 4.14 shows summary of responses results in terms of frequency and percentage.

Table 4.14: participants' responses on risk identification

Risk Identification								
No.	Items	Measurement	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1	The bank carries out a systematic identification of credit risks relating to each of its declared objectives	Freq.	3	41	5	51	
		%	3%	41%	5%	51%	
2	Changes in credit risks are identified with the bank's responsibilities	Freq.	2	40	6	52	
		%	2%	40%	6%	52%	
3	The bank is aware of the strengths of the credit risk management systems of other banks	Freq.	1	19	4	76	
		%	1%	19%	4%	76%	
4	The bank has developed procedures for the systematic identification of opportunities	Freq.	2	13	5	80	
		%	2%	13%	5%	80%	

Source: Researcher's survey result from primary data source

All the values reported in table 4.14 indicate that there is very little variance between responses given by the bank credit staffs. The overall percentage of all responses is under disagreement position. However, the average response of each item shows different values and varies between 51% and 80%. The first item of the risk identification has 51% of the respondents disagreed and 44% of the respondents agreed the rest 5% neither agree nor disagree, in which the participants have been asked to give their feedback of the banks have poorly identified their potential risks in response to their declared aim and objectives. The high 80% reveals that the bank has doesn't adopted a compressive and systematic risk identification mechanism.

Moreover, the average percentage score of all four items is more in disagree and indicates that the credit staffs of the bank are poor in risk identification. This result supports the finding of risk

understanding section 4.13 that the lower risk understanding affects the risk identification in the bank.

This study questionnaire has included eight questions about the risk assessment and analysis. Table 4.15 shows the results of frequency and percentage of the responses of these questions.

Table 4.15: participants' responses on risk assessment and analysis

Risk Assessment and Analysis							
No.	Items	Measurement	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1	This bank assesses the likelihood of occurring credit risks.	Freq.	6	76	5	13	
		%	6%	76%	5%	13%	
2	This bank's credit risks are assessed by using quantitative analysis methods	Freq.	2	96	1	1	
		%	2%	96%	1%	1%	
3	This bank's credit risks are assessed by using qualitative analysis methods (e.g. High, Moderate, Low)	Freq.	4	34	5	56	1
		%	4%	34%	5%	56%	1%
4	The bank analyses and evaluates opportunities it has to achieve objectives	Freq.	5	70	9	16	
		%	5%	70%	9%	16%	
5	The bank undertake a credit worthiness analysis before granting credit or executing transactions	Freq.	14	82	3	1	
		%	14%	82%	3%	1%	
6	Before granting credit by the bank undertakes specific analysis including the applicant's character, capacity, collateral, and conditions	Freq.	22	76	1	1	
		%	22%	76%	1%	1%	
7	The bank has a computer based support system to estimate the earnings and risk management variability	Freq.	10	6	2	79	3
		%	10%	6%	2%	79%	3%
8	The bank relies on the output of quantitative data with human judgment	Freq.	2	54	37	7	
		%	2%	54%	37%	7%	

Source: Researcher's survey result from primary data source

In table 4.15, Item one 82% of the respondents strongly agreed and agreed on the assessment of the bank on occurrence of credit risk, 5% of the respondents neither agreed nor disagree, the rest 13% is disagree with assessment of the likelihood of occurrence of credit risk. In item two 98% of the respondents strongly agreed and agreed the bank uses quantitative analysis method to assess the credit risk, 1% of the respondents neither agreed nor disagree, and 1% of the respondents disagree with the quantitative analysis method. In item three 57% of the respondents disagree and strongly disagree with the assessment of credit in qualitative way, 38% of the respondents are strongly agreed and agreed with the qualitative assessment, the rest 5% of the respondents are neither agreed nor disagree with the assessment method. This indicates that the bank uses quantitative methods of assessment rather than qualitative method. Item four has 75% of respondents agreed, which indicates the bank analyzes and evaluates opportunities in order to achieve their objectives. In item five 96% of the respondents strongly agreed and agreed with the analyze the customer’s credit worthiness before granting a credit, this indicates that the bank know the customer by analyzing financial and non financial data’s of the borrower and knows the borrower capacity to repay the debts on time. In item six 98% of the respondents strongly agreed and agreed with the analysis of 5C’s these are character, capacity, capital, collateral, and conditions of the applicants based on the collected data and information, this indicates that the bank is good on the part on analysis. In item seven 82% of the respondents disagreed and strongly disagreed with the bank have no computer based support system to estimate the earnings and risk management variability, this indicates that the bank uses only manual system or paper based information transfer this is time taking. In item eight 56% of the respondents strongly agreed and agreed with relies on human judgment at quantitative data, 37% of the respondents are neither agreed nor disagree with the judgment, the rest 7% disagreed with the human judgment. In the overall assessment and analysis of risk in the bank percentages score of eight items and highlights that the bank are generally good in risk assessment and analysis.

This research has used six questions to measure the risk monitoring and controlling. The frequency and percentage results of all these response are presented in table 4.16.

Table 4.16: participants' responses on risk monitoring and controlling

Risk Monitoring and Controlling							
No.	Items	Measurement	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1	Monitoring the effectiveness of credit risk management is an integral part of routine management reporting	Freq.	15	53	24	8	
		%	15%	53%	24%	8%	
2	The level of control by the bank is appropriate for the credit risks that it faces	Freq.	25	39	30	6	
		%	25%	39%	30%	6%	
3	The bank has adopted a standard reporting system about the credit risk management from bottom to top management	Freq.	10	77	8	5	
		%	10%	77%	8%	5%	
4	Reporting and communication processes within the bank support the effective management of credit risks	Freq.	23	69	6	2	
		%	23%	69%	6%	2%	
5	The bank effectively monitors the credit limit of everyone counterparty	Freq.	34	55	8	3	
		%	34%	55%	8%	3%	
6	The borrower's business performance is regularly observed by the bank following the extension of financing	Freq.	11	15	5	67	1
		%	11%	15%	5%	67%	1%

Source: Researcher's survey result from primary data source

All the values reported in table 4.16 indicate that the respondents have quite similar responses. The percentage response of each item shows values between 64% and 92%, with an overall average value 80% of all the six items. The fourth item of the risk monitoring and controlling has the highest 92%, in which the participants have been asked to give their feedback if the effective management of risk is supported by the reporting and communication processes within the bank. The high percentage reveals that the reporting and communication help to improve the effective risk management of the bank. In item six 68% of the respondents disagreed and strongly

disagreed with the borrower's business performance regularly visiting. This indicates that the business is observed before disbursement; the borrowers business is regularly visit after disbursement to minimize the future credit risk for the bank. The average percentage of all items on the five-point Likert scale and reports that are good in risk monitoring and controlling.

Five questions have been included in the study questionnaire in respect of the managing credit risk. Table 4.17 summarizes the results of these responses in terms of frequency and percentage.

Table 4.17: participants' responses on managing credit risk

Managing Credit Risk							
No.	Items	Measurement	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1	The credit risk strategy set by the Board of directors are effectively communicated within the bank in the shape of policies by the top management	Freq.	14	82	1	3	
		%	14%	82%	1%	3%	
2	The bank has an effective risk management framework (infrastructure, process and policies) in place for managing credit risk	Freq.	19	67	6	8	
		%	19%	67%	6%	8%	
3	The bank has a credit risk rating framework across all type of credit activities	Freq.	30	60	6	4	
		%	30%	60%	6%	4%	
4	The bank monitors quality of the credit portfolio on day to day basis	Freq.	3	4	10	83	
		%	3%	4%	10%	83%	
5	The bank regularly prepares periodic report of credit risk	Freq.	23	77			
		%	23%	77%			

Source: Researcher's survey result from primary data source

Table 4.17 shows that the overall average percentage of all the questions is 90.5% and the percentage value of each item varies from 86% to 96%. The first item has 96% of respondents strongly agreed and agreed, which indicates that the credit risk strategy is effectively transformed and communicated within the bank by the top management. In item three 90% of the respondents agreed with the bank has a credit risk rating framework across all type of credit activities, the

remaining 6% and 4% is neither agree nor disagree and disagree respectively with the internal credit risk rating system. On the other hand, the forth item shows 83% of the respondents disagreed with the monitor quality of credit portfolio in day to day basis, this indicates that the bank doesn't control day to day only on the periodic time monthly credit portfolio review any occurred deterioration is discussed on monthly basis. In item five 100% of the respondents agreed with the regularly preparation of credit risk report. This indicates that the bank have an excellent periodic reporting system to control credit risks. The overall percentage of all items is more the average percentage they are generally good in credit risk management.

This study has included five items in the questionnaire to compute the credit risk management practices. Table 4.18 provides a summary of frequency and percentage of the responses.

Table 4.18: participants' responses on risk management practices

Risk Management Practices							
No.	Items	Measurement	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1	The bank's executive management regularly reviews the organization's performance in managing its credit risks	Freq.	25	68	3	4	
		%	25%	68%	3%	4%	
2	The bank has highly effective continuous review / feedback on credit risk management strategies and performance	Freq.	33	59	5	3	
		%	33%	59%	5%	3%	
3	The bank's credit risk management procedures are provide guidance to staff about managing credit risks	Freq.	15	71	9	5	
		%	15%	71%	9%	5%	
4	The bank's policy encourages training programs in the area credit risk management	Freq.	2	9	2	85	2
		%	2%	9%	2%	85%	2%
5	Efficient credit risk management is one of the bank's objectives	Freq.	43	54	3		
		%	43%	54%	3%		

Source: Researcher's survey result from primary data source

All the values shown in table 4.18 indicate that there is a very little variance between feedbacks received from respondents. The percentage response of each item shows value between 86% and

97%, with an overall average value 92% of all the five items. The first item of the credit risk management practices displays the highest percentage and reports that the executive management of the bank regularly reviews their bank performance in managing their business risks. The fourth item 87 % of the respondents disagreed and strongly disagreed with the encouragement of training by the policy in connection with credit risk. The main reason for a training program is to ensure that the members are comfortable with the system and increase the expertise and knowledge level of the members. The fifth item of the credit risk management practices displays the highest percentage which is 97% of the respondents strongly agreed and agreed with one of the bank objective is efficient credit risk management. Based on the percentage value scores the bank has an excellent credit management practices.

4.2. Responses from Interview

To gather more information about credit risk management policies and practices in Nib International Bank S.C., interview questions were forwarded to division heads, directors of credit and appraisal department, customer relation managers department, credit information and portfolio management division, as well as four branch managers of the bank. Accordingly the interviewee's responses to the questions are depicted briefly as follows.

A. Summary of response on credit services offered by the bank

The interviewee's says about the credit services offered by the bank, there are Agriculture, Manufacturing, Domestic trade and service, International trade – Import, International trade – Export, Building and Construction, Hotel and tourism, Transportation, Financial Institution, Mine, Power and Water, Personal loan and overdraft facility the main kinds of banking products and services offered by the bank.

B. Summary of response on the type of risks exist on the credit services

The interviewee's says there is two risks collateral risk and financial risk. Each type of collateral by its very nature has a risk associated with it. Financial risk is related to borrower's financial statement; those statements are unaudited and prepared based on customer's interest.

C. Summary of response on internal credit risk rating system of the bank

In general, credit risk management is an important mission of Nib International Bank S.C. From the interview, the interviewed persons of Nib International Bank pointed out that there are three core parts of credit risk management. They are Lending Procedure, Loan Loss Provision and Collections Department.

Beside the list of the important tasks and questions that the banks use in credit analysis, the bank also create other tools for this purpose such as internal credit rating system. Internal credit rating system is one powerful tool that the bank used to analyze the data of customer and facilities. The internal credit rating system is used in loan approval, portfolio monitoring and management reporting. These systems analyze the adequacy of the loan-loss reserves or capital, the profitability and the loan-pricing analysis (William & Mark 2000, 168). With these systems, the credit risk is identified and measured properly. When applying for a loan, debtors need to provide the information such as identities, financial data, credit status etc. In order to calculate this rate, the bank has to find the factors that can affect to the credit portfolio these are collateral risk, financial risk, account performance, and relationship with Nib bank, assign the weights and sum up to get the score. In the case study bank, a qualified customer needs to have at grade A, B, and C to get a loan approval (adapted from the interview). Internal risk rating system is an important tool for bank in the process of managing their credit risks and monitoring their assets quality. A well-structured risk rating system is a good means of differentiating the degree of credit risk in the different credit exposure. Moreover, the banks also use the policies and strategies to minimize the credit risk that can appear.

D. Summary of responses on the role of internal control in credit risk management

The interviewees' says internal audit department conduct review of the credit risk management process once a year. The internal control ensure the following points adherence to credit risk management policy and procedure, accurate and complete recording transaction, loan review functions are performed as per NBE's requirement (SBB/43/2008), periodic reports on all the exposure are available to senior management and submitted to the board.

E. Summary of responses on the policy and procedure revision

The policy and procedures are reviewed based on conditions, government policies, and market situation. The recent policy revised in 2017.

F. Summary of response on the policy regarding to credit risk management

The interviewees' says the policy puts credit portfolio management diversification of loan portfolio to manage a credit risk. The bank manage or diversifies its credit portfolio through setting limits to economic sectors, term and type of loan, single borrowers, related party loans, off balance sheet exposures, etc. based on this the policy is effective.

G. Summary of response on the extra elements to robust credit management process

Bring client financial information on monitoring visit and compare to current situation, checks all items on monitoring (capital expenditures, suppliers, management, customers, competitors – not just monthly sales) and analyze the information to make monitors all clients even good ones.

4.3 Responses from loan clients

30 questionnaires were distributed to the loan clients in the target branches based on their loan portfolio. 28 questionnaires returned these means 97% of the distributed questionnaires were collected.

Table 4.19: Manner of application of clients

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

Statement	Frequency	Percent	Valid Percent	Cumulative Percent
Self	14	50.0	50.0	50.0
Loan Clients of the bank	7	25.0	25.0	75.0
Staff	7	25.0	25.0	100.0
Total	28	100.0	100.0	

Source: Researcher's survey result from primary data source

As it is denoted in table 4.19, 50% of the applicants approached the bank by own initiation and 25% of new applicants were approached to the bank by former loan clients of the bank. In addition 25% of new applicants approached the bank through the effort of the employee. From these it can be concluded that the bank has already created dependable awareness among the potential applicants and well integrated with in the business community. It also shows when the former loan clients and employees participate in the effort of mobilizing and screening new clients the number of credit risk decreases.

Table 4.20 Loan clients relation with the bank

For how long are you loan client of the bank?

Statement	Frequency	Percent	Valid Percent	Cumulative Percent
1 - 2 Years	8	28.6	28.6	28.6
3 - 4 Years	12	42.9	42.9	71.4
5 - 7 Years	4	14.3	14.3	85.7
> 7 Years	4	14.3	14.3	100.0
Total	28	100.0	100.0	

Source: Researcher's survey result from primary data source

In Table 4.20, it is disclosed that 28.6% of the respondents of the bank have between one and two years experience, 42.9% have three to four years experience, 14.3% have five to seven years experience, and 14.3% have more than seven years experience in relation to the branches.

In addition as the number of years increase, the number of experienced loan clients of the bank decreases disclosing the turnover of clients as they accumulate loan experience that enable to access other competing banks and this impedes the performance and loan growth of the bank.

This means the bank is entertaining new applicants while the experienced loan clients are shifting to other banks due to the high computation in the sector. This is contrary to the policy of building long lasting bank borrowers business development and relation.

Table 4.21: participants' responses on loan processing

No.	Statement	Measurement	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1	The bank loan processing time short for you	Freq.	2	2	3	19	2
		%	7.1	7.1	10.7	67.9	7.1
2	The bank loan processing method convenient for you	Freq.		14	7	7	
		%		50	25	25	

Source: Researcher's survey result from primary data source

As Table 4.21 clearly shows, 75% of the respondents complained that the loan processing time is too long. This indicates that especially loan processing takes a long time the season for which loan required is elapsed, while 14.2% reflected positively the rest 10.3% neither agreed nor disagreed with the time of loan processing. In item two 50% of the respondents agreed with the convince of loan processing method, 25% of the respondents reflected negatively, the rest 25% neither agreed nor disagreed with the loan processing. This indicates that for different customers and type of credits requirements are differ.

Table 4.22: participants' responses on site visit

No.	Statement	Measurement	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1	The bank visit your business sites frequently after loan granting	Freq.			1	12	15
		%			3.6	42.8	53.6

Source: Researcher's survey result from primary data source

As Table 4.22 clearly shows, 96.4% of the respondents replied negatively regarding to the business sites frequently visit by the bank employee such as branch manager/assistant branch manager, loan officer, customer relation manager. This confirms that the bank visit the business site at the time of loan request only, this open a loophole to divert the loan other than the intended purpose and the bank faces a credit risk in future.

Table 4.23: participants' responses on approved loan

No.	Statement	Measurement	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1	The amount of loan approved was enough for the intended purpose per your request	Freq.	1	4	2	18	3
		%	3.6	14.3	7.1	64.3	10.7

Source: Researcher's survey result from primary data source

As Table 4.23 clearly shows, 75% of the respondents complained that the loan granted is not sufficient for the intended purpose of the business while 17.9% reflected positively.

Most of the loans delivered are for the purpose of working capital and lays in the range of short term and medium term period that is for one year and to some extent five years respectively. This leads to say the amount of the loan used to be granted in the country as well as in general is not meeting the demand of clients. This may leads the borrowers to use the borrowed money other than the intended purpose or loan diversion.

Table 4.24: participants' responses on convenience of repayment

No.	Statement	Measurement	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1	The loan repayment duration convenient for your business	Freq.	2	17	3	6	
		%	7.1	60.7	10.7	21.4	

Source: Researcher's survey result from primary data source

Most of the respondents as indicated in table 4.24 above disclose that, 67.8% strongly agreed and agreed with the convenient of loan repayment and 10.7 neither agree nor disagree and the reset 21.4% disagreed with the convenient of loan repayment. This indicates that the bank uses convenient repayment duration for customers like monthly, quarterly, and semi-annually. The borrowers of the bank are free from stress or pressure to meet their obligation and the borrowers have a good relation with bank.

Table 4.25: participants' responses on improvement

No.	Statements	Measurement	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1	The bank needs improvement on accepting loan application	Freq.	5	20	3		
		%	17.9	71.4	10.7		
2	The bank needs improvement on collateral estimation	Freq.	12	10	4	2	
		%	42.9	35.7	14.3	7.1	
3	The bank needs improvement on follow and collection of loans	Freq.	5	14	3	6	
		%	17.9	50	10.7	21.4	
4	The bank needs improvement on processing and approving loans	Freq.	9	15	2	2	
		%	32.1	53.6	7.1	7.1	
5	Your so far relationship with the bank as a loan client is good	Freq.	8	20			
		%	28.5	71.5			

Source: Researcher's survey result from primary data source

Moreover, 89.3% and 67.9% of the respondents exposed the need of improvement the prevailing procedures in accepting loan applicants, follow-up and collection procedures respectively. With regard to the problems in collateral estimation and reduction of loans as well as loan processing time as exposed in Table 4.25, 78.6% of respondents explained their complaining on collateral estimation. Thus, this reveals the policy and guidance of collateral value estimation, the time of processing and decision as head office loan analysts and loan approving committee needs improvement in order to be in position to entertain potential loan clients and assure loan clients long lasting relationship.

Table 4.26: participants' responses on motivating to repay loan on time

No.	Statements	Measurement	Most Important	Important	Neutral	Less Important	Not Important
1	Not to lose collateral	Freq.	14	11	2	1	
		%	50	39.3	7.1	3.6	
2	To keep social status	Freq.	3	9	9	6	1
		%	10.7	32.1	32.1	21.4	3.6
3	Expectation of getting another loan	Freq.	5	6	8	9	
		%	17.9	21.4	28.6	32.1	
4	Knowing that paying bank loan per the agreement is ethical and an obligation	Freq.	22	6			
		%	78.6	21.4			

Source: Researcher's survey result from primary data source

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

As it is shown in table 4.26, 100% of the respondents revealed that they manage to pay their loan convincing themselves that loan repayment being obligation and ethical while the rest 89.3% and 39.3% exposed that they repay their loan for sake of protecting their property held as collateral and also to secure getting another loan from the bank.

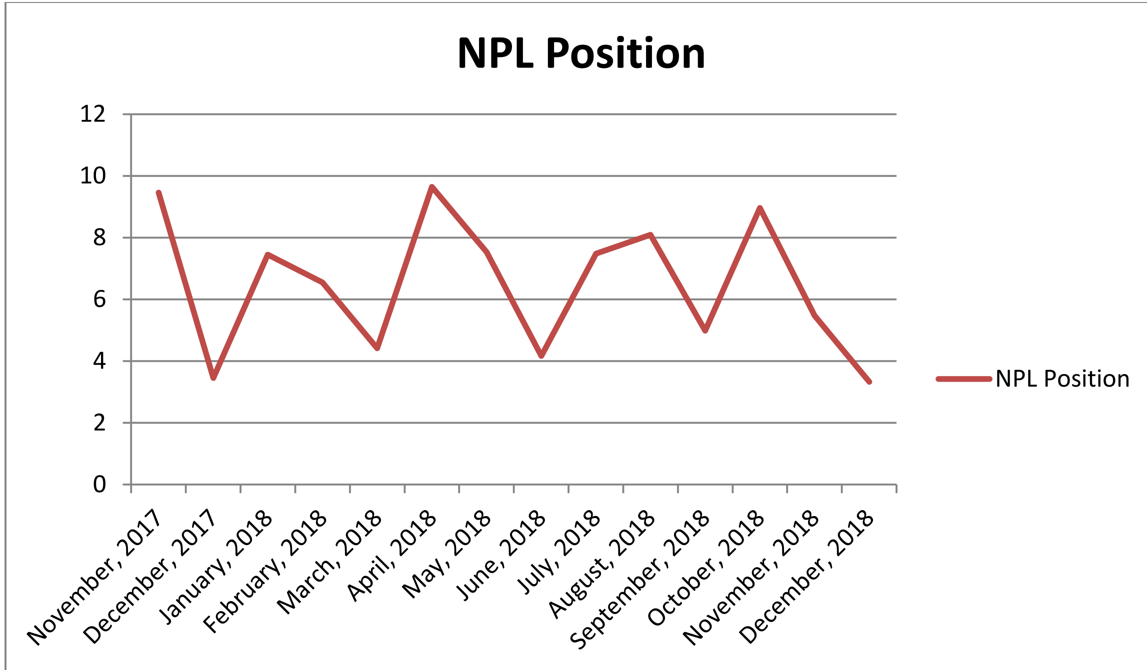


Table 4.27: Fourteen Months NPL Position of the bank

S.No.	Months	NPL Position in %	S.No.	Months	NPL Position in %
1	November, 2017	9.46	8	June, 2018	4.17
2	December, 2017	3.45	9	July, 2018	7.48
3	January, 2018	7.45	10	August, 2018	8.09
4	February, 2018	6.55	11	September, 2018	4.98
5	March, 2018	4.41	12	October, 2018	8.96
6	April, 2018	9.64	13	November, 2018	5.47
7	May, 2018	7.53	14	December, 2018	3.33

The NPL position of the bank for the previous fourteen months data shows there is no consistency on NPL reduction, the NPL reduced only end of quarters the rest months have highest NPL position above threshold. This indicates that there is no a proper follow up at branches and the reduction of NPL at the end of quarter by pressure or instructions given by top management for the purpose of quarter performance. Credit officers should know their portfolio total portfolio at risk, risks, potential problems and trends.

CHAPTER FIVE

MAJOR FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 MAJOR FINDINGS

Based on the results of the study obtained through the questionnaire distributed to 100 credit and risk related employees of the Bank and 28 borrowers of the bank and interviews made with higher official of the Bank so as to assess management of the Bank's credit policy and practice findings of both good points that are appreciated and areas that need improvements are summarized and conclusions were made accordingly.

- In simple descriptive analysis majority of the bank's staff fall between 26 – 35 years of age, this implies that the bank's human resource particularly who are working on credit and risk related matters are more of young aged.
- Demographic characteristics of the bank revealed that the bank is in good position in terms of the necessary educated manpower and experienced staffs as all staff who are working on credit and risk related issue have at least BA degree and or above as well as 100% have a work experience of above 2 years.
- It is found that majority of the respondents are agreed that credit policy and procedure of the bank which is currently in operation flexible based on conditions, easily understandable, support the objective of credit risk management, and uses internal credit rating system for all credit facilities.
- It is found that the majority of respondents are not agreed that the analysis procedure followed by the bank extending credit and desecration limit of branches.
- The result also discovered that about 90% of respondents are agreed the bank uses effective credit collection techniques.
- It is found that the majority of respondents are agreed that the major reasons for default of credit are lack of training to credit related staffs, inadequate information about customer credit worthiness, loan diversion, lack of market for client's product and unfavorable environment conditions.
- Respondents holding about 70% used preventive measure before failing loan through frequent follow up and insisting the loan clients.
- Respondents holding about 62% choose the most effective & convenience forcing measurement is foreclosure.

- The bank is in good position in terms of effective communication to reduce credit risk between management team and employees clear and trust worthy information.
- Bulks of respondents who hold about 60% are not taken any credit risk management training.
- The analysis clearly shows that an employee of the bank has a poor risk understanding & identification because of lack of training.
- It also found that the bank did not implement effective information system to monitor and control risks inherent to counter parties' credit portfolio as this is supported by majority of respondents view.
- The bank is in good position in terms of risk monitoring and controlling to effective management of credit risk.
- It is found that majority of respondents not agreed with regular observation of borrowers business
- The bank is in good position in terms of managing credit risk and develops effective risk management framework and effective communication between BOD and top management.
- In simple descriptive analysis majority of the bank's borrower approached the bank by own initiation.
- It is found that majority of respondents are not agreed with shortness of loan processing time.
- It is found that the bank did not visit frequently the business site of borrowers after loan disbursed.
- Respondents holding about 75% the amount of loan approved was not enough for intended purpose per their request.
- It is found that the majority of respondents are agreed in the repayment duration convenient for their business.
- The result also discovered that majority of respondents says the bank needs improvement on accepting loan application, collateral estimation, follow up and collection of loans, processing and approving loans.
- All respondents revealed that they manage to pay their loan convening themselves that loan repayment being obligation and ethical.

5.2 CONCLUSIONS

This study focuses on examining the credit risk management practices of the bank. These results indicate that on effective risk management framework of a bank depends up on a number of important factors. The effectiveness of the credit risk management practices significantly depends up on the proper understanding of credit risk and credit risk management among the bank staffs. Furthermore, it is very important for bank to formulate on active credit risk management process to identify measure, monitor and control credit risks.

- The study summarizes that the bank used different credit risk management tools, techniques and assessment models to manage their credit risk, the credit risk management and that they all have one main objective, i.e. to reduce the amount of loan default which is principal cause of bank failure.
- Employees are not good enough in understanding credit risk and its management, this might cause a maximizing the probability credit risk occurrences.
- On the bank side there is a good measurement and analysis of risk, risk monitoring and controlling, credit risk analysis in general.
- Lack of adequate trainings and continuous updating of the level of staff competence may create poor credit evaluation, monitoring and recovery.
- Lack of adequate knowledge (being illiterate or unskilled) on how to use loan granted may lead to defaulting. In this connection loan diversion is a problem of such borrowers, because they may have low returns that could not cover the repayment resulting in default.
- Good information is needed in order to make analysis, to monitor borrower's behavior after lending and to take appropriate corrective actions if it appears that things are not going as planned. For those matters, the bank require reliable data, which in turn depend up on better accounting, auditing and rules on disclosure of financial information. However the information system in our country is poor that banks often use incomplete information for decision making, where the probability of default is high.
- The survey shows the respondents identified commitment and support from top management as the most important. Top level management responds to businessprocesses and manages credit risk. Most of the organizations believe that it is the responsibility of the board of directors or committee and executive management team to establish credit

risk management. Top management decides the objectives and strategies for organizational credit risk management activities, mission and overall objectives.

- All of the respondents indicate that their bank has a documented credit risk management guidelines and most of the respondents understand the guideline of credit risk management. The guideline also helps the organization to supports the goals and objectives of credit risk management.
- The survey shows the respondents credit risk management becomes a part of good business practice and should including training staff appropriately. Since the purpose of training is to improve knowledge, skill and attitudes to job satisfaction the organization never provide training for employees as agreed by most of the respondents.
- The paper shows the means of communication that they use to reduce credit risk. The result shows that the most common way to communicating effectively to reduce risk is developing understanding between management team and employer.
- The collection techniques so far adopted by the bank is appropriate and convenient to most loan clients to manage it. Consistent to the convenience of the collection techniques, the repayment behavior of most loan client is improved to the required level revealing one step forward in the culture of meeting obligation and trustworthiness.
- The default problem in the bank is due to market problem, environmental problem, loan diversion, inadequate information about customer credit worthiness, lack of training and lack of follow up. These all problems lead to credit risk that has bad consequences on the bank’s financial stability, clients’ business performances, and economy of the country.
- Customers not satisfied by the efficiency of its credit facility, this might affect the level of the bank customer and create opportunity to see somewhere else.

5.3 RECOMMENDATIONS

On the basis of the results and conclusions of this study, the following policy implications are suggested so as to be considered in the future intervention strategies which are aimed at improving the credit management of the bank.

- The credit policy and procedure of the Bank should incorporate the ideas of the clients and employees to become more competitive in the banking industry and meet its vision. In other words, it is better for the Bank to make its credit policy flexible to meet its potential loan clients and thereby putting a good administrative set up that improves credit lending and administration. The periodic repayment schedule of the Bank should be flexible by considering the operation of the clients' business as repayment duration has its impact on the performance of loan collection.
- In order to get full benefit from its risk management system, NIB bank is strongly advised to create mechanism for effective application of the computerized system.
- 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 risk management.
- As it is disclosed in the analysis part of the study most of the loan clients and bank employees have complaints on the credit policy and guidelines regarding valuing property offered for collateral, loan discretion, length of loan processing time, and excessive requirements for analysis. These are the major factors impeding client reputation and retarding to attract potential loan clients. Hence, the bank should made remarkable changes on its credit policy and procedure guidelines regarding the above aforesaid drawbacks in order to solve the current problems and achieve the client reputation.
- The system of loan approving and decision based on committee level as well as the lending and overriding limit both in branch and head office is acceptable as a direction for prudent credit management and control. But most often it is observed as impediment when loans are forwarded to head office causing long time loan processing and reduction of loans without substance and offends potential applicants. Hence, the amount of lending and overriding limit of each branch should be improved and the head office credit management committee should focus on big loans and on loans that are complex in nature. Moreover the Head Office Credit Committee is (HOCC) is high in number and

taking excessive time in decision making. So the number should be reduced to executive numbers with three or four members.

- Employees of the Bank, especially those assigned in the areas of Credit Risk Management are required to update themselves with current information about government credit policies and regulations. However, training schedules of the bank are not enough in accomplishing these objectives. Therefore, to make employees understand the risk management practices and enabling them to do better to the bank's benefit, the bank should revise its training schedule and improve the capacity of employees.
- Administration of loans involves the entire process starting from credit application to financial resolution. Therefore, the bank need to develop and put in place prudent credit processing, encompassing appropriate exercise of KYC for proper customer selection and assessment of credit worthiness of borrowers. Robust credit analysis from the point of view of what contribution the loan will yield to the customer's business, to the bank's income or profit as well as to the overall economic development of the country needs to be accorded earnest concern of the pertinent stakeholders.
- Put in place a clear policy frame work and working procedures that effectively address the issue of KYC
- Put in place proactive follow-up and monitoring system to monitor loan performance and check continued viability of operations
- Identify early warning signals, if any, and initiate remedial measures thereby averting loss from possible default.
- The bank need to assess the credit worthiness of their borrowers before they grant loan and need to monitor and follow-up the effective utilization and repayment of the loan after disbursement. Thus, credit market is information intensive, and the bank need to have much information to effectively extend their loans and minimize the losses associated with credit risk.
- The bank is strongly recommended to further improve the frequency of customer follow up, in order to ensure customers from exposure of credit losses.
- In order to retained customers within the bank, it is advisable to improve efficiently of credit facility of the bank.

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Appendixes

Appendix I

Loan Composition by Economic Sectors

No.	Economic Sector	Total Outstanding Balance	Share of Each Sector Against the Total Loan Portfolio	Total NPLs	NPL% against its Own Loan Balance	NPL% against total loan
1	Agriculture	(115,214,540.97)	0.96%	(20,305,439.77)	17.62%	1.79%
2	Domestic Trade & Service	(2,470,657,485.56)	20.63%	(167,069,077.64)	6.76%	14.76%
3	Building & construction	(2,021,719,702.20)	16.88%	(66,756,756.37)	3.30%	5.90%
4	Import	(1,789,515,507.08)	14.95%	(55,373,883.59)	3.09%	4.89%
5	Manufacturing	(2,461,990,352.03)	20.56%	(509,902,253.01)	20.71%	45.04%
6	Hotel & Tourism	(1,134,106,727.22)	9.47%	(269,288,718.06)	23.74%	23.79%
7	Transport & Communication	(227,887,152.97)	1.90%	(17,621,244.80)	7.73%	1.56%
8	Staff	(143,265,928.62)	1.20%	(3,937,283.70)	2.75%	0.35%
9	Export	(1,549,287,064.29)	12.94%	(21,426,587.70)	1.38%	1.89%
10	Mining, Power & Water	(60,004,651.30)	0.50%	(428,971.98)	0.71%	0.04%
Total		**(11,973,649,112.24)**	**100%**	**(1,132,110,216.62)**	**9.46%**	**100.00%**

Source: NBE Report

Appendix II

ST. MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIES

MBA PROGRAM

Dear Sir / Madam, the purpose of this questionnaire is to gather data regarding the credit risk management practice in NIB International Bank S.C.

I would appreciate your point of view regarding the credit risk management practice at your bank. Your specific response to the questions here will facilitate me in completing my thesis. I assure you that **STRICTLY CONFIDENTIAL** and used for academic research purpose only.

I thank you in advance for your valuable time and participation in this research.

For further queries, please do not hesitate to contact me in the following addresses

Daniel Teka Tel. 0912 – 19 72 56

E-Mail Addresses – dantekvero23@gmail.com

I. Personal Details

1. Age:

   ☐ 18 – 25 ☐ 26 – 35 ☐ 36 – 45 ☐ Above 45

2. Your Education qualification

   ☐ Diploma Holder ☐ Degree Holder ☐ Masters and Above

3. In which department /section/ of the bank are you working?

   ____

4. Year of experience in the Bank?

   ☐ 1 – 4 ☐ 5 – 8 ☐ 9 – 12 ☐ Above 13

II. Details on manuals:

S.No	Statement	Yes	No
5	The bank's credit policy and procedure is it flexible based on conditions		
6	The bank uses internal credit rating system for all credit facilities		
7	The bank's credit risk management guideline or policy easily understandable		
8	The guidelines support the goals and objectives of credit risk management		

III. Credit creation and Procedure

S.No	Statement	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
9	The bank's have excellent credit analysis and procedures followed by the bank in extending credit					
10	The branch lending limit has sufficient as your branch grade level to serve the borrowers					

IV. Follow – up collection

S.No	Statement	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
11	The credit collection technique used by your bank is effective					

12. What do you think is / are the major reason /s/ for default in your bank? (Please indicate your choice)

S.No	Major reasons to default	**Strongly Agree**	**Agree**	**Neutral**	**Disagree**	**Strongly Disagree**
a	Lack of follow – up					
b	Lack of training					
c	Inadequate information about customer credit worthiness					
d	Loan diversion					
e	Lack of market for clients' product					
f	Unfavorable environment conditions					
	Other, (Please specify)					

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

14. What measure /s/ is/are taken on the side of the bank to improve the repayment situation? (Hint: Check all answers that apply)

a. Loan rescheduling ☐

b. Additional loan ☐

c. Frequently insisting the client ☐

d. Others, (Specify) ___________________________________

15. Which one of forcing measurements do you think most effective and convenience?

a. Foreclosure ☐

b. Court proceedings ☐

c. Both ☐

16. How does your organization effectively communicate to reduce credit risk? (please indicate your choice)

S.No.	Statement	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
A	Creating clear and trustworthy information					
B	Developing understanding between management team and employee					
C	Fast and sharp communication between management team and stakeholders					
D	Regularly communicating among management and staff					
E	Creating and maintain a clear communication					
	Other, (Please specify)					

17. How often does your organization provide credit risk management training courses?

☐ Never ☐ 1 time per year ☐ 2 times per year ☐ More than 2 times per year

18. What challenges you face in credit risk management?

____

____

Part II

Kindly read the questions carefully and tick (√) the selected choice.

S.No.	Statement	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
	Risk understanding:					
19	There is a common understanding of credit risk management in the bank					
20	There is a proper system for understanding credit risks implemented in the bank					
21	Responsibility for risk management is understood throughout the bank					
22	Accountability for risk management is understood throughout the bank					
	Risk Identification					
23	The bank carries out a compressive and systematic identification of credit risks relating to each of its declared aims and objectives					
24	Changes in credit risks are recognized and identified with the bank's roles and responsibilities					
25	The bank is aware of the strengths and weaknesses of the credit risk management systems of other banks					
26	The bank has developed and applied procedures for the systematic identification of opportunities					
	Risk Assessment and Analysis					
27	This bank assesses the likelihood of occurring credit risks.					
28	This bank's credit risks are assessed by using quantitative analysis methods					
29	This bank's credit risks are assessed by using qualitative analysis methods (e.g. High, Moderate, Low)					
30	The bank analyses and evaluates opportunities it has to achieve objectives					
31	The bank undertake a credit worthiness analysis before granting credit or executing transactions					
32	Before granting credit by the bank undertakes specific analysis including the applicant's character, capacity, collateral, and conditions					
33	The bank has a computer based support system to estimate the earnings and risk management variability					
34	The bank relies on the output of quantitative data with human judgment					
	Risk Monitoring and Controlling					
35	Monitoring the effectiveness of credit risk management is an integral part of routine management reporting					

36	The level of control by the bank is appropriate for the credit risks that it faces					
37	The bank has adopted a standard reporting system about the credit risk management from bottom to top management					
38	Reporting and communication processes within the bank support the effective management of credit risks					
39	The bank effectively monitors the credit limit of everyone counterparty					
40	The borrower's business performance is regularly observed by the bank following the extension of financing					
	Managing Credit Risk:					
41	The credit risk strategy set by the Board of directors are effectively communicated within the bank in the shape of policies by the top management					
42	The bank has an effective risk management framework (infrastructure, process and policies) in place for managing credit risk					
43	The bank has a credit risk rating framework across all type of credit activities					
44	The bank monitors quality of the credit portfolio on day to day basis and takes remedial measures as and when any deterioration occurs					
45	The bank regularly prepares periodic report of credit risk					
	Risk Management Practices:					
46	The bank's executive management regularly reviews the organization's performance in managing its credit risks					
47	The bank has highly effective continuous review / feedback on credit risk management strategies and performance					
48	The bank's credit risk management procedures provide guidance to staff about managing credit risks					
49	The bank's policy encourages training programs in the area credit risk management					
50	Efficient credit risk management is one of the bank's objectives					

Thank you once again for your participation.

Appendix III

Interview questions

This interview's content is confidential and serves the purpose of collecting data for the final thesis. The researcher guarantees not to disclose the bank's and the respondents' identities in the work.

1. What are the credits services that NIB International Bank S.C. if offering?
2. In your opinion, what type of risk exists in those services?
3. How if the credit risk situation that your bank is dealing with? How many types of credit risk? In your opinion, which one is the most serious?
4. Could you please kindly tell in detail about the bank's internal credit rating system? In your opinion, is it helpful to NIB International Bank S.C. credit management?
5. How does the level of training contribute to credit management?
6. What do you think of the role of internal control in credit risk management in your bank? Is internal control conducted on a timely basis?
7. Are the policies and procedures constantly reviewed to adjust to new conditions? Usually on what basis? Please give an example of the most recent change?
8. What do you think of the lending policy of the bank with regard to credit risk management? Do you think it is effective or not?
9. What extra elements do you think could be incorporated into your credit management process to make it more robust?

Appendix IV

ST. MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES
MBA PROGRAM

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Your specific response to the questions here will facilitate me in completing my thesis. I assure you that **STRICTLY CONFIDENTIAL** and used for academic research purpose only.

I thank you in advance for your valuable time and participation in this research.

For further queries, please do not hesitate to contact me in the following addresses

Daniel Teka Tel. 0912 – 19 72 56

E-Mail Addresses – dantekvero23@gmail.com

Questionnaire for Loan customers

1. Who initiates you to approach the bank for your first loan request?
   a. Self b. Loan clients of the bank c. Staff
2. For how long are you loan client of the bank?
   a. 1 – 2 years b. 3 – 4 years c. 5 – 7 years d. >7 years

S.No	Statement	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
3	The bank loan processing time short for you					
4	The bank loan processing method convenient for you					
5	The bank visit your business sites frequently after loan granting					
6	The amount of loan approved was enough for the intended purpose per your request					
7	The loan repayment duration convenient for your business					
8	The bank needs improvement on accepting loan application					
9	The bank needs improvement on collateral estimation					

10	The bank needs improvement on follow and collection of loans					
11	The bank needs improvement on processing and approving loans					
12	Your so far relationship with the bank as a loan client is good					

12. Do you think the following items are the most important ones motivating you to repay your loan on time?

S.No	Statement	**Most Important**	**Important**	**Neutral**	**Less Important**	**Not Important**
a	Not to lose collateral					
b	To keep social status					
c	Expectation of getting another loan					
d	Knowing that paying bank loan per the agreement is ethical and an obligation					
	Other, (Please specify)					

Thank you once again for your participation.

Appendix V

Basel II

The new Basel II framework provides banks with 17 principles for managing credit risk and their operational risk.

Since exposure to credit risk continues to be the leading source of problems in banks world-wide, banks and their supervisors should be able to draw useful lessons from past experiences. 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 Basel Committee is issuing a document in order to encourage banking supervisors globally to promote sound practices for managing credit risk. Although the principles are (I) Establishing an appropriate credit risk environment; (II) Operating under a sound credit granting process; (III) Maintaining an appropriate credit administration, measurement and monitoring process; (IV) Ensuring adequate controls over credit risk; and (V) The Role of supervisors. Although specific credit risk management practices may differ among banks depending upon the nature and complexity of their credit activities, a comprehensive credit risk management program will address these five areas (Basel Committee documents, 2000).

I. 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.

II. Operating under a sound credit granting process

Principle 4: Banks must operate within sound, well-defined credit-granting criteria.

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

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

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

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

III. 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.

IV. 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.

V. 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.