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SCHOOL OF GRADUATE STUDIES

THE ASSESSMENT OF CREDIT RISK MANAGEMENT PRACTICE: THE CASE OF WEGAGEN BANK S.C

BY

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JANUARY, 2020
ADDIS ABABA, ETHIOPIA

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ACRONYMS AND ABBREVIATION

NBE --- National Bank of Ethiopia

BOD—Board of Directors

CPP—Credit processing pool

NPL—Non-performing loan

SPSS--Statistical Package for the Social Science

S.C—Share Company

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ABSTRACT

Financial institutions play an indispensable role for well-functioning of an economy. Sound credit risk management is a prerequisite for a financial institution's stability and continuing profitability, while deteriorating credit quality is the most frequent cause of poor financial performance and condition. This research assesses the practice of credit risk management in Wegagen bank S.c. The purpose of undertaking this study is to assess the credit risk management practice in Wegagen bank and to see the possible aspects that influence the credit management activity of the bank and to suggest possible solution for those aspects touching the bank credit risk management process. For the purpose of the study both primary and secondary data have been used. Primary data was collected using semi structured questionnaire. The secondary data has been collected from the bank's audited annual reports. The study followed Descriptive research design and quantitative research approach. Descriptive statistical tools were used to analyze the collected data. The study found that lack of credit follow up by branches, lack of information system to support the credit risk grading system of the bank, borrower lack of knowledge on loan usage, fund diversion for unintended purpose, and centralized decision making of the bank influence the effective credit risk management practice of the bank. In contrary, credit policy and procedure of the bank is in line with NBE's rules and regulation. Finally, based on this findings recommendations were given; keeping up with the current portfolio quality, to strictly adhere & implement the bank's credit policy and procedure, to take up pre-audit as part of the credit analysis process, managing the length of time it takes to process one loan request.

Key word: credit risk management, credit portfolio and NPL.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Financial institutions play an indispensable role for well-functioning of an economy. These institutions are a fuel for overall economic development. Banks are financial institutions that are established for lending, borrowing, issuing, exchanging, taking deposits, safeguarding or handling money under the laws and guidelines of a respective country.

The Ethiopian government Monetary and banking proclamation No.83/1994 and supervision of banking business No. 84/1994 to liberalize the financial sector through reforms by bestowed banking laws that encourage the entry of private banks into the financial system in order to stimulate competition with the public banks which significantly promoted the development of the banking sector tremendously. Accordingly, many private banks have already been established and their number is increasing from year to year. Currently there are 16 private and 3 government-owned banksin Ethiopia. Due to this fact, a fierce competition among banks has come to exist. In order to stay strong in this competitive banking environment banks act as an intermediary to mobilize the excess fund of surplus sectors to provide necessary finance, to those sectors, which are needed to promote for the sound development of the economy.

Banks play an important function in the economy of many countries. They are the main intermediaries between those with excess money (depositors) and those individuals and businesses with viable projects but requiring money for their investment (creditors). Banks have at least the following functions: lending money, safeguarding individuals deposit, transferring money locally or globally and working as paying agent. In their operation banksface various risks. Types and degree of risks to which banks are exposed depends upon a number of factors such as its size, complexity of the business activities, volume etc. credit, market, liquidity, operational, compliance/legal/ regulatory and reputation risks. Out of all risks credit risk is believed to have adverse impact on profitability and growth.

Credit management also called credit control is a dynamic field where a certain standard of long-range planning is needed to allocate the fund in diverse field and to minimize the risk and maximizing the return on the invested fund by increasing collection, reducing credit cost, extending more credit to credit worthy

customers, and developing competitive credit terms. Banks are exposed to different types of risks, which affect their performance and activity, over the years for several factors.

The major reason of serious banking problems continues to be directly related to lax credit standards for borrowers, poor portfolio risk management, or a lack of attention to changes in economic or other circumstances that can lead to deterioration in the credit standing of a bank. Credit risk is one of the most significant risks that banks face. While providing credit as a main source of generating income, banks consider many concerns as a factor of credit management which helps them to minimize the risk of default that results in financial distress and bankruptcy. This is due to the reason that while banks providing credit they are exposed to risk of default (risk of interest and principal repayment) which need to be managed effectively to acquire the required level of loan growth and performance. Thus, types and degree of risks to which banks are exposed depends upon several factors such as its size, complexity of the business activities, volume etc. It is believed that generally banks face Credit, Market, Liquidity, Operational, Compliance /legal/ regulatory and reputation risks among which credit risk is known to have the adverse impact on profitability and growth. Hence, the success of most commercial banks lies on the achievements in credit management mitigating risk to the acceptable level.

Credit management process deserves special emphasis because proper credit management greatly influences the success or failure of financial institutions. This indicates that credit provision should be accompanied by appropriate and attractive credit policies and procedures that enhance performance of credit management and protects the banking industry from failure. Thus, efficiency and effectiveness in performing each steps of loan processing using various parameters has significant effect on performance of credit management.

Wegagen Bank Share Company is one of the financial institutions engaged in providing short and medium credit like other commercial banks in the country. In the last few years, both public and private sectors in the economy underwent encouraging development in investment and business activities, thus becoming the fertile ground for the banking industry. Since its establishment in 1997 G.C and registered as a public share Company in accordance with the provision of the licensing and supervision of Banking Business Proclamation No. 84/94 and the Commercial Code of Ethiopia 1960. The Bank has more than 350 branches throughout the country. Wegagen Bank has been striving to exploit such and all other opportunities towards achieving its corporate goals. The bank has been providing only short and medium loans and advances to its

customers because of itsearly stage of capital base and liquidity position. The bank has been playing a significant role in providing loans and advances to its customers that enhances the investment need in the country and as means of generating income for its shareholders. The Bank expanded its operation in the last five years from 2013/14 to 2017/18. During the period the capital of the Bank increased from 2.14 billion to 3.83 billion.

The total loan and advance of the bank were 4.6 billion in 2013/14. It has increased by more than three folds (15 billion) by 2017/18. This increase in the volume loan and advances and size of the bank could have effects on the types and degree of risks to which the bank is exposed. Among the risk that the bank faces, credit risk is one of great concern to the bank authorities and banking regulators. Therefore, credit risk management is crucial for the survival of banks. Based on this foundation, this study tries to uncover the overall credit risk management practices of Wegagen Bank S.C.

1.2 Statement of the Problem

Sound credit risk management system and practice is a prerequisite for a financial institution’s sustainability. Even though credit has paramount economic and social importance, credit is evil for economy if it is not properly used and managed. Many authors considered that failure of credit risk management system and practice as one of the main causes of financial crises in general and banking failure particularly (Hussain&AlAjmi, 2012).

The very nature of the banking business is so sensitive because more than 85% of their liability is deposits from depositors (Saunders and Cornett, 2005). Banks use these deposits to generate credit for their borrowers, which in fact is a revenue generating activity for most banks. This credit creation process exposes the banks to high default risk which might led to financial distress including bankruptcy. Prudent management of credit risk can minimize operational risk while securing reasonable returns. Thus, banking industry is the backbone of economic development if and only if sound credit risk management system is practiced.

Banking business are getting complex over time. Credit risk management practices is an issue of uttermost concern in financial institutions today and there is a need to develop improved systems to deliver better visibility into future performance. Therefore; banks should withstand this change through latest development in the area of risk management system.

In this regard, Ethiopia's banking system had not been given enough attention before 2010 specially regarding to the development of modern system of assessing, controlling and managing risk in banking operation in line with the changing environment and global financial standard. Risk management guideline of 2010 paved the way for the latest development of Risk management practice in Ethiopian banking industry.

Few researches were conducted in Ethiopia in the area of credit risk managements such as, Atakelti (2015), Wondimagegnehu (2012), Sahlemichel (2009). Most of the studies focused on factors affecting the credit risk management and their impact of tackling credit default, assessment of determinants of NPLs and its performance on banks instead of evaluating the full implementation of credit risk management.

Some other studies were conducted regarding risk management practice of single banks on Commercial Bank of Ethiopia, Development Bank of Ethiopia, Berhan International Bank (Tekeste 2016, Fikadu 2015 and Girma 2011). However, banks often significantly differ in their visions and objectives to attain, risk culture, whose interest they maximize, what compliance requirement they are obliged by, and what risk management structure and risk infrastructure they have established, while the basic components of risk management system are similar across financial institutions. Hence, notwithstanding the above expressed significance of credit risk management to banks as examined in different banks, it is still a generally under-investigated in the banking literature in Ethiopia, hence, the need for this study in attempt to fill the contextual gap in Wegagen Bank S.C.

Wegagen Bank is one of private banks in Ethiopia playing an important role in country's economy and social life. Among the various services provided by the bank, lending has beenthe primary activity for over a decade. It advances a large sum of its income to borrowers. It is equallytrue that bank loans, as they are profitable, equally risky. Bank loans fluctuate and influenced by the changes in the economic policy and the economy in general. It is very important for the bank to formulate and update their loan policies in order to minimize risk associated with them.

A loan default that results from poor credit risk management reduces banks' lending capacity. It also denies new applicants access to credit as the banks cash flow management problem augment in direct proportion to the increasing default problem.In light of this the practice of credit management in Wegagen Bank S.C. is being studied in this research.

1.3 Basic ResearchQuestions

This study is intended to answer the following questions;

- What are the processes for granting, evaluating and monitoring loans granted by Wegagen Bank S.C?
- What are the constraints that Wegagen Bank S.C. faces in conforming to National Bank of Ethiopia regulations pertaining to credit risk management?
- What credit collection strategies are adopted in the management of credit in Wegagen bank S.C.?
- What is the gap in credit risk management practice?
- What are the challenges that the bank faces in the management of credit risks?

1.4 Objective of theStudy

1.4.1. Generalobjective

The main objective of this study is to assess the credit risk management practice in Wegagen Bank S.C.

1.4.2.Specific objective

The following are specific research objectives;

- To Evaluate Wegagen Bank's loan granting, evaluation and monitoring processes.
- To ascertain the constraints, if any, faced by Wegagen Bank in conforming to the regulations of National Bank of Ethiopia pertaining to credit risk management.
- To analyze the credit portfolio diversification and credit collection strategies.
- To examine if there is a gap in the current process regarding the range of tools and methods employed in credit management.
- To identify the challenges encountered by the Bank in the management of credit risk.

1.5 Significance of the Study

The findings from this study are expected to benefit the academic sector and the bank in three varying dimensions whichincorporate practice, academics policy and research.

First,the study findings and recommendations will be important to management of the bank under the study because it draws their attention to some of the points where corrective actions are necessary and enable them to make such corrections.

Second,the findings and recommendations of the study are highly important to academic policy makers because it draws their attention to some of the points that need corrective measures on their side.

Finally, despite the importance of the banking sector to the domestic, regional, and international economies, there are only a few microeconomic studies performed in this area of research with respect to the relationship between credit risk management and lending decisions. Hence this serves as a model for further researches to be based on in the future. Furthermore, it can stimulate further research; thus, keeping sustained interest in the area of credit risk management and their use in minimizing the banks credit risk.

1.6 Limitation of the Study

In conducting this research, the researcher was also involved in another professional work which makes time be a great constraint. Also, for the Same reason the researcher is limited with the scope of the study as Well because of data availability the researcher limited the study to only one private bank in Ethiopia namely Wegagen Bank S.C.

1.7 Scope of the study

Subject Scope: The study focuses on the assessment of credit risk management practice at Wegagen bank S.C.

Geographical scope: The study covered Wegagen bank S.C. as a sample among other private banks due to the concern on the availability of data, time and budget. This is because the bank operates a centralized integrated system which gives the indication that, what happens at the Head Office is a good measure of what happens at the branch level.

Data Scope: The nature of credit related documents is confidential, and it is expected some of banks information except officially disclosed financial information to not to be wholly accessible for the researcher. Besides respondents may become reluctance to fill the questionnaire and gave their genuine opinion.

1.8 Operational Definition of Terms

Non-performing loans: means problem loans as defined in the directive of the National bank ofEthiopia.

Credit portfolio: means total loan and advances /credit exposure extended.

Loan pricing:means interest rate, fees, commission and other to be charged, on loans, advances and guarantees extended to customer by the bank.

Discretional lending limit:means loan approving authority given to an individual or sanctioning committee.

Credit processing pool: where credit is processed and approved at a certain center.

Provision: A legal or constructive obligation that can be estimated and it is probable that an outflow of economic benefits will be required to settle the obligation.

Credit risk: It is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

Management of credit risk:the process offollowing up the implementation of credit policies, and legal procedures, and compliance with regulatory and statutory requirements.

(Source: Wegagen bank credit policy manual, 2018/19)

1.9 Organization of the Paper

The Study is organized in five chapters;

- The first chapter is Introduction which consists of the Background of the study, Statement of the Problem, The Research Questions and Objectives, Significance of the Study, Limitation of the study, Scope of the study, Operational Definition of Terms and Organization of the Study.
- The second chapter presents Theoretical and Empirical Review of the Related Literatures.
- The third chapter deals with Methodology of the Study.

- The fourth chapter is Data Analysis and Interpretation.
- The last chapter presents the Findings, Conclusion and recommendations.

CHAPTER TWO

REVIEW OF RELATED LITERATURES

2.1. Theoretical Literature Review

2.1.1 Meaning of credit management

Credit is derived from a Latin word “credere” meaning trust. When a seller transfers his wealth to a buyer who has agreed to pay later, there is a clear implication of trust that payment will be made at agreed date. Major causes of serious banking problems are directly related to lax credit standards for borrowers. Poor portfolio assessment or lacks attention to changes in economic circumstances are common in emerging economies Hirtel and Lopez, (1999). Banks as financial institutions extend credit to their customers in form of loans, overdrafts and off-balance sheet activities (i.e. Letter of credit and guarantees). Banks grant credit to enhance they’re re venues streams, maintain a competitive edge, to act as its bargaining power in the industry, as the industry practice as well as to enhance the relationship with their customers.

The fundamental objective of the bank management is to maximize shareholders wealth. This goal is interpreted to mean maximizing the market value of the firm’s ordinary shares. Wealth maximization in turn requires that managers evaluate the present value of cash flows under uncertainty with larger near-term cash flows proffered when evaluated on a risk adjusted basis. To obtain higher yields on returns, a bank must either take an increased risk or lower operating costs. Thus managers must evaluate and balance the tradeoffs between the opportunity for higher returns, the probability of not realizing those returns, and the possibility that the bank might fail (Koch & MacDonald, 2006).There are many definitions given for credit management by different scholars. Among these some are here cited as follows:

Credit management is implementing and maintaining a set of policies and procedures to minimize the amount of capital tied up in debtors and to minimize the exposure of the business to bad debts. *(http://www.smallbusiness.wa.gov.au/assets/Small-Business-Briefs/small-business-brief-credit-management.pdf).* Credit Management from a debtor’s point of view is managing finances especially debts so as not to have a tail of creditors lurking behind your back.

Credit management is a responsibility that both the debtor and the creditor should seriously take.(http://www.selfgrowth.com/articles/Tabije3.html). When it functions efficiently credit management serves as an excellent instrument for the business to remain financially stable

2.1.2 An overview of credit risk and process

Credit risk is the chance of loss resulting from a borrower's failure to repay a loan or meet contractual obligations. According to the World Bank (2019), credit risk is a result of two factors: risk of default and risk of loss. Risk of default is a risk that a counter party is unable to perform as agreed. Risk of loss is a risk as a result of counter part’s inability to perform as agreed may be because of accounting loss or economic loss, as a result a lender loss. It is also defined as the risk that the expected returns from the credits given and securities held by the credit unions may not be repaid in full (Garr, 2013). Credit risk encompasses transaction risk and portfolio risk. While transaction risk is the risk associated with individual credits, portfolio risk is the risk associated with the total credits in the portfolio. Credit risk primarily consists of two components; default risk and exposure risk (Singh, 2013). Credit risk in banking is also defined as the probability that some of a banks assets, especially its loans, will decline in value and possibly become worthless. Because banks hold little owner’s capital relative to the aggregate value of their assets, only a small percentage of total loans need to go bad to push a bank to the brink of failure.

According to the Basel Committee on Banking Supervision (2001), the most common cause that leads the banks to bankruptcy is credit risk.More than 80% of financial institutions balance sheet is related to credit. For this reason, banks should take a careful care when dealing with credit. The process of credit management begins with accurately assessing the creditworthiness of the customer base and his/her business viability. This is done by looking into loan applications carefully which is part of the loan process. This is particularly important if the company chooses to extend some type of credit line or revolving credit to certain customer. Hence, proper credit management is setting specific criteria that a customer must meet before receiving the proposed credit arrangements and Rolfes (1995) indicate that the success of a financial institution is built on a proper and quality credit management process. As part of the evaluation process, credit management also calls for determining the total credit line that will be extended to a given customer.

Several factors are used as part of the credit management process to evaluate and qualify a customer for the receipt of some form of commercial credit. This includes gathering data onthe potentialcustomer’s current

financial condition, includingthe current credit track record that discloses the character of a customer in meeting obligations as wellas collateral value. As a result, the writer discusses the different procedures that can be employed in each of these areas with the sole aim of examining the present loan management procedure of financial institutions mainlybanks. A weak credit risk management system is the reason for many none performing loans (Nishiru and al, 2001).

Generally, credit management has three basic steps credit analysis, credit approval and follow-up. The first two are pre-disbursement process while the last one is a post disbursementprocess. Credit management of banks simply put in the framework of the above category includes the following: - Credit application, Credit assessment, Credit disbursement, Credit monitoring, Credit recovery and Credit Application.

Credit application

The credit application is the primary step inthe credit management process. Regardless of the size and purpose of the loana loanapplication is required. Though it may appear as simple questionto the applicants they should understand the importance of the document. The application documents contain detail information about the applicant. The information among other things include : name of the applicant, address, residential address, age, telephone number, marital status, number of dependents, educational background, hometown, the type of business, business location ,number of years in business, reasons for the loan, amount required, the re payment period, security pledge if any and guarantors. It is the content of this document which financial institutions can take any legal action against a borrower who defaults. Since this is the initial stage of the credit management process any error committed at this stage goes a long way to negatively affect the whole process. A loan defaulter can escape legal punishment if the content of the loan application form is not properly structured. Hence the need to evaluate the existing loan application forms to ensure that they are properly structured to protect the credit unions.

Credit Assessment

This is the procedure for gathering the necessary information on a potential borrower and projects in other to conduct risk assessment exercise to determine the associated risk. This is carefully done by the financial institutions before providing any loans. This is also done to check the viability of the proposed project to undertaken. This as well helps to examine the technical viability, the economic viability and the financial

viability of the project to be undertaken. The risk associated with the loan can be reduced by doing the above. Credit risk simply means the risk of default as a result of a borrower'sfailure to repay the loan taken from a financial institution.

Appropriate assessment of a customer determines the financial situation and helps to measure capability of the customer to repay the loan when due. This involves the authenticationof primary and collateral security provided by the customer which will be relied on when the repayment of the loan becomes difficult. This is a fundamental point in the credit procedure. It is said to be theheartbeat of a healthy credit portfolio. This involves collecting, analyzing and processing information as provided by the applicant on the credit application form. This helps to assess the applicant'screditworthiness and helps to reduce the difficulties between borrowers as an agent and the financial institution as the principal.

The lending institution's loans management processes procedures and directives controls the loan evaluation processes. The question that must be answered before anything else is whether or not the borrowers have the financial capacity to repay the loan, that is, repay the credit when due with the appropriate interest rate. The factors underlying the evaluation of a borrower should be based on the credit assessment principles of the financial institution which is the basic principles of lending which is also used by the financial institution , it is also known as the 5 C's which are Character, Capacity, Capital, Collateral and Conditions (Matovu and Okumu,1996). In another context, Rouse (1989) referred to mnemonics used as common checklist to review loan application as: CCCPPARTS (Character, Capital, Capability, Purpose, Person, Amount, Repayment, Terms and Security); PARSER (Person, Amount, Repayment, Security, Expediency, Remuneration); CAMPARI (Character, Ability, Margin, Purpose, Amount, Repayment, Insurance/Security).

The disparity in the mnemonics relates to the fundamental principle of evaluating the potential of having credit repaid. Credit Appraisal thus ascertains the risks associated with lending functions in financial institutions. This is an indication that if the credit assessment is not properly done by the credit union, the risk associated with the credit will not be identified. It is generally carried out by the trained staff of the credit department of the institutions which are engaged in providing credit to their customers. In the present case, process used in credit riskassessment and appraisal has been studied to identify the various parameters and stages in credit assessment; appraisal and disbursement processes exist in the financial institution. It is

intended to make sure actions which lenders take which facilitate repayment or reduce repayment likely problems.

This information about the riskiness of the borrower makes the financial institution to take remedial actions like asking for collateral, shorter duration of repayment, high interest rates and other forms of payment (Stiglitz and Karla, 1990) .When a financial institution does not do it well, its performance is highly affected. Edminster (1980) stressed the importance of credit analysis when he observed that its abandonment often resulted into several banks using credit card to process. The variables we have, according to Hunte (1996) added the period taken to process loan applications, credit experience, part of collateral security to the loan approved. It was establishedthat long waited period of time reflecteda shortage of credible credit information required to make informed credit decisions and availability of funds for onward lending. This in turn leads to a bigger risk, more extreme credit rationing and low repaymentrates. Hunte (1996) also realized that customers with loan experience showed the capability to manage the loans better hence good quality borrowers for the financial institution.

A less borrower who is not experienced has less ability to handle a business loan and therefore is not credit worthy (Devaney, 1984; Robinson, 1962; Hunte, 1996). This shows that there are big risks linked with first time borrowers since the loan officer has scanty information on their credit records and little knowledge on their ability to repay the loan when due. Therefore, financial institution should attach all the seriousness to the credit assessment process in order to reduce the credit risk associated with credit since loans are the largest assets of financial institution like banks. Financial institutions like banks have hierarchically arrangement in order to approve loan and based on their grades branches would have a discretionary lending limit. Discretionary lending limit is the limit is the limit set to each branch based on their grade allowing them to disburse loan in different sector (credit policy and procedure of Wegagen bank S.C.)

Credit Disbursement

After an applicant has been carefully assessed and proven that the applicant meets the credit requirement of the credit union,the credit officer together with the credit committee gives their approval by appending their signature on the loan application form. This gives the bank the right to disburse the funds to the applicant.

Credit disbursement is the act of giving or paying out money to customers who have been accessed and approved to be given credit. Disbursement ensures that money is made available to the customer after all assessment has been done and approval has been given. The assessment process also ensures that the authenticity of the security and other required documentations are received certified before funds are given out to the qualified customer. If the loan pay-out control is not strong, the reliability of the loan management process will greatly be affected and can be undermined and misused by the unscrupulous staff of the organization. Thus, documentations and pay-out of the loans are vital in the management of loans because they ensure that the lending institution has the right documentation, collateral and guarantees of the loan agreement. Insurance, signing loan contract, registration of the property/collateral of the bank being primary owneris the pre-disbursement requirement by bank.

These are significant in the case if the customers fail to pay because the financial institution would be suitably secured and have legal backing to guarantee the retrieval of the loan. This would eventually reduce the provision for bad debts that financial institutions have which will improve theirfinancial position. Once the credit application satisfies all the bank's credit conditions, a comprehensive analysis is done to determine if the application complies with the institution's conditions then approval is given for disbursement to the applicant. Financial institutions have quite different way of disbursing loans to its members which is different from how other financial institutions do. The credit disbursement can be crediting the loan amount to the customer's account all at once or it is done phase by phase for project type loans.

Credit Monitoring

Credit Monitoring is an integral part of lending activity. Financial institutions have a great responsibility to maintain the quality of the assets and to recover the interest and principal due in time. Though adequate precautions are taken during assessment and approval of a loan, a financial institution has to be more vigilant. Unless early warning signals are captured, a financial institution may not be able to take proper remedialmeasures to arrest and reduce bad debt in the institution.

A financial institution needs to put in place a very sound and effective credit monitoring system for watching the borrower's account from various angles for prompt action. In line with Robinson (1962) and Anjichi (1994), many of the agonies, frustrations and distress financial institutions can be reduced by good credit monitoring and follow up process. A good supervision helps maintain a good loan. It may be by visiting the

borrowers' places of business to examine the generalstate of affairs. Insufficient maintenance is often an early sign of financial distress. The general business policy advises the clients to put things in order.

A financial institution can modify its own lending policies as well as loan monitoring procedures. Furthermore, keeping track of deposits trend and deposits balances gives a clue to the present state of affairs of the customer. Monitoring of loan facilities given to customers is an important task in ensuringthat the project from which repayment will be made is successful. Huppi and Feder (1990) revealed that efficient monitoring leads to high retrieval of loans by revealing likely dangers (like loan diversions) and reminding defaulters of their responsibilities towards the lending institution, thus callingfor redoubling of efforts in the direction of loan repayments. Monitoring of credit facilities has been directed characteristically on ensuring repayment when there are signs of defaults for repayment of interest and principal installments.

Credit Recovery /work out process

It is undeniable fact that any institution in the business of lending is likelyto meetcustomers who will default in payment or will fail to pay at all. This is whythe institutions create provisionfor bad and doubtful debt in their books to takecare of these eventualities.

When despite every attempt by the lender to reach amicable arrangement for repayment and no agreement has beenpossible it will be necessary to treat the loan as a recovery matter. This is especially prominent in the financial institutions especially where the institutions provide services which are continuous but not one time. Loan recovery is the collection of a loan amount from a customer in default.

In simple terms, loan recovery refers to the pay back of the principal loan amount together with interest. Financial institutions need to be aware of loans that are at risk of not being paid back (also known as NPL or non-performing loan). Collections department of the bank will begin contacting the individual loan defaulters. They must notify them of the amount owed and any interest accrued. The financial institutions may also contact any guarantor of the loan if it is a secured loan, the institution may go through the laid down legal process to take over the asset.

2.1.3Credit risk management

Experiences elsewhere in the world suggest that the key risk in a bank has been credit risk. Indeed, failure to collect loans granted to customers has been the major factor behind the collapse of many banks around the world (NBE guideline issued in 2003). Banks need to manage credit risk inherent in the entire portfolio as well as the risk in individual credits or transactions. Additionally, banks should be aware that credit risk does not exist in isolation from other risks but is closely intertwined with those risks (NBE guideline issued in 2003).

Effective credit risk management is the process of managing and institution's activities which create credit risk exposures, in a manner that significantly reduces the likelihood that such activities will impact negatively on a bank's earnings and capital. Credit risk is not confined to a bank's loan portfolio but can also exist in its other assets and activities. Likewise, such risk can exist in both a bank's on-balance sheet and its off-balance sheet accounts (NBE guideline issued in 2003).

Credit risk management is inherent in banking and is unavoidable. The basic function of bank management is risk management. Banks assume credit risk when they act as intermediaries of funds and credit risk management lies at the heart of commercial banking (Haim and Thierry, 2005). The business of banking is credit and it is the primary basis on which a bank's quality and performance are adjusted. Credit risk is composed of default risk and credit mitigation risk. Default risk is the risk that the counterparty will default on its obligations to the investor (Haim and Thierry, 2005). In this risk, the credit quality deteriorates (or default risk increases). Credit risk is more difficult to measure because data on both default and recovery rates are not extensive, credit returns are highly skewed, and fat tailed, and longer-term time horizon and higher confidence levels are used in measuring credit risks. These are problems in measuring credit risk that have inspired the development of several sophisticated models and commercial software products for measuring portfolio credit risk (Haim and Thierry, 2005).

Credit risk management maximizes bank's risk adjusted rate of return by maintaining credit risk exposure within acceptable limit in order to provide framework for understanding the impact of credit risk management on banks' profitability (Kargi, 2011). Girma (2011) in a small country like Ethiopia, the financial sector is still in the development phase and customer services are still in their infancy and banks revenue depends heavily on lending activities and credit growth is central to any banking organizations profit (Kargi, 2011). Girma (2011) in his research paper supposed that nature of Ethiopian commercial banking business is, so sensitive because more than 85% of their liability is deposits from depositors, all banks aggressively use these deposits to

generate credit for their borrowers to make some money, grow and survive stiff competition at the market place and this credit creation process exposes the banks to high default risk.

Basel (1999) credit risk management processes forces the banks to establish a clear process in for approving new credit as well as for the extension to existing credit. These processes also follow monitoring with particular care and other appropriate steps are taken to control or mitigate the risk of connected lending (Basel, 1999). Credit risk management processes enforce the banks to establish a clear process in for approving new credit as well as for the extension to existing credit. These processes also follow monitoring with particular care and other appropriate steps are taken to control or mitigate the risk of connected lending (Basel, 1999).

Banks have credit policies that guide them in the process of awarding credit. Credit control policy is the general guideline governing the process of giving credit to bank customers (Payle, 1997). The policy sets the rules on who should access credit, when and why one should obtain the credit including repayment arrangements and necessary collaterals. The methods of assessment and evaluation of risk of each prospective applicant are part of a credit control policy (Payle, 1997).

OCC (2011) identifies fundamental credit riskmanagement principles as sound underwriting, comprehensive financial analysis, adequate appraisal techniques and loan documentation practices, and sound internal controls. Rose and Kolari (1995) see credit riskas the likelihoodthat borrowers will not be able to re pay their loans within the period agreed upon. Kay (2002) sees Credit risk as distribution of financial losses due to unexpected changes in the credit quality of counterparty in a financial agreementKay (2002) also sees it as the possibility of loan default or any type of inability to honor a financial agreement when due. Kay stated that the likelihood of default is estimated by specifying a model of investor uncertainty; a model of the available information and its evolution over time and a model definition of the default event.

Smook (1997) defines risk assessment as the general procedure of risk identification, quantification, evaluation, acceptance, aversion and management. He explains that risk management involves risk evaluation and risk control. In the piece he states that Risk assessment is a complex procedure of developing tolerable levels of risk to individuals, groups, or the society in general. It includes the associated procedures of risk acceptance and risk aversion. Fatemi and Fooladi (2006) characterize credit risk as risk that occurs from the ambiguity in a borrower‟‟ capacity to meet his/her debt. At a different slant, King (2008) defines creditmanagement as the "policies and practices businesses employ in recovering payments from their

defaulting customers. With respect to the levels of priority in financial institutions, it is expected that their main focus is to make known that this type of risk management is efficient beyond all others Fatemi and Fooladi, (2006). Risk acceptance means that the risk taker is ready to admit some risks tomake a gain or benefit from it. This is when the risk is not avoidable or cannot be controlled.

The acceptance levelis a reference level against which a risk is identified and then compared. If the risk determined is less than the level that it can be accepted, the risk is then said to be within the acceptable range. On the other hand, if it is higher thantheacceptedlevel it is seenas unacceptable and avoidable, steps may be taken to control the risk or the project in question should be stopped.

Credit risk means the possibility of loan loss as a result of a borrower's inability to make payments as per the loan agreement. Credit risk management, meanwhile, is the practicing of measures that reduces the impact of those losses by appreciating the competence of both a bank's capital and loan loss reserves at any given period time, a process that has long been a challenge for financial institutions to fully implement. The worldwide financial predicament and the credit crunch that followed make credit risk management very relevant. Accordingly, regulators began to call for more transparency. They wanted to know that a bank has thorough knowledge of customers and their related credit risk. And new Basel III regulations have created an even greater regulatory trouble for banks.

To abide by the more rigorous regulatory require mints and contain the higher capital costs for credit risk, many financial institutions are changing their approaches to credit risk. The institutionsthat see this as sternly being a compliance exercise are being short-sighted. Better credit risk management also creates a chance to greatly progress overall performance and secure a competitive advantage over the competitors. The perception and the reception of risks differ based on the nature of the risks and depend on many fundamental factors.

The risk may include a "dread" hazard or a common hazard, be encountered occupationally or non-occupationally, have immediate or delayed effects and may affect average or especially sensitive people or systems. Risk aversion is the control action taken to keep away from risk. Risk management is concerned with the outcome of future events, whose exact result is not certain and the design of strategies to handle these uncertainties, over a variety of probable results. Generally, outcomes are categorized as favorable or unfavorable, and risk management is the art and science of planning, assessing, and handling future events to ensure favorableoutcomes. The large amount of debt that has been dispersed in the financial institutions over

the years has undoubtedly resulted bad debts and loan arrears across most of the financial institutions. This survey will concentrate on the management of credit and its impacts on the existenceand profitability of the credit unions.

2.1.4 **Credit policies and procedures**

A Credit Policy is not something that is only operated by the Credit and Risk Department. All employees involved with customers, in any way, need to be aware of the credit policy and ensure that it is operated consistently. In order to be effective, credit policies must be communicated throughout the organization, implemented through appropriate procedures, monitored and periodically revised to take into account changing internal and external circumstances.

They should be applied appropriate, on a consolidated bank basis and at the level of individual affiliates in addition; the policies should address equally theimportant functions of reviewing. Economic conditions and the firm's credit policies are the chief influences on the level of a firm's account receivable. Economic conditions, of course, are largely beyond the control of the financial manager. As with other current assets, however, the manager can vary the level of receivables in keeping with the trade-off between profitability and risk. Lowering quality standards may stimulate demand, which, in turn, should lead to higher profitable receivables, as well as a greater risk of bad debt. The credit and collection policy of one firm are not independent of those of other firms. If product and capital markets are reasonably competitive, the credit and collection practices of one company will be influenced by what other companies are doing. Such practice is related to the pricing.

The examination of certain policy variables implies that the competitive process is accounted for the specification of the demand function as well as in the opportunity cost associated with taking on additional receivables. The policy variables include the quality of the trade accounts accepted; the length of the credit period, the cash discount, any special terms such as seasonal dating and the collection program of the firm. Together, these elements largely determine the average collection period and the proportion of bad debt losses (Horne, 1995)

2.1.5 **Creditanalysis**

Itis the primary method in reducing the credit risk on a loan request. Credit analysis is also the primary step in the credit management process. This includes, accepting application determining the financial strength of the borrowers, estimating the probability of default and reducing the risk of non-repayment to an acceptable level. In general, credit evaluations are based on the loan officer's subjective assessment or judgmental assessment technique. Once a customer requests a loan, bank officers analyses all available information todetermine whether the loan meets the bank's risk-return objectives. Credit analysis is essentially default risk analysis, in which a loan officer attempts to evaluate a borrower's ability and willingness to repay.

Similarly, Compton (1985) identified three distinct areas of commercial risk analysis related to the following questions:

The first question forces the credit analyst to generate a list of factors that indicate what could harm a borrower's ability to repay. The second recognizes that repayment is largely a function of decisions made by a borrower. Is management aware of the important risks, and has it responded? As (Timothy 1995) quoted, the last question forces the analyst to specify how risks can be controlled so the bank can structure to an acceptable loan agreement.

A bank's credit analysts often use the five C's of credit to focus their analysis on the key dimensions of an applicant's credit worthiness. Lawrence (1997), identified five C's of credit. They are "character, capacity, capital, collateral and condition".

- Character: The applicant's record of meeting past obligations, financial, contractual, and moral. Past payment history as well as any pending or resolved legal judgments against the applicant would be used to evaluate its character.
- Capacity: The applicant's ability to re pay the requested credit. Financial statement analysis, with emphasis on liquidity and debt ratios, is typically used to assess the applicant's capacity.
- Capital: The financial strength of the applicant as reflected by its ownership position. Analysis of the applicant's debt relative to equity and its profitability ratios are frequently used to assess its capital.
- Collateral: The amount of assets the applicant has available for use in securing the credit. When the amount of available assets larger the greater the chance that a firm will recover its funds if the

applicant defaults. A review of the applicant's balance sheet, asset value appraisals, and any legal claims filed against the applicant's assets can be used to evaluate its collateral.

- Condition: The current economic and business climate as well as any party to the credit transaction. For example, if the firm has excess inventory of the items the applicant wishes to purchase on credit, the firm may be willing to sell on more favorable terms or to less creditworthy applicants.

Loan problems often arise when bank's credit objectives and policies are not clearly communicated. This is communication breakdown. Management should articulate and enforce loan policies, and soon as they appear.Contingency refers to lenders‟ tendency to play down or ignore circumstances in which a loan might in default. Competition involves following competitors behavior rather than maintaining the bank's own credit standards. During credit analysis bank use various lending tool and techniques. Unique circumstances affecting either Credit/Concentration/ limit: - Credit limit is one of the tools financial institutions use to control their loan portfolio. Setting credit limit is one of the main ways financial institution use to control its‟ credit process to reduce risks associated with lending. Bessis (2002) shows the significance of employing the credit limit process so as to avoid any credit risk whichcould imperil the financial position of the institution. In Ethiopia private banks work according to the concentration limit set by national bank of Ethiopia.

Affordability: -Increased regulatory focus and rising interest rates mean lenders need to re visit their measures of affordability ahead of changes. Precisely evaluating customers‟ affordability and suitability are indispensable requirements for all lending institutions who wish to widen credit responsibly as well as re ducking exposure to risk. As lending institutions trying to balance growth with risk, some customers are faced with insufficient disposable incomes; the current economic situation has made it necessary for lending institutions to employ a better credit process. Failure to implement a proper credit management process could put pressure on customers and lenders at a time when the economic climate not improving. Affordability is the assessment of a customer's financial capabilities to fund new and outstanding loan now and in the future. Thomas (2009) indicates that when assessing the affordability of a borrower it is their lackof cashflow and not assets that causes loan default in institutions.

Risk assessment model: - Risk Assessment Model is internal rating software intended to aid a bank or financial institution in evaluating a borrower for credit. This is in line with the requirement under the internal ratings-based processes of the Basel II Accord.

Credit scoring/credit risk grading: - This is a statistical system used to foretell the possibility that a loan will be in arrears, become delinquent or a borrower will default in repayment (Loretta 1997). This method is largely accepted as the primary system of examining the creditworthiness of customers.

Arrears intervention: - Arrearsare a legal term used by lending institutions to describe the part of a loan that is unpaid, overdue or re payments is missed as per the agreed loan terms. Finlay (2008) indicates that pressure should be put on loan defaulters at the early stages of the default, this action remind the defaulters about their obligations towards the institution. In line with Finlay's assertion, hinder (2004) urges financial institutions to integrate adequate communication process when retrieving debt in arrears from customers.

2.1.6 **Credit information**

It is another tool that is used by bank in credit analysis. Adequate and timely information that enables a satisfactory assessment of the creditworthiness of borrowers applying for a bank loan is crucial for making prudent lending decisions. Prudent lending decisions made on thebasis of adequate information on the creditworthiness of borrowers are one of the principal factors in ensuring the financial soundness of banks. But there has been serious difficulty in Ethiopia of getting accurate and timely information on prospective borrowers that facilitates the making of such prudent lending decisions. One of the means for alleviating this difficulty of getting accurate and timely information on prospective borrowers is the establishment of a Credit Information Center (CIC) where relevant information on borrowers is assumed to be pooled and made available to lendingbanks.Binging this to our country context according to article 36 of the Licensing and Supervision of Banking Business Proclamation No. 84/1994, the National Bank Ethiopia (NBE) has issued these directives to establish such a Credit Information Center (CIC). Though there is still serious limitations in the accuracy of the credit information extracted the summary of the directive is as follows:

- Banks shall provide, alter and update credit information on each and every one-off theirborrowers using online system. Upon written request by banks, the Supervision Department of the NBE shall provide to

the requesting bank, in writing, all credit information available in the Central Database on a prospective borrower within three working days from the date of receipt of the re quest;

- Access to the Central Database shall be restricted to the user group;
- The role of the NBE shall be restricted to administering the Credit Information Sharing system, providing in writing credit information on borrowers available at Credit Information Center to banks, ensuring that access to online system to update or alter credit information is given only to authorized persons and ensuring that the system is operating smoothly and reliably;
- The NBE shall not be responsible for any damages, claims or liabilities that mayarise as a result of inaccurate, misleading or incomplete credit information on borrowers supplied to the Credit Information Center by individual banks and shared, through the NBE, with other banks.
- Each bank shall provide, e electronically, the initial credit and other related information to the Credit Information Center on every one of its borrowers;
- Each bank shall be fully responsible for providing accurate, complete and timely credit information to the Credit Information Center. In cases where errors have been made, such errors shall be corrected promptly by the concerned bank;
- Each bank shall be fully responsible for any damages, claims or liabilities that may arise as a result of providing inaccurate, misleading or incomplete credit information to the Credit Information Center or failure to provide, inadvertently or otherwise, information to the Center that should have been provided in line with these directives;
- Each bank shall use the credit information on borrowers obtained from the CentralDatabase of the Credit Information Center only and only for making a lending decision. Such information shall be treated with utmost confidentiality and shall not be disclose d to any third party or used for any other purpose.
- Each bank shall be fully responsible for any damages, claims or liabilities that may arise as a result of disclosure of credit information on borrowers obtained from the Credit Information Center to third parties or use of that information for purposes other than for making a lending decision.

2.1.7 Non-Performing Loan and loan follow up

Loans and advances constitute the primary source of income by banks. As any business establishment a bank also seeks to maximize its profit. Since loans and advances are more profitable than any other assets, a bank is willing to lend as much of its funds as possible. But banks have to be careful about the safety of such advances

(Radha, et al, 1980). Bankers naturally try to balance the issue of maximizing profit by lending and at the same time manage risk of loan default as it would impair profit and thereby the very capital .Thus a bank needs to be cautious in advancing loans as there is a greater risk which follows it in a situation where the loan is defaulted. Under the Ethiopian banking business directive, non-performing loans are defined as "loans or advances whose credit quality has deteriorated such that full collection of principal and/or interest in accordance with the contractual repayment terms of the loan or advances in question (NBE, 2008).It further provides that loans or advances with pre-established repayment programs are nonperforming when principal and/ or interest is due and uncollected for 90 (ninety) consecutive days or more beyondthe scheduled payment date or maturity (NBE, 2008).In addition to the above-mentioned category of non- performing loans, overdrafts and loansor advances that do not have pre-established re payment program shall be non-performing when:

- The debt remains outstanding for 90 (ninety) consecutive days or more beyond the scheduled payment date or maturity;
- The debt exceeds the borrower's approved limit for 90 (ninety) consecutive days or more;
- Interest is due and uncollected for 90 (ninety) consecutive days and more; or for the overdrafts,
- If the account has been inactive for 90 (ninety) consecutive days or
- Deposits are insufficient to cover the interest capitalized during 90 (ninety) consecutive days or
- The account fails to show the 20% of approved limit or less debit balance at leastonce over 360 days preceding the date of loan re view.

Loan follow up: -Lending decision is made on sound credit risk analysis /appraisal and assessment of creditworthiness of borrowers. But past records of satisfactory performance and integrity are no guarantee future, though they serve as useful guide to project trend in performance. Loan granted on the basis of sound analysis might go bad because of the borrower may not meet obligations per the terms and conditions of the loan contract.

It is for this reason that proper follow up and monitoring is essential. Monitoring or follow -up deals with the following vital aspects:

- Ensuring compliance with terms and conditions
- Monitoring end use of approved funds
- Monitoring performance to check continued viability of operations

- Detecting deviations from terms of decision Making periodic assessment of the health of the loans and advances by nothing some of the key indicators of performance that might include: profitability, activity level and management of the unit and ensure that the assets created are effectively utilized for productive purposes and are well maintained.
- Ensuring recovery of the installments of the principal and interest in case of term loan as per the scheduled re payment program.
- Identify early warning signals, if any, and initiate remedial measures thereby averting from possible default. Basically, there are three types of loan follow up systems. These are: Physical follow up, financial follow up and legal follow up. Each is discussed in section that follows.

a. **Physical Follow -up :-** Physical follow-up helps to ensure existence and operation of the business, status of collateral properties, correctness of declared financial data, quality of goods, conformity of financial data with other records(such as taxes, register books), availability of raw materials, labor situation, marketing difficulties observed, undue turnover of key operating personnel, change in management set up among others.
b. **Financial follow up :-** Financial follow up is required to verify whether the assumptions on which lending decisions was taken continues to hold good both in regard to borrowers‟ operation and environment, and whether the end use is according to the purpose for which the loan was given.

c. **Legal Follow-up: -** The purpose of legal follow up is to ensure that the legal recourse available to the Bank is kept alive at all times. It consists of obtaining proper documentation and keeping them alive, registration, proper followup of insurances. Specific issues pertaining to legal follow up include: ascertaining whether contracts are properly executed by appropriate persons and documents are complete in all aspects, obtaining revival letters in time (revival letters refer to renewal letter for registration of security contracts that have passed the statutory period as laid down by the law), ensuring loan/mortgage contracts are updated timely and examining the regulatory directives, laws, third party claims among others.

2.1.8 Credit Collection Technique and Provision

Effective credit collection techniques are one of the necessities for financial institutions in any economic climate. Knowing how to encourage customers to pay their outstanding debts to financial institutions like banks on time

can increase the cash flow of banks. Therefore, a number of collection techniques are employed. Under normal circumstances loan clients are expected to pay in cash or deposit or keep their installment repayment as per the agreement made. As the loan account becomes past due or overdue the collection effort becomes more personal and stricter. The basic techniques are:

- Telephone Calls: If the loan client passes the due date, a telephone call may be made to the customer to request immediate repayment and up to date his or her account.
- Personal visits: - If the telephone call made is not resulted positive response vesting his business and discussing the issue with the customer can be a very effective collection procedure.
- Reminder Letters: - If the efforts made so far is unsuccessful and not resulted positive response a polite letter is to be served re minding the customer of its obligation followed by warning letters for the action to be taken in future and its consequence.
- Using Collection Agencies: Firms can turn uncollectible accounts over to a collection agency or an attorney for collection. The fees for this service are typically quite high; the firm may receive less than fifty percent on accounts collected in this way.
- Legal Action: legal action is the most stringent step in the collection process. It is an alternative to the use of a collection agency not only is direct legal action expensive, but is may force the debtor into bankruptcy, thereby reducing the possibility of future business without guarantying the ultimate receipt of overdue amount.

Types of credit risk

Concerning the classifying of credit risk, different writers have expressed various criteria. For example, Hennie (2003) list in his book that the three types of credit risk are personal or consumer, company or corporate and sovereign or country risks, while Culp and Neves (1998) pointed out realized default risk and resale risk being the two types of credit risk. According to Rose (2015) credit risk has two components: Default risk and spread risk. Default risk as more closely associated with the general conception of counterparty risk which is noncompliance with the specifications and terms of a contract. Spread risk can be related to investment risk, such as when a price or yield changes as a result of a change in credit rating. The second type of credit risk comes from credit spreads which are the difference between yields of various debt instruments.

What is adopted here is part of the views from Mckinley&Barrickman (1994), who defined and classified more types of credit risks as follows:

1. **Transaction Risk**: It focuses on the volatility in credit quality and earnings resulting from how the bank underwrites individual loan transactions. Transaction risk has three scopes: selection, underwriting and operations.
2. **Intrinsic Risk:** It focuses on the risk inherent in certain lines of industry and loans to certain industries. Commercial real estate construction loans are inherently riskier than consumer loans. Intrinsic risk addresses the susceptibility to historic, predictive, and lending risk factors that typify an industry or line of business. Historic elements address prior performance and stability of the industry or line of business. Predictive elements focus on characteristics that are subject to change and could positively or negatively affect future performance. Lending fundamentals focus on how the collateral and terms offered in the industry or line of business affect the intrinsic risk.
3. **Concentration Risk**: Concentration risk is the aggregation of transaction and intrinsic risk within the portfolio and may result from loans to one borrower or one industry, geographic area, or lines of business. Bank must define acceptable portfolio concentrations for each of these aggregations. Portfolio diversify achieves an important objective. It allows a bank to avoid disaster. Concentrations within a portfolio will determine the magnitude of difficulties a bank will experience under adverse conditions.

Sources of Credit Risk

There are numerous sources of credit risk that can result a loss. Coyle (2000) defines credit risk as losses from the refusal or inability of credit customers to pay what is owed in full and on time. The main sources of credit risk include, limited institutional capacity, inappropriate credit policies, volatile interest rates, poor management, inappropriate laws, low capital and liquidity levels, directed lending, massive licensing of banks, poor loan underwriting, reckless lending, poor credit assessment., no non-executive directors, poor loan underwriting, laxity in credit assessment, poor lending practices, government interference and inadequate supervision by the central bank (Coyle, 2000).

Generally, all these sources can be categorized in to two primary categories. These are external and internal risk factors.

External Risk Factors

According to the World Bank (2019), external source of credit risks are economic factors, industry, competitiveness and market conditions, legislative and regulatory changes, and technological advancement. This idea is also supported by other studies in different way. Lindhe (2000) conducted a study on the relationship between the market, economic environment as well as banks. The result of the study shows that negative changes or movements in economic and market activities presented early warning signs for potential defaults which could destabilize banks. Besides the study outlined six factors which could act as leading sources of instability in banks:Economic activity: decrease in demand for goods and services results in difficulty for businesses (borrowers) to find a market for their products, which could in return results payment difficulties by borrowers and trigger defaults.

Business failures: – there is an indirect relationship between economic activity and business failure. During the boom (high economic growth periods), there is generally a large number of business start-ups, and vice versa when the economy enters into recession. As an indicator of credit risk, more failures and so higher credit losses could be expected during a period of recession in contrary to a period of economic growth.

Interest rate: – interest rates have a paramount implication in the borrower's ability to service their loans. Any up and down in interest rates will have an immediate impact on the borrower's cost of capital. Consequently, more failures and so higher credit losses for banks could be expected during a period of high interest rates.

Inflation: higher inflation is a sign of macro-economic problem. A rapid change in inflation rate has an impact on borrower's ability to repay their debt. As an indicator of credit risk, more failures and so higher credit losses for banks could be expected during a period of high inflation.

Exchange rate: change in exchange rate has a serious implication on borrower's ability to repay their debt. Any appreciation (increase) in the exchange rate of domestic currency against other currencies results in domestic goods and services to be more expensive as compared to other nation's goods and services. Exporters find it

difficult to find a market for their goods and services, which could result in their failure and thus defaults could be expected if they have taken any loan.

The identified factors under which banks are likely to be destabilized by Lindhe (2000) have been also supported by other researchers (Dryberg,2001). Some of them are subsequently classified as market risk, the changes in exchange rates and interest rates, stock and commodities prices and use of financial instruments.

The recent literature on the economic and market indicators of credit risk in banks are still in support of the view that market and economic climate have a role in identifying credit risk in banks. In this regard, for instance, Lakstutiene, Breiteryte and Rumsaite (2009) are of the view that the developments of the economy in country determines the quality of bank loan portfolios and the incurred credit risk loss in that country. In other words, any negative market and economic movement will have an implication on the financial state of bank borrowers, thus resulting in credit risk for banks.

Internal Risk Factors

Underwriting Standards

This is a procedure to figure out what sort of, to whom, for what reason and when credit ought to be allowed. According to Monetary Authority of Singapore (2016) the Banks should maintain sound credit underwriting standards, policies and processes as well as uphold prudent lending practices to avoid severe asset quality issues. Banks are expected to actively manage their credit risks to ensure that their credit portfolio remains resilient. Proper credit approbation procedure ought to include legitimate rules on both structure and philosophy in assessing borrowers' credit value, setting up of credit line and interest rate suitable to borrowers' risk and credits. Tolerant credit endorsing can bring about misfortunes to financial establishments particularly when obligation reimbursement can't be requested, or security can't be seized in time. Numerous credit risks emerge from insufficiency in endorsing benchmarks and credit observing

Competence of Staff

A bank’s first defense against excessive credit risk is the initial credit-granting process in which competent lending staffs play important role (Comptroller of the Currency Administrator of National Banks, 1998). It is also Determines state that the bank program ensures that staff acquires and retains the appropriate skills.

Otherwise, Credit officers without the important skill in the activities they are in charge of, be it credits, venture, management of problem assets or new products, can prompt poor loaning practice, incapable organization, and inevitably bring about loss to financial institutions..

2.1.9 Credit risk grading system in credit operations

This is another tool that is used during credit analysis Risk grading is a key measurement of a bank's asset quality and it is a robust process. Therefore, borrower's risk grade should be clearly stated on the credit application form for using credit decision making process. Although the major objective of credit rating is to determine the ability and willingness of a borrower to pay at the agreed terms, the rating does a bit more than just classifying the borrowers into pass and fail categories. Treacy and Carey (2000) suggested that in designing a credit rating system, a bank In CRG Manual, five risk components viz. financial risk, industry/business risk, management risk, security risk and relationship risk have been identified Responsible of failing to meet the obligations by the borrowers. (Credit risk grading manual of united bank S.C.).

These risk components are rated based on some basic parameters. Note that there are twenty parameters under the five risk components to reflect the risk exposure. Financial risk comes from the financial distress of the counterparty.

It includes identification of extent of leverage through debt-equity ratio, liquidity of the borrower through current ratio, profitability performance through operating profit margin and coverage through debt-service coverage ratio. Business/Industry risk arises due to adverse change in business or industry situation. In order to assess the borrower's business/industry risk the size of borrower's business in terms of annual sales volume, age of business, industry growth, market competition and entry & exit barriers are to be assessed. Management risk is conducted in assessing the competence and risk-taking propensity of the management. It covers the parameters like experience, second line/succession plan and teamwork of the management. Security risk is assessed by analyzing the primary security, collateral security and support. Relationship risk is considered under CRG by assessing the account conduct, utilization of limit, compliance of covenants and balance of personal deposits.

2.2 Review of Empirical Studies

Credit Risk Management is a serious threat to the performance of banks and the sustainability of any bank.Therefore, a number of researchers have examined the credit risk management practice of banks around the world in varying dimensions. Consequently, critical review of some of these literatures is presented in this sub section of the study.

Al Musharafa (2013) conducted a study to evaluate credit assessment activities of some of the Bangladesh commercial banks by collecting data from primary and secondary sources and utilizing qualitative and quantitative data analysis methods. The result of the study shows that growth of loan and advances are sustainable, better sector allocation of loans, better risk management and income from loan and advances are increasing despite some banks need to improve their general loan policy. Afroz (2013), under his study the researcher tried to specify and estimate necessity of credit portfolio management of Bangladesh Kirishi Bank and describe present credit management practice of the bank along with his suggestions. The study used primary and secondary data sources with descriptive data analysis techniques.

The research has found that the framework of the bank's function is not clear, agro business financing is risky for the bank, very few activities on L/C and other purchase type financing has been made, poverty alleviation credit program of the bank is successful but very little portion of the total portfolio (only 3%-4%). Tetteh (2012) assessed the credit risk management methodologies of Ghana Commercial Bank Ltd for the period 2000-2010. The study's aim was to assess the degree to which the execution of different credit risk management techniques by the bank had lessened the measure of non-performing loans. The researcher utilized a case study approach where face to face interviews was conducted to collate views of senior credit officers at the Ghana Commercial Bank on credit risk management strategies. Besides, information on non-performing loans was obtained from the books of accounts while the researcher also relied on data from Ghana Commercial Bank annual reports and credit policy documents for analysis.

The results from the study showed that Ghana Commercial Bank has a clear, written guideline on credit risk management with the board of directors having an oversight responsibility for implementation. Ghana Commercial Bank realigns the amount of credit within various sectors grouped into a credit portfolio depending on environmental factors such as political regime, macroeconomic strategy of political regimes, new and existing

regulations and legislation, social concerns of operating markets and technological developments within the banking industry in Ghana.

Agu and Basil (2013) conducted a study on credit management and bad debts in Nigerian Commercial banks to investigate major causes of bad debts in Nigerian banks using both primary and employed qualitative and quantitative data analysis using time series and regression data analysis tools to identify nature and causes of bad debts in Nigeria. Accordingly, the result of the study shows that an overall inefficiency of the banks due to inadequate monitoring of borrowers on their borrowed fund utilization, an increase in lending rate, and failure in appropriate follow-ups, poor credit policy and weak credit administration practices.

Different literatures that assess credit risk management practice of for the banking industry in different part of the world are discussed in the above section. A review of literatures that assess the credit risk practice of Ethiopian commercial banks' is presented as follows. In the context of Ethiopia, to the knowledge of the researcher, there appears to be very limited work on the topic area.

Teshome(2015) assessed credit risk management in the case Abay Bank (AB) Alahmeta Branch to determine and find how efficiently and effectively Abay International Bank (AIB) Alahmeta Branch is managing the credit process using primary source of data which is a questionnaire to the staff members (officers) were prepared 15 questionnaires to the targeted officers, and a source of secondary data from the branch official documents. The data that were collected from primary and secondary source of data were presented by table and analyzed through descriptive method of data analysis. The result of the study shows that the borrower was late in making the mortgage payment, has less efficient risk monitoring and controlling system and there is any good collection techniques loan from the clients.Another study by Atakelt (2015) conducted on credit risk management practice of Ethiopian commercial banks using primary data collected through self-developed questionnaire and employed econometric and other statistical methods to test the hypothesis. The study found that Credit risk, liquidity risk and operational risk are the three important types of risks the banks mostly faced.

Tilahun and Dugasa(2014) examined the bank- specific determinants of credit risk in Ethiopian commercial banks using the quantitative research approach and employed random effects GLS regression toanalyzed balanced panel data of 10 commercial banks both state-owned and private owned for the period 2007 through 2011. The result of the study revealed that credit growth and bank size have negative and statistically significant impact on credit risk. Whereas, operating inefficiency and ownership have positive and statistically significant

impact on credit risk. Besides, the results indicate that profitability, capital adequacy and bank liquidity have negative but statistically insignificant relationship with credit risk

Hagos (2011) conducted on “Credit Management Practice of the Wegagen Bank in Tigray Region” using both primary and secondary data and qualitative and quantitative data analysis tools, has found that the bank was managing its credit well in many aspects in this specific region. However, the researcher has also indicated that very long loan processes, in adequate credit policy in terms of customers aspect discouraging credit customers, the researcher has also only short-term credit facility resulted in repayment burden on the client within a short period that leads the customers to termination.

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

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

To the extents of my reviews of related literatures, I did not find any general or specific study that made on the assessment of credit risk management practice of Wegagen bankS.c. Therefore, it is the researcher’s belief that it is appropriate to carry on the research on the established topic on the bank.

CHAPTER THREE

RESEARCH METHODOLOGY

This part consists of the methodology that is used to investigate the topic of this research. The methods used in assembling data and information for this research are shown and justified in this chapter. This stage is about how research was executed and how respondents were approached, as well as how the research was completed. Therefore, in this section the research identifies the procedures and techniques that were used in the collection, processing and analysis of data. Specifically, the following subsections are included; Research Design and Approaches, Population of the Study, Data Collection Instruments, and The study site, Data Analysis Methods and Validity and Reliability of instruments.

3.1 Research Design and Approaches

The study followed a quantitative research approach using a descriptive design. Data is collected and analyzed on the bases of descriptive research design because it provides the structure for such an assessment. Questionnaires were distributed to provide the needed input to the data. The data was gathered from both primary and secondary sources.

3.2 Population

The population of this study are the employees who are directly involved in credit processing and administering. It constitutes Directors, Department heads, division heads, Senior Loan officers, Loan officers, credit analysts, customer relationship managers and Loan Committee members at head office.

3.3 Data collection instruments

For the purpose of this study, both primary and secondary data were used. Questionnaires were used to collected primary data. The questionnaires were distributed toall employees of credit management & analysis department.

3.3.1 Primary Data

This source provides data which is original and might have not been used before. Questionnaires were used as the principal source of data gathering.

Questionnaire:- It constitutes a very important instrument of data collection. And it contained close ended questions as well as questions which open ended in nature. The questions that are close ended offer the respondents the opportunity to choose from answers provided whereas the open-ended questions allow the respondents to give their answers. This technique helps to maintain the focus of the work on its primary objectives. The questionnaires for the purpose of this study are distributed at head office. The Likert scale types of questions were used to determine the respondent's attitudes or feelings about a given subject/matter. The open-ended questions allowed free responses from the respondents without providing or suggesting any structure for the responses. The final date for collection of data was August 30, 2019. Data was then organized and entered by using Statistical Package for the Social Sciences (SPSS), new Version and think-cell.

3.3.2 Secondary data

Secondary data has been collected from annual reports, bank profile, working policy documents and procedure of the bank and different websites.

3.4 Validity and Reliability of Instruments

Validity: - The validity of the measurement instrument of the study was insured with the help of an accepted theoretical constructs allied to the measurements valid to assess credit risk management of the bank. The instrument was reviewed for content validity by three managers of who are working on in different credit risk management banking position. Feedback from the managers resulted in adjustments to the instrument. The major adjustments were to shorten the length of the statements, taken out non relevant items and overall appearance in formatting the items. After the initial development of the questionnaire, it was pilot tested in Directors, Department heads, division heads, Senior Loan officers, Loan officers, credit analysts, customer relationship managers and Loan Committee members by taking one representative from each position. **Seven** respondents have been selected purposely for the pilot test. The feedback from the pilot testing was further reviewed, and adjustments to the instrument were made. In addition, the whole look of the instrument was streamlined.

Reliability: - It refers to the consistency of a measure. It is concerned with the consistency or stability of the score obtained from a measure overtime and across settings or conditions. If we attain the same result repeatedly the measure is considered reliable. In order to know whether the questionnaire is

understandable by the respondent or not and to measure the reliability of the instruments used, Cronbach's alpha was employed. Cronbach's coefficient alpha ranges from 0 to 1, and the values closer to 0 imply that the items do not measure the same construct and values closer to 1 is more reliable. Cronbach used the following rules of thumb to describe Cronbach's alpha (Stephanie, 2014).

Rule of Thumb of Cronbach's Alpha: - The pilot test has shown Cronbach's alpha result of above 0.7. It indicates that the instrument is reliable and acceptable.

Cronbach's Alpha	Description
>= .9	Excellent
>= .8 but < .9	Good
>= .7 but < .8	Acceptable
>= .6 but < .7	Questionable
>= .5 but < .6	Poor
<= .5	Unacceptable

Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.880	.842	26

3.5 The Study Site

This study has taken place in Wegagen bank S.C Head office, Addis Ababa. Because of all employees who are directly engaged in loan activities are working at head office.

3.6 Data analysis method

Most of the data were more of quantitative in nature thus; they are summarized and presented using descriptive statistical tools like mean, standard deviation, and percentages and, tables. In addition to this, graphs were used to facilitate the analysis and to make it presentable for readers.

CHAPTER FOUR

ANALYSIS AND RESULTS

This chapter comprises of the analysis (quantitative statistics manipulation using SPSS new version and think-cell), presentation (in tables and charts) and interpretation of the numbers of the findings out of the study. The analysis and interpretation of data is carried out based on the responses of the questionnaire. As it is concerned with the presentation, analysis, and interpretation of the data gathered via primary source questionnaires and secondary sources collected from the bank's annual reports, manuals and databases.

4.1 Response Rate

Table 4.1 Response rate

Total rate of respondent	Freq.	%
Collated	75	93%
Uncollected	6	7%
Total	81	100%

Source: Researcher's Survey Result from Primary Data Sources

As it can be seen from Table 4.1, **81** questionnaires were distributed to employees of the bank who are working and experienced in credit area. In this case**75 (93%)** percent of the distributed questionnaires were collected. As the distribution and collection of questionnaires is managed by self and assistant of others whom the researcher believed to have experience in the areatogether with highcooperation rendered from the employee the achievement was to the required level and this has enabled to extract sufficient and relevant information to the objective of the research. The remaining**6 (7%)** percent of the distributed questionnaires were uncollected due to different reasons.

Gillham (2000) agrees and states that a response rate at least 30% is satisfactory for the validity and value of the method and results. Therefore, it is reasonable conclusion that the response rate is satisfactory for validity of the research result.

Table 4.2 Response rate of item

Number of response rate of item per questionnaires are 176, and as per the collected item is 75 so the total rate of questioner's total item is 13,200 (176*75)

Total rate of items	**Freq.**	**%**
Items response	13,181	99.9%
Items no response	23	0.1%
Total	13,200	100%

Source: Researcher's Survey Result from Primary Data Sources

From the total items, nearly all items (**99.9%)** are replied by respondents. This validates the fact that much no significant data is missed due to incompletion as per the questionnaires is managed by self-administration and the items wereclearly defined without any confusion.

For more reliability of the data, cases with the missing variables are excluded (not considered) from the **SPSS** processing throughout the analysis.

Descriptive Statistical Analysis- The summary of the descriptive statisticsresult shown belowincludes research related questionaries the study variables which is evaluated based on a 5-point scale (where1=strongly disagree, 2 = disagree, 3 = moderately agree, 4 = agree, and5= strongly agree) and the remaining questionaries scales were coded it depend on its nature.

4.2 Demographic Characteristics of Respondents

This section deals with the demographic profile of the respondents which helps readers to check the representativeness and reasonable diversity. The demographic nature of the employees has a great contribution in the credit management of loans and advance in understanding the credit policies and procedures as well as exercising and improving it when demanded. Thus, in this research process the demographic characteristics of respondents like gender, age, marital status educational level, work position and credit related experience are assessed.

Table 4.3Demographic characteristics of Respondents

Personal profile variables		Frequency	Valid percent
Gender	Male	53	70%
	Female	22	30%
Age	30 and below 30 years	26	35%
	31-40 years	34	45%
	41-50 years	11	15%
	above 50 years	4	5%
Marital Status	Single	34	45%
	Married	41	55%
Education Qualification	Diploma	4	5%
	First Degree	60	80%
	Master	11	15%
Job Position	Managerial	11	15%
	Loan work out processes	60	80%
	Clerical	4	5%
Work experience	1-5 years	19	25%
	6-10 years	34	45%
	above 1 0 years	22	30%

Source: Researcher's Survey Result from Primary Data Sources

Table 4.3indicates that out of the total 75 respondents, 53 (70%) are males and only 22 (30%) are females. Regarding the age, the majority of the respondents 34 (45%) are between 31-40, and 26(35%) are between 20-30 and 4(5%) of them are older than 50 years. The table depicts that more than half of the respondents (55%, 41 respondents) are married and 45% (34 respondents) are not married.

The distribution of highest academic qualifications shows that most of the respondents (80%, 60respondents) are degree holders followed by master's degree holders (15%, 11 respondents) and diploma holders (5%, 4 respondents).

The table depicts that more than half of the respondents (80%, 60 respondents) work position are loan work out processes and 15% (11 respondents) are managers. A few (5%, 4respondents) are clerical in the credit and processing administration department.

The work experience of the employees revealed that nearly an equivalent of the respondents (25%, 19 respondents) have 1-5 years (45%, 34 respondents) have 6-10 years of experience. The next significant number (30%, 22 respondents) constitute employees above 10 years of experience in their profession.

Generally, this implies that the bank has the human resource that can work energetically and competitively understanding the mission and goals of the bank and by its nature the financial industry is very sensitive, and risk exposed requiring human resources who are experienced and professional who can be responsible, trustful, and accountable for the prudent management of the finance.

4.3 Analysis of Collected Data

Table 4.4: Credit Processing/Appraisal

Variables	**Strongly agree =5**	**Agree =4**	**Uncertain =3**	**Disagree =2**	**Strongly disagree =1**	**Mean**	**Standard Deviation**
	#(%)	**#(%)**	**#(%)**	**#(%)**	**#(%)**		
The bank demands a businessplan from all clients to identify risk exposure.	37 (49%)	34(45%)	4(5%)	0	0	**4.44**	**.598**
The bank looks at relevantexperience of the loan applicant.	24(32%)	32(43%)	14(19%)	3(4%)	2(3%)	**3.97**	**.958**

The bank carries out credit processingactivities independent of the appraisal.	10(13%)	50(67%)	8(15%)	4(5%)	3(4%)	**3.80**	**.885**
The banks credit granting, and approval process establish accountability to decision makers.	23(31%)	45(60%)	7(9%)	0	0	**4.12**	**.599**
There are times the credit granting, and monitoring of applicant's can be influences by directors, senior managers or influential staff of the bank.	29(39%)	30(40%)	7(9%)	6(8%)	3(4%)	**4.01**	**1.084**
The bank considers the past repayment track record of applicants.	58(77%)	17(23%)	0	0	0	**4.77**	**.421**
The bank look at collateral whenever granting any loan.	29(39%)	36(48%)	5(7%)	3(5%)	2(3%)	**4.16**	**.916**
Average						**4.18**	**0.78**

Source: Researcher's Survey Result from Primary Data Source

Table 4.4 illustrates the *Credit Processing/Appraisal*which the researcher tried to assess the demands a business plan from all clients to identify risk exposure the majority of the respondents agreed with the mean value of 4.44.It implies that Solid loan appraisal process is practiced by the bank.

The respondents were asked whether the bank looks at the relevant experience of loan applicants and the majority of the respondent's agreedwith the mean value of 3.97. Thisimplies howexperience of the borrowers is necessary for loan granting process in banking business.

Regarding with the bank carries out credit processing activities independent of the appraisal, the majority of the respondents agreed with the mean value of 3.80. This implies thatthe bank carries out credit processing activities independent of the appraisal. In the same table respondents were asked whether the credit granting process establishes accountability to decision makersand the majority of them agreed with the mean value of 4.12. Regarding the question presented whether credit granting, and monitoring of applicants influenced by senior bank management members and directors the majority of the respondentsagreed with the mean value of 4.01. Regarding the question if the bank considers the past repayment track record of applicants, allrespondents agreed with the mean value of 4.77. Regarding the question, if the bank demands collateral whenever granting any loan, the majority of the respondents agreedwith the mean value of 4.16.

Generally, the majority of the respondentsagreedwith the mean average value of 4.18. This implies that thecredit processing and appraisal of the bank is in a good condition. However, the credit granting, and monitoringprocesses influenced by higher officials of the bank. In addition to this, business plan requests by the bank from prospective borrowers might deteriorate the bank credit granting process. Requesting business plan is important to know if the customer has a clear direction of how to operate his/her business. It is also noticed that even if the bank requests for a business plan, most loan applicants are not able to provide the business plan because of many reasons. In some cases, it is also noticed that the banks influential bodies involve in the decision making of some loan related decisions to satisfy the customer when it is believed that the customer has a potential and the customer's relation with the bank is found to be beneficiary. So that solid loan appraisal process is considered as the foremost means to control loan quality.

Table 4.5: Credit Risk Management

Variables	**Strongly agree =5**	**Agree =4**	**Uncertain =3**	**Disagree =2**	**Strongly disagree =1**	**Mean**	**Standard Deviation**
	#(%)	**#(%)**	**#(%)**	**#(%)**	**#(%)**		
The loan portfolio is invested In different sectors of the economy.	30(40%)	25(33%)	12(16%)	5(7%)	3(4%)	**3.99**	**1.097**
Does the bank loan portfolio concentrate? In particular sectors of the e economy.	25(33%)	30(40%)	12(16%)	5(7%)	3(4%)	**3.92**	**1.097**
The bank has pre-set concentration limits In every sector.	30(40%)	25(33%)	12(16%)	5(7%)	3(4%)	**3.99**	**1.097**
The bank quickly responds to market Changes.	17(23%)	41(55%)	8(11%)	4(5%)	5(7%)	**3.89**	**1.062**
Average						**3.95**	**1.09**

Source: Researcher's Survey Result from Primary Data Source

Table 4.5 illustrates the *Credit Risk Management*which the researcher tried to assess the loan portfolio is invested in different sectors of the economy.The majority of the respondents agreed with the mean value of 3.99.This implies that loan portfolios of the bank are invested in different sectors of the economy.

The respondents were asked if thebank's loan portfolio concentratein particular sectors of the economy and the majority of the respondents agreed with the mean value of 3.92which implies that most of the bank's loans are concentrated on certain risks most of the time mainly domestic trade, transport loan and export. And in the same concept the respondents were asked that bank has pre-set concentration limits in every sector.The majority of the respondents agreed with the mean value of 3.99this arises from the demand but also exposes the bank to concentration risk.Regarding the last question which is whether the bank quickly responds to market change, the majority of the respondents agreedwith the mean value of 3.99.Which is relatively good from the researcher point of view. This shows that the bank tries to stay competitive by still protecting the market value of the bank and the shareholder's interest. A good example of how the bank competes in the market is the loan agreement with Ethio-telecom and other company employees who are used for different loan purpose.Generally,it shows that the importance of prudently managing sectors concentration risk in banks. Credit portfolio is generally well recognized on the above mentioned with a mean average value 3.95.

Generally, this result implies that the credit risk management practice in Wegagen bank is not effective.

Table 4.6: Monitoring and Control of Credits

Variables	**Strongly agree =5**	**Agree =4**	**Uncertain =3**	**Disagree =2**	**Strongly disagree =1**	**Mean**	**Standard Deviation**
	#(%)	**#(%)**	**#(%)**	**#(%)**	**#(%)**	**Freq**	
Does collateral estimation regularly assessed & related to applicant's financial health	30(40%)	28(36%)	4(5%)	11(16%)	2(3%)	**3.97**	**1.139**
Does the bank do pre audit before fund has been released to the applicant	30(40%)	30(40%)	4(5%)	7(9%)	4(5%)	**4.00**	**1.151**

The bank implements the condition & Sanction set by different appraisal organization.	26(35%)	23(31%	12(16%)	5(7%)	9(12%)	**3.69**	**1.335**
The bank periodically prepares credit quality reports for signalling loan loss in any portfolio	29(39%)	25(33%	10(13%)	7(9%	4(5%)	**3.91**	**1.176**
Customers are given sufficient advice on the usage of loans.	45(60%)	30(40%	0	0	0	**4.60**	**.493**
Average						**4.03**	**1.06**

Source: Researcher's Survey Result from Primary Data Source

Table 4.3.3 illustrates the *Monitoring and Control of Credits*which the researcher tried to assess the bank does collateral estimation regularly related to the borrower's financial health and the majority of the respondents agreedwith the mean value of 3.97.Respondents were asked whether the bank do pre-audit before disbursement has been made to the borrower and the majority of the respondents agreedthat with the mean value of 4.00.Respondents were asked if the bank implements the condition & sanction set by different appraisal organizations andthe majority of the respondents agreed with the mean value of 3.69. It implies Monitoring and Control of Credits for the bank is well done.Regarding the question whether the bank periodically prepares credit quality reports for signalling loan loss in any portfoliothe majority of the respondents agreedwith the mean value of 3.91. This shows the periodical preparation of quality credit report signaling loan loss of any portfolio in the bank. As it is depicted on last question respondents were asked if customers are given sufficient advice on the usage of loansandthe majority of the respondentsagreedwith the mean value of 3.91**.** This implies it is one means of the bank to increase borrowing base increased from year to year (2014-2018) trends described it.

Hence, proper monitoring of credit has greater significance in the effective management of lending, most of the respondents have witnessed that the bank does provide any advice on the usage of loan and pre audit is made prior to disbursements which are critical success factors even if some of respondents have opposite views. The bank advices branch manages to undertake pre and post disbursement visits usually the pre disbursement visit is undertaken but the post disbursement is not taken seriously by branches or the bank as whole. Other than this, it is advisable for the bank to provide advice to the customers on how to use the credit in effective and efficient way.

It is known that Pre audits can be costly especially time wise, but it can be used as one important control mechanism in credit analysis and appraisal process even some respondents reflect the bank does not take into consideration. The credit portfolio management department collects data related to loan on a monthly and quarterly basis and compiles that data and report to National Bank of Ethiopia, the bank's president office and board of directors.

Generally, this implies that the monitoring and control of credit activities of bank is well but in needs improvement for some areas.

Table 4.7: Credit risk grading/rating

Variables	**Strongly agree =5**	**Agree =4**	**Uncertain =3**	**Disagree =2**	**Strongly disagree =1**	**Mean**	**Standard Deviation**
	#(%)	**#(%)**	**#(%)**	**#(%)**	**#(%)**		
The bank has an internal credit rating system	71(95%)	0	4(5%)	0	0	**4.89**	**.452**
Does the bank do credit rating on all projects approved at branch level	40(53%	25(33%)	4(5%)	5(7%)	1(1%)	**4.31**	**.944**
The bank quantifies risk through credit rating	28(37%)	25(33%)	16(21%)	5(7%)	1(1%)	**3.99**	**.993**

The bank rate the management capacity of loan applicants	71(95%)	0	4(5%)	0	0	**4.89**	**.452**
Does the bank rating system predict debt repaying capacity of loan applicants	40(53%)	25(33%)	10(13%)	0	0	**4.40**	**.717**
The rating system is supported by information systems	10(! 3%)	44(59%)	10(13%)	7(9%)	4(5%)	**3.65**	**1.007**
Average						4.36	**0.76**

Source: Researcher's Survey Result from Primary Data Sources

Table 4.7 illustrates the *Credit risk grading/rating*which the researcher tried to assess the internal credit rating system and the majority of the respondents agreedwith the mean value of 4.89. **T**his impliesthe credit risk grading is the process of assessing the risk that the bank has engaged in every borrower of the bank. It's among many essential instruments for sound credit management. The system tries to rank the loan applicants of the bank a risky/bankable/ and not risky/not bankable.

The system uses five parameters namely track record/pat loan repayment and account operation history/, management experience, relationship of the customer with the bank, realizable and coverage of the security offered, and financial performance of the applicant's business.

Respondents were askedif the bank does credit rating on all projects approved at branch level and the majority of the respondentsagreed with the mean value of 4.31.This implies that branches use discretionary lending limits when approving any loan and do credit risk grading as long as it is not for staff loan.

The respondents were asked if the bank quantifies its risk through credit rating and the majority of them agreedwith the mean value of 3.99**.**Respondents were also asked whether the bank rates the management

capacity of the loan applicants and the majority of them agreed with the mean value of 4.89.Respondent'sresponse to the question whether the banks rating system predict debt repaying capacity of loan applicants,the majority of the respondents agreed with the mean value of 4.40. And for Questionsaskedif the banksrating system issupported by information systemthe majority of the respondents agreedwith the mean value of 3.65.

Generally**,** this impliesthat there is a critical need to support the grading process through information system to avoid subjectivity. Even though there is an information system supported credit risk grading system,

Table 4.8: Prevailing factors affecting timely decision

Variables	Strongly agree =5	Agree =5	Uncertain =3	Disagree =2	Strongly disagree =1	Mean	Standard Deviation
	#(%)	#(%)	#(%)	#(%)	#(%)		
Delay in obtaining credit information	0	0	12(16%)	58(77%)	5(9%)	**2.17**	**.529**
Lack of adequate manpower	0	2(3%)	7(9%)	61(81%)	5(7%)	**2.08**	**.514**
Centralized decision-making process	58(77%)	15(20%)	2(3%)	0	0	**4.76**	**.489**
Submission of incomplete data by prosper active borrower	0	64(85%)	6(8%)	5(7%)	0	**3.79**	**.552**
Average						**3.20**	**0.52**

Source: Researcher's Survey Result from Primary Data Sources

One of the major ways customers decide to use a bank is the possibility of getting a loan and the time it takes to be done with the process. Therefore, eventhough timely and accurate credit decisions are critical to banks, there are factors which hinderthem to do so. Therefore, the researcher is obliged to question the most prevailing factors affecting timely decision in this table.

Table 4.8 illustrates the *Prevailing factors affecting timely decision*which the researcher tried to assess the bank encounters delay in obtaining credit information and the majority of the respondents disagreed with the mean value of 2.17**.**Credit information is a mechanismof checking customer's credit relation with any of the banks by using a systemthat is developed by national bank of Ethiopia and is updated every month end. It is actually one of the requirements of the national bank of Ethiopia not to process a loan without inquiring credit information.

Regarding the questions if there is lack of adequate manpower, the majority of the respondents disagreed with the mean value of 2.08.This is noticed mainly in new branches where there are not a lot of loan activities. Regardingquestions whether centralized decisionaffects timely decision of granting loans, the majority of the respondents agreed with the mean value of 4.76. Loans are approved at different level based on their discretion by three committees; BCC (branch credit committee), CMC (credit management committee), ECC (executive credit committee) in which the latter two are at head office level so the delay mainly happens when loans are approved at head office level.

Regarding with submission of incomplete data by prospective borrower is the most prevailing factor in timely credit decision, the majority of the respondents agreedwith the mean value of 3.79. Even though loan is not granted to customerswho submit incomplete document, the problem is after informing the loan applicants it takestime to provide the required document needed to process the loan on time. Generally, this implies that the bank should be take proactive solution regarding with factors affected timely decision.

Table 4.9: Credit policy, processing, and collection procedures

Variables	**Yes**	**No**	**Mean**	**Standard Deviation**
	#(%)	**#(%)**		
The bank has credit policy or manual	75(100%)	0		**.000**

			1.00	
The bank has updated credit policy	75(100%)	0	**1.00**	**.000**
The bank's credit policy in compliance to NBE rules and regulations.	75(100%)	0	**1.00**	**.000**
The bank's loan service is as per client's preference	53(71%)	22(29%)	**1.29**	**.458**
Collection technique used by the bank are effective	43(57%)	32(43%)	**1.43**	**.498**
Average			**1.14**	**0.19**

Source: Researcher's Survey Result from Primary Data Source

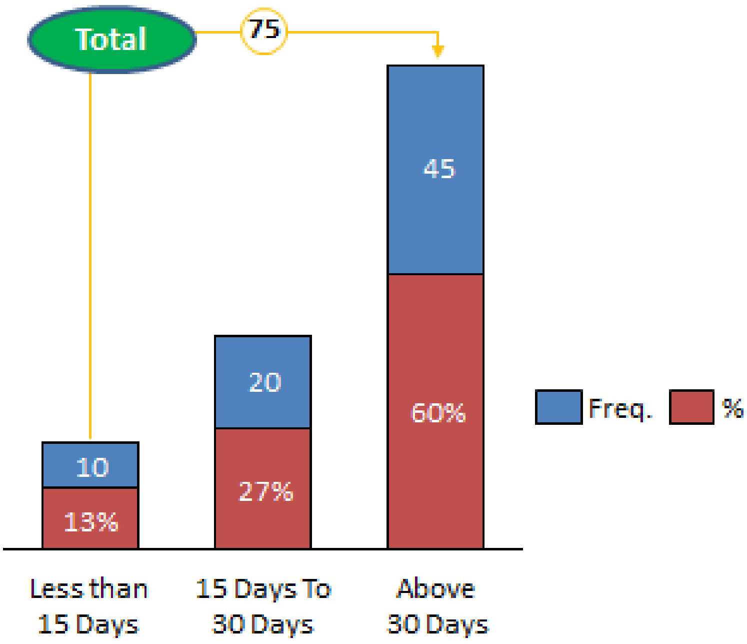
Table 4.9illustrates the *Credit policy, processing, and collection procedures*which the researcher tried to assess the bank have a policy and procedure manuals, the bank has updated credit policy and the bank's credit policy in compliance to NBE rules and regulations on the other hand regarding the question if the bank encounters delay in obtaining credit information, allrespondents agreed with the mean value of 1.00. This implies that credit policy is one of the tools and technique used in credit management process. It is crucial to have credit policy document to protect the bankagainst over exposure, mal administration of credit, managing of non-performing loans, and arrive at a trade-off between returns and risks. All respondents have responded that the bank has an updated manual. The bank updated the main credit policy and procedure manual through time by issuing various procedures about a specific amendment. The revision and amendment of the bank's credit policy and procedure are based on change in the specific factors and approved by bank BOD.

Regarding the question addressed to employees if the prevailing loan service to the client is as the preference of the prevailing growth of loans, the majority of the respondents agreed that with the mean value of 1.29**.**This implies that the bank tries to recognize potential loan areas and sectors and is trying to reach all societies need by introducing new loan products or services (P&S).Finally, the majority of the respondents agreed the collection

techniques are effective with a mean valve of 1.43. Therefore, need of improving the bank's loan follow up systems helps to ensure per- schedule collection of loan and advance?

Generally, this implies that the bank credit policy is well updated, but the bank loan service and collection techniques are not effective.

Graph 4.1:Time interval for processing a single loan and make decision



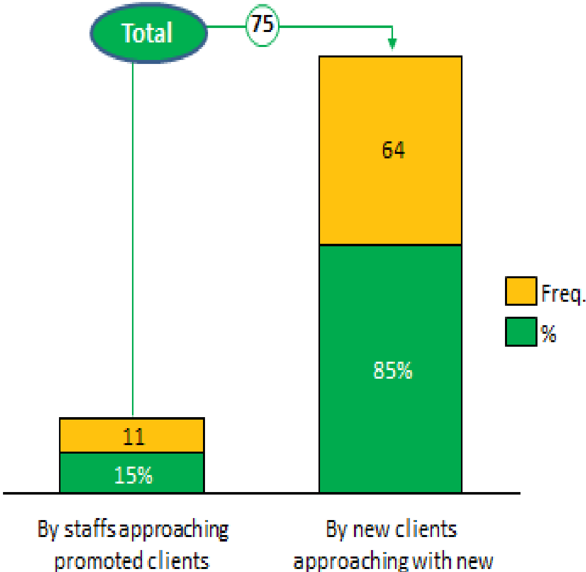
Source: Researcher's Survey Result from Primary Data Source

Loan processing is entire sequence of steps, from the time a loan application is received (or a loan offer is accepted) to the time loan is closed, the loan proceeds are disbursed, and the aggregate amount (principal plus interest) is placed on the lender's books as an asset. Many factors contribute to the time it takes to complete one loan process like the time it takes to collect the needed documents, analysis both at the branch and the approving organ also depends on where the loan is being approved branch, liquidity status of the bank.

It is one of the measurements of credit management in banks. Hence, the processing procedure, transparency, and length of time are some of the factors determining the convenience of lending facilities which contributes to

loan growth and lasting client - bank relationship. Bearing this in mind the researcher raised question about the time interval for processing single loan and to pass decision 13% of the respondents said it takes less two weeks where as 27% of the respondents replied it takes between two weeks to a month while 60% of the respondents replied more than a month.

Graph 4.2: Credit creation by the bank



Source: Researcher's Survey Result from Primary Data Sources

As it is shown in graph 4.5**,** 85 percent of the loan is created by new applicants approaching the Bank with credit request while 15 percent is created by the employees approaching potential loan clients. These shows the Bank employees especially branch managers should further exert efforts to approach potential loan clients as it is the best way of creating quality loans as well as to win the prevailing so stiff competition.

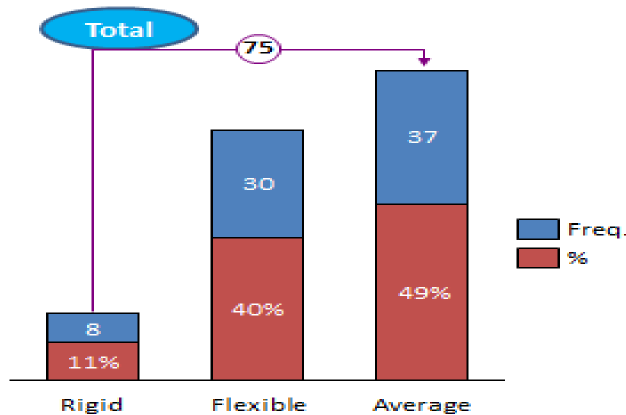
Table 4.10: Collection techniques of the bank

Collection techniques of the bank	**Freq.**	**%**
Debiting customers account as per an undertaking letter	30	40%
Cash/cheque payment	18	24%
Using reminder letter	11	15%
Transfer	11	15%
All	5	7%
Total	75	100%

Source: Researcher's Survey Result from Primary Data Sources

The collection technique so far adopted by the Bank is cash/check payment, debiting own account per the given undertaking authorization, and transferring through the bank's branch excluding commission charge. As it is shown in table 4.6 40percent adopts debiting the clients account, 24 percent uses cash collection system, and 15 percent uses transferring and make it reminder letter when the clients are out of the branch. Hence, the most common collection techniques used by the bank is cash and debiting Clients account.

Graph 4.3: Credit policy and procedure of the Bank



Source: Researcher's Survey Result from Primary Data Sources

The credit policy of Wegagen Bank is designed to give customers excellent service on all credit application/approval consistent with acceptable credit standards focusing on the bank's profit motive so flexible a bank's credit policy is another factor for customers to decide to be a customer of a bank or not in compliance to the policy of the 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. Therefore, knowing the outlook of loan clients for each bank is very important in reshaping its credit policy and procedures.

Hence, in order to know the nature of the Bank's credit policy, the researcher raised questions for the employees of the Bank. Consequently, as revealed in graph 4.749 percent of the respondents said the credit policy and procedure of the bank is onaverage in its workability and 40percent claimed as it is flexible. While, 11 percent of them said that the credit policy of the Bank is rigid. In the interview made most of the division and department managers have agreed on the importance, attractiveness and convenience of flexible credit policies and procedures as it assistsfor loan creation and growth. They also noted that the flexibility should come by keeping the protection and the best interest of the bank in mind. In some areas it implied the bank's credit policy is needed some improvement as per the respondent feedback.

Table 4.11: Rate of credit analysis and processing

Rate of analysis and process	Freq.	%
Excellent	3	4%
Very good	45	60%
Good	16	21%
Fair	8	11%
Poor	3	4%
Total	75	100%

Source: Researcher's Survey Result from Primary Data Sources

In relation to credit analysis, as indicated in table 4.8. 60percent of the bank employees have rated the credit analysis of the bank very good, 4 percent rated Excellent, 21percent rated good while 11 percent rated fair. And even 4 respondents still replied the bank has poor rate of analysis and process.Hence, there is a gap needed to improve the quality of credit analysis and loan processing at both head office and branch level to the status of excellent level that enables to createquality loans managing non-performing loans. Even if the credit analysis team will be interested to conduct credit worthiness assessment of business based on cash flow lending and determines financing requirement of business in parallel with tenure, magnitude of risk and purpose of loan.

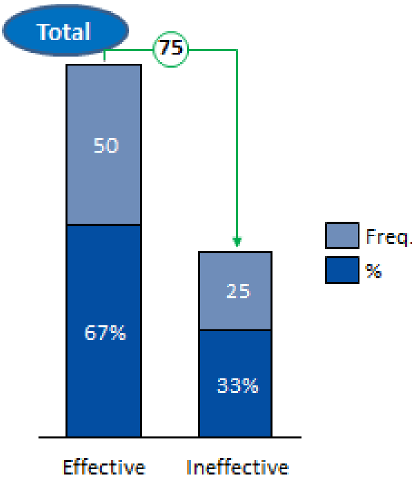
Table 4.12Methods used to improve repayment

Measure	Freq.	%
Loan scheduling	10	13%
Additional loan	5	7%
Frequently insisting the client	60	80%
Total	75	100%

Source: Researcher's Survey Result from Primary Data Sources

Branches should start on the repayment probability of the loan since the beginning of the loan. They should consult with the customer on the frequency of the repayment based on the cash flow of the customer's business. As it is indicated in table, 4.9, 80 percent used to settle the non-performing loan through frequent follow up and insisting the loan client. Moreover, 13 percent of the bank employees have replied the bank reschedules loans when the cause of default occurs justifiable while 7% of them replied additional loan is made. From the interview with the staff of the portfolio and credit management they would go in to a great length before the loan could go in to the legal department and foreclosure could follow but the first and the most important step in done in the branch where the loan was granted.

Graph4.4: Effectiveness of forcing measures



Source: Researcher's Survey Result from Primary Data Sources

Regarding the enforcing mechanisms, the researcher raised questions and assessed their effectiveness as shown in Graph think cell 4.10above, 67 percent of the respondents confirm the effectiveness while 25 percent disclosed its ineffectiveness. The success for effectiveness is the bank applied capacity building method, Customer relationship management (CRM)system, credit analysis/appraisal and good follow up systems, while the main reason for the ineffectiveness is that in most cases people do not want to buy others property which is held as collateral by banks. In principle, Wegagen Bank holds collateral properties of various natures as

a second way out or as a compensation of the presumed losses. It shall be understood the collateral shall not be considered as substitute for credit worthiness or business strength.

CHAPTER FIVE

FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

This chapter presents a summary of the research findings that has been discussed and analyzed in detail in the previous chapters. The recommendations are forwarded based on the objectives of the study.

5.1Summary of Findings

The research findings show that:

- **On Credit Processing/Appraisal(Ave mean=4.18(SD=0.78)** The credit processing and appraisal of the bank is in a good condition except matters that the credit granting and monitoring is influenced by managerial employees of the bank and the case that the bank sometimes requests business plan from prospective borrowers which might deteriorate the bank asset quality *which leads to Solid loan appraisal process.*
- **Credit Risk Management (Ave M=3.95, SD=1.09)** that most of the bank's loans are concentrated on certain risks mainly domestic trade, transport loan and export. The bank has pre-set concentration limits in every sector to stay competitive by protecting the market value and the shareholder's interest, so this leads to the importance of prudently managing sectored concentration risk in banks.
- **Monitoring and Control of Credits(Ave M=4.03, SD=1.06**)even if proper monitoring of credit has greater significance in the effective management ofcredit, most of the respondents have witnessed that the bank doesprovide advice on the usage of loan and pre audit is made prior to disbursements. However, some of the respondents have an opposite view.
- **Credit risk grading/rating (Ave M=4.36, SD=0.76)** the credit risk grading is the process of assessing the risk that the bank has engaged in every borrower of the bank. It's among many essential instruments for sound credit management. It implies there

is a critical need to support the grading process through information system to avoid subjectivity. Even though there is an information system supported credit risk grading system currently it can easily be manipulated.

- **Prevailing factors affecting timely decision** (Ave M=3.20, SD=0.52)from listed factorsCentralized decision-making process and Submission of incomplete data by prosper active borrower are factors affecting timely decision. From the banks side, Delay in obtaining credit information andLack of adequate manpower are significant impactas affecting timely decision in the bank.
- **Credit policy, processing, and collection procedures. (Ave M=1.14, SD=0.19**) credit policy is one of the tools and technique used in credit management process. Hence, it is crucial to have credit policy document to protect the bank against over exposure, mal administration of credit, managing of non-performing loans, and arrive at a trade-off between returns and risks. It is designed to give excellent services on all credit application/proposal consistent with acceptable credit standard focusing on the bank's profit motive.
- All (100%) respondents were agreed in cases of the bank's credit policy face in compliance to NBE rules and regulations.
- 13% of the respondents said it takes less two weeks where as 27% of the respondents replied it takes between two weeks to a month while 60% of the respondents replied more than a month.
- 40%and 24% of respondent responded the most common collection techniques used by the bank is cash and debiting Clients account.
- 11% respondent are responded Wegagen bank Credit policy and procedure of the Bank is rigid the remaining respondents are agreed it is flexible and on average.
- 60% percent of the bank employees have rated the credit analysis of the bank very good, 4 % rated Excellent, 21 % rated good while 11 % rated fair. And even % respondents still replied the bank has poor rate of analysis and process.
- 80 percent used to settle the non-performing loan through frequent follow up and insisting the loan client. Moreover, 13 percent of the bank employees have replied the bank reschedules loans when the cause of default occurs justifiable while 7% of them

replied additional loan is made. From the interview with the staff of the portfolio and credit management they would go in to a great length before the loan could go in to the legal department and foreclosure could follow but the first and the most important step in done in the branch where the loan was granted.

5.2 Conclusion

Under this study, the major credit risk management practices are identified, and open- ended research questions were developed and addressed. Qualified, socially responsible and experienced man power enhances competency of the banking sector. Majority of employees of the bank working in credit area are Degree holders still updating their educational status, married and highly experienced, this enables the bank to accelerate its service delivery and become competitive in the growing stiff competitive industry. This enables the bank to meet its vision of becoming “to be one of the ten most reputable and competent banks in Africa by the year **2025.”**
The credit policy and procedure as well as other pertinent manuals and guidelines help to create common understanding and uniformity among all employees. The Bank is compliant to all directions of national bank of Ethiopia in all of its activities of credit management. Hence, the way of categorizing and holding provisions for the non-performing loans is as per the direction and requirement of the National bank of Ethiopia.

To assure the quality of its credit the Bank implemented internal risk rating/grading/ procedure.The majority of respondents believed it is well implemented at all levels to support the loan processes and to classify customers on a risk level. The majority agreed that it is supported by information systems while the remaining are uncertain or disagreed.Submission of incomplete documentation and centralized credit decision mainly affects accurate and timely decision which makes loan delivery time of the bank lengthy. The majority of the respondents agreed one loan process takes more than 30 days to be finalized. The collection techniques so far adopted by the bank is appropriate and effective that most common collection techniques used by the bank is transfer and debiting Clients account per pre-undertaking.

Most of the time loans are created by new clients approaching the bank but respondents believed that the service is not that much to the client’s preference.Most respondents revealed the credit analysis and appraisal of the bank is in a very good condition except matters that the credit

granting, and monitoring is influenced by influential persons of the bank which makes decision subjective. It was an understanding of most respondents that influential personnel involve mainly when they found the client having a potential for the most part.

Hence, proper monitoring of credit has assumed greater significance in the effective management of leading yet most of the respondents have witnessed that the bank does not provide any advice on the usage of loan and no pre audit is made prior to disbursements which are critical factors. Most branches as it is clearly stated on the credit policy of the bank do not also undertake post disbursement visit unless there is something wrong with the loan repayment.

From the analysis it is clearly shown that even though the bank portfolio is invested in different sectors of the economy and is as per the pre-set concentration limits in every sector which respondents witnessed. The bank is currently concentrating on specific sectors in the years under consideration.

5.3 Recommendations

The following are some of the points that I would like to recommend to Wegagen Bank S.C. management and concerned bodies.

- ❖ The bank is advised to give more emphasize on its review the processes of granting, evaluating and monitoring loan on the credit risk management practice of the bank. (As the respondent mean average feedback line with between agree and disagree regarding with different variables)
- ❖ Credit policy and procedure, should be followed a better approach to be meet the objective of the bank. (As some respondents responded the credit policy of the bank is rigid, it has a gap in implementation of collation techniques and not meet the client preference)
- ❖ The bank updated credit policy manual assured that the scope of the bank credit policy covers the credit process commencing from customer recruitment till its final statement and /or write off, but as it is disclosed in the analysis part of the study most of the bank employees have complaints on the credit policy and guidelines regarding loan discretion,

length of loan processing time, repayment schedule, and excessive requirements for analysis. These are the major factors impeding client reputation and retarding to attract potential loan clients. Hence, the bank should make 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.

- To be selective and more competitive the bank should be quickly responding to market changes and provide wide range of innovative and customer focused Banking products and services (as some respondents responded the bank has a gap in market change) In today's competitive world the bank must try to develop a credit policy in line with the existing situation of the market.
- The bank advised to frequently follow-up by visiting borrower's business to create long-lasting relationship and assure future payment.
- In today's competitive world the bank must try to develop a credit policy in line with the existing situation of the market.
- The banks advisable develop different types of credit facilities to the borrower as per potential borrower preference.
- The bank should apply a pragmatic approach which needs to be pursued for managing the ever-increasing plethora risks surrounding the banking industry landscape. Mindful of this, the Bank has already put in place a judicious and sound risk and compliance management system in a bid to ensure sustainable growth while maintaining overall risk exposures within an acceptable level.
- The bank should be keeping the strength faces in conforming to NBE regulation in credit risk management practice and try to find possible solution regarding with then existing challenges as respondents responded in term of interviews.
- The bank should review and assess credit risk. Assess all credit exposures in excess of designated limits, prior to facilities being committed to customers. And Limiting concentrations of exposure to geographies, industries, individual or and group exposures and maturity exposures (for loans and advances)

- ❖ The credit analysis team should be performing its credit assessment interdependent of relation management team as huge gap are faced regarding with credit analysis as per respondent feedback.
- ❖ Credit portfolio management shall be prepared progress and actively reports periodically and distribute to the concern organization.

Future Research

This study is undertaken in Wegagen bank Share Company as a case study of credit management performance of the Bank it is only limited to one commercial bank in Ethiopia because of time limitation

This study focused only assessed the credit risk management practice at Wegagen bank ‘aspect and further study can be conducted from the customers ‘point of view like customer satisfaction on the performance bank credit risk management and loan intention. Moreover, the study has credit risk management practice of Wegagen Bank and it is recommendable to include other bank practice specially to include other regions using a larger sample of agents though more research.

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DECLARATION

I, the under signed, declare that this thesis is my original work, prepared under the guidance of Afework Getachew (PhD). All sources of material used while working on 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 type of degree.

Hawi DugaJebessa________________

Name **Signature**

St. Mary's university **January, 2020**

ENDORSEMENT

This thesis has been submitted to St. Mary University, School of graduate studies for examination with my approval as a university Advisor.

________________ ________________

Advisor **Signature**

St. Mary's University, Addis Ababa **January, 2020**

APPENDIX

ST. MARY'S UNIVERSTY

SCHOOL OF GRADUATE STUDIES

MBA PROGRAM

Questionnaire to be filled by employee of Wegagen bank S.C

Dear respondent;

Thepurposeofthisquestionnaireistoenableme to carryoutaresearch for the partial fulfilment of master's degree in business administration (MBA).The research focuses on the topic "TheAssessment credit risk management practice in case of Wegagen bank S.C-Addis Ababa, Head Office. Hence, to gather information, I kindly seek your assistance in responding to the questions listed below. Any information you present will be kept quite confidential and will be used only for academic purpose. Your cooperation and prompt response will be highly appreciated.

N.B: Writing your name is not necessary.

Put ***"√"*** for the company choice in the box provided.

I. GENERALINFORMATION

1. Gender

A. Male ☐ B.Female ☐

2. Age?

A. 20-30yearsB. 31-40years ☐ C. 41-50years ☐ D. Above50 ☐

3. Maritalstatus?

A. Single ☐ B. Married ☐

4. Educational background?

A. DiplomaB. Degree ☐ C. Masters ☐ D. Ph.D. andabove ☐

5. Current position

A. Managerial ☐ B. Professional ☐ C. Clerical ☐

6. Credit related experience within thebank?

A. 1-5years ☐ B. 5-10years ☐ C.above 10years ☐

II. REASEARCH RELATED QUESTIONS

7. Please respond to the following statements by indicating the extent to which you agree or disagree with a given rate.

	1. Credit processing and appraisal	**Strongly agree (5)**	**Agree (4)**	**Uncertain (3)**	**Disagree (2)**	**Strongly disagree (1)**
A.1	The bank demands a business plan from all clients to identify risk exposure					
B.1	The bank looks at relevant experience of the loan applicant					
C.1	The bank carries out credit processing activitiesindependent of the appraisal					
D.1	The banks credit granting and approval process establish accountability to decision makers					
E.1	There are times the credit granting and monitoring of applicant's can be influences by directors, senior managers or influential staff of the bank					
F.1	The bank look at collateral whenever granting any loan					
G.1	The bank considers the past repayment track record of applicants					

	2. **Credit Risk Management**	**Strongly agree**	**Agree**	**Uncertain**	**Disagree**	**Strongly disagree**
A.2	The loan portfolio is invested in different sectors of the economy					
B.2	Does the bank loan portfolio concentrate? in particular sectors of the e economy					
C.2	The bank has pre-set concentration limits in every sector					
D.2	The bank quickly responds to market changes					

	3. Monitoring and control of credit	**Strongly agree**	**Agree**	**Uncertain**	**Disagree**	**Strongly disagree**
A.3	Does collateral estimation regularly assessed & related to applicant's financial health					
B.3	Does the bank do pre audit before fund has been released to the applicant					
C.3	The bank implements the condition & sanction set by different appraisal organs					
D.3	The bank periodically prepares credit quality reports for signalling loan loss in any portfolio					
E.3	Customers are given sufficient advice on the usage					

	of loans.					

4. **Credit risk grading/rating**		**Strongly agree**	**Agree**	**Uncertain**	**Disagree**	**Strongly disagree**
A.4	The bank has an internal credit rating system					
B.4	Does the bank do credit rating on all projects approved at branch level					
C.4	The bank quantifies risk through credit rating					
D.4	The bank rate the management capacity of loan applicants					
E.4	Does the bank rating system predict debt repaying capacity of loan applicants					
F4	The rating system is supported by information systems					

5 **prevailing factors affecting timely decision**						
A5	Delay in obtaining credit information					
B5	Lack of adequate manpower					

C5	Centralized decision-making process					
D5	Submission of incomplete data by prosper active borrower					

III. Questions Related To Credit policy, processing, and collection procedures (CPC)

8. Do you have a credit manual orpolicy?

A. Yes

B. No

9. Do you have an updated credit policy?

A. Yes

B. No

10. Do you have a credit policy in compliance to NBE rules and regulations?

a. Yes

b. No

11. Does the bank provide loan service that fit to the preference of theborrowers?

A. Yes

B. No

12. Do you think the credit collection technique used by your bank iseffective?

A. Yes

B. No

13. If your answer to Q no, 9, is “No”, specify the impedimentsencountered?

____

IV. Credit creation & procedure and follow up

14. How long it takes to process and decide on a single creditrequest?

A. Less than15 days

B. 15-30 days

C. Above30days

15. Most of your current loan iscreated,

a. By approachingpromotedclients b.By clients approached withrequest

16. Which of the following credit collection technique/s/ are mostly adopted by yourBank?

a. Cash/checkpayment

b. Debiting client account per pre-undertaking

c. Using reminderletters

d. Transferring

e. All

17. How can you see your institution's credit policy andprocedure?

a. Rigid

b. Flexible

c. Average

18. How do you rate the credit analysis and procedure followed by the bank in Extendingcredit?

a. Excellent
b. Very good
c. Good
d. Fair
e. Poor

19. Which method of improvement of repayment is applied for the bank?

a. Loan scheduling

b. Additional loan

c. Frequently insisting the client

20. How do you evaluate the loan enforcementmechanism?

a. Effective
b. Ineffective

21. How often does your institution visit clients business after fund has been released?

a. Monthly
b. Quarterly
c. Semi- annually
d. Annually
e. Intime of default
f. Other_____________________________________

22. What do you think is/are the major reason/s/ for defaultin your Branch?

a. Lack oftraining
b. Wilfuldefault
c. Loandiversion
d. Lack of market for clientsproduct
e. Lack offollow-up
f. Other (specify)____

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

a) Loanrescheduling
b) Additionalloan
c) Frequently insisting theclient
d) Others, (specify) ________________________

24. What measures are taken by the bank to enforcerpayment?

a) Foreclosure
b) Courtproceedings
c) Others, (Specify)________________________

25. If your answer to Q 23is “Ineffective”, what is/are the reason/s/ behindthis?

a) Buyersdon’twant tobuysomepropertybecauseofbankloan
b) Limited purchasing power of thesociety
c) High initial bidamounts
d) Others, (specify) ________________________

26. Would you please specify any problem/s/ of credit management that your institution faces so far apart from the above raisedissues?_______________________________________
____
______

27. Would you please specify the major credit problems youassume?
____
____
____

28. For the problem/s/ that you mentioned above, please list out all the possible and better solution/s/ that can improve the credit management system of yourbank?

____
____

____
______

THANK YOU FOR YOUR RESPONSE!!!!