ST. MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES

ASSESSMENT OF CREDIT MANAGEMENT PRACTICES: THE CASE OF LION INTERNATIONAL BANK S.C

BY
MERIED HAILE

JANUARY 2020
ADDIS ABABA, ETHIOPIA

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DECLARATION

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

Meried Haile Signature -----------------------

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

ENDORSEMENT

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

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Advisor Signature

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

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LIST OF ABBREVIATION

BCC : BRANCH CREDIT COMMITTEE

BOD : BOARD OF DIRECTORS

CIC : CREDIT INFORMATION CENTRE

DLL : DISCRETIONARY LENDING LIMIT

EC : ETHIOPIAN CALENDAR

FIS : FINANCIAL INSTITUTIONS

GC : GREGORIAN CALENDAR

NBE: NATIONAL BANK OF ETHIOPIA

NPL: NON-PERFORMING LOAN

LAF : LOAN APPROVAL FORM

L/C : LETTER OF CREDIT

LIB : LION INTERNATIONAL BANK

KYC : KNOW YOUR CUSTOMER

S.C : SHARE COMPANY

SPSS : STATISTICAL PACKAGE FOR SOCIAL SCIENCE

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ABSTRACT

The purpose of the study was to assess the credit management practice of Lion International S.C. The data were gathered from all staff of the head office Credit Management Department and twenty branch managers and customers' relationship officer found in Addis Ababa only on the credit management practices of the bank in areas of securing credit facilities against collateral, credit management analysis/evaluation practice of the bank, concentration risk management practice of the bank and the practice of the bank's credit follow-up and recovery. The questionnaire survey was undertaken among 65 employees of the bank and all were collected to assess the perception of credit management practices of the bank in relation to the above practices. Closed ended questions were used, particularly to reflect the views of the employees with regard to four practices. Descriptive research design with 5 levels Likert scale was used to measure variables of study. Data was analyzed through descriptive statistics, percentage and frequency using SPSS Version 20.0 software. The result from the survey shows that majority of the bank staff were explained their concern on weak collateral coverage of the bank loans, high concentration risk on export loan out of the total loan volume of the bank, weak credit analysis during approval and at same time poor follow-up and recovery activities. According to the survey the bank can reverse the potential risk by providing reasonable attention for collateral holding , developing moderate loan concentration between credit products, improving the competency of the credit follow-up and recovery division for quality loan management and timely follow-up of bad debts were recommended.

***Key words**: Credit Management assessment, Loan Concentration risk, and collateral risk*

CHAPTER ONE

INTRODUCTION

This chapter deals with the introductory part of the study, it contains the background of the study, operational definition of key terms, and statement of the problem, research questions, objectives, significance, scope and limitation of the study.

1.1 BACKGROUND OF THE STUDY

Economic role of banks in any country is crucial for all business activities. Banks play an intermediary function, they collect money from those who have excess funds and lend it to others for investment purpose. Availing credit to borrowers is one of the main contribution banks to the growth of the economy. Loans and advances are the major components of bank's assets. It usually contributes the Lions' share of the banks operating income and associated with greater risk exposure (Koch and Mac Donald, 2006).

According to Oyatoya, (1983), credit has been recognized as one of the most important financial services that contribute to the success of a business venture and this success in turn contributes to the major economic development of a country. However, the existence of credit facility alone does not necessarily result in supporting economic development unless otherwise, it is accompanied by the existence of efficient utilization of credit funds.

Even though credit has been recognized as one of the most important financial services it is subjected to business risks. Theoretically risk is defined as the element of uncertainty or possibility of loss that prevail in any business transaction in any place, in any mode and at any time. In the banking business, risk can be broadly categorized as credit risk, operational risk, market risk etc. Among the risks, credit risk is the most common form of risks for the banking industry. Globally, it is reported that more than 50% of the total risk elements in banks and other financial institutions are credit risk alone (Lalon, 2015).

Credit risk is the risk of default or risk of losing or delaying interest and principal repayments from the loan contract which needs to be managed carefully to achieve the required level of loan growth and interest income. (Lalon, 2015).

1.2 ETHIOPIAN BANKING BUSIBESS HISTORY

The establishment of National Bank of Ethiopia indicates the modern Banking history in Ethiopia which was backed to the year 1905 when the Bank of Abyssinia was established (NBE, 2010). Bank of Abyssinia was formed under a fifty years franchise agreement made with the National Bank of Egypt, which was owned by the British by then. To widen its reach in the country the Bank had expanded its branches to Dire Dawa, Gore and Dessie. It had also an agency and a transit office in Gambella and at the port of Djibouti respectively. After its formal liquidation on August 29, 1931 the Bank of Abyssinia was replaced by the Bank of Ethiopia. According to NBE (2010) Bank of Ethiopia, was also known as Banque National Ethiopian, had a function of both a Central Bank and Commercial Bank and was considered as one of the first indigenous banks in Africa. The Bank of Ethiopia operated until 1935 and come to an end because of the Italian invasion. During the five years of the Italian occupation (1936-41), many branches of the Italian Banks such as Bancodi Italia, Banco Di-Roma, Banco Di-Napoli and Banco Nazianali del lavoro were operational in the main towns of Ethiopia.

After leaving of the Italians, the State Bank of Ethiopia was established on November 30, 1943 with a capital of one Million Maria Theresa Dollars. Pursuant to the Monetary and Banking Law of 1963 the State Bank of Ethiopia that had served as both as a central and as a commercial bank was dissolved and split into the National Bank of Ethiopia and Commercial Bank of Ethiopia Share Company. Accordingly, the central banking functions and the commercial banking activities were transferred to the National Bank of Ethiopia and the Commercial Bank of Ethiopia Share Company respectively.

Moreover, according to (NBE, 2010), following the adoption of the command economy in 1974, all private commercial banks and financial institutions were nationalized on January 1st, 1975 and re-organized as one commercial bank, the Commercial Bank of Ethiopia; two specialized banks the Agricultural and Industrial Bank (AIB),latter renamed as the Development Bank of Ethiopia (DBE) and Housing and Savings Bank (HSB) latter named as the Construction and Business Bank (CBB) currently merged with Commercial Bank of Ethiopia; and one insurance company, the Ethiopian Insurance Corporation (EIC)

were formed. During the era of state socialism (1974-1991), Ethiopian financial institutions were in charge of execution of the national economic plan. State enterprises received bank finance in accordance with the plans priorities. Following the change of the socialist government in 1991 new economic policy directions had adopted. Accordingly, financial institutions were re-organized to operate towards a market oriented policy framework. The Proclamation No. 83/1994 had allowed the establishment of private banks which had marked the beginning of new era in the Ethiopian banking sector development. Subsequent to the enactment of this proclamation sixteen private banks had been entered to the market.

1.3 BACKGROUND OF THE ORGANIZATION

In the last twenty years, investment and business activities involving both in the public and private banking sectors had shown encouraging development in paving the way for the growth of the banking industry (NBE, 2016).

Lion International Bank Share Company (LIB) is one of the emerging private banks in Ethiopia.LIB established in accordance with the 1960 Commercial Code of Ethiopia and National Bank of Ethiopia Licensing and Supervision of Banking Business Proclamation No. 84/1994 in December 2006. The bank is engaged in providing short, medium and long term credit facilities, and has been striving to exploit all opportunities towards achieving its corporate goals. The bank has been playing a significant role in providing loans and advances to its customers that enhance the investment needed in the country and as a means of generating income for its shareholders (LIB annual report, 2016/17).

From the various internal documents gathered by the researcher, currently LIB is operating its banking service throughout with 225 branches and provides a job opportunity for 2,251 permanent and 325 temporary employees. During the fiscal year 2017/18 the bank has reported annual net profit after tax of Birr 390,766,000 and paid income tax of Birr 89,566,000 to the tax authority.

1.4 STATEMENT OF THE PROBLEM

Banks play a great role in economic growth and development of any nations. Banks have their own credit policies that guide them in the process of granting credit facilities. Each credit policies setS the rules and procedures on the credit practices of who can access the bank's credit facilities, for what purpose does the borrower want the credit, when customers needs the fund. In addition, the credit policy is expected to states the repayment arrangements and necessary collaterals for the credit facility (Mosharrafa, 2013).

For Mosharrafa, credit assessment/evaluation helps the banker to ensure selection of right type of loan proposals/projects and to select right type of borrower. In order to select the right borrowers, security should not the only thing to rely up on. Therefore, it is the responsibility of the bankers to investigate the client from different view point i.e. the strength and weakness of the client business, profitability, generally the financial flow of the business so that the client were be able to repay the bank loan as repayment schedule with profit or not can be assess.

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

The collateral or security that the company possesses also acts as a very big determining force implying that the greater the financial strength and collateral availability, the greater the loan granting possibility (Eveline, 2010). Therefore, that is why banks focused more on collateral. Many banks failed to recognize early warning signals deteriorating asset quality and missed the opportunities to work with borrowers to bring to an end their financial deterioration and to protect the bank's position. This lack of monitoring led to a

costly process by senior management to determine the dimension and severity of the problem loans and resulted in large losses (Lagat, Mugo, Otuya, 2013).

Concerning local study conducted by Alebachew (2015), factors such as poor credit policy, weak credit analysis, poor credit follow-up, inadequate risk management analysis and lack of information management system are the causes for weak credit risk management in Nib International Bank S.C.

Other local research by Habtamu(2015) assessed factors affecting credit management practice in five big private commercial banks such as Awash International Bank S.C, Dashen Bank S.C, Bank of Abysinia S.C,Wegagen Bank S.C and United Bank S.C and he concluded that the major factors affecting the quality of the loans are lack of proper follow up and weak credit analysis. But the nature and factors affecting credit management in small private banks like LIB are totally different and needs further research as their customer and resource base are unlike.

On the other hand, this researcher has observed that even though there are few disparate studies on credit management practice of the private banks, no study is conducted on the newly emerged private banks namely Bunna International Bank, Abay Bank, Enat Bank, Addis International Bank, Debub Global Bank and Lion International Bank which were joined to the banking industry within the last ten years. These banks have their own unique challenges in managing credit due to various capacity issues.

These and other factors have motivated the researcher to make an assessment on credit management practice of Lion International Bank S.C (LIB), which is one of the last entrants to the banking industry. The main purpose of the research is to deliver the first initial reference document for those who are interested in carrying out similar studies on this bank or other similar banks and credit institutions in the industry in general.

1.5 BASIC RESEARCH QUESTIONS

In order to achieve the research objectives, the following research questions were presented:

1. Is the current credit management practice of the bank paid sufficient attention to the importance of proper credit analysis/evaluation?
2. How is the effort of the credit management practice of the bank to secure its loans by collateral?
3. Is the current credit follow-up and recovery practice of the bank strong enough to the expected level to have quality loan?
4. How the current credit management practices of the bank manages the concentration risk?

1.6 OBJECTIVES OF THE STUDY

1.6.1 GENERAL OBJECTIVE OF THE STUDY

The general objective of the study was to assess the credit management practice of Lion International Bank S.C with respect to four main credit management practices.

1.6.2 SPECIFIC OBJECIVE OF THE STUDY

1. To evaluate the current credit analysis/evaluation practices of the bank,
2. To evaluate the credit management practice of the bank in securing loans by collateral,
3. To assess the credit follow-up and recovery practice of the bank in developing quality loans,
4. To assess the concentration risk of the bank.

1.7 SIGNIFICANCE OF THE STUDY

The strength and soundness of the banking system primarily depends upon the health conditions of its loan and advances. Therefore, ability of the bank to formulate and implement proper credit policies and procedures that can able to build quality credit and reduce nonperforming loans is the way to survive within the stiff competition. Contrarily, failure to create and build up quality loans leads to higher default risk and bankruptcy.

Consequently, the findings of this research is useful for all the emerging private banks including
LIB who will be able to evaluate its own credit management practices and to enhancement the bank's. The research also facilitates the development of suitable credit management practices and procedures.

The National Bank of Ethiopia can use this study as an input to revise its credit risk management directives. The study will also benefit to add values to the already existing body of knowledge thereby will benefit the academicians and researchers. The study will further provide background information to research organizations and scholars and identify gaps that will help as a benchmark for researchers who are interested in the area to extend it further.

1.8 SCOPE OF THE STUDY

The study mainly focused on credit management practice of Lion International Bank S.C. This study was limited to the assessment of the credit management practice of the bank in the selected four credit management practice of the bank such as credit request analysis/ evaluation, efforts to secure loans by collateral, credit follow-up and recovery practice of bank and loan concentration risk. Since 70 percent of the total outstanding loans of the bank as of June 30, 2019 was accumulated within the following twenty branches found in Addis Ababa the namely Yeka, Haile G.Selase, Haya-Arat, Gurdshola, CMC, Jakros, Kazanchis, Senga-Tera, Sarbet, Africa-Union, Bole, Saris, Gotera, Gofa, Arada, Merkato, Raguel ,T.Haimanot, Stadium and Meskel Flower. In addition, all credit approval and administration of the bank is headed by the head office credit management department.

Hence, the survey was mainly focused on employees' perception of these branches and the department.

Despite the importance of other research methods equivalently descriptive method was used to describe outcomes of this survey.

1.9 LIMITATION OF THE STUDY

Taking into consideration the given time for this research and the associated costs, the researcher has limited his survey only with the staffs of the head office credit management department and the twenty branch managers and customer relationship officers of the bank. Owing to confidentiality issues some critical reports of the bank obtained during the survey was remaining unused.

2.0. ORGAZATION OF THE RESEARCH

The study presented in five chapters. The first chapter contains background of the study, statement of the problem, basic research questions and objectives of the study, scope of the study, and significance of the study. The second chapter deals with previous studies and literatures relevant to the study and it also includes theoretical and empirical evidences related to the study. The third chapter discusses about the type and design of the research paper, analysis of participants of the study, the sources of the data, the data collection tools or instruments employed, the procedures of data collection and the methods of data analysis are described. The fourth chapter deals with data analysis and interpretation. The last chapter presented the summary of findings, conclusions and possible recommendations.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1 INTRODUCTION

This chapter deals with the related literatures of the study and discusses the history of the banking industry in Ethiopia, role of banks, bank lending, the role of collateral in credit management, the importance of managing concentration risk, credit assessment or evaluation practice in managing credit risk and the function of credit follow-up and recovery in credit management practice.

2.2 THORETICAL REVIEW

2.2.1 ROLE OF BANKS IN THE ECONOMY

Banking sector makes a meaningful contribution to the economic growth of every country. Banks' contribution to the economic growth lies in the role they play in mobilizing deposits and allocating resources efficiently to the most productive uses. So making credit available to borrowers is one means by which banks contribute to the growth of economy. Banks pool resources from the surplus group of the society in the form of saving for projects that are too large for individual shareholders to undertake (Bagehot 1963). They are also considered the most important enabler of financial transactions in any country's economy and are the principal source of credit (Rose, 2002). Bank finance is the primary source of debt funding.

Commercial banks extend credit to different types of borrowers for various purposes, either for personal, business or corporate clients (Saunders & Cornett, 2003). Besides, banks are also the custodians of nation's money, which are accepted in the form of deposits and paid out on the client's instructions (Harris, 2003).

A bank's role has expanded considerably and is no longer limited to the taking of deposits and providing credit. As per Fourie and friends, (1998) Banks perform the following activities:

Money Creators: Commercial banks create money by way of deposit liabilities. In contrast to liabilities of other businesses, bank liabilities (cheques) are generally accepted as a means of payment**.**

Managers of the payment system: This refers to the payment of cheques through the Automatic Clearing Bureau (ACB). It also facilitates payments of credit and debit cards, internet and cell phone banking and automatic teller machines.

Creators of indirect financial securities: Commercial banks hold assets that are subject to specific risks, while issuing claims against them in which these risks are largely eliminated through diversification.

Information agents: Commercial banks developed sound databases of clients' information and the information is not publicly available (asymmetric information).The information is only shared with other banks by way of a bank code or a full general bank report.

Financial spectrum fillers': The capital market cannot supply the full range of instruments required by borrowers. Commercial banks assist in this regard by supplying specific instruments to fill the gap.

Dealer of foreign currency: Due to the globalization of the world's economies this has become a very important function. Commercial banks assist in the conversion of currencies, transfer of funds and negotiate foreign financing.

Lending enable banks to be as financial intermediaries, banks collect funds from savers in the form of deposit and then supply it to borrowers as loans. Thus banks accept customer deposits and use those funds to give loans to other customers or invest in other assets that will yield a return higher than the amount bank pays to depositor (McCarthy et al., 2010). It follows that customers' deposit is the primary source of bank loan and hence, increasing or guaranteeing deposits directly has a positive effect on lending. Commercial banks extend credit to different types of borrowers for many diverse purposes, either for personal, business or corporate clients (Saunders & Cornett, 2003).

According to the NBE report during 2010,the banking sector of Ethiopia provides the most basic banking products including deposit facilities, loans and advances, fund transfer

(local /global) , import/export facilities, and guarantees. Recently, most of the banks are striving to improve their service delivery through introducing different IT solutions. Recent trends also indicate that banks are competing in the market on the basis of branch expansion, advertisements, raising capital bases, improved service delivery, and investment on IT software and infrastructure. However, these technological innovations are at their infant stage and the sector is required to do much more to meet its customer expectations (NBE, 2010).

The Ethiopian banking business is operated in accordance to “Banking Business Proclamation No. 592/2008” and different directives on banking business operations issued by the National Bank of Ethiopia.

The recent banking proclamation is the re-establishment of NBE (FDRE, 591/2008). The proclamation sets out the revised purpose, powers and duties of the central bank. According to this proclamation, the functions of NBE include:

- License and regulate banks, insurance companies and other financial institutions in accordance with the relevant laws of Ethiopia,
- Determine on the basis of assessing the received deposit, the amount of assets to be held by banks. (Reserve requirement),
- Issue directive governing credit transactions of banks and other financial institutions, and
- Determine the rate of interest.

The current banking business in Ethiopia is governed by the banking business proclamation (FDRE, 2008) Proclamation No.592/2008.The proclamation sets the following banking business issues:

- Requirement for obtaining license for banking business in Ethiopia,
- Prohibit foreign nationals or organizations fully or partially open banks or branch offices, subsidiaries of foreign bank in Ethiopia or acquire the shares of Ethiopian banks,
- Limitation of the acquisition of shares,
- Appointment of bank directors and officers,

- Maintenance of required capital, legal reserve and adequate liquidity and reserve balance,
- Limitations on certain transaction (investment),
- Inspection of banks, and
- Revocation of license.

The National Bank of Ethiopia is the central bank of the country which plays the most influential role in economic and financial development issues and in regulating commercial banks. The central bank acts as a banker and financial advisor to the government. It is also the nation's monetary authority and responsible for promoting monetary and financial stability in the country. To improve the stability of the financial system the central bank will act as a banker to the banking and other financial institutions in the country. Consequently, having the above authority and responsibility the central bank can influence the lending policy of commercial banks and their debt recovery.

2.3 CREDIT PROCESS SYSTEM

Credit process encompasses every activity involved in lending including product sales, customer selection and screening, the application and approval process, repayment monitoring, and delinquency and portfolio management. It is also linked with the institutional structure pertaining to the credit process. Quality of credit process is one of the most determinant factors for the efficiency, impact and profitability of the banks. Thus getting the right credit process and product mix is therefore one of the most demanding as well as rewarding challenges of every financial institutions (Ferreti, 2007).

The major credit risk management activities are discussed here below in the following sections that include credit information, credit analysis process, credit approval and credit monitoring processes.

2.3.1 CREDIT INFORMATION

Engagement in financing begins with customer recruitment. An issue of know your customer, traditionally known as KYC is so vital before proceeding to details. Banks use various means to obtain such information about the existing or potential customer. Use of financial statement, credit report from credit bureau, customers' history if not new is the potential sources of information (Ross et al., 1999).

According to NBE CRB, 2012 adequate and timely information that contributes to enable a satisfactory assessment of the creditworthiness of a borrower is crucial for making prudent lending decision. a credit report is the organized presentation of information about an individual's and/or company's credit record that a credit bureau communicates to those who request information about the credit history of an individual's and/or company's experiences with credit, leases, non-credit-related bills, collection agency actions, monetary-related public records, and inquiries about the individual's credit history.

The purpose of information sharing is to communicate relationship information from existing lending relationships to outside lenders (Gehrig and Stenbacka, 2007). Credit providers use credit information to conduct credit risk analysis of prospective borrowers in order to mitigate credit risk. As Kallberg and Udell (2003) highlight that information sharing is useful both at the origination stage and after credit has been extended. Especially at the origination phase, information sharing reduces the problems of adverse selection.

Availability of good credit information improves non-performing loan, which leads to fewer losses and decreases interest rates for good credit risks (Jentzsch 2008). In addition, Jentzsch further supports that sharing credit information between lenders intensifies competition and increases access to finance. As Jappelli and Paggano (2005) indicate that credit information sharing results improved bank's knowledge of applicant's character, avoiding adverse selection and reduce the informational rent that banks could otherwise extract from their customers. Credit information also acts as a borrower disciplining device, by cutting insolvent debtors off from credit and eliminates or reduces the

borrowers' incentive to become over-indebted by drawing credit simultaneously from many banks without any of them realizing it.

In addition, Barth, Lin, Lin and Song (2008) concluded that information exchange will assist in minimizing lending corruption in banks by reducing information asymmetry between consumers and lenders, improving the bribery control methods and increase the bargaining power of lenders. The exchange of consumer credit information disciplines borrowers to repay loans because borrowers do not want to damage the good report which can make it difficult for them to get credit.

2.3.2 CREDIT ASSESSMENT/EVALUATION

Credit assessment is the first step in the process of credit management. The assessment starts with evaluating the customer's request and capacity to ensure there is a need for financing the request of the client. Credit assessment is the most important task to ensure the underlying quality of the credit being granted and it is considered as an essential element of credit risk management (Cade, 1999).

For other writers like Koch, credit assessment refers to the process of deciding whether or not to extend credit to a particular customer. Once a customer requests a loan, bank officers analyze all available information to determine whether the loan meets the bank's risk-return objectives. Credit analysis is essentially default risk analysis in which the loan officers attempts to evaluate a borrower's ability and willingness to repay the bank's loan (Koch, 2003). Accordingly, Koch has identified three district areas of commercial risk analysis related to the following questions:

- What risks are inherent in the operations of the business?
- What have managers done or failed to do in mitigating those risks?
- How can a lender structure and control its own risks in supplying funds?

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. The last question forces the analyst to specify how risks can be controlled so the bank can structure an acceptable loan agreement.

The credit quality of an exposure generally refers to the borrower's ability and willingness to meet the commitments of the facility granted. It also includes default probability and anticipated recovery rate (Saunders & Cornett, 2003). Credit assessment thus involves assessing the risks involved in financing and thereby anticipating the probability of default and recovery rate.

The FIVE C's OF CREDIT

The five C's are considered the fundamentals of successful lending and have been around for approximately 50 years. Initially only character, capacity and capital were considered. However, over the years collateral and conditions were added. These provided an even more comprehensive view and clearer understanding of the underlying risk and resulting lending decision (Beckman & Bartels, 1955). According to (Murphey, 2004a), these principles should be the cornerstone of every lending decision. The five C's are discussed as follows:

Character - refers to the borrower's honesty, integrity, serve of responsibility and trustworthiness. An analyst must assess the borrower's integrity and subsequent intent to repay. If there are any serious doubts, the loan should be rejected.

It also refers to the borrower's reputation and the borrower's willingness to settle the debt obligations. In evaluating character, the borrower's honesty, integrity and trustworthiness are assessed. The borrower's credit history and the commitment of the owners are also evaluated (Rose, 2000). A company's reputation, referring specifically to credit, is based on past performance. A borrower has built up a good reputation or credit record if past commitments were promptly met (observed behavior) and repaid timely (Rose, 2002; Koch and McDonald, 2003). Character is considered the most important and yet the most difficult to assess (Koch and MacDonald, 2003).

The quality of management in the specific business is evaluated by taking reputation, integrity, qualifications, experience and management ability of various business disciplines such as finance, marketing and labor relations into consideration (Nathenson,2004). These factors can be regarded as a risk mitigates if a banker views

these positively. Much of its success can in fact be attributed to competent leadership. Companies with strong and competent management teams tend to survive in an economic downturn.

Capital - refers to the owner's level of investment in the business. Banks prefer owners to take a proportionate share of the risk. Although there are no hard and fast rules, a debt/equity ratio of 50:50 would be sufficient to mitigate the bank's risk where funding (unsecured) is based on the business's cash flow to service the funding (Harris, 2003).Lenders prefer significant equity (own contribution), as it demonstrates an owner's commitment and confidence in the business venture

Capacity –refers to the business's ability to generate sufficient cash to repay the debt. An analysis of the applicant's businesses plan, management accounts and cash flow forecasts (demonstrating the need and ability to repay the commitments) will give a good indication of the capacity to repay (Koch and MacDonald, 2003).To get a good understanding of a company's capacity evaluating the type of business and the industry in which it operates is also vital. It plays a significant role since each industry is influenced by various internal and external factors. The factors that form the basis of this analysis includes: Type of industry, Market share, Quality of products and life cycle, whether the business is labor or capital intensive, the current economic conditions, seasonal trends, the bargaining power of buyers and sellers, competition and legislative changes (Koch and MacDonald, 2003; Nathenson, 2004). These factors lead the banker to form a view of the specific company and industry. The banker would regard this as a potential risk mitigate if he/she is confident about the company and industry and prospects for both appear to be positive.

The following financial ratio analyses are very critical in assessing business' position (Koch and MacDonald, 2003):

- **Liquidity ratios** - reflect the company's ability to meet its short-term obligations. The current ratio is calculated by dividing the current assets by the current liabilities.
- **Activity ratios**- indicate whether assets are efficiently used to generate sales.
- **Leverage ratios**- indicate the company's financial mix between equity and debt and potential volatility of earnings. High volatility of earnings increases the

probability that the borrower will be unable to meet the interest and capital repayments.

- **Profitability ratios-** supply information about the company's sales and earnings performance.

Condition–refers to the economic environment or industry specific supply, production, and distribution factors influencing a firms operation. Repayment sources of cash often vary with the business cycle or consumers demand.

Conditions are external circumstances that could affect the borrower's ability to repay the amount financed. Lenders consider the overall economic and industry trends, regulatory, legal and liability issues before a decision is made. Once finance is approved, it is normally subject to terms, covenants and conditions, which are specifically related to the compliance of the approved facility (Leply, 2003).

The primary role of covenant is to serve as an early warning system. Covenants can either be negative or positive (Nathenson, 2004).

Negative covenants stipulate financial limitations and prohibited events (Rose, 2000; Koch and MacDonald, 2003). Some examples of negative covenants are:

- Cash dividends cannot exceed 50% of the net profit after tax (financial limitation).
- No additional debt may be obtained without the bank's prior approval (prohibited event).

Positive or affirmative covenants stipulate the provisions the borrower must adhere to (Rose, 2000; Koch and MacDonald, 2003). Some examples of positive covenants are:

- Audited financial statements must be provided within 90 days of the company's financial year end.
- The borrower must maintain the following financial ratios: Interest cover ratio of 4:1(defined as earnings before interest and tax divided by interest paid), Gearing ratio of 2:1 (defined as total liabilities divided by owners equity).

Collateral – collateral is the lenders' secondary source of repayment or security in the case of default. Having an asset that the bank can seize and liquidate when a borrower

defaults reduces loss, but it does not justify lending proceeds when the credit decision is originally made.

It is something valuable which is pledged to the bank by the borrower to support the borrower's intention to repay the money advanced. Security is taken to mitigate the bank's risk in the event of default and is considered a secondary source of repayment (Koch and MacDonald, 2003).

Similar to the above idea, Rose and Hudgins, (2005) define secured lending in banks as the business where the secured loans have a pledge of some of the borrower's property (such as home or vehicles) behind them as collateral that may have to be sold if the borrower defaults and has no other way to repay the lender

De Lucia and Peters (1998), identified the following three reasons why security is required by the banking industry:

- to ensure the full commitment of the borrower to its operations,
- to provide protection if the borrower deviate from the planned course of action out lined at the time credit is extended, and
- to provide insurance if the borrower default.

The value of an asset is based on the estimated re-sale value of the assets at the time of disposing of it (McManus, 2000). Each property is valued by the bank to determine the property's market value for security purposes (Rose, 2000).

In addition, to the physical collateral borrowers can provide a surety ship/ third party collateral for their debt. When the borrower is not in a position to repay the debt, the bank will then call on the surety for repayment (Koch & MacDonald, 2003)

It is common practice for the banks to take the surety ships of the shareholders/directors when funds are advanced to a company (Rose, 2000; Vance, 2004).

2.3.3 CREDIT APPROVAL

Credit approval is the careful balance of minimizing risk and maximizing profitability while maintaining in a competitive and complex global market place. Credit approval is the process of deciding whether or not to extend credit to a particular customer. It involves two major steps: gathering relevant information and determining credit worthiness (Ross, Westerfield and Jaffe, 1999).

Once the necessary credit information has been gathered, a firm faces the hard choice of either granting or refusing credit request. As per Ross, Westerfield and Jaffe, (1999) many financial managers use the "five C's of Credit" as their guide to identify and evaluate the credit risk resulting from a possible exposure to sanction the credit.

2.3.4 CREDIT FOLLOWUP

Credit approval is expected to be done on sound credit risk analysis and assessment of the credit worthiness of the borrowers. However, loan granted on the basis of sound analysis sometimes go bad when the borrowers failed to meet as per the terms and conditions of the loan contract. It is for this reason that proper credit follow up and monitoring is essential throughout the life of the loan. As per Volume No.3, credit monitoring or Follow-up deals with the following vital aspects**:**

- Detecting deviations from terms of decision,
- Ensuring compliance with terms and conditions,
- Monitoring end use of approved funds,
- Monitoring performance to check continued viability of operations,
- Making periodic assessment of the health of the loans and advances using the key performance indicators that might include profitability, activity level and ensure that the assets created are effectively utilized for productive purposes,
- Ensuring recovery of the installments of the principal and interest in case of term loan as per the scheduled repayment program,
- Identify early warning signals, if any, and initiate remedial measures thereby averting from possible default.

Mostly there are three types of loan follow up systems. These are: Physical follow up, Financial Follow up and Legal Follow up.

Physical Follow-up

Physical follow-up helps to ensure existence and operation of the business, status of collateral properties, quality of goods, availability of raw materials, labor situation, marketing difficulties observed ,undue turnover of key operating personnel, change in management set up among others and environmental impact,

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, correctness of declared financial data, conformity of financial data with other records (such as taxes ,register books), and whether the end use is according to the purpose for which the loan was given.

Legal Follow-up

The purpose of legal follow up is to ensure the availability legal remedy of the Bank is kept alive at any times. It consists of obtaining proper documentation and keeping them alive, registration of mortgage contracts, proper follow up of insurance policies.

The 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.

2.4 BANKING BUSINESS RISKS

Shareholders' value maximization requires a firm to engage in risk management practices only if doing so enhances the value of the firm and, by implication, its value to shareholders (Ali, 2006). A volatile economy and recent credit crisis show the importance of banks to increase attention on how risks can be measured and kept under control. Bessis (2002:11) defines banking risks as "adverse impacts on profitability of several distinct sources of uncertainty".

Some of the risks associated with financial institutions are presented as follows: credit, liquidity, market, operational, currency, solvency, and interest rate, country risks and others.

2.4.1 CREDIT RISK

According to Valsamakis et al (2005), credit risk is the risk that a financial contract will not be performed according to the agreement. It is the risk that the counter party to an asset will default. In other words it is the risk to earnings or capital due to borrowers' late and nonpayment of loan obligations. Credit risk encompasses both the loss of income resulting from the sector inability to collect anticipated interest earnings as well as the loss of principal resulting from loan defaults. Credit risk arises because of the possibility that the expected cash flows from advances and securities held, might not be paid in full. For Cade (1999), credit risk is considered the most dangerous of the risks banks face.

Credit risk includes both transaction risk and portfolio risk. Transaction risk refers to the risk within individual loans; transaction risk is mitigated through borrower screening techniques, underwriting criteria and quality procedures for loan disbursement, monitoring, and collection. Portfolio risk refers to the risk inherent in the composition of the overall loan portfolio. Policies on diversification (avoiding concentration in a particular sector or area), maximum loan size, types of loans, and loan structures lessen portfolio risk.

2.4.2 LIQUIDITY RISK

Liquidity risk is the possibility of negative effects on the interests of owners, customers and other stakeholders of the financial institution resulting from the inability to meet current cash obligations in a timely and cost-efficient manner. Liquidity risk occurs when there is a sudden surge in liability withdrawals resulting in a bank to liquidate assets to meet the demand (Bessis,2002). It usually arises from management's inability to adequately anticipate and plan for changes in funding sources and cash needs. According to Rose and Hudgins (2005) banks and other financial institutions are concerned about the danger of not having enough cash to meet payment or clearing obligations in a timely and cost effective manner. Efficient liquidity management requires maintaining sufficient cash reserves on hand (to meet client withdrawals, disburse loans and fund unexpected cash shortages) while also investing as many funds as possible to maximize earnings.

2.4.3 MARKET RISK

Market risk is the risk incurred in the trading of assets and liabilities when interest rates, exchange rates and other asset prices change (Saunders and Cornett, 2003). It is the current and potential risk to earnings and shareholders' equity resulting from adverse movements in market prices. It arises from interest rate, equity and foreign exchange risks (Koch and Macdonald, 2003). According to Bessis (2002), due to higher competition in the banking market, the interest income of banks is declining and banks are concentrating more on non-interest income in order to mitigate this risk.

2.4.4 OPERATIONAL RISK

It is the risk of loss resulting from inadequate internal processes, people and systems or from external events (Koch and Macdonald, 2003). Operational risk is the possible risk that existing in technology or support systems will fail or malfunction. It also includes human errors, fraud and failure to compliance with an institutional procedures and policies (Bessis, 2002).

2.4.5 FOREIGN CURRENCY RISK

Concerns the possible impact in shortage of foreign currency and fluctuations in exchange rates may have on the foreign exchange holdings or the commitments payable in foreign currencies by business organizations (Valsamakis, et al., 2005). It is the possible that, shortage of foreign currency and exchange rate fluctuations can adversely affect the value of a bank's assets and liabilities held in foreign currencies (Bessis, 2002).

2.4.6 CAPITAL OR SOLVENCY RISK

It is the risk that a bank may become insolvent and fail (Koch and Macdonald, 2003). This risk isn't considered a separate risk because all of the risks a bank faces, in one form or another, affect a bank's capital.

2.4.7 INTEREST RATE RISK

A bank is exposed to interest rate risk when the maturities of the bank's assets and liabilities are mismatched (Saunders & Cornett, 2003). Interest rate risk arises from the possibility of a change in the value of assets and liabilities in response to changes in market interest rates. If interest rates rise and a mismatch occur in maturities by holding longer-term assets than liabilities, the market value of the assets will decline by a larger amount than the liabilities. Also known as asset and liability management risk, interest rate risk is a critical treasury function, in which financial institutions match

the maturity schedules and risk profiles of their funding sources (liabilities) to the terms of the loans they are funding (assets). Bessis,(2002) states that interest rate risk could result in economic losses and insolvency.

2.4.8 COUNTRY RISK

It is associated with the risk that foreign borrowers cannot repay the debt due to adverse political and economical conditions or interference by the foreign government (Saunders and Cornett, 2003).Besides the aforementioned risks Rose and Hudgins (2005) state that

banks are also exposed to: Compliance risk, Reputation risk, Sovereign risk, Strategic risk, and Legal and Regulatory risks.

Financial institution managers (and regulators) review these risks in light of:

- the institution's potential exposure to loss,
- the quality of internal risk management and information systems, and
- the adequacy of capital and cash to absorb both identified and unidentified potential losses.

In other words, management determines whether the risk can be adequately measured and managed, considers the size of the potential loss, and assesses the institution's ability to withstand such a loss.

2.5 CREDIT RISK MANAGEMENT

Loan is a major asset and source of income for banks and risky area of the industry. Moreover, its contribution to the growth of any country is very clear. Bank credit is the primary source of debt financing available for most customers in the personal, business or corporate market. The underlying need for credit varies across these markets. Banks generally also want to increase the base of their income and use credit extension as an opportunity to cross sell other fee generating services when a customer applies for credit facilities (Koch and MacDonald, 2003).

Successful financial institutions must meet the desperate needs of depositors and borrowers. Depositors look for higher interest rates, short terms and no risk, while borrowers seek low interest rates and long terms. Financial institutions are therefore, in the risk intermediation business. To be successful, financial institutions, banks in particular, must properly underwrite risk, manage and monitor the risk assumed (Barrickman, 1990).

Credit risk can be defined as the potential for a borrower or counter party to fail to meet their obligations in accordance with the terms of an obligation's loan agreement, contract or indenture (Sobehart, Keenan &Steyn, 2003).Credit risk is considered the oldest form of

risk in the financial markets. Caouette, Altman &Narayanan (1998: 1) state that "credit risk is as old as lending itself", dating back as far as1800 B.C. The first banks, which started in Florence seven hundred years ago, faced very similar challenges that banks face today. Although managing credit risk is their core competency, many banks failed due to over-extension of credit (Caouette et al, 1998).

Credit risk is the most prominent risk assumed by banks due to various factors that influence a borrower's ability to repay the credit facility. The borrower's ability to repay is closely linked to the general economic conditions of a country. In favorable economic conditions the ability to repay increases, which could be due to a favorable interest rate environment, low inflation, increased income levels or a combination of these factors. The opposite is however true in poor economic conditions. The borrower's ability to repay is adversely effected under these conditions due to a reduction in disposable income (Koch and MacDonald, 2003). The increasing variety in the types of counterparties (from individuals to sovereign governments) and the ever expanding variety in the forms of obligations (from auto loans to complex derivatives transactions) has meant that credit risk management has jumped to the forefront of risk management activities carried out by firms in the financial services industry(Basel Committee,1999).

2.6 EMPERICAL REVIEW OF THE SPECIFIC CREDIT MANAGEMNT PRACTICES

2.6.1 CREDIT RISK ASSESSEMENT PRACTICE

A bank, in considering whether to lend or not, takes into account the quality of a borrower which is reflected in, inter alia, its past and projected profit performance, the strength of its balance sheet (for example, capital and liquidity) the nature of and market for its product, economic and political conditions in the country in which it is based, the quality and stability of its management and its general reputation and standing

Risk, and the ways, in which it can be identified, quantified and minimized, is key concerns for a bank's management and its auditors when they are considering the need to provide for bad and doubtful loans. No loan is entirely without risk. Every loan, no matter

how well it is secured, and no matter who is the borrower, has the potential to generate loss for the lender. It is the degree of risk to which a loan is susceptible and the probability of loss that vary; these should normally be reflected in the interest margin and other terms set at the inception of the loan (Brown, 1998).

It is important for the bank to know the purpose of the loan, to assess its validity and to determine how the funds required for the payment of interest and the repayment of capital will be regenerated. The borrower's ability to repay a loan is of paramount importance. Ideally, the loan will be self- financing in that it will be repaid from the cash flow that the borrower is able to generate from employing the proceeds of the loan.

2.6.2 COLLATERAL COVERAGE /SECURED LOAN

According to Boot and Thakor (1994), granting secured loans or loans backed by borrowers' assets /collaterals has been suggested in the literature as a solution to adverse selection and moral hazard problems arising out of information asymmetry. Salas and Saurina (2002) found loans without collateral to be riskier than mortgages for Spanish savings banks during 1985-1997.

A bank will often require security for a loan in the form of a guarantee or mortgage, in which case it will be concerned about the value and title of that security. The decision to grant loan, however, should be based on the prospects and solvency of the borrower and a careful analysis of how the funds to repay the loan will be generated.

2.6.2 CREDIT FOLLOW-UP AND RECOVERY PRACTICE

Regular monitoring of loan quality, possibly with an early warning system capable of alerting regulatory authorities of potential bank stress, is essential to ensure a sound financial system and prevent systemic crises (Agresti et al.2008)

There is a tendency by borrowers to give better attention to their loans when they perceive they got better attention. Some of the loans defaults ascribe to lower level of attention given to borrowers. It is advised that banks keep up with their loans timely.

Banks rarely lose money solely because the initial decision to lend was wrong. Even where there are greater risks that the banks recognize, they only cause a loss after giving a warning sign (Machiraju). More banks lose money because they do not monitor their

borrower's property, and fail to recognize warning signs early enough. When banks fail to give due attention to the borrowers and what they are doing with the money, then they will fail to see the risk of loss. The objective of supervising a loan is to verify whether the basis on which the lending decision was taken continues to hold good and to ascertain the loan funds are being properly utilized for the purpose they were granted. In order to meet these objectives banks need to see whether the character of the borrower, its capacity to repay the loan, capital contribution, prevailing market conditions and the value of the collateral that was taken during loan approval time continues to remain the same (George G, 2004).

As has been mention a bank can use different ways to monitor the borrower. Follow up the financial stability of a borrower can be done by periodically scrutinizing the operations of the accounts, examining the stock statements and ascertaining the value of security. Visiting the borrower periodically to have understanding of the progress of the borrower's business activity and thereby give advice as necessary and it is also among the common methods of loan follow up.

Constant monitoring increases the chance that the company will respond to a bank's concern and provide information more willingly. A bank which always closely follows a company's standing can often point out danger or opportunities to the company, as well as quick agreement to request for credit.

From the regulatory point of view, Ethiopian banks are required to make continuous review of their loan and submit reports to the central bank. This function of banks has a legal as well as contractual base. But the detail as to the frequency of visiting the borrower's premises, verifying the use of the loan and other related circumstances is left to the discretion of individual banks.

The legal base for banks to do the review is provided under Article 5 of Directive No.SBB/43/2008.

2.6.3 LOAN CONCENTRATION RISK MANAGEMENT PRACTICE

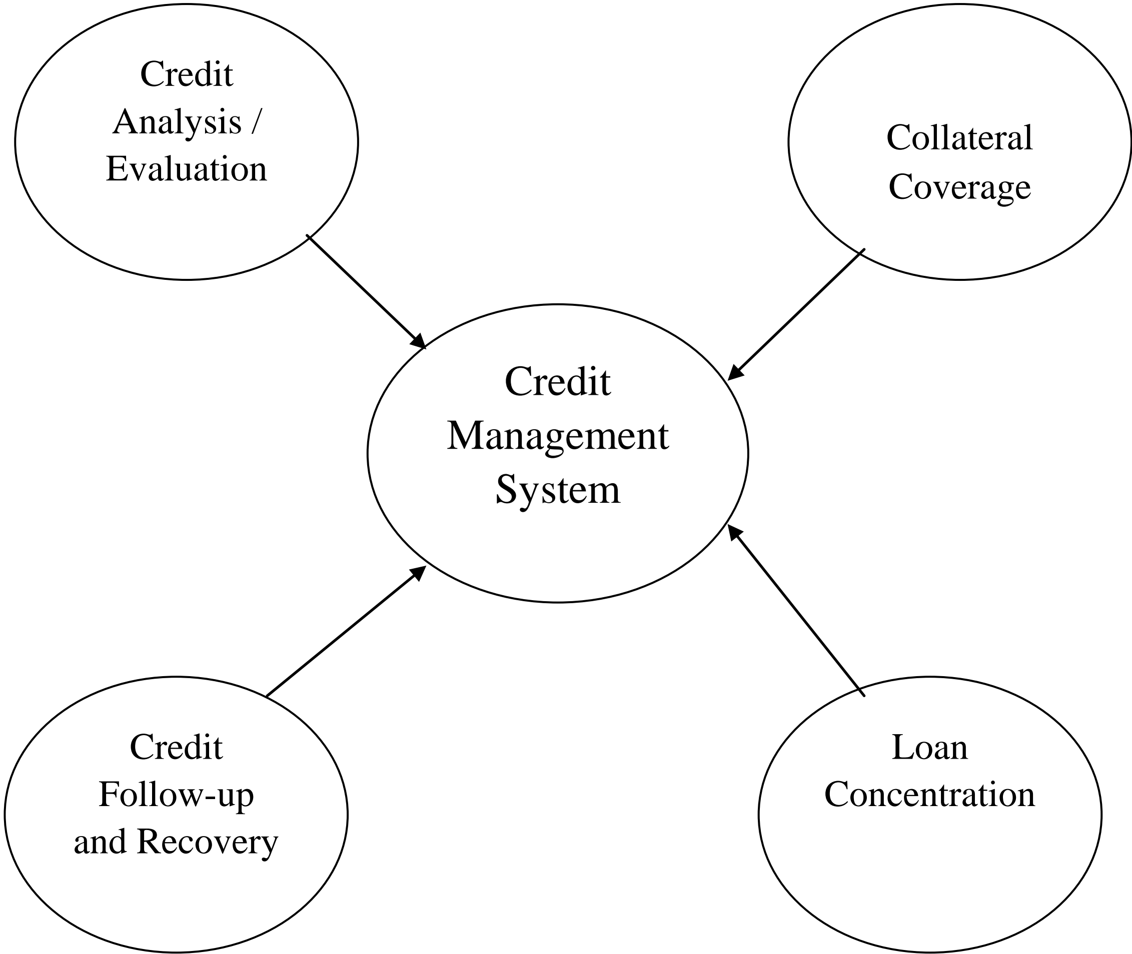
Loan concentration is the extent of the total loan distribution to each sector of the economy in a proportional way to minimize the risk involved in each sector of the economy. In order

to avoid loan default loans of a bank has to be balanced distribution based on the economic activity of the country. When loans are concentrated on certain sector of the economy and among few customers any economic fluctuation in the sector or on such customers will seriously affect the loans of the bank.

2.7 CONCEPTUAL FRAMEWORK OF THE STUDY

From the literature review, discussed above, the researcher has constructed the following conceptual framework to summarize the main focus points of the study in the following framework.

Source: Own survey



CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.1 INTRODUCTION

In this chapter the researcher explained the research design, approach, source of data and data collection tools, sample size and sampling techniques, instrument, methods and procedures of data analysis.

3.2 RESEARCH DESIGN AND APPROACHES

In assessing the credit management practices of Lion International Bank a descriptive research design was used. Descriptive research illustrate the situation or phenomena to provide answers to the questions of who, what, when, where and how associated with a particular research problem, and used to obtain information concerning the status of the phenomena (Shajahan, 2004).

3.3 POPULATION OF THE STUDY AND SAMPLE SIZE

In most cases it is impractical for researchers to collect data from the entire population that is why it is necessary to take sample through appropriate sampling techniques. A good sampling design is expected to represent the entire population, which also results in small sampling error, viable in the context of available fund and result of sample study can be applied to the total population (Kothari, 1985).

3.3.1 POPULATION OF THE STUDY

The target population considered in this study was staff members of the head office Credit Management Department as a whole and branch managers as well as Customer Service Officers of the main 20 branches found in Addis Ababa and three executive management members of the bank who directly participated in the credit approval process were assessed by structured questionnaire and unstructured interviews respectively. Since, all loans of the bank are processed and approved at head office except Tigrai Region requests

which were approved at Mekelle Regional Office the selection of the entire officers of the Credit Management Department would be helpful to collect sufficient information concerning credit management practice of the bank. On the other hand managers of the main 20 branches and the customer relationship officers of this branch were selected based on the outstanding loan balance of June 30, 2019. The main twenty branches of the bank namely Yeka, Haile G.Selase, Haya-Arat, Gurdshola, CMC, Jakros, Kazanchis, Senga-Tera, Africa-Union, Sarbet, Bole, Saris, Gotera, Gofa, Arada, Merkato, Raguel, Tekle-Haimanot, Stadium and Meskel-Flower were accounted 70% of the total outstanding loans of the bank in the stated period. Hence, assessing 70% of the loans of the bank could give a true picture of the total loans of the bank. In addition employees who are working in these branches and at credit department have better understanding and information about credit management practice of the bank. The information obtained from the executive management member of the bank was also equally important to understand the perception of the management members concerning the credit management practice of the bank in general and the selected four credit management practices in specific and remedies of the problem.

The above target population study conducted by questionnaire has summarized in the following table.

Table 3.1 Population Size of the Study

Respondents	Population Size
Division Managers	2
Customer Relationship Managers	5
Customer Relationship Officers	22
Credit Analysis officers	8
Credit Follow-up and recovery Officers,	8
Branch Managers	20
Total Population	**65**

Accordingly 65 employees of the bank were considered in the study and data was collected from the total population of 65 employees who have direct day to day credit management practice in the bank using census method.

3.3.2 SAMPLE SIZE

Since the population size of the study was manageable in size and representative, data was collected from the total population of 65 credit processing and administering participant employees using census method.

3.4 SOURCE OF DATA AND DATA COLLECTION TOOLS

For the purpose of this study, both primary and secondary data was collected. Accordingly, the primary data were collected using open ended interview from three executive management members of the bank and close ended questionnaire were used to collect the desired data from the rest 65 target populations. Secondary data were collected from LIB website, the bank's credit policy and procedures and annual reports, published and unpublished information, books and journals from library and internet. The questionnaire was designed to collect data from credit processing practitioners of the bank to collect practical information from employees without compromising their employment security due to their participation in this research.

3.4.1 DATA ANALYISIS METHOD

Data from questionnaires were analyzed through descriptive statistics using SPSS software version 20.0 (Statistical Package for Social Science). The descriptive statistics was presented using tables in the form of percentage, mean and standard deviation.

3.5 ETHICAL CONSIDERATIONS

Confidentiality and privacy are the corner stone in the field of research in order to get relevant and appropriate data. The researcher clearly assured the purpose of the study and confidentiality of the information. Respondents were assured that any information gathered through data collection instruments was used only for academic purpose. The data and documents were secured during the research and kept safely. Back up of the research inputs and outputs were archived. Moreover, data collected from the respondents was based on their free consent. On the other hand, all sources and materials consulted have been duly acknowledged.

3.6 VALIDITY AND RELIABILLTY

3.6.1 VALIDITY

The validity of research instrument can be considered how accurate the instrument measures and what are supposed to measure Joubert and Ehrlich (2005). The face validity of the instrument was assessed during pretest of the questionnaire on 10 employees of the bank who are not part of the survey and the result of the pretest was found promising.

3.6.2 RELIABILTY

The reliability of instrument refers to a precision of the test even if the test is done again and again (Joubert and Ehrlich 2005). The instruments of the study were adopted from previous work and used from Tigist Assefa MBA Thesis with some modification.

The data collection tool was pre-tested among non-participants of the study on 10 employees selected from the bank to see whether the questions are well elaborated, correctly interpreted, if there are any unclear enquiries.

Based on the feedback from participants some modification was made to the questionnaire. The research instrument was also tested by Cronbach's alpha and the value was 0.819 which indicates as "good" since more than 70% for a reliability coefficient.

Table 3.2: Cronbach's Alpha Reliability Analysis

Reliability Statistics

Selected Credit management practices	Cronbach's Alpha	No of Items
Credit Analysis/evaluation practice	.821	7
Collateral Coverage practice	.885	3
Follow-up and recovery practice	.864	13
Concentration risk	.882	3
Ranking of risks	.821	4
	.805	30

Own survey, 2019

CHAPTER FOUR

DATA PRESENTATION ANALYSIS AND INTERPRETATION

4.1 INTRODUCTION

This chapter comprises the presentation, analysis and discussion of the findings in view of the research questions raised in the first chapter of this study. Primary and secondary sources of data were used to look on the findings. The data were summarized and analyzed using SPSS version 20 and presented using, tables, frequencies, percentages, statistically described using mean and standard deviation. Moreover, additional data were collected from three top management members of the bank using interview and from 65 employees of the bank comprises of Credit area Division Managers and officers at the credit department and branch managers of the main 20 branches found in Addis Ababa were considered as target population.

4.2 RESULT SURVEY

The questionnaires were distributed to 65 employees and all of them were completed and collected. As the result, the response rate was 100 percent.

Table 4.1: Survey Response Rate.

S.No.	Item	Respondent
1	Population Size	65
2	Completed and returned questionnaires	65
3	Response rate	100%

Source: *Own Survey 2019*

Table 4.2: Demographic Profile of Respondents

No.	Description	Type	Frequency	Percent
1	Gender	Male	38	58
		Female	27	42
		Total	**65**	**100**
2	Age	21-30 years	28	43
		31-40 years	32	49
		41-50 years	5	8
		above 50 years	0	0
		Total	**65**	**100.0**
3	Educational Qualification	Diploma	4	6
		First Degree	37	57
		Masters Degree	24	37
		Total	**65**	**100**
4	Job posititionin the bank	Customer Relationship Officer	22	34
		Credit Follow-up and Recovery Officer	8	12
		Credit Analysis Officer	8	12
		Customer Relationship Manager	5	8
		Branch Manager	20	31
		Division Manager	2	3
		Total	**65**	**100**
5	Banking Work Experience	1 to 2 years	0	0
		3 to 5 years	25	39
		6 to 10 years	19	29
		Above 10 years	21	32
		Total	**65**	**100.0**

Source: *Own Survey 2019*

In respect to the respondents' gender composition the respondents 58 percent of the respondents were male and the remaining 42 percent were female. From the research we can understand that the gender composition of the employees in credit management of the bank is relatively balanced.

The dominant age margin of the employees participated in the credit management process of the bank were 31-40 years old i.e.49 percent followed by 43 percent in age group 21-30 years old and the remaining 8 percent of the respondents were found in the age gap of 41-50 years old. This is a good implication of the work force of the credit related activity of the bank has been performing with moderate experienced employees

The study shows that 57 percent of the employees participated in the credit management process of the bank were BA degree holders and 37 percent were master's degree holders but only 6 percent were diploma holders. In general, table 4.2 clearly shows that educational qualification the employees working in the credit processing activity had promising qualification to perform their job.

From the total respondents of the research 34 percent were customer's relationship officers who were assigned at the 20 target branches and at the head office Credit Management Department. The next dominant figure of the participants were Branch Managers who had 31 percent share followed by 12 percent each credit follow- up and credit analysis officers. But the Customers' Relationship Managers were 8 percent of the respondents and only 3 percent of the respondents were Division Manager in position. These clearly indicated that the respondents of the questionnaire had first hand information and direct involvement in the credit management practice of the bank that can greatly contribute to the data quality of the survey.

The work experience of the employees who had participated in the study indicated that 39 percent of the employees had only 3 to 5 years experience and the 32 percent of the employees had above ten years work experience but 29 percent of the respondents had 6 to 10 years experience. The fact that majority of the respondents had above six years experience in banking sector and credit operations that would help to capture a good quality of data.

4.3 CREDIT RISK ASSESSEMENT/EVALUTION PRACTICE OF THE BANK

Table 4.3 shows the perception of the respondents on credit assessment practice of the bank .Accordingly, 47.7 percent of the respondents strongly agree and 24.6 percent of the respondents agreed that the bank was lenient / lax to customers need during credit approval. On the other hand 47.7 percent of the respondents disagree for statement that the bank makes maximum effort to secure its loans by collateral. In the case of know your customer (KYC) policy 46.2 percent of the respondents agree and 32.3 percent strongly agree that the bank had used KYC as main criteria of quality borrowers. With regard to loan concentration 56.9 percent and 32.3% percent of the respondents' agree and strongly agree respectively on existence of loan concentration risk on certain products of the bank. Similarly, 41.5 percent of the respondents were disagreed to the banks' efforts to avoid loan concentration risk. With regard to the efforts of the bank to have quality credit analysis, 47.7 percent of the respondents disagreed to statement. Moreover, the response of the survey participants concerning the importance of poor risk assessment as stipulated in the table 4.3 also shows 47.7 percent agreement,20 percent neutral and another 20 percent disagree on the statement that the poor risk assessment of LIB has reduced the quality the loans.

Table 4.3: Credit Assessment/Evaluation practice

No	Statement	Strongly agree (1) %	Agree (2) %	Neutral (3) %	Disagree (4) %	Strongly Disagree (5) %	Mean	Standard deviation (SD)
1	LIB is Lenient / lax to customers need during approval	47.7	24.6	10.8	10.8	6.2	2.03	1.262
2	The bank makes maximum efforts to secure loan by building and other type of collateral.	23.1	20.0	3.1	47.7	6.2	2.94	1.368
3	The bank mainly uses know your customer (KYC) as a policy base for credit analysis.	32.3	46.2	16.9	4.6	4.6	1.94	0.827
4	Loans of the bank are highly concentrated on few credit products.	29.2	56.9	4.6	9.2	9.2	1.94	0.846
5	The bank makes necessary effort to avoid loan concentration risk on certain products	7.7	18.5	20.0	41.5	12.3	3.32	1.147
6	The current credit management practice of the bank paid sufficient attention to the importance of proper Credit analysis or evaluation.	20.0	15.4	13.8	47.7	3.1	2.34	1.065
7	The poor risk assessment of LIB will reduce the quality of its loan.	10.8	47.7	20.0	20.0	1.5	2.54	0.985

Source: *Own Survey 2019*

From the reply given by the respondents, it is easy to understand that bank is too flexible to in its response to the requests of the customers. Naturally customers always demand to get the maximum loan amount at any time. As a result, instead of basing on tangible merit of the borrowers the lenient/lax credit management practice of LIB, would lead to the possibility of high adverse selection and lower quality loan and advance.

The lower effort of the bank to secure its loans and advances by collateral would adversely affect the interest of the bank as bank has little or no collateral to recover its bad debt loan when customers fail to perform their obligation as per the contract.

As indicated above the bank has been granting loans based on KYC policy recruitment. On contrary Ethiopia as a nation do not have as such strong national ID and neat personal

record that can provide sufficient information about borrowers. As a result, the likely hood adverse selection is significant and possibility of bad debt is also higher.

On the other hand, the loans of the bank were highly concentrated on certain products consequently the success and failure of the bank is subjected to the fate of such sector of the economy and the loan type. Accordingly, the possibility of lower quality loan and total collapse of the bank would be clear.

In general, the outcome of the study from the perception of the employees indicates that poor credit risk assessment, poor KYC application and higher loan concentration cause lower quality of loans.

Table 4.4: Credit Management Practice in Securing Loans by Collateral

No	Statements	Strongly agree (1) %	Agree (2) %	Neutral (3) %	Disagree (4) %	Strongly Disagree (5) %	Mean	Standard deviation (SD)
8	Loans backed by collateral performs well	40.0	43.1	9.2	7.7	0.00	1.85	0.888
9	Collateralizing loans help to protect loan default	52.3	38.5	1.5	6.2	1.5	1.66	0.906
10	Most of the time non collateralized/clean loans are defaulted	30.8	23.1	21.5	16.9	7.7	2.48	1.30

Source: *Own Survey 2019*

As presented in the table 4.4, granting loan against collateral is believed to ensure better loan performance by 43.1 percent and 40 percent agreement and strong agreement of the respondents respectively. Similarly, 52.3 and 38.5 percent of the respondents strongly agreed and agreed respectively that collateral would help to protect loan default. On the other hand, 30.8 percent and 23.1 percent of the respondent strongly agree and agree respectively believed that most of the time non collateralized/clean loans are defaulted.

This employees perception survey shows borrowers perform better in their repayment record when they offered collateral that means collateral also serves as a limit to the loan appetite of the customers when banks require proportional collateral for the amount of loan the granted. On contrary if banks are less dependent on collateral for the amount of loan

they granted borrowers would create great pressures on banks to take huge amount of loan as much as possible but in most cases less effort is made to repay as per the contract.

In conclusion, the implication of the above table is a clear evidence of the existence of poor credit management practice as a result of its lower attention to the importance of securing its loan against collateral.

Table 4.5: Credit Follow-up Practice of the Bank

No	Statements	Strongly agree (1) %	Agree (2) %	Neutral (3) %	Disagree (4) %	Strongly Disagree (5) %	Mean	Standard deviation (SD)
11	LIB is strictly active enough in credit follow-up and monitoring activities.	18.5	16.9	18.5	41.5	4.6	2.97	0.537
12	LIB pays lesser attention to the early warning signals in credit management.	16.9	41.5	20.0	20.0	1.5	2.48	0.647
13	The follow-up and recovery Division of LIB is fully authorized and accountable in managing credit follow-up.	6.2	32.3	24.6	23.1	13.8	3.06	0.564
14	The follow-up and recovery Division of LIB is equipped with the necessary trained and experienced manpower in managing credit follow-up.	6.2	26.2	30.8	26.2	10.8	3.09	0.654
15	LIB's practice is too flexible in rescheduling and restructuring credit facilities.	20.0	53.8	18.5	7.7	0.00	2.14	0.827
16	LIB is active in timely searching for attachable properties to reduce bad loans	3.1	21.5	33.8	36.9	4.6	3.18	0.934
17	LIB is aggressive in timely foreclosure of held collaterals to recover it bad loans,	1.5	18.5	24.6	44.6	10.8	3.45	0.969
18	The bank follows excessively rigid procedure in disposing held and acquired properties	4.6	23.1	43.1	29.2	0.00	2.97	0.847
19	LIB tries to reduce the volume of bad debts through injecting more loans (disbursement)	13.8	35.4	21.5	27.7	1.5	2.68	0.732
20	Good credit follow-up and monitoring can reduce the occurrence of bad loans.	27.7	60.0	1.5	9.2	1.5	1.97	0.901
21	Higher budget and sufficient manpower at Credit Follow and Recovery Division of the bank can lower the bad debts.	21.5	50.8	10.8	13.8	3.1	3.1	0.550

Source: *Own Survey 2019*

Table 4.5 indicates the target populations' perception on credit follow-up practice of the bank. Accordingly, 41.5 percent of the respondents disagree to the statement "LIB is strictly active enough in follow-up and monitoring activities". In addition, 41.5% of the respondents believed that LIB pays lesser attention to the early warning signals in its credit follow-up management. On contrary, 53.8 percent of the respondents agreed to the statement that the bank is too flexible in rescheduling and restructuring credit facilities. From the respondents' perception point of view we can understand that the bank's practice of credit follow-up is too weak to protect the bank from unnecessary loss.

Table also shows majority of the respondents with 36.9 percent disagree with statement that "LIB is active in timely searching for attachable properties to reduce bad loans". Moreover, 33.8 percent of the respondents were also neutral in their response to the above statement.

Besides, the weakness of the bank in timely searching for attachable properties to avoid credit risk is witnessed by 36.9 percent of the respondents disagreement to the statement that "LIB is active in timely searching for attachable properties to reduce bad loans" with same token the next large number of respondents with 33.8 percent were neutral to the above statement.

Regarding the other practice of bank's credit management 35.4 percent of the respondents agree that the bank had injected additional loan to reduce bad loans during peak seasons. However, 27.7 percent of the respondents disagree with the idea of additional fund injection to reduce NPL and only1.5 percent of the respondents had strongly disagreed with idea. The perception survey indicated that 60 percent of the respondents agree that the good credit follow up and monitoring can reduce the occurrence of bad loans. On the other hand about 50.8 percent of the respondents agree that higher budget and sufficient manpower at Credit Follow and Recovery Division can lower the bad loan.

The bank had been practicing too flexible procedure in rescheduling and restructuring for simple requests of borrowers would lead to reduction of borrowers commitment to respect the initial repayment contract. The delays in repayment gradually lead to higher accumulated non-performing loan.

The implication of the above discussion can be used to conclude the credit recovery and follow-up performance and practice has direct association to the quality of loan performance. From the respondents perception point view the bank had been failed to provide sufficient attention to the early warning signals in its credit management and to equip the recovery and follow division of the with the necessary manpower; budget and authority. In addition, 44.6 percent of the respondents agreed that the bank's practice was less aggressive in timely foreclosure of held collaterals to recover its loans. In general the credit management practice of the bank had failed to provide sufficient credit follow-up and related activities. Consequently, the risk of higher level of uncollected loan would be obviously very sky-scraping.

Since, loan follow is one of the very important credit tasks to watch after the funds of the bank as what extent the customer has utilized the fund to the intended purpose, to what extent the business of the customer has changed after getting the loan.

When banks failed to take corrective action based on the early warning signals the bad loans volume will increase over time.

Table 4.6: Credit Management Practice in Case of Concentration Risk

No	Statements	Export pre-shipment (1) %	Import Trade (2) %	Export Term loan (3) %	Domestic trade (4) %	Building term loan (5) %	Mean	Standard deviation (SD)
22	Which credit product is currently the dominant credit facility of the Bank? Tick where appropriate.	80.0	10.8	3.1	1.5	4.6	1.40	0.981
23	Which credit product is currently the most vulnerable for concentration risk? Tick where appropriate.	86.2	1.5	3.1	3.1	6.2	1.42	0.942

Source: *Own Survey 2019*

Besides the above questions respondents were asked to provide their perception on loan concentration risk of the bank as stipulated in Table 4.6.Accordingly, 80 percent of the

respondents agreed that export pre-shipment credit facility was the dominant facility out of the given five main credit products of the bank. In addition, only 10 percent of the respondent agreed that import trade loans are the next dominant credit facilities of the bank. Similarly, respondents were asked to select the most vulnerable credit product for concentration risk out of the top credit products of the bank. As a result, 86.2 percents of the respondents vote for export pre-shipment facilities as the most vulnerable products of the bank.

The above table has clearly indicated the weakness of the bank in managing concentration risk on export pre-shipments credit facilities instead of having balanced composition of credit basket. Moreover, the concentrated type of bank loan was usually granted on clean basis. Hence, the possibility of high and unrecovered bad debt is noticeable in near future unless some other strategic shift is adopted. The implication of high concentration risk is a clear indication of the bank's high possibility of bad debt when the concentrated sector of the economy faces some kind of economic crisis.

Table 4.7: The practice of granting loans on Clean Basis and at Lower Interest rate

	Statements	Strongly agree (1) %	Agree (2) %	Neutral (3) %	Disagree (4) %	Strongly Disagree (5) %	Mean	Standard deviation (SD)
24	Loans with higher concentration risk possibilities are loans granted on clean basis.	47.7	32.3	4.6	15.4	0.00	1.88	0.682
25	Loans with higher concentration risk are loans granted in order to encourage export trade.	36.9	46.2	12.3	4.6	0.00	1.85	0.815
26	Loans with higher concentration risk possibilities are loans granted at lower interest rate.	27.7	33.8	10.8	18.5	9.2	2.48	0.734

Source: *Own Survey 2019*

With respect to the practice of granting loans on clean basis as presented in table 4.7 above 47.7 percent of the respondents strongly agreed and 32.3 percent agreed that loans with higher possibility of risk are the loans granted on clean basis. Similarly, 36.9 percent of the respondents strongly agreed and 46.2 percent of the participants agreed that most of the loans with higher possibility of concentration risk were granted to encourage export trade. In addition, 27.7 percent of the respondents strongly agreed and 33.8 percent agreed with the statement said "Loans with higher concentration risk possibilities are loans granted at lower interest rate."

From the above responses of the staff members, the possibility of concentration risk was higher for the loans granted on clean basis than loans granted against any kind of collateral. These loans are usually granted to encourage export business which is the most vulnerable area of credit facilities due to lack of collateral and volatile nature of the Ethiopian export trade. Besides, these loans were mostly granted at lower interest rate usually at 11 percent per annum to encourage exporters. Consequently, the export loans of the bank are the most concentrated risky credit area of the bank unless the bank makes dynamic strategic shift on its collateral and interest rate policy.

4.8: Ranking of the credit management practice in case of the selected four risk areas

	Risk areas in credit Mgt practice	1st	2nd	3rd	4th
27	Poor credit analysis/ evaluation	20.0	9.2	15.4	55.4
28	Weak Collateral Coverage	40.6	27.7	19.4	12.3
29	Poor Credit Follow-up and recovery practice	4.6	27.7	46.2	21.5
30	High Loan Concentration	34.8	35.4	19.0	10.8

Source: *Own Survey 2019*

On the last part of the questionnaire, respondents were asked to rank the credit management practice of the bank in case of the selected four risk areas that could reduce the quality of the bank loans in of their risk level (from one to four).The ranking result in this regard indicated that 40.6 percent and 35.4 percent of the respondents ranked insecure

collateral and high loan concentration as the first and the second risk areas of the bank that can seriously reduce the quality of the loan. Whereas, 46.2 percent of the respondents ranked follow-up and recovery activities as the third risk area in reduction of quality of the loans and lastly respondents ranked poor credit analysis/evaluation as the fourth risk can reduce the quality of the loan.

The implication of the above responses of the credit processing staffs of the bank indicated that the loans granted on clean basis and the high export credit facility loan concentration were the primary dangers of the bank in reduction of the quality of the loan and that can bring total collapse of the bank unless radical consideration is given against these two risk areas. On the other hand, poor credit follow-up and recovery activities and poor risk assessment/evaluation were the expected risk areas of the bank that causes for poor quality loans ranked as third and fourth respectively, that needs serious attention by the management of the bank to improve the quality of the loan.

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CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 INTRODUCTION

The forth chapter presented the research results, analysis and interpretation of the data, while this chapter is dedicated for the summary, conclusions and recommendation of the research.

5.2 SUMMARY OF FINDINGS

The study conducted survey of employees' perception that had daily participation in the credit management practice of the bank using self-administered questionnaires and structured survey of documents and unstructured interview for three executive management members of the bank. The survey had a response rate of one hundred percent. Twenty major branches of the bank were selected for the survey based on June 30, 2019 total outstanding loan balance of the bank. From the total respondents 32 percent of the employees had ten years and above banking experience but 39 percents had three to five years work experience. Moreover, 29 percent of the respondents had 6 to 10 years banking experience.

The survey indicated that 47.7 percent of respondents disagree to the statement that the bank makes maximum efforts to secure loan by building and other type of collateral. In addition, the respondents had ranked first, weak collateral coverage as the primary risk area in credit management of the bank.

The second major finding the of the survey was reported to be, the bank's weak credit management practice in reduction of the current high loan concentration in export loans Currently the export credit facilities of the bank have reached about 39 percent of the total loan. Moreover, these facilities were mostly granted on clean basis in the form of export pre-shipment. Considering the nature of Ethiopian export commodities which are

incompetent in the global market in quality, quantity and price, its vulnerability risk is very high. The support of the Ethiopian government to this sector is also weak and inconsistent. It is common only few exporters were able to continue in the export business with big challenges. As a result, heavily financing the export sector instead of balanced financing in each sector of the economy will lead to huge challenges to the bank.

The third finding of the survey as a source of credit risk was poor credit follow up and recovery practice. Accordingly, 27 percent and 60 percent of the respondents strongly agree and agree respectively that poor follow-up and recovery practice were the main risk areas of the bank. In addition, poor credit follow-up and recovery activity of the bank was ranked by the respondents as the third factor for the occurrence poor quality loan. The Existence of serious and consistent credit follow-up practice would help to the bank and borrowers to trace the problem in loan repayment and to take timely action to recover bad debt for the banks and to avoid business loss for the borrowers.

According to, the survey, the last identified risk area out of the four was poor credit analysis/evaluation evidenced by 60 percent agreement and 27 percent strong agreement of the 65 respondents.

Genuine credit risk assessment/evaluation practice would help banks to identify the economic and political environment of the country, behavior and track record of the borrowers, nature of the collateral offered and other factors affecting quality of the loan. Good credit assessment would definitely lead to genuine credit decision and reduce adverse selection of borrowers at same time the possibility of having quality loan will be higher.

5.3 CONCULUTION

The main objective of this research was to assess the credit management practice of Lion International Bank S.C. To achieve this objective, the researcher used mixed research approach. More specifically, the researcher used survey on major branches found in Addis Ababa targeting on the main credit facility poles of the bank purposely to assess the credit management practice of the bank. Employees of the bank who had day today participation in the credit approval and collection process were assessed using structured survey questionnaire and unstructured interview of the executive management members of bank and various bank reports. Based on the respondents view, it was evident that the most likely credit management practices that seriously affect the quality of loan were concluded as follows:

The study indicated that weak effort to secured credit facilities against collaterals in managing credit of the bank was the main reason for poor quality loan growth. Failure to develop balanced credit portfolio among different sectors of the economy would lead to poor quality loans where the economy of the concentrated loan goes wrong. The third problem indentified as credit management practice of the bank was found to be poor credit follow-up and recovery practice. Credit Follow-up plays essential role to ensure loan collections and failure to make proper follow-up after disbursement of the loan was found to be one the reason for low quality loan. The fourth identified credit management practice of the bank as source of poor quality loan was weak credit analysis/evaluation during processing of the credit requests.

The in-depth interview with senior executives of the bank indicated that the major factors causing occurrences of non-performing loans includes: lack of sufficient collateral coverage by borrowers, unhealthy competition among banks ,poor credit culture, huge pressure of share holders to have maximum annual dividend on their investment, scarcity of foreign currency, weakness in conducting know your customer (KYC) principle before lending, the bank's aggressive lending to maximize profit, and inadequacy of the supervisory authority policies.

Generally, in respect of the factors that could affect the credit management practice of the bank , the structured questions in the questionnaire and unstructured in-depth interviews had identified the following credit management practices as the main problems for low quality loans and advances such as weak effort to secure loans against strong collateral, failure to build balanced loan portfolio, providing lower attention to the roles of the credit follow-up and recovery activities of the bank, undermining the contribution of wise credit risk analysis/evaluation, unhealthy competitor banks credit culture, huge pressure of share holders to have maximum annual dividend on their investment, scarcity of foreign currency and others ascribe to the poor credit practice of the bank.

5.4 RECOMMENDATION

Based on the summary findings and conclusions, the following recommendations are suggested:

- As loans would contribute to the development of an economy and its default leads to occurrence of huge loss on banks and a country; deliberate effort shall be exerted to build quality loan in order to protect the interest of the public in general and depositors and share holders in particular;

- The bank should create a strong and efficient credit administration, monitoring, and controlling practice that regularly reviews loan files and business of the borrowers, to ensure whether approved loans are utilized for the requested purpose, and early loan workout and rescheduling mechanisms should exhaustively implemented to increase the quality of the loans and to minimize the overall credit risks of the Bank;

- The management of banks hall focus on healthy, long term and sustainable growth instead of short run and vigorous results;

- The bank has to made systematic strategic shift to reduce the concentration risk associated with the export loan by equitable distribution of its credit products among the different sectors of the economy;

- Even though using know your customer (KYC) principle or policy is important it has to be used with sufficient certainty instead of over simplifying;

- As evidenced by the survey, the bank's effort to secure its loans by collateral was very limited but it would reduce the possibility of recollecting the loan. As result, the bank has to discourage clean loans to reduce the possibility of poor loans;

- The bank has to give due emphasis for development and competency of the Credit Follow-up and Recovery Division of the bank to discharge its responsibility of serious credit follow-up and recovery activity.

5.5 RECOMMENDATION FOR FURTHER STUDIES

The focus of this study was Assessing Credit Management Practice of Lion International Bank S.C. and it is therefore, recommended that a similar study can be conducted on other groups of private commercial banks of Ethiopia as there might have some other unique determinants of quality loans.

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QUESTIONNAIRE

St. Mary's University

School of Graduate Studies

Dear employees of Lion International Bank S.C.

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

Thank you in advance for your cooperation and timely response.

Part I: Back ground information about respondents

Instruction: - Please **circle** the appropriate response from the options provided.

A. Sex: 1. Male 2. Female

B. Age: 1. 21-30 years 2. 31-40 years 3. 41-50 years 4. Above 50 years

C. Your latest qualification?

1. Diploma 2. First Degree 3. Masters Degree 4. Doctorate Degree

D. Your current position in the bank?

1. Customer Relationship officer 2. Credit Follow-up Officer
3. Credit Analysis Officer 4. Customer Relationship Manager
5. Branch Manager 6. Division Manager

E. Your work experience in the banking industry?

1. 1 to 2 years 2. 3 to 5 years 3. 6 to 10 years 4. Above 10 years

Part II: - Study questions on Credit Management Practice of Lion International Bank S.C

Please put (√) mark inside the box that indicate your level of agreement for each statement.

Least Considered **Most Considered**

1. Strongly Agree (SA) 2. Agree (A) 3. Neutral (N) 4.Disagree (DA) 5.Strongly Disagree Agree (SA)

- Please indicate your degree of agreement or disagreement to the statements pertaining to the practice of credit request analysis/evaluation process

	Statements	Strongly agree (1)	Agree (2)	Neutral (3)	Disagree (4)	Strongly Disagree (5)
1	LIB is Lenient / lax to customers need during approval					
2	The bank makes maximum efforts to secure loan by building and other type of collateral.					
3	The bank mainly uses know your customer (KYC) as a policy base for credit analysis.					
4	Loans of the bank are highly concentrated on few credit products.					
5	The bank makes necessary effort to avoid loan concentration on certain products					
6	The current credit management practice of the bank paid sufficient attention to the importance of proper Credit analysis or evaluation.					
7	The poor risk assessment of LIB will reduce the quality of its loan.					

- Please indicate your degree of agreement or disagreement to the statements pertaining collateral and the occurrence of NPL.

	Statements	Strongly agree (1)	Agree (2)	Neutral (3)	Disagree (4)	Strongly Disagree (5)
8	Loans backed by collateral performs well					
9	Collateralizing loans help to protect loan default					
10	Most of the time non collateralized/clean loans are defaulted					

- Please indicate your degree of agreement or disagreement to the statements pertaining to Credit follow-up and the occurrence of NPL

	Statements	Strongly agree (1)	Agree (2)	Neutral (3)	Disagree (4)	Strongly Disagree (5)
11	LIB is strictly active enough in credit follow-up and monitoring activities.					
12	LIB pays lesser attention to the early warning signals in NPL management.					
13	The follow-up and recovery Division of LIB is fully authorized and accountable in managing credit follow-up.					
14	The follow-up and recovery Division of LIB is equipped with the necessary trained and experienced manpower in managing NPL					
15	LIB's practice is too flexible in rescheduling and restructuring credit facilities.					
16	LIB is active in timely searching for attachable properties to reduce NPL					
17	LIB is aggressive in timely foreclosure of held collaterals to recover its bad loans,					
18	The bank follows excessively rigid					

	procedure in disposing held and acquired properties					
19	LIB tries to reduce bad debt volume through injecting more loans (disbursement)					
20	Good loan follow up and monitoring can reduce the occurrence of bad loans at LIB.					
21	Higher budget and sufficient manpower at Credit Follow and Recovery Division of the bank can lower the bad debts.					

22. Which credit product is currently the dominant credit facility of the Bank? Tick where appropriate.

(1) Export pre-shipment facilities -- ☐

(2) Import Trade loans and advances -- ☐

(3) Export term loans and OD facility limits -------------------------------- ☐

(4) Domestic Trade and Service loans and advances ------------------------ ☐

(5) Building and construction loans and advances--------------------------- ☐

23. Which credit product is currently the most vulnerable for concentration risk? Tick where appropriate.

(1) Export pre-shipment facilities --- ☐

(2) Import Trade loans and advances --- ☐

(3) Export term loans and OD facility limits -------------------------------- ☐

(4) Domestic Trade and Service loans and advances ------------------------ ☐

(5) Building and Construction loans and advances--------------------------- ☐

- Please indicate your degree of agreement or disagreement to the statements pertaining to loans concentration risk in association with collateral, purpose of the loan and their interest rate.

	Statements	Strongly agree (1)	Agree (2)	Neutral (3)	Disagree (4)	Strongly Disagree (5)
24	Loans with higher concentration risk possibilities are loans granted on clean basis.					
25	Loans with higher concentration risk are loans granted in order to encourage export trade.					
26	Loans with higher concentration risk possibilities are loans granted at lower interest rate.					

- Please rank the factors that cause occurrence of Non-performing loans of LIB as per their importance in contributing to the occurrence of NPLs from 1-6.

	Statements	1st	2nd	3rd	4th
27	Analysis or risk assessment				
28	Collateral Coverage				
29	Follow-up and Recovery activities				
30	Loan Concentration				

31. If you have further comments on Credit Management Practices of Lion International Bank S.C. Please use the space given below:

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INTERVIEW QUESTIONS

St. MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIES

INTERVIEW QUESTIONS

The following are the main interview questions presented to the top management members of the bank.

1. How do you evaluate the quality of the bank's credit analysis during approval of the facilities?
2. Do you think that availability of collateral has direct relations in reduction of NPL?
3. What credit follow-up and recovery techniques are applied by your bank to maintain the NPL volume at the required level?
4. Do you think that some credit products of the bank are highly vulnerable to be Non-Performing Loan ?