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Assessment of credit risk management practice of Awash Bank

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Assessment of Credit Risk Management Practice of Awash Bank

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STATEMENT OF DECLARATION

I declare that this research paper entitled "**Assessment of Credit Risk Management Practice of Awash Bank**" is my original work. I have carried out the research work independently with the support of research advisor. This research work has not been presented for any other university and that all sources of material used for the work have been duly acknowledged.

Declared by:

Name: Tedros zewdu

Signature: _____________

Date: _____________

Place: Addis Ababa, Ethiopia

ABSTRACT

The objective of the study is to "assess the credit risk management practices of Awash Bank. A sample of 60 respondents was drawn from the employees of the Awash Bank by using purposive sampling technique. Both primary and secondary data were used. Primary data were collected using structured questioners from the employees of the bank. Descriptive statistics such as frequency, percentage, mean score, standard deviation, and graphs were employed and SPSS Version 20.0 was used to aid the analysis of the data. With regard to credit risk management practices, the result showed that Awash Bank has good risk Management practice. Precisely, using score 1 (strongly disagree) to 5 (strongly agree), all the parameters of risk management practice assessment have an average score value of 3.99. Moreover, assessment of credit risk management practice of Awash Bank against the NBE guidelines and Basel Committee credit risk management principle was found to be good. There were also an open ended questions that was provided to the respondents with regard to disclosing what best CRM practices Awash Bank has missed and it was found that the bank highly depends on collaterals instead of the repayment capacity of the counterparty, there is also no continuous checkups on testing the competence of their staffs and similarly they have poor understanding of concentration risks. Therefore, in general it can be concluded that the bank is in a good position in terms of the credit risk management practice and in following the credit risk management system and standards so as to have strong credit management. However, the study also concluded that the bank has weakness: for instance, absence of training for employees which results to less understanding and application of credit risk management strategy, policy and procedures and applying on diversification of credit exposures. Thus, it is recommended that Awash Bank should develop a common understanding about the strategy, policy and procedures across the bank and under no circumstance should the bank violate the limit set by NBE and finally prepare training for credit and risk related staffs to manage credit risk effectively and efficiently.

Key words: Credit Risk Management Practice, Basel principles, Awash Bank,

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LIST OF ACRONYMS

AB	Awash Bank
ATM	Automated Teller Machine
MA	Masters of Art
BOD	Bard of Directorate
CBE	Commercial Bank of Ethiopia
CRM	Credit Risk Management
MIS	Management Information System
NBE	National Bank of Ethiopia
NPL	Non-Performing Loan
POS	Point of sales
SPSS	Statistical Package for Social Sciences

LETTER OF CERTIFICATION

This is to certify that **Ms.** Tedros Zrewdu has carried out this research work on the topic entitled "Assessment **of Credit Risk Management Practice of Awash Bank**" under my supervision.

This work is original in nature and is suitable for submission for the award of **Masters of Arts (MA) Degree** in Business Administration**.**

Advisor: Abebaw Kassie (PhD)

Date

Signature: ____________________

CHAPTER ONE

Introduction

1. Background of the Study

The journey of risk management started way back in early 1800's, where the banks had recognized the significance of the role of risk management and had adapted the same by creating a risk function in their organizations. Not only the bank's, even the various government bodies have recognized the repercussions / impact of not managing the risks effectively in banks and accordingly enacted several regulations to control risks that arise in the banking business and operations (Basel, 1999).

From there onwards, the risk function in the banks has evolved over a period of time and reached to a stage where the need felt to have a common criterion to measure & quantify the risks so that a comparative analysis of the banks can be performed and made available to the stakeholders. This development has led to introduction of BASEL Norms by BIS Committee. As cited by, Niguse(2016) in Zaher(2006), the committee has guided all the central banks of the participating countries and the banks governed by them to adapt and align their risk management practices to the norms over a period in time.

Firms have significantly changed their evaluation and management of credit risk since 2006. The change appears to have resulted jointly from regulatory requirements and from firms own experiences in dealing with market events since the start of the 2007–08 financial crises from the joint forum (Basel Committee on Banking Supervision, 2015).

Commercial banks are just like bridge in which fund of savers are transferred to borrowers through the process of credit granting. In fact, banks are very important to the health of a nation's economy, their role is similar to that of blood arteries in the human body, because financial institutions pump financial resources for economic growth from the depositories to where they are required (Shanmugan, 2003).Credit can occur for various reasons: bank mortgages (or home loans), motor vehicle purchase finances, import and export finances, credit card purchases, installment purchases, and so on (Atikilt,2015).Though, banks have faced credit risk, liquidity risk, operational risks, legal risk and market risk, usually for most banks, loans are the largest and most obvious source of risk (Basel, 1999).

According to Zergaw (2019), credit risk is simply defined as the potential that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms. The goal of credit risk management is to maximize a bank's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters. Banks need to manage the credit risk inherent in the entire portfolio as well as the risk in individual credits or transactions. Banks should also consider the relationships between credit risk and other risks. The effective management of credit risk is a critical component of a comprehensive approach to risk management and essential to the long-term success of any banking organization (Basel, 1999).

The concept of credit risk management can be treated as the heart of any commercial banks. It plays the vital role in the performance of a financial institution as it analyzes credit worth ability of borrowers. If there is any gap in credit risk assessment, (Ahmed, 2016), then recovery of the provided loans is challenged greatly.

Risk management is recognized in today's business world as an integral part of good management practice. Commitment to credit risk management is an essential component of a comprehensive technique to risk management and critical to the long-term success to all banking institutions. Poor credit risk management practices leads to rising nonperforming loans which compresses profit margins, of commercial banks hence bringing about more challenging environment for banks (Basel, 1999)

While financial institution have faced difficulties over the years for a multitude of reasons; the major cause of serious banking problems continues to be directly related to lax credit standards for borrowers, poor portfolio risk management, or a lack of attention to changes in economic circumstances. This experience is common in G10 and NoneG10 Countries (Basel, 1999).Typical example for this is the many banks in the US such as Sanderson State Bank, Haven Trust Bank, First Georgia Community Bank, and others collapsed or experienced financial problems due to incompetent credit risk management systems during the 2008 financial crisis(Shakiru, 2018).

Credit risk management practices and poor credit quality continue to be a dominant cause of bank failures and banking crises worldwide.

Many studies confirm that four aspects of Basel's Credit risk management principles explain a significant level of variation on Credit risk management practice of Ethiopian commercial banks (Atikilt, 2015).

As credit constitutes the largest single income-earning asset in the portfolio of most banks, it is reasonable for banks to commit efforts on the management of credit quality and credits risks. A bank with high credit risk has high potential to insolvency risk that puts mainly depositors and other stakeholder in jeopardy. This is because credit risk is the risk that can easily and most likely prompts other risks and finally bank failure (Abdul, 2017)

1.1. Background of the Organization

Prior to 1991 it is known that banking based financial system in Ethiopia were dominated by the public sector banks, however following the downfall of the military regime the country introduced new market oriented economic policy in 1991.As a result of this, Awash Bank (AB) became the first private bank to operate in Ethiopia when it received its License on November 10, 1994. Awash Bank has gone on to be the leading private bank in the industry.

The Bank was established by 486 founding shareholders with a paid-up capital of Birr 24.2 million and started banking operations on February 13, 1995. It was named after the popular river "Awash" which is the most utilized river in the country especially for irrigation and hydroelectric power production. Awash River plays a pivotal role in the economic development of the country.

As of end of July 2020 the number of shareholders and its paid-up capital increased to over 5,000 and Birr 12 billion respectively. Likewise at present the bank has more than 466 branches, 468 active ATMs, 581 POS terminals and more than 10,130 employees with total of 89 billion assets. In general AB is the leading private bank in Ethiopia and serves as the major source of finance to the national development effect (NBE 2017/2018, Annual Report p47).

The bank provides different types of credit facilities such as Domestic trade and services, Export, Building and construction, Import, Manufacturing, Transport, Personal loans, Merchandise, Agriculture, Staff loans and advances, Murahabah financing-Domestic Trade, Murahabah-Transport and this is given as Short term loan, Medium and long term loans. Currently Awash Bank has a total of birr 62.4 billion deposit which was collected from depositors and out of this birr 47.3 billion was given to different individuals and enterprises as a loan.

Therefore, this research study assess the overall credit risk management practice of the bank against its credit risk and portfolio management policy, NBE rules and procedures, and Basel parameters of credit risk management principles.

1.2. Statement of the Problem

Banks have several advantages in granting loans to customers. Among others, that enhances profits levels of the institutions if debtors meet their obligations. Also that increases financial resource to the creditors for increased capital base, for promotion of investments, for economic growth among others. Therefore if loans are not effectively managed in the banking sector it has negative effect on banking institutions and the macro economy in general (Kessey, 2015)

In today's changing financial landscape-environment of intense competitive pressure, volatile economic conditions, rising bankruptcies, and increasing levels of consumer and commercial debt; an organization's ability to effectively monitor and manage its risk is critical.

In this regard, as per the 2018/2019 Awash Bank Annual Report, the income composition as at June 30, 2019 shows that 74% of the total income comes from interest income, 17% from fees and commission income and the rest 9% comes from other operating income. None Performing Loans (NPL) and provision for bad loans of the bank shows an increase trend from year to year.

As shown by awash bank`s annual reports from 2015 to 2019 the NPL percentage from the gross loan of the bank is high. At 2015 the NPL percentage of from the gross loan was 15% which increased to 16% in 2016, 19% in 2017 and 2018 and 14% in 2019 which is increasing from year to year. So, there have to be some kind of problem in credit which leads us to see the risk of credit in the bank.so the bank needs to have some kind of solution by using the principles for credit risk management which is decisive for the success or failure of the bank since credit is the backbone of every financial institution.

Also when we see the bad loan progression history of the bank from the bank`s annual report the bad loan is decreasing through the years 2015 to 2018 and increases in 2019 comparing to the previous year 2018.the percentage of bad loan from the gross loan in 2015 is 185, decreases to 15% in 2016, 11% in 2017, 8% in 2018 and increases to 9% considering it to the previous year in

2019.but, in general the credit management team of the bank have to consider the bad loans percentage to the gross loans because bad loan history is one of the pulling factor for minimization of the profitability of the bank.(Awash Bank Annual Reports ,2015-2019)

In addition to that more than (2/3rd) of Awash Bank loans concentrated on domestic trade services, export and building and construction loan. This show how the bank is dangerously exposed to concentration risks, this means if the export sector fails due to some disease attacked the major exportable items in Ethiopia or if the demand of those items significantly reduced abroad then the bank will definitely have affected by this incident.

Therefore, in order to curb the above mentioned problems the Bank needs to seriously follow the principles for the management of credit risk, since it is a matter of success or failure when applying it or not.

In Ethiopia, a very few researches were conducted on this topic.

As stated by Gebrewahid (2016), in his paper titled ‘’Assessment of credit risk management practice in Commercial Bank of Ethiopia ‘’ there are deviations on roles and responsibilities of board of director with respect to credit risk management process, lack of accurate, reliable and consistent information or data base system, lack of variety of risk controlling techniques, and poor integration among departments are some of the challenges in credit risk management practice in CBE’s.

Dagne (2017) in his study ‘’Assessment of credit risk management practice in Commercial Bank of Ethiopia’ found that board of directors and management of Commercial Bank of Ethiopia exercise their power properly to oversight credit risk management, update with the current credit risk management trend, applied combination of different risk management techniques and has competent employees. The researcher also found that CBE had less identification of credit risk, less monitoring and evaluating of credit risk in the bank.

Niguse(2016) in his study “Assessing determining of factors of best risk management practice of Ethiopian Commercial Bank” the study revealed that credit risk, market risk and operational risks are the major types of risks the banks faced.

In his paper Hablel (2016) tries to assess the practice and effectiveness of credit management in United Bank S.C and finds out that lack of credit follow up by branches, lack of information system to support the credit risk grading system of the bank, branches negligence to the credit policy and procedure of the bank when exercising their discretionary lending limit, will full default by borrower, borrower lack of knowledge on loan usage, fund diversion for unintended purpose, and centralized decision making by the bank influence the attainment of successful credit management.

As mentioned above most of the studies reviewed focused on partial assessment of credit risk management like investigating factors affecting loan recovery, evaluating credit analysis practice and relationship between credit risk and profitability in the research questions and general objective of the paper instead of assessing the full implementation of credit risk management principles.

In addition to this, the researcher has reviewed more than 10(ten) research papers from the internet which is related to this paper and almost all the researches done were related to the public bank (CBE). However, as it is much known in Ethiopia there are around 18 banks and out of these 16(sixteen) are private banks.

When we are looking at the private banks credit risk management practices the bank which comes first to our mind is Awash Bank, because it is the pioneer and largest private bank in the country according to the Awash Bank annual report 2018/19 page 3 (AB, 2019).On top of that Awash Bank is also continued to be a leader bank in the banking industry starting from 2014 up to now in every parameters that a single bank may measured. Therefore, conducting a research on this bank on the mentioned title may represent the rest of private banks instead of selecting the followers.

The increase in NPL exposes bank to deterioration of their profit because NBE oblige them to hold provision by different percent to each classification of bad loans/NPL/.Again the ever increase loan grant to a particular geographical area and business sector is also affect the going concern of a bank.

The above mentioned Gap and the problems related with the increase of NPL, Provision and the ever increase of concentration risk by the bank motivates the researcher to assess the credit risk management practice of Awash Bank.

Therefore, this research assess the overall credit risk management practice of the bank against its credit risk and portfolio management policy, NBE rules and procedures, and Basel parameters of credit risk management principles.

1.3. Research Questions

On the bases of the problem statement, this study tried to answer the following research questions:

- How does Awash Bank manage its credit risk currently?
- To what extent is Awash Bank's credit risk management practices being effective while compared to Basel Committee on Banking Supervision credit risk management principles?
- What are the credit risk management concept that Awash bank failed to properly apply?

1.4. Objective of the Paper

1.4.1. General Objective

The main objective of this study was to assess the credit risk management practice of Awash Bank.

1.4.2. Specific Objectives

The following are specific research objectives

- To assess the current credit risk management practice of Awash Bank.

- To evaluate the gaps in AB's methodologies of credit risk management practice against standard of NBE and other international credit risk management conventions like Basel Committee.
- To identify credit risk management concept that Awash bank failed to properly apply.

1.5. Significance of the Study

This paper examines the proper application of credit risk management practice in Awash Bank. The Bank may consider the recommendation to improve its existing credit risk management practice which in turn would help to protect the Bank from future damages. The outcome of this study may also have practical relevance to identify key point for policy makers towards credit risk management implementation in the Banking industry.

Finally, It also fill some knowledge gap associated with the implementation of credit risk management pillars by producing the status of credit risk management application and could also serve as input for further research on the area more specifically on the full implementation of credit risk management principles.

1.6. Scope of the study

The theoretical focus of the research is on assessment of credit risk management practice of Awash Bank. The researcher is mainly restricted on credit administration, credit appraisal, credit recovery and risk management department employees found at Head office and four regional offices found in Addis Ababa.

Geographically, the researcher focused on the Head office of Awash Bank which is found around Legehar and four cities regional office branches in Bole, Lideta and Kirkos sub-city in Addis Ababa in order to gather relevant information about the area of study.

On the methodological aspect, the study employed mixed research methods. The study would feature results from a questionnaire from both available data from already researched topics similar to this one and what the researcher will find out in the field.

Finally, when it comes to time, the researcher focused only on time period of 2015 to 2019.

1.7. Limitation of the study

The study is limited only to Awash bank and excludes other private and government commercial Banks. Moreover, the study is conducted only on Awash bank credit administration, credit appraisal, credit analysts and risk management department found at Head office and credit supervisors found at four city regional offices, because of time constraint and other resource limitation the result of the study may not be generalized to other banks.

Therefore, since it is difficult to address all employees in the bank, the study delimit itself only sample respondents from credit activity and risk management area of Awash Bank who reside in Addis Ababa.

1.8. Organization of the paper

The research follows the logical steps of establishing the research questions, developing the methodology, gathering and analyzing data and drawing conclusions. Thus the study was presented in 5 chapters. Accordingly: The first chapter presents the background of the study, statement of the problem, research questions, objective of the study, significance of the study, scope of the study and methodology which account to the introduction part. The second chapter deals with review of related literature. The third chapter incorporates brief description of methodology that is the population and sampling technique of the study; the sources of data; the data collection tools/instruments employed; the procedures of data collection; and the methods of data analysis. The fourth chapter summarizes the results of the study and interprets the findings. The fifth chapter is devoted to summary, conclusions and future research directions.

CHAPTER TWO

Review of Literature

In this chapter, relevant literature on the key concepts and the theories that are relevant to the research topic were reviewed. In this chapter the researcher tries to discuss overview of the theoretical consideration to explain factors related to credit risk management from books, articles, research papers, internet publications and unpublished sources.

Finally, this chapter ends with the development of theoretical frame work to be tested in the study.

2. Theoretical Literature Review

2.1Concept of Credit risk

Risk may be defined as 'possibility of loss', which may be financial loss or loss to the image or reputation. Banks like any other commercial organization also intend to take risk, which is inherent in any business. Higher the risk taken, higher the gain would be. But higher risks may also result into higher losses. However, banks are prudent enough to identify measure and price risk, and maintain appropriate capital to take care of any eventuality (Sharma, 2003).

According to Koch and MacDonald on (Koch S. Schott, 2009) page 108, banks' risks can be identified as six types: credit risk, liquidity risk, market risk, operational risk, reputation risk and legal risk. Each of these risks might generate harmfully influence the financial institution's profitability, market value, liabilities and shareholder's equity, however most financial institutions find that loans are the largest and most obvious source of banks' risk.

Banks are one of the many institutions that lend money for individuals and institutions to make profit. The large stake of those banks profit is from the lend money interest and related fees. But those banks faces a challenge of collecting the money they lend which we call credit risk (Basel Committee, 2001).

2.2 Component of credit risks

As per Ron (2015), credit risk can exist within individual loans and within the portfolios as a whole.

For any loan, there is always some risk that the client will not be able to repay. Ideally, the risk of non-repayment is reduced by setting eligibility criteria and through effective procedures for assessment, disbursement, monitoring, and collection. Credit risk can occur if product features, terms, and conditions are not well matched to the requirements of the clients, or if policies and procedures for administering the loan product are not well developed or not followed (Eastern Caribbean Central Bank report, 2009)

Credit risk can also arise from the composition of the overall loan portfolio. This can happen if a large percentage of the portfolio has been lent to clients who themselves have similar risk profiles. If too many borrowers are dependent on the same weather patterns or market conditions, or if the clients are geographically concentrated in a country prone to natural disasters, an unforeseen event could put a large portion of the portfolio at risk at once. Portfolio-level credit risk is usually managed by setting limits on loans by type, size, enterprise activity, geographic area, or other characteristic. (Eastern Caribbean Central Bank report, 2009)

Credit risk is the first of all risks in terms of its effects on the operations in banking industry. Credit risk arises from uncertainty in counterparty's ability or willingness to meet its contractual obligations. Thus, management of credit risk is very important and central to the health of a bank and indeed the entire financial system. As banks make loans, they need to make provisions for loan losses in their books. Citing TshoreAboagy and Koyerhoah Coleman in Dr.SK ShahidaSaheb, (2011), the higher this provision becomes, relative to the size of total loans, the riskier a bank becomes. An increase in the value of the provision for loan losses relative to total loans is an indication that the bank‘s assets are becoming more difficult to collect.

2.3 Definition of Credit Risk Management

According to Atakelt, (2015), Credit risk management practice define as the process of analyzing and renewing Credit risk management documents and apply constantly in actual Credit granting process, Credit administration and monitoring and risk controlling process with suitable Credit risk environment, understanding and identification of risk so as to minimize the unfavorable effect of risk taking activities. The effectiveness of credit risk management process is dependent on different variables such as proper application of best Risk management documents, Staff quality, Credit culture, devoted top management bodies, sufficient training program, proper organizational structure, ample level of internal Control and Performance of intermediation function.

This according to (Mekasha, 2011) is that credit risk management includes different issues such as developing and implementing suitable credit risk strategy, policy and procedure, accurate identifications of risk, best credit granting process, credit administration, monitoring and reporting process determining and controlling the frequency and methods of reviewing credit policy and procedure and setting authority and responsibility clearly. Besides he mentioned that by establishing suitable credit risk environment, acceptable level of credit limit, best credit granting process, proper monitoring and controlling credit risk and optimizing risk return of a bank credit risk management develop credit performance.

As in Hennie Van Greuning, (2003) stated, Credit risk management involves creating an appropriate credit risk environment; operating under a sound credit granting process; maintaining an appropriate credit administration that involves monitoring process as well as adequate controls over credit risk.

It requires top management to ensure that there are proper and clear guidelines in managing credit risk, i.e. all guidelines are properly communicated throughout the bank; and that everybody involved in credit risk management understand them. Credit risk management in a financial institutions starts with the establishment of sound lending principles and an efficient framework for managing risk. Policies, industry specific standards and guidelines, together with risk concentration limits are designed under the supervision of risk management committees and departments (Boye, 2015).

Financial institutions are facing several problems due to lack of adequate credit risk management principles, proper implementation credit standards of borrower and counterparties and poor portfolio risk management or lack of attention to changes in economic or other circumstances that can lead to worsening in the credit standing of a bank’s counterparties. Selecting sound principles of banks credit risk management practice will be the issues of the following paragraphs.

2.4 Credit risk management practice

As banks have different credit risk management polices /philosophies, same do the risk management practices differ from one financial institution to another despite the fact that they can be open to the same risk type. The practices differ according to their previously laid down policies and philosophies.

NBE conducted the first survey on risk management practices of Ethiopian commercial banks in 2009. It was intended to identify the status of risk management practice of commercial bank and to improve its strength further through providing fruitful recommendation on weakness. Inadequate risk management training, inefficient allocation of risk management budget, lack of up to date and relevant economic and business data for decision making, lack of documented risk management strategy and program, lack of reviewing risk management document regularly, and poor internal communication and lack of comprehensive risk limits system were identified as weakness of risk management system and practice of some of Ethiopian commercial banks while having qualified risk management staffs, existence of policy and procedure of risk management, having committed BOD, awareness of risk in banking operation, contingence plan for operational and credit risk were the major strength of the banks. Generally, the dominance of all those weakness over the strength witnesses the existence of poor risk management system and practice in Ethiopian commercial banking industry (Atiklte, 2015).

Therefore, the effectiveness of credit risk management practice is highly dependent on proper application of sound risk management documents, staff quality, and credit culture, committed top management bodies, adequate training program, and suitable organizational structure, adequate level of internal control and performance of intermediation function (Basel 1999).

2.4.1 Development of Comprehensive and sound risk management document

According to Awash Bank credit policy manual (October, 2017) the main objectives of developing a comprehensive and sound risk management document is to guide every concerned body to do their day to day activities of credit operations with a clear direction regarding lending activities and to establish accountability and thereby to make the Bank's credit operation transparent, ensure standardization and uniformity in handling of loan requests across all bank organs and increase operational efficiency and attain sound credit portfolio.

2.4.2 Staffs Quality

From credit risk management point of view, it is believed that retaining highly qualified, competent and experienced employees in the credit would benefit in managing credit risk.

Credit officers without the necessary expertise in the activities they are responsible for, be it credits, investment, management of problem assets or new products, can lead to poor lending practice, ineffective administration, and eventually, loss to financial institutions (Niguata, 2011).

2.4.3Credit culture

A lending organization credit risk management framework is designed under an umbrella guideline called - credit culture. It covers the ’’attitudes, perceptions, behaviors, styles, and beliefs that are conducted and practiced throughout the credit organization as result of management attitudes towards credit risk’’. It is usually presented in the “mission, objectives, and lending strategies to legitimatize the values placed on credit quality and safe sound lending practices’’ (Colquitt 2007).

Credit culture supplies general frame work to guide day - to -day credit decision. Further a bank as an entity can be likened to a community and thus has its own culture which acts as a mirror on how it carries out its own activities. Actions or behaviors out of this culture will be going against the roles or norms of the bank.

A bank’s credit culture is the policies, practices, philosophy and management style that are being put in place to act as guide for the lending manager or personnel to carry out their credit management function. This spells out the lending environment and points out the lending behavior that is acceptable to the bank. In a study made by McKinley, (1990) cited in Boffey and Robson, (1995), credit culture is defined as a combination of factors that establish a lending environment’s that encourages certain lending behavior. It should include such things as management’s communication of values and priorities, the indoctrination of lenders during training, and the bank's lending philosophy and policy. Credit culture is thus good because it acts as guideline for a good bank credit management, performance and may be failure. Even if there is wrong move in the credit risk management resulting to losses, the manager personally cannot be blamed if the decisions were taken based on its credit culture. The blame will go to the entire management or decision makers and adjustments can then be made

2.4.4Commitment of Top Management bodies

According to Nigatua, (2011), efforts undertaken to manage an organization well also contribute to sound risk management. For example, a fully attentive management with a wide range of skills may be the most important guard against major threats to an organization. Careful strategic planning and effective supervision helps ensure organizational resources are closely aligned to accomplishing the organization's mission, and that staff and volunteers are treated fairly and comply with rules and regulations.

2.4.5 Adequate training program

For any activity to achieve success, human resource is always at the heart because activities are exercised by the human. Employees at the organization would be considered as important factors for healthy credit risk management. In addition to this job related training (credit related training) given to employees determines whether or not credit risk is going healthy or bad.

2.4.6 Adequate Internal Controls

Financial institutions should create internal controls that will ensure that credit initiation, approval, review, administration, payments and work-out functions are kept as separate as possible. Breaches of internal controls and practices should be reported to the appropriate level of management. (Eastern Caribbean Central Bank report, 2009)

Financial institutions should establish an independent system with an ongoing assessment of its credit risk management processes and the results of the reviews should be communicated directly to the appropriate unit. The credit risk management program me of each institution should include procedures governing the formal review and rating of individual credits. An independent review of credits should be conducted along with regular analysis and rating of credits by account officers. Because of their frequent contact with borrowers, account officers are in a position to detect changes in a borrower's operations or financial condition (Basel, 1999)

2.4.7 Availability of suitable organizational structure

In any bank there should be system of controls and practices that ensure the credit initiation, approval, review, administration, and workout functions are structured independently.

2.4.8 Performance of intermediation function

Without a doubt in any business the biggest headache for the board of directors and top management will be its continuity /going concern/. So, to conduct the business very smoothly it needs to have an integrated way of risk management and excellent performance in all areas of the bank activities.

2.5Credit Risk management standards

Although it is very difficult to select a single set of universal standards for credit risk management principles as they operate in different circumstances, for the purpose of this study, it is very essential to look at some of the national standards developed by the national bank (NBE) and international standards like those which are identified by Basel committee of Banking supervision.

2.5.1 Domestic standards on credit risk Management set by National Bank of Ethiopia (NBE)

The National Bank of Ethiopia (NBE), (May, 2010) in its revised Bank Risk Management Guide line has emphasized for the most common and interrelated risks facing banks in the country namely credit, liquidity, market and operational risks, and the need on strong risk management practices in all banks operating in the country, further this document indicates that consistent with international standards and best practices, is expected to provide minimum risk management in the banks. More specifically in section two of same document National Bank of Ethiopia has put the credit Risk Management Guide line in detail, as Credit risk is not confined to a bank's loan portfolio, but can also exist in its other assets and activities. Likewise, such risk can exist in both a bank's on-balance and its off-balance sheet accounts.

Therefore, according to NBE Guide line Banks need to have separate and responsible body of credit risk management to be developed and implemented by the management. The credit risk management practice of banks should address in detail the following issues.

1. **Board and senior Management Responsibilities**
   - Segregation of Board and Management Responsibilities
2. **Establishment of credit policies, Procedures and limits**
   - The need for development of credit policies
   - Detail credit analysis and approval process
   - Delegation of authority for loan approval
   - Related party transaction
   - Lending to connected parties
   - Issues of credit limits and credit concentration
   - Credit risk mitigation strategies
3. **Measurement, Monitoring and Control**
   - Availability of credit administration policies
   - Maintaining effective credit filing system
   - Credit monitoring system
   - Internal risk rating
   - Stress testing(test that indicate future changes in economic conditions that could have unfavorable effects on a bank's credit exposures and assessing the bank's ability to withstand such changes)
   - Managing problem loan/NPL/
   - MIS and measuring credit risk
4. **Internal controls and Reporting**
   - Independent assessment of credit risk process

Generally, the goal of credit risk management, according to the NBE is to maintain a bank's credit risk exposure within parameters set by the board of directors and senior management. The establishment and enforcement of internal controls, operating limits and other practices will help to ensure that credit risk exposure do not exceed levels acceptable to the individual banks.

2.5.2 International Standards of Credit Risk Management practice in Banks

Credit risk remains the most important risk that banks have to manage in the world today. Experience all over the world suggest that the key risk in a bank has been credit risk Indeed, failure to collect loans granted to customers has been the major factor behind the collapse of many banks around the world. While financial institutions have faced difficulties over the years for a multitude of reasons, the major cause of serious banking problem continues to be directly related to lack of credit standard for a borrowers and counter parties, poor portfolio risk management, or a lack of attention to changes in economic or other circumstances that can lead to a deterioration in the credit standing of a bank's counterparties. Thus, banks need to establish and manage credit risk inherent in the entire portfolio as well as the risk in individual credits or transactions.

The Basel Committee on Banking Supervision, (1999)having surveyed the difficulties connected with banks management of credit globally, issued a few rules that have come to be viewed as benchmark credit risk management rehearses keeping in mind the end goal to loan sound practices for overseeing credit risk

Consequently, Basel committee has issued documents on this year in order to encourage banking supervisors globally to promote sound practice for managing credit risk. In this document, the committee has identified that what a sound practices of credit risk should address. These are

A. **Establishing an appropriate credit risk environment**
   - Board responsibilities
   - Senior management responsibilities
   - Review and approval of credit products

B. **Operating under a sound credit granting process**
   - Sound and well defined credit criteria
   - Internal credit limit
   - Credit approval and renewal
   - Credit extension to related parties

C. **Maintaining an appropriate credit administration, measurement and monitoring process**
   - Credit administration
   - Credit monitoring, classification, and provisioning
   - Internal risk rating system
   - Credit portfolio risk management
   - Stress testing

D. **Ensuring adequate controls over credit risk**.
   - Independent assessment of credit risk process
   - Compliance with limits
   - Remedial management

Although specific credit risk management practices may differ among banks depending upon the nature and complexity of their activities, a comprehensive credit risk management program should address these mentioned four (4) areas. More over these four areas contain seventeen (17) separate individual and detail principle that explain what specific activities should the banks undertake in order to manage credit risk, that are more or less similar to the standards of NBE of Ethiopia.

A. Establishing an Appropriate Credit Risk Environment

Principle 1: The board of directors should have responsibility for approving and periodically (at least annually), reviewing the credit risk strategy and significant credit risk policies of the Bank. The strategy should reflect the Bank's tolerance for risk and the level of profitability the Bank expects to achieve for incurring various credit risks.

Principle 2: Senior management should have responsibility for implementing the credit risk strategy approved by the board of directors and for developing policies and procedures for identifying, measuring, monitoring and controlling credit risk. Such policies and procedures should address credit risk in all of the Bank's activities and at both the individual credit and portfolio levels.

Principle 3: Banks should identify and manage credit risk inherent in all products and activities. Banks should ensure that the risks of products and activities new to them are subject to adequate risk management procedures and controls before being introduced or undertaken, and approved in advance by the board of directors or its appropriate committee.

B. Operating under a sound credit granting process

Principle 4: Banks must operate within sound, well-defined credit-granting criteria. These criteria should include a clear indication of the Bank's target market and a thorough understanding of the borrower or counterparty, as well as the purpose and structure of the credit, and its source of repayment.

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

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

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

C. Maintaining an appropriate credit administration, measurement and monitoring process

Principle 8: Banks should have in place a system for the ongoing administration of their various credit risk-bearing portfolios.

Principle 9: Banks must have in place a system for monitoring the condition of individual credits, including determining the adequacy of provisions and reserves.

Principle 10: Banks are encouraged to develop and utilize an internal risk rating system in managing credit risk. The rating system should be consistent with the nature, size and complexity of a bank's activities.

Principle 11: Banks must have information systems and analytical techniques that enable management to measure the credit risk inherent in all on- and off-balance sheet activities. The management information system should provide adequate information on the composition of the credit portfolio, including identification of any concentrations of risk.

Principle 12: Banks must have in place a system for monitoring the overall composition and quality of the credit portfolio.

Principle 13: Banks should take into consideration potential future changes in economic conditions when assessing individual credits and their credit portfolios, and should assess their credit risk exposures under stressful conditions.

D. Ensuring adequate controls over credit risk

Principle 14: Banks must establish a system of independent, ongoing assessment of the Bank's credit risk management processes and the results of such reviews should be communicated directly to the board of directors and senior management.

Principle 15: Banks must ensure that the credit-granting function is being properly managed and that credit exposures are within levels consistent with prudential standards and internal limits. Banks should establish and enforce internal controls and other practices to ensure that exceptions to policies, procedures and limits are reported in a timely manner to the appropriate level of management for action.

Principle 16: Banks must have a system in place for early remedial action on deteriorating credits, managing problem credits and similar workout situations.

E. The role of supervisors

Principle 17: Supervisors should require that banks have an effective system in place to identify measure, monitor and control credit risk as part of an overall approach to risk management. Supervisors should conduct an independent evaluation of a bank's strategies, policies, procedures and practices related to the granting of credit and the ongoing management of the portfolio. Supervisors should consider setting prudential limits to restrict bank exposures to single borrowers or groups of connected.

Therefore, for this paper the main standards, principles and measurements to assess credit risk management practice incorporate all these concepts.

2.6 Empirical Review

2.6.1 Credit Risk Management Practice in Ethiopian Banking Industry

Despite the burgeoning of banking industry in the country, there are few researches conducted on credit risk management practice in Ethiopia. The lack of researches in the industry has made banks to manage their credit risk intuitively. A few researches were conducted in this area of studies in different Banks.

Atkilti, (2015), in his study finds out that Credit risk, liquidity risk and operational risk are the three important types of risks the banks mostly face. The three widely used Risk identification method were identified and ranked as Financial Statement Analysis firstly and followed by audit and physical inspection and then internal communication. The study further confirmed that four aspects of Basel's Credit risk management principles explain a significant level of variation on Credit risk management practice of Ethiopian commercial banks. Furthermore, establishing an appropriate Credit risk environment and ensuring adequate Controls over credit risk were found to be the most influential variables on level of Credit risk management practice. It is finally observed insignificant difference between public and private commercial banks in all aspect of Credit risk management principles and practice.

In his paper, Gebrewahid, (2016)' titled ''Assessment of credit risk management practice in Commercial Bank of Ethiopia 'finds out that there are deviation on role and responsibilities of board of director with respect to credit risk management process, lack of accurate, reliable and consistent information/data base system, lack of variety of risk controlling techniques, and poor integration among departments are some of the challenges in credit risk management practice in CBE's.

According to Hable, (2018), in her study assessment of credit management practice at United Bank S.C finds out that lack of credit follow up by branches, lack of information system to support the credit risk grading system of the bank, branches negligence to the credit policy and procedure of the bank when exercising their discretionary lending limit, will full default by borrower, borrower lack of knowledge on loan usage, fund diversion for unintended purpose, and centralized decision making by the bank influence the attainment of successful credit management at united bank s.co. Also on a positive note the banks credit policy and procedure is in line with NBE's rules and regulation. Also for the year under consideration the bank NPL to Term loan ratio is under 5% which is set by the NBE.

Being able to manage this risk is a key requirement for any lending decision. This is well understood in theory if not always in practice by banks and other lending institutions that make their profit by advancing money to individual and corporate borrowers Moles, (2014).In addition more than 80% of a bank balance sheet is generally related to this aspect of risk management, and also a large portion of their income is derived from interest income associated to credit management process (Hable, 2016). This high dependence on credit creation process and the availability of huge demand on credit exposes the Banks to different risks associated with such facility. Hence, credit risk management is crucial to the success of any bank.

Similarly on his study Tiru, (2017) has assesses credit risk management practice of the same bank (commercial bank of Ethiopia) and he found that board of directors and management of Commercial Bank of Ethiopia exercise their power properly to oversight credit risk management, update with the current credit risk management trend, applied combination of different risk management techniques and has competent employees. In addition the result shows Commercial Bank Ethiopia identifies assess and analyzes monitor and evaluate credit risk throughout the processes.

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

Solomon (2013) studied credit risk management practice of Nib International Bank of Ethiopia and in his assessment the researcher come across that factors lead to wrong decision making and increase NPL level of the bank are concentration of credit in few sector and borrower, collateral as number one technique of credit risk management, absence of credit risk model of credit portfolio, lesser attention for MIS and advisory service to customers and absence of proper follow up.

Tesfaye (2012) study factors influencing the level of credit risk in the Ethiopian commercial banks. The study finds out that quantity of risk and quality of risk management related variables has got much influence on the credit risk level of banks. Nevertheless, risk direction related measures, which are mostly external focus, have limited influence on credit risk. More specifically the variation in the effect of stock and flow measures entails banks to further enhance mostly two of Basel principles: operating under a sound credit granting process and maintaining an appropriate credit, administration, measurement and monitoring process.

2.7. Summery and Knowledge Gap

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

In addition to this, the researcher has reviewed more than 10(ten) research papers from the internet which is related to this paper and almost all the researches done were related to the public bank (CBE). However, as it is much known in Ethiopia there are around 18 banks and out of these 16(sixteen) are private banks.

When we are looking at the private banks credit risk management practices the bank which comes first to our mind is Awash Bank, because it is the pioneer and largest private bank in the country according to the Awash Bank annual report 2018/19 page 3 (AB, 2019). On top of that

Awash Bank is also continued to be a leader bank in the banking industry starting from 2014 up to now in every parameter that a single bank may measure. Therefore, conducting a research on this bank on the mentioned title may represent the rest of private banks instead of selecting the followers.

The increase in NPL exposes bank to deterioration of their profit because NBE oblige them to hold provision by different percent to each classification of bad loans/NPL/. Again the ever increase loan grant to a particular geographical area and business sector is also affect the going concern of a bank.

The above mentioned Gap and the problems related with the increase of NPL, Provision and the ever increase of concentration risk by the bank motivates the researcher to assess the credit risk management practice of Awash Bank.

Therefore, this research assesses the overall credit risk management practice of the bank against its credit risk and portfolio management policy, NBE rules and procedures, and Basel parameters of credit risk management principles.

CHAPTER THREE

Research Methodology

This chapter contains detailed discussion of the research methodology that was employed in the study. Hence, topics related to research design, source of data and data collection techniques, target population and sampling methods, sample size determination, and method of data analysis and presentations are covered**.**

The aim of the study is to assess the current credit risk management practice of Awash Bank, investigate whether Awash bank is conducting its credit related operation by respecting the bank's policies and procedures, NBE policies and directives and the Basel committee principles and thereby disclose what best practice the bank misses so far.

3.1 Research Design and Strategy

It is generally accepted that the selection and application of a research design is dictated by the problem at hand. Accordingly, in this study the researcher used descriptive type of research design and the researcher tried to explore the credit risk management practice of Awash Bank and the researcher used mixed method i.e. quantitative and qualitative. The main characteristic of this method is that the researcher has no control over the variables; he can only report what has happened or what is happening.

3.2 Sources of Data

The data nature and source are primary sources supplemented with secondary sources as required. This is because the primary sources helps to find exactly what is going on about the issue with first hand sources, as the paper aims to explore or asses the credit risk management practice of awash bank, against its credit risk policies and procedures, National Bank of Ethiopia directives, and the Basel committee principles.

3.3 Data Collection Techniques

The primary data were collected using structured questionnaires from purposively selected credit analysts, managers, and directors from head office and four regional offices that are found in Addis Ababa and credit risk and compliance directorate. The design of the questionnaire was guided by the objectives of the study and the literature review; it includes open and closed ended structured questionnaires. Which is helpful to address the questions of describing the current credit risk management practice of AB which is one of the objectives of the research. The reliability of the instrument could be checked by conducting other research using the same method. Also, the other specific objective which is identification of the most important credit risk management practices missing which is going to address by both the primary and secondary data`s.

3.4 Target Population and Sampling Method

In order to select relevant respondent census data collection method is used. The researcher used census sampling technique because it helps to gather relevant information from the concerned unit (i.e. credit and risk management area of the bank both at head office and regional office level. In addition to that the whole population is homogeneous and all are taken as a sample. The target populations of the study were segmented in to four Addis Ababa city's regional office credit analysts, regional managers and head office credit analysis and portfolio management, as well as risk management directorate workers of Awash Bank. As per the information obtained from the credit analysis and portfolio management and risk management directorate office there are around 60 employees working on the mentioned units.

3.5 Sample size Determination

As the main focus for this paper was to assess the credit risk management practice of Awash Bank it is rational to consider, credit process employees particularly credit analysts, Regional Managers, Directors, credit Administrations and vice president in the same process who are in head office as main focal area in addition to the four regional office which are found in Addis Ababa. This is because all of the credit request of AB are now being processed centrally at head office/above 5,000,000/ and at regional offices/bellow 5,000,000/. So in this central office and four regional offices there are closer to 60 employees of which all of them were taken as samples for this study. The main reason to use the entire population as sample is, it is well known that if the population is below 200 individual it is attractive to take the whole population as sample in order to meet the study objectives. (2015 teaching material of Mekele University)
Since Credit risk management by its nature needs detail knowledge, skill and follow up the procedure of credit risk involved with them. It is necessary the researcher to deal with those people who are convenient and are subjected to Credit risk management so as to get the necessary information for the study.

3.6 Method of Data Analysis and Presentation

Data analysis is the process in the form of summarizing (condensation) of meanings; categorization (grouping) of meanings; Structuring (ordering) of meanings using narrative are groups in analysis process (Mark Saunders, Philip Lewis, Andrian Thornhill, 2009).Analysis of data is a process of inspecting, cleaning, transforming, and modeling data with the goal of high lighting useful information, suggesting conclusions, and supporting decision making .Data analysis also translates the collected information in to meaningful and understandable way.

The data collected in this research analyzed by using simple descriptive statics. The main reason behind the use of descriptive method of analysis is to describe the characteristics of the study related to credit risk management practice. Accordingly, Frequencies, Mean Score, charts and Standard deviations, and percentages, were used to elaborate the results in detail. Furthermore, data collected through open ended questionnaires has been discussed in detail. Hence, after careful collection of the raw data of questionnaire, the data is entered into computer spreadsheet, SPSS program. Therefore IBM Statistical Package for Social Sciences (SPSS) computer program and excel was used to summarize and categorize the respondents view.

3.7 Reliability and Validity of the Data Gathering Instrument

Reliability is concerned with the question of whether or not a result is consistent or stable, Bell (2007).The content validity of the structured questionnaire was checked and built-in comments by providing the instrument to professionals who are working in the bank and the research advisor. In the process, the questionnaire was modified by the advisor and by the professionals (few selected respondents).

CHAPTER FOUR
4. Discussion and Analysis

As indicated in the methodology and literature review part of this paper, the parameter to analyze subject matter under discussion is based on the Bank's credit policies and procedures, NBE risk management guidelines of (2010) and the Basel credit risk management principles. Further the researcher was also given access to the loans disbursed over the years of 2015 to 2019 in order to see the current credit risk management practices of the bank and to explore the extent of credit risk exposure encountered in each of the years. Therefore, this chapter deals with the analysis and discussion of data gathered from the questionnaire.

Data were analyzed using Statistical Package for Social Sciences (SPSS) in-order to assess the credit risk management practice of the Bank. The statistical tools used for the analysis were descriptive (Frequencies, Mean Score, charts and Standard deviations, and percentages)

4.1. Summary of the questionnaires respondents

The structured questionnaire survey was carried out by distributing a total of 60 questionnaire sets. 54 of the 60 questionnaires distributed were returned. It was found that 6 of them were not returned due to the pandemic. As a result, 54 sets of questionnaires forming 90.0% percent of response rate were usable (complete) for further analysis as presented in Table 4.1.

Table 4.1 Summary of survey carried out.

Parameters	***Values***
Number of questionnaire distributed	60
Number of questionnaire not returned	6
Number of questionnaire were incomplete (invalid)	0
Number of responses	54
Percentage of responses were valid for analysis (%)	90.0%

Source: Own Survey, 2020

4.2. Analysis of Background of Respondents

This part of the analysis is just to provide an insight to readers about all the respondents. As indicated in the methodology part of the study samples were taken from AB's Head office credit analysis and portfolio management, risk management and from four Addis Ababa city's regional office manager and its credit analysts. In this course all the 60 employees was taken as a sample given the chance to fill the structured set of questionnaires each containing four main sections.

The main reason to use the entire population as sample is, it is well known that if the population is below 200 individual it is attractive to take the whole population as sample in order to meet the study objectives (2015, teaching material of Mekele university). Since Credit risk management by its nature needs detail knowledge, skill and follow up the procedure of credit risk involved with them. It is necessary the researcher to deal with those people who are convenient and are subjected to Credit risk management so as to get the necessary information for the study

Table 4.2Background of the respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	28	51.9	51.9	51.9
	Female	26	48.1	48.1	100.0
	Total	54	100.0	100.0	
	First Degree	33	61.1	61.1	61.1
	Second Degree	21	38.9	38.9	100.0
	Total	54	100.0	100.0	
	5-10 years	22	40.7	40.7	40.7
	Above 10 years	32	59.3	59.3	100.0
	Total	54	100.0	100.0	
	5-10 years	20	37.0	37.0	40.0
	Above 10 years	34	63.0	63.0	100.0
	Total	54	100.0	100.0	

Source: Own Survey, 2020

The table 4.2 depicted above indicates that 52 % the respondents were male while the remaining 48 % were Female. Thus, the mix of gender of the employee in the loan area is almost proportionally assigned to both male and female employees. This shows the bank gives equal employment opportunity to both male and female and because of this Awash Bank will have a good position in the mind of the society.

Table 4.2 again shows that the level of education of the respondents. It was observed that all of the respondents were concentrated on First Degree and Second Degree category. First Degree holder's were33 in number representing61.1percent of the respondents, second degree and above were 21 in number representing 38.9 percent of the respondents. This implies that the bank has got a well educated manpower which at the end can deliver a quality of work to the bank in the credit area and other important tasks.

As it is indicated above 40.7% of the respondents have working experience with the range of 5-10years, and the remaining 59.3% over all working is above 10years. Such result implies that most of the respondents have sufficient experience and this help them to easily understand credit risk management activities.

Similarly, like the overall banking experience, relatively high proportion of employees, i.e. 63% of respondent's experience in the credit operation is found to be above 10years. 20(37.0%) of the respondents have 5-10 years credit experience. This indicates that most employees in credit process are stable and they are satisfied with the banks' incentives. Although this needs further study why this is happening but from credit risk management point view, it is believed that retaining experienced employees in the credit would benefit Awash Bank at large in managing its credit risk.

4.3. Credit Risk Management Practice

The effectiveness of Credit risk management practice is highly dependent on proper application of sound Risk management documents, Staff quality, Credit culture, committed top management bodies, Adequate training program, suitable organizational structure, Adequate level of internal

Control and Performance of intermediation function (Basel 1999), The following questions are used to assess current Credit risk Management Practice of Awash Bank by taking those core aspects in to account. Once the banks develop comprehensive and sound Risk management document, it should not be kept always on shelf instead it should be reviewed and up dated as well as rehearsed in the mind of credit risk and risk management staffs so as to serve as guideline in each activities of credit cycle. However, having sound and comprehensive Risk management document merely, without its proper implementation, is doesn’t means that the bank is practicing effective Risk management system.

		Frequency	Percentage (%)	Mean	Standard deviation
Establishing and Practicing effective Credit Risk Management system is one of the main objectives of Awash bank	Strongly Disagree	1	1.9%		
	Disagree	2	3.7%		
	Neutral	0	0.0%	4.54	.84033
	Agree	15	27.8%		
	Strongly Agree	36	66.7%		
	Total	**54**	**100.0%**		
Success and failure of Awash bank is mostly depends on the effectiveness of Credit Risk Management System and Practice.	Strongly Disagree	0	0.0%		.67293
	Disagree	2	3.7%	3.67	
	Neutral	18	33.3%		
	Agree	30	55.6%		
	Strongly Agree	4	7.4%		.69263
	Total	**54**	**100.0%**		
Awash bank has well-documented Credit Risk Management Strategy, Policy and Procedures that guide the staffs in their daily activities of managing credit risks	Strongly Disagree	0	0.0%		
	Disagree	2	3.7%	4.54	
	Neutral	0	0.0%		.39210
	Agree	19	35.2%		
	Strongly Agree	33	61.1%		
	Total	**54**	**100.0%**		
Awash bank has established Sound Credit Risk Management System in line with NBE's risk management guideline and directives.	Strongly Disagree	0	0.0%		
	Disagree	0	0.0%	4.81	
	Neutral	0	0.0%		1.26888
	Agree	10	18.5%		
	Strongly Agree	44	81.5%		
	Total	**54**	**100.0%**		
In Awash Bank there is suitable Organizational structure that enables me to undertake effective Risk Management System and practice.	Strongly Disagree	0	0.0%		
	Disagree	20	37.0%		
	Neutral	0	0.0%	3.56	
	Agree	18	33.3%		
	Strongly Agree	16	29.6%		
	Total	**54**	**100.0%**		
Awash Bank has adequate and qualified risk management staffs and expertise.	Strongly Disagree	0	0.0%		
	Disagree	30	55.6%	2.67	
	Neutral	14	25.9%		
	Agree	8	14.8%		
	Strongly Agree	2	3.7%		.86874
	Total	**54**	**100.0%**		
There is adequate Deposit mobilization and fund utilization in Awash bank.	Strongly Disagree	0	0.0%		
	Disagree	0	0.0%		.29258
	Neutral	0	0.0%	4.90	
	Agree	5	9.3%		
	Strongly Agree	49	90.7%		
	Total	**54**	**100.0%**		
Awash bank gives adequate and effective Risk Management training for its staffs	Strongly Disagree	6	11.1%		1.07575
	Disagree	30	55.6%		
	Neutral	0	0.0%	2.56	
	Agree	18	33.3%		
	Strongly Agree	0	0.0%		.67293
	Total	**54**	**100.0%**		
Overall, I consider the level of Credit Risk Management system and Practices of Awash Bank is to be excellent	Strongly Disagree	0	0.0%		
	Disagree	2	3.7%		
	Neutral	0	0.0%	4.67	
	Agree	12	22.2%		
	Strongly Agree	40	74.1%		
	Total	**54**	**100.0%**		

Table 4.3 Respondents Answer on AB Credit Risk Management Practice

Source: Own Survey, 2020

The aim of the above nine questions is to investigate how Awash Bank is managing its credit risk currently from the point of its policy's and NBE directives or guideline.

Accordingly from the above table 4.6 on whether there is enough Establishment and Practicing effective CRM system was done or not by the Awash Bank, a large number of employees 36(66.7%) showed strongly agree and 15(27.8%) agree with the idea while 3(5.6%) which is very minimal disagreed with the existence of the mentioned system. This shows that AB established and practiced effective CRM system and did advocate good performance implementation.

Almost more than half of the respondents 30 (55.9%) agreed on the Success and failure of AB is mostly depends on the effectiveness of CRM System and Practice while 18 (33.3%) were neutral not sure about the Success and failure of AB is mostly depends on the effectiveness of CRM System and Practice. Some respondents 2(3.7%), however, are disagreed on it.

As shown in the table 4.6 above, 33 (61.1 8%) of the respondents are strongly agree regarding the AB has well-documented CRM Strategy, Policy and Procedures that guide the staffs in their daily activities of managing credit risks. The data obtained from respondents on this issue was good. However, only owning best credit strategy, policy and procedures does not mean everything unless all the important steps i.e. from credit initiation to follow up of loans practiced properly by all concerned bodies.

With regard if Awash bank has established sound CRMS in line with NBE's risk management guideline and directives 44(81.5%) of the respondents strongly agree while 10(18.5) individual simply agree with the statement. The bank gets the highest point in this regard.

Likewise, the refection of respondents on AB has suitable Organizational structure that enables employees to undertake effective Risk Management System and practice,18 (33.3%), 16(29.7%) agreed and strongly agreed respectively while the remaining 20(37%) disagreed.

With regard to other important supplementary works that helps minimize the credit risk management i.e. if there is adequate deposit mobilization and fund utilization in awash bank there have been found 49(90.7%) or significant number of respondent strongly agreed and

5(9.3%) agreed on the existence of such practice. Here the bank gets the highest point as it discussed in chapter one a bank faces a multiple of risks; to mention some of them one is credit risk and the other is liquidity risk. So, in order to escape the second risk a bank has to work hard in this regard and Awash bank is doing great in deposit mobilization and utilizations as per the result shown in the above table.

But in regard to the Awash Bank has adequate and qualified risk management staffs and expertise, more than half of the respondents 30 (55.6%)reflected that they disagree on the idea which implies the Bank has shortage of adequate risk management professionals. Similarly, the same negative response data was obtained in regard to Awash bank gives adequate and effective Risk Management training for its staffs. Therefore the Bank needs to take a serious remedial action on both recruiting credit risk management experts and credit risk management training development practices.

Finally, (74.1%) respondent strongly agreed in that Awash bank had an overall excellent level of Credit Risk Management system and Practices.

Graphically

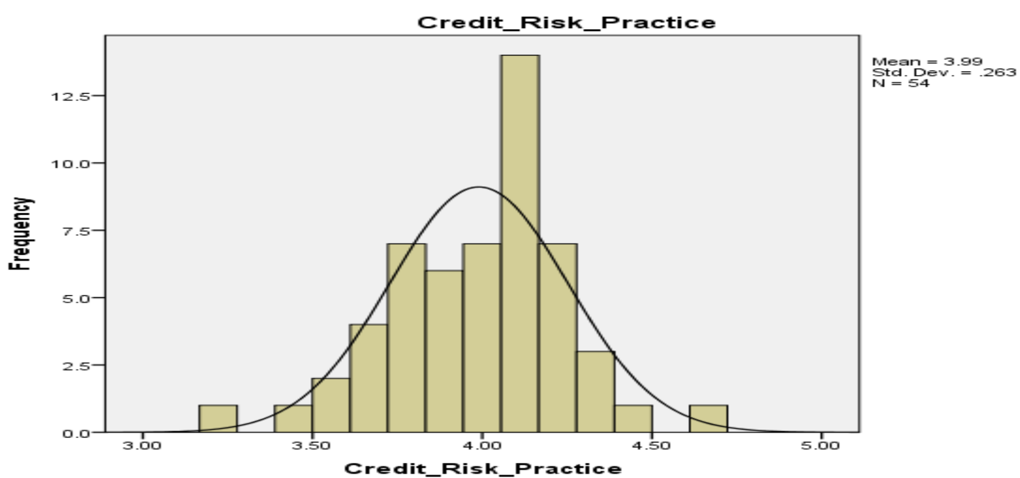


Figure 1 Credit Risk Practice

The standard deviation measures how concentrated the data are around the mean; the more concentrated, the smaller the standard deviation in this regard Awash Bank has a very good credit risk management practices currently. The distribution of the response is concentrated above the average which is above 2.5 and more or less it is packed in the middle.

4.4. Statements Related with the Establishment of an Appropriate Credit Risk Environment

Establishing Appropriate Credit risk environment is preliminary activities of Credit risk management process (Basel, 1999), NBE (Risk management guideline, 2010).

Understanding credit risk strategy, policy and procedures as well as identifying risks are the cornerstone for Credit risk management process. Lack of Common understanding on Credit risk strategy, policies and procedures across the bank may cause inconsistent interpretation and application of Credit policy and procedures across the bank and finally lead to lack of common code of conducting Credit risk management activities among staff and staff also get difficulties to ward identifying Credit risk inherent in all product and activities of bank.

Table 4.4 Respondents Answer on establishment of an appropriate credit risk environment

		Frequency	Percentage (%)	Mean	Standard deviation
Board of directors and management are exercising their power properly to oversight the credit risk management practice of AB.	Strongly Disagree	0	0.0%	4.44	.83929
	Disagree	4	7.4%		
	Neutral	0	0.0%		
	Agree	18	33.3%		
	Strongly Agree	32	59.3%		
	Total	**54**	**100.0%**		
Accountability and responsibility about credit risk management is clearly set out and well understood in AB.	Strongly Disagree	2	3.7%	3.91	1.06874
	Disagree	7	12.9%		
	Neutral	0	0.0%		
	Agree	30	55.6%		
	Strongly Agree	15	27.8%		
	Total	**54**	**100.0%**		
It is important to continuously review and update credit risk management techniques.	Strongly Disagree	0	0.0%	4.65	.48203
	Disagree	0	0.0%		
	Neutral	0	0.0%		
	Agree	19	35.2%		
	Strongly Agree	35	64.8%		
	Total	**54**	**100.0%**		
There is proper identification of Credit Risk inherent in all products and activities of our Bank	Strongly Disagree	3	5.6%	3.94	1.36557
	Disagree	11	20.4%		
	Neutral	0	0.0%		
	Agree	12	22.2%		
	Strongly Agree	28	51.9%		
	Total	**54**	**100.0%**		
There is common understanding about Credit Risk Management Strategy, Policy and Procedures across the Bank.	Strongly Disagree	13	24.1%	2.65	
	Disagree	21	38.9%		
	Neutral	0	0.0%		
	Agree	12	22.2%		
	Strongly Agree	8	14.8%		
	Total	**54**	**100.0%**		
Credit Risk management strategy, Policies and Procedures are consistently applied in all Credit product and activities of the bank.	Strongly Disagree	3	5.6%	2.74	
	Disagree	26	48.1%		
	Neutral	11	20.4%		
	Agree	10	18.5%		
	Strongly Agree	4	7.4%		
	Total	**54**	**100.0%**		
The credit policy of the bank has helped a lot in containing possible credit risk in AB.	Strongly Disagree	1	1.9%	3.67	
	Disagree	9	16.7%		
	Neutral	10	18.5%		
	Agree	21	38.9%		
	Strongly Agree	13	24.1%		
	Total	54	100.0%		

Source: Own Survey, 2020

As per the study conducted by Atikilt (2015) the result shows that Ethiopian Commercial Banks highly deviate from applying the four important principle of Basel committee. However, in this paper all the grand mean score have a highest point.

In details table 4.7revealed that respondents more than half of respondents 59.3% strongly agree while 33.3% of the respondents agreed on the pre-identified factor whether the Board of directorates and managements are exercising their power properly to oversight the credit risk management or not. With the same fashion accountability and responsibility about credit risk management is clearly set out and well understood in AB 55.6% and 27.8% of respondents agree and strongly agree respectively. With regard the importance of Credit risk management techniques is being continuously reviewed and updated 64.8% and 35.2% of respondents were found to be strongly agreed and agree respectively. The same positive response was recorded for proper identification of Credit Risk inherent in all products and activities of Awash Bank.

In regard to common understanding about Credit Risk Management Strategy, Policy and Procedures across the Bank, 24.1% strongly disagree, 38.9% disagree, 22.2% agree and 14.8% strongly agree. This indicates that there a shortcoming in making common understanding. Thus, the Bank needs to work on it.

Similarly, the Credit Risk management strategy, Policies and Procedures are not consistently applied in all Credit product and activities of the bank as there was recorded a more than half negative responses’ of 48.1% and 5.6 % for strongly disagree and disagree respectively.

Thus, in terms of exercising power and taking responsibilities the board of directors and managements of the bank are acting energetically. Similarly, in terms of continuously reviewing and updating credit risk management techniques, identification of credit risk and benefiting from credit policy the respondents react in a positive ways. Conversely, there is poor understanding of CRM strategy, policy and procedures across the bank and poor application of it.

Hence, overall the majority of the participants gave positive response on the establishment of appropriate Credit risk environment atAwash bank

Graphically:

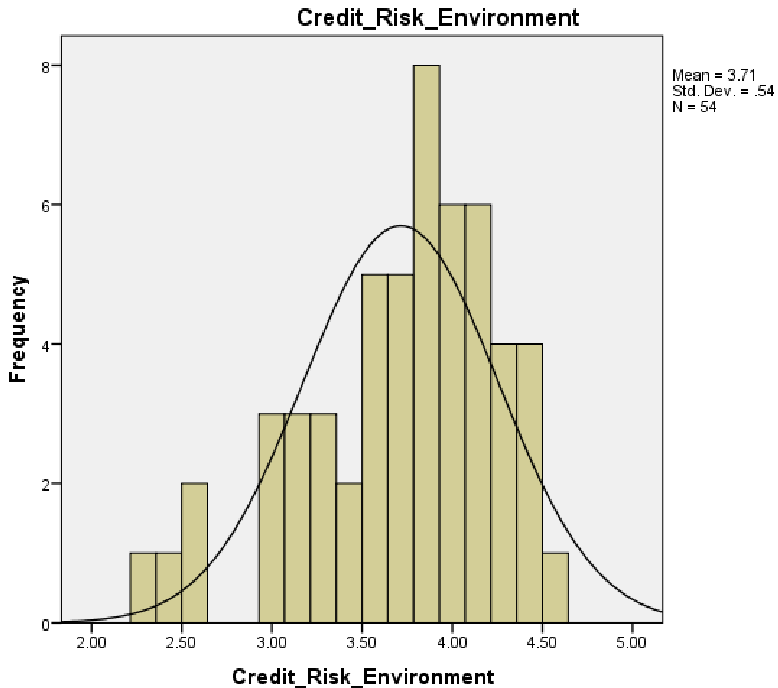


Figure 2 Credit Risk Environment

The standard deviation measures how concentrated the data are around the mean; the more concentrated, the smaller the standard deviation. So, in this regard the standard deviation concentrated around the mean with SD (0.54) and the distribution of the response is minimal.

4.5. Statements related with a sound credit granting process

Operating under a Sound Credit granting process is the Basis for an effective Credit risk management process under which feasible and creditworthy client is identified.

Table 4.5 Respondents answer on operating under a sound credit granting process

		Frequency	Percentage (%)	Mean	Standard Deviation
There is credit policy and procedure with clearly stated credit granting criteria in the bank.	Strongly Disagree	0	0.0%	4.61	.49208
	Disagree	0	0.0%		
	Neutral	0	0.0%		
	Agree	21	38.9%		
	Strongly Agree	33	61.1%		
	Total	54	100.0%		
There is independent risk management policy and procedure from credit policy and procedure in your Bank.	Strongly Disagree	0	0.0%	4.94	.23121
	Disagree	0	0.0%		
	Neutral	0	0.0%		
	Agree	3	5.6%		
	Strongly Agree	51	94.4%		
	Total	54	100.0%		
There is optimal diversification of its credit exposure to different economic sectors and geographical area.	Strongly Disagree	17	31.5%	2.48	1.45032
	Disagree	19	35.2%		
	Neutral	0	0.0%		
	Agree	11	20.4%		
	Strongly Agree	7	13.0%		
	Total	54	100.0%		
The bank checks the borrower history before granting loans.	Strongly Disagree	0	0.0%	4.48	.77071
	Disagree	3	5.6%		
	Neutral	0	0.0%		
	Agree	19	35.2%		
	Strongly Agree	32	59.3%		
	Total	54	100.0%		
Credit granting approval process establishes accountability for decision taken.	Strongly Disagree	9	16.7%	3.57	1.63224
	Disagree	11	20.4%		
	Neutral	0	0.0%		
	Agree	8	14.8%		
	Strongly Agree	26	48.1%		
	Total	54	100.0%		
The bank properly assessed the customer ability to meet obligation.	Strongly Disagree	1	1.9%	3.94	1.30914
	Disagree	13	24.1%		
	Neutral	2	3.7%		
	Agree	10	18.5%		
	Strongly Agree	28	51.9%		
	Total	54	100.0%		
It is very important to establish a comprehensive credit limit in the bank.	Strongly Disagree	27	50.0%	2.13	1.40143
	Disagree	11	20.4%		
	Neutral	2	3.7%		
	Agree	10	18.5%		
	Strongly Agree	4	7.4%		
	Total	54	100.0%		

Source: Own Survey, 2020

The credit policy and procedure with clearly stated credit granting criteria in the bank is found to be more than half of 61.1% strongly agree and 38% agree responded answers. This indicates that AB credit granting process is clearly stated. In line with this almost all respondents, 94% strongly agree that the Bank has independent risk management policy and procedure implies the Bank is in good position to minimize its risk. But in diversifying its credit to different economic sectors is found to 35% disagree and 31.5% strongly disagree that the Bank needs to work more to reach to its optimal diversification level.

In regard to checking borrower's history before granting loan the bank has appreciable practice that is 59% strongly agree and 35% agree on it.

Similarly, with regard to taking responsibility on decision taken on credit granting approval process 48% of the respondent strongly agreed and in relation with proper assessment in order to identify the perfect customer 52% of the participant strongly agreed on this principle importance.

In the issue of Awash bank establish a comprehensive credit limit, 50% of respondents strongly disagree which implies that AB has no credit limit.

Generalizing, from the analysis, the bank is operating under a sound credit granting process with the exception of not establishing a comprehensive credit limit and unable to diversify the credit risk exposure of the bank.

Graphically:

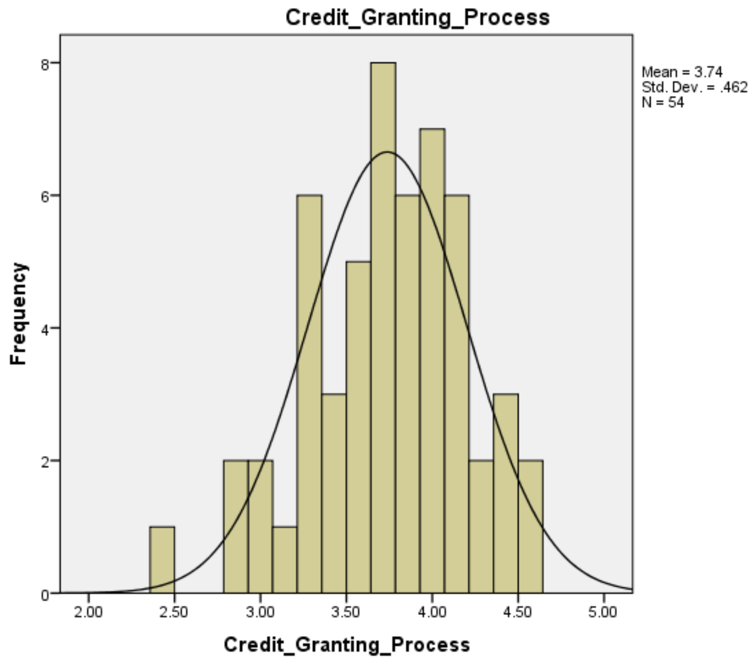


Figure 3 Credit Granting Process

The standard deviation measures how concentrated the data are around the mean; the more concentrated, the smaller the standard deviation. So, in this regard the standard deviation concentrated around the mean with SD (0.462)

4.6. Statement related to maintaining an appropriate credit administration, measurement and monitoring process

Proper administration of Credit documentation as well as monitoring the status of borrowers, loan term and conditions and collateral coverage periodically as well as keeping Credit file up to date and repayments continuously are the basic post Credit approval activities of Credit risk management process that help to discover mistake at early stage while management information system and internal risk rating are the main ingredient for monitoring, reporting and controlling risks.

Table 4.6 Respondents Answer on maintaining an appropriate credit administration, measurement and monitoring process

		Frequency	Percentage (%)	Mean	Standard deviation
The bank has well-structured documentation tracking system for credit and collateral files.	Strongly Disagree	21	38.9%	2.20	1.33713
	Disagree	19	35.2%		
	Neutral	0	0.0%		
	Agree	10	18.5%		
	Strongly Agree	4	7.4%		
	Total	54	100.0%		
The process of credit administration is performed independently of individual involved in approval of the credit.	Strongly Disagree	0	0.0%	4.28	.45211
	Disagree	0	0.0%		
	Neutral	0	0.0%		
	Agree	39	72.2%		
	Strongly Agree	15	27.8%		
	Total	54	100.0%		
The bank regularly undertake stress testing on overall credit Portfolio	Strongly Disagree	10	18.5%	2.87	1.44126
	Disagree	19	35.2%		
	Neutral	3	5.6%		
	Agree	12	22.2%		
	Strongly Agree	10	18.5%		
	Total	54	100.0%		
The bank monitor the business of client after granting credit on regular bases	Strongly Disagree	36	66.7%	1.94	1.44610
	Disagree	3	5.6%		
	Neutral	0	0.0%		
	Agree	12	22.2%		
	Strongly Agree	3	5.6%		
	Total	54	100.0%		
The bank quantify its credit risk at individual and portfolio level	Strongly Disagree	2	3.7%	4.00	1.25893
	Disagree	10	18.5%		
	Neutral	0	0.0%		
	Agree	16	29.6%		
	Strongly Agree	26	48.1%		
	Total	54	100.0%		
Credit risk assessment and monitoring is done regularly in AB	Strongly Disagree	1	1.9%	3.94	1.30914
	Disagree	13	24.1%		
	Neutral	2	3.7%		
	Agree	10	18.5%		
	Strongly Agree	28	51.9%		
	Total	54	100.0%		
There is a well-structured internal risk rating system in AB.	Strongly Disagree	9	16.7%	3.56	1.62140
	Disagree	11	20.4%		
	Neutral	0	0.0%		
	Agree	9	16.7%		
	Strongly Agree	25	46.3%		
	Total	54	100.0%		

Source: Own Survey, 2020

Form the table 4.9 it can be explained that more than half of respondents, 74% disagree on the bank has well-structured documentation and loan tracking system for credit and collateral files that infers the Bank has a problem of loan tracking and customer file documentation system.

Table 4.9 above Presents also how the respondents reacted on credit administration is performed independently of individual involved in approval of the credit. 72.2% and 27.8% of respondent rate on the existing reaction measurement agree and strongly agree respectively. This significantly shows that credit administration is performed independently.

In order to know whether the bank identify its risk properly the researcher raised a statement awash bank quantify its credit risk at individual and portfolio level. Consequently 48.1% responded strongly agreed while 29.6% agreed.

Both in regularly undertaking stress testing on overall credit portfolio and monitoring clients business on regular bases, respondents reacted negatively (disagree) with the rate of 53.5% and 72% respectively. This directs that AB must regularly undertake portfolio stress testing and customer business monitoring inorderto minimize credit risk.

But as overall, the Bank regularly done credit risk assessment monitoring and has well structure internal risk rating system due to the fact that 52% and 46.3% of respondents reflected strongly agree on both respectively.

Graphically:

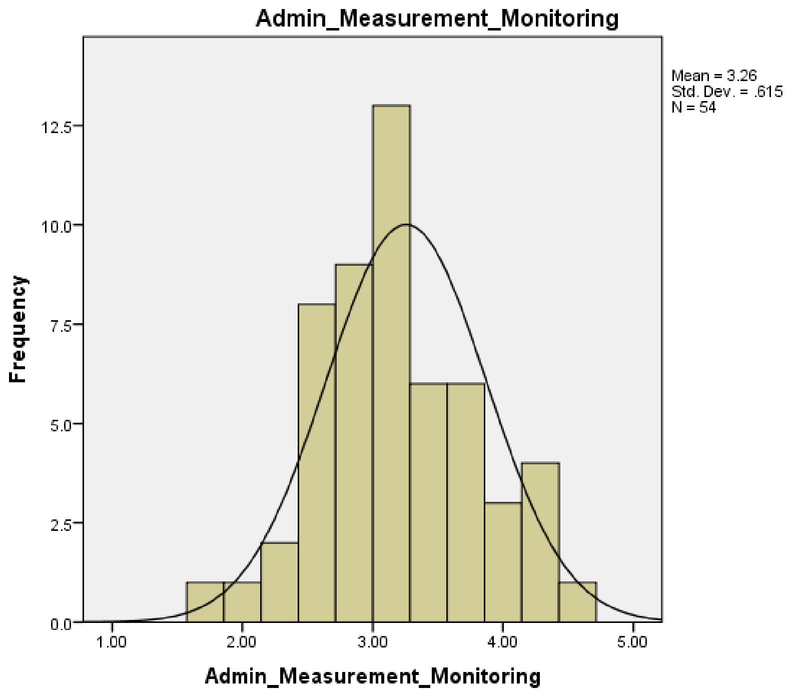


Figure 4maintaining an appropriate credit administration, measurement and monitoring process

From the above graph it can be clearly seen that the response from the 5 point scale it is a little bit polarized because the standard deviation is the highest one with SD (0.615).

4.7. Statement related with ensuring adequate controls over credit risk

Table 4.7 Respondents Answer on ensuring adequate controls over credit risk

		Frequency	Percentage (%)	Mean	Standard deviation
Awash bank periodically prepares credit quality report for warning sign loan loss in any portfolio.	Strongly Disagree	5	9.3%	3.2	1.34182
	Disagree	11	20.4%		
	Neutral	3	5.6%		
	Agree	20	37.0%		
	Strongly Agree	15	27.8%		
	Total	54	100.0%		
Awash bank has appropriate criteria for credit classification, provisioning and writes off.	Strongly Disagree	0	0.0%	4.6	.48203
	Disagree	0	0.0%		
	Neutral	0	0.0%		
	Agree	19	35.2%		
	Strongly Agree	35	64.8%		
	Total	54	100.0%		
The bank has loan recovery policy, procedure and techniques that clearly set out how problem credits are to be managed.	Strongly Disagree	10	18.5%	3.4	1.56034
	Disagree	9	16.7%		
	Neutral	3	5.6%		
	Agree	13	24.1%		
	Strongly Agree	19	35.2%		
	Total	54	100.0%		
Adequate measures are put in place to recover nonperforming loans	Strongly Disagree	5	9.3%	3.5	1.12714
	Disagree	9	16.7%		
	Neutral	0	0.0%		
	Agree	37	68.5%		
	Strongly Agree	3	5.6%		
	Total	54	100.0%		
The bank's top managements have strong commitment toward controlling default risk	Strongly Disagree	2	3.7%	4.1	1.07575
	Disagree	2	3.7%		
	Neutral	10	18.5%		
	Agree	14	25.9%		
	Strongly Agree	26	48.1%		
	Total	54	100.0%		
The Bank keeps its Actual risk profile at or below its risk tolerance /appetite.	Strongly Disagree	1	1.9%	4.3	1.30914
	Disagree	13	24.1%		
	Neutral	2	3.7%		
	Agree	10	18.5%		
	Strongly Agree	28	51.9%		
	Total	54	100.0%		
Bank should establish management information systems and analytical techniques that enable management to measure the credit risk inherent in all on- and off-balance sheet activities	Strongly Disagree	9	16.7%	3.5	1.59883
	Disagree	11	20.4%		
	Neutral	0	0.0%		
	Agree	11	20.4%		
	Strongly Agree	23	42.6%		
	Total	54	100.0%		

Source: Own Survey, 2020

From the above table 4.10 on whether Awash bank periodically prepares credit quality report for warning sign loan loss in any portfolio or not, large number of employees (37%) showed their agreement and 27.8% strong agreed with the idea. Out of the total respondents, 5.6% said that they were not sure and 9.3% of them said they strongly disagreed with the idea the remaining 20.4% disagreed. This shows that AB periodically prepares credit quality report warning sign loan loss in any portfolio even though is not to its best level.

Almost more than half of the respondents (64.8%) strongly agreed and 35.2% were agreed on Awash bank has appropriate criteria for credit classification; provisioning and writes off. According to the data gathered, it showed that there was marvelous performance on this idea.

As the above table depicts that strongly disagreed,10 (18.5%), disagreed 9 (16.7%), neutral 3 (5.6%),agreed 13 (24.1%) and the remaining strongly agreed19(35.2%).The respondents reflected that the bank has loan recovery policy, procedure and techniques that clearly set out how credit problems are managed.

Under adequate measures are put in place to recover nonperforming loans illustrates that 5(9.3%), 9 (16.7%), 0(0.0%), 37 (68.5%), and the remains 3 (5.6%) of the respondents reflected that adequate measures are put in place to recover nonperforming loanswas strongly disagree, disagree, not sure, agree and strongly agreed respectively.

In relation to the bank's top managements strong commitment toward controlling default risk, 2(3.7%), 2(3.7%), 10(18.5%), 14(25.9%), and 26(48%), of the employees responded strongly disagree, disagree, neutral, agree and strongly agree on the idea. This describes that the top management is committed to recover NPLs even though it needs much more to do still as far as some respondents showed their disagreement and neutrally remained.

A similar records to some extent have been analyzed on whether the Bank keeps its Actual risk profile at its below risk tolerance /appetite and above 51.9% strongly agree on the existence of such practice.

Graphically:

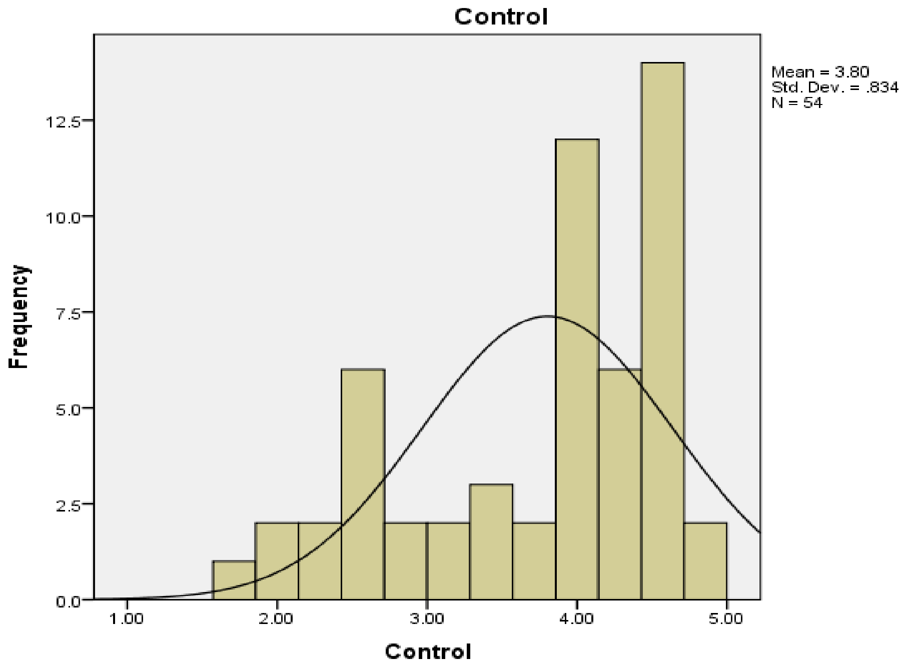


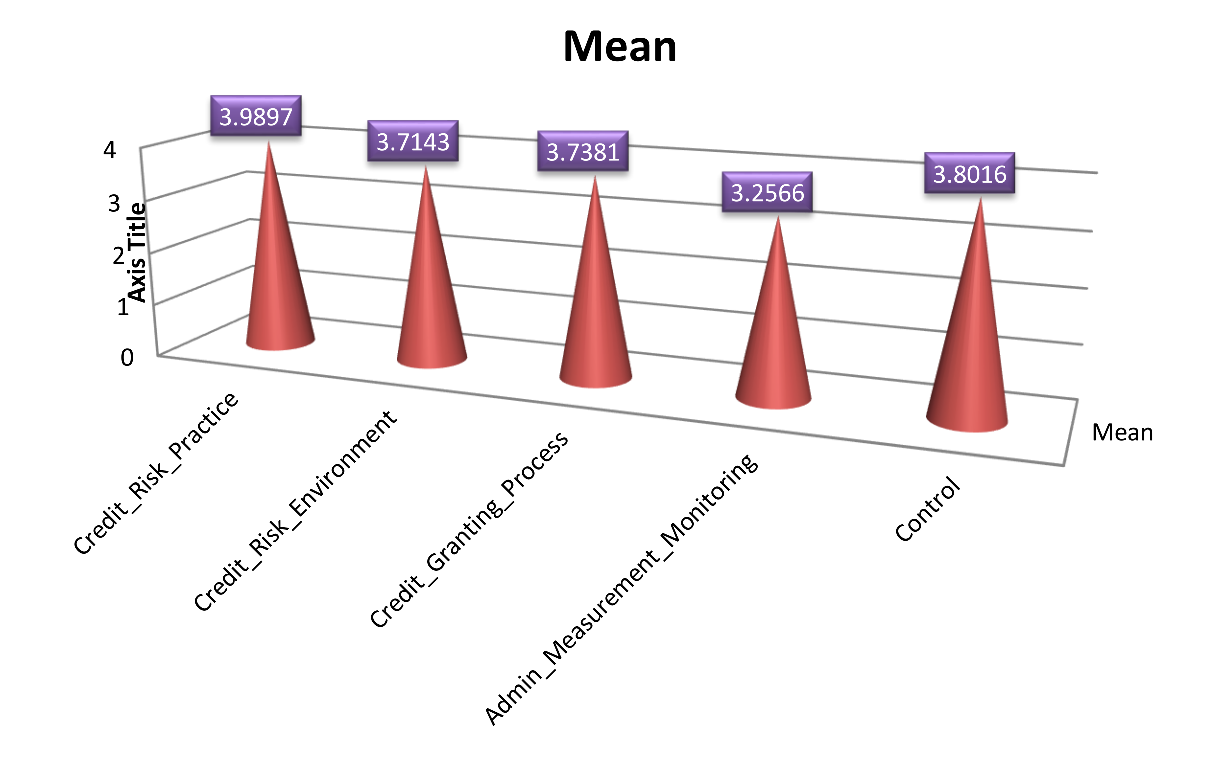
Figure 5 Ensuring adequate controls over credit risk

From the above graph it can be clearly seen that the response from the 5 point scale it is highly polarized because the standard deviation is the highest one with SD (0.615).

In summary of the questionnaire results

Variables	N	Mean
1. Credit Risk Management Practice	54	3.9897
2. Establishing an Appropriate Credit Risk Environment	54	3.7143
3. Sound Credit Granting Process	54	3.7381
4. Maintain Appropriate Administration, Measurement and Monitoring	54	3.2566
5. Ensuring Adequate Controls Over Credit Risk	54	3.8016

Graphically:



	Credit_Risk_Practice	Credit_Risk_Environment	Credit_Granting_Process	Admin_Measurement_Monitoring	Control
Mean	3.9897	3.7143	3.7381	3.2566	3.8016

Figure 6 Summary of the variables

4.8 Secondary data Analysis

Table 4.11Loan outstanding of awash bank for five sequential years (in thousands of birr)

Years	2015	2016	2017	2018	2019
Domestic trade services	3,468,572	4,472,319	7,090,562	8,301,432	12,640,452
export	2,120,723	2,985,528	4,214,222	7,095,734	9,356,944
Building &construction	2,042,457	2,257,871	3,639,281	5,561,160	9,485,443
import	1,817,771	2,133,039	3,231,907	3,362,090	5,045,462
manufacturing	1,423,639	1,668,099	1,819,311	3,336,740	5,087,440
Transport	760,874	923,802	1,526,401	1,902,971	2,116,646
Personal	315,097	451,693	299,206	476,645	1,950,602
Merchandise	234,611	182,330	136,494	131,894	81,723
Agriculture	113,643	130,637	110,680	121,529	116,358
Other			577,811	1,014,026	1,381,002
Nonperforming loan	184,650	245,456	437,163	582,880	628,405
Total loan	**12,482,040**	**15,450,777**	**22,645,875**	**31,304,221**	**47,262,072**
Provision	217,063	235,725	252,049	255,163	406,992

Source: own survey 2020

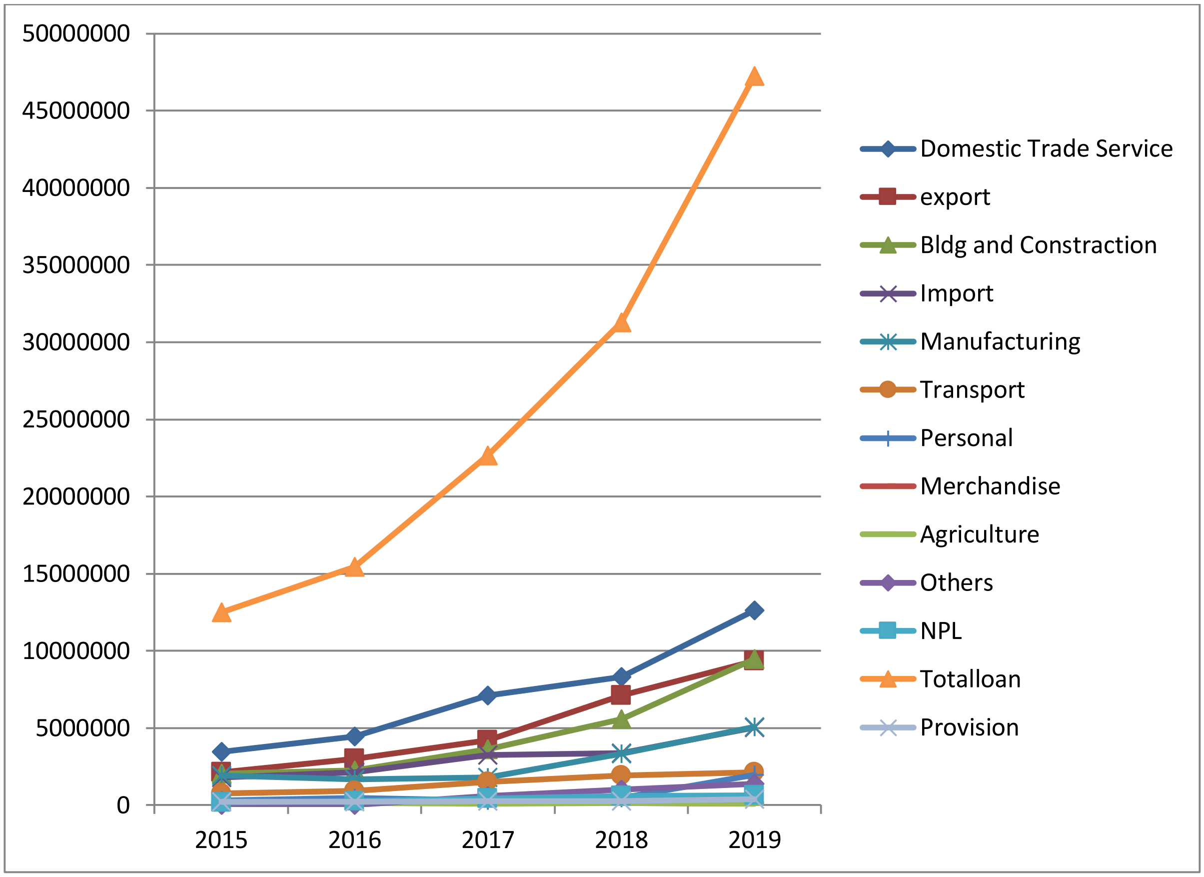


Figure 7Loan outstanding of awash bank for five sequential years (in thousands of birr)

From the above graph what we can deduce is the loan giving capacity of awash bank is increasing from time to time and that is good. However, the danger is almost more than two third of the total loan is concentrated on Domestic trade and service, Export and Building and construction loan sectors and this might bring a concentration risk for the bank. In addition to that the bank is not respecting the NBE directives, the bank credit policy and procedure and also the international accepted principles with regarding such risks.

4.9Statement related with best practice for management of credit risk

The researcher wanted to use as a benchmarking is the central bank of Malaysia (BANK NEGARAMALAYSIA).The Bank has further strengthened its financial stability framework and governance arrangements in the management of financial stability over the 10-year period. The regulation and supervision of financial institutions during this decade has become more risk-focused and pre-emptive to reflect the nature, size and complexity of different institutions.

This has been accompanied by a significantly more pronounced focus for the effective oversight of financial institutions by boards and senior management.

The management of system-wide risks to financial stability has also been strengthened, with improved data and information, enhanced tools and methodologies, closer inter-agency and regional cooperation, and expanded financial stability powers.

The following ten best practices can be break in to four and can be part of the sound practices of credit risk management by Basel committee on bank supervision which is shown in the literature. According to bank of Negara Malaysia best practice guideline for managing credit risk is as follows (BANK NEGARA MALAYSIA (September, 2001)):

- The BOD is expected to adopt a supervisory role and be responsible for ensuring that adequate risk management processes are in place.
- The credit approving function should be performed by full time executive personnel or committee comprising of such.
- The BOD need to have veto power to reject or to modify loans.
- Banking institutions are required to set up a committee to specifically assist the BOD in overseeing the credit risk management process.
- Banking institutions are required to have a product evaluation program, which requires all new credit products to be signed off by all relevant departments affected by the product and approved by the committee or BOD.
- Banking institutions are requires to develop appropriate credit grading systems.
- Banking institutions are required to ensure that personnel involved in credit appraisal, credit approval and credit review are subject to common training programs, pass a common test and receive certification from accredited bodies or individual acknowledged by the BOD before being eligible to approve a credit proposal.
- Banking institutions are required to have an independent credit review department/ unit.
- Banking institutions are required to conduct stress analysis at least once every six months.
- Banking institutions are required to set an internal limit on single customer exposure.
- Banks are required to assess credit based primarily on repayment capacity rather than on collateral, which should be secondary.

Based on from the above best practices and from the open ended questions responses Awash bank implement some of it and miss the following best practices for management of credit risk.

- The Bank entirely depends on collateral instead of looking to the repayment capabilities of the borrowers.
- Under the international principles, domestic standards and the bank’s policies and procedures it demands to diversify or limit its credit exposures to different individuals, economic sectors and geographical area. However Awash bank misses this important practice.
- In order to have an effective credit risk management practice the Board of directors must be sure those staffs who work in the credit and risk area should have adequate training; however it is a very weak in this regard in awash bank.
- Similarly, in awash bank even though all the staffs have first and second degree, however in terms of competence they are weak.

CHAPTER FIVE

Summary, Conclusions and Recommendation

The thesis has sought to attain the main objectives of assessing the credit risk management practice at Awash Bank. This chapter has three parts. It begins with the discussion of key findings of the research from the data analysis and interpretation of the collected data, followed by conclusions derived from the findings of the research and finally recommendations drawn to address the identified issues.

Therefore; in this chapter the researcher summarizes the major findings with regard to the research objectives, concludes and recommends as per the data analysis result and secondary data gathered.

5.1 Summaries of major findings

Back ground information of the respondent revealed that the bank is in good position in terms of having qualified manpower and experienced staffs as all staff who are working on credit and risk related issue have at least BA degree and above as well as 100% have a work experience of above 5 years.

The mean finding with regard to the assessment of the credit risk management practice of the bank revealed that, Awash Bank has very good risk management practice with a mean score of 3.99. The score from 1 strongly agree to Strongly Disagree, all the parameters of risk management practice assessment have a score value above2.56, i.e., relatively poor results were found in two parameters. These are:

- The Bank is not giving a serious attention to adequate risk management professionals and training developments with a mean score 2.56 since the study depicted that more than half of the respondents 30 (55.6%) reflected negatively.
- Awash bank has adequate and qualified risk management staff and expertise found the second least score in this variable with a mean score of 2.67.

Concerning with the establishment of an appropriate credit risk environment different questions were provided to respondents to rate their level of agreement to a five level Likert scale.

According to the summary of the finding of the study a mean score of 3.71 were found in favor of positive agreement to the issue. In these variable two parameters found unsatisfactory result with regard to the prevalence of common understanding about the credit risk management strategy, policy and procedure across the bank and its consistent application in all credit products and activities of the bank.

With regard to sound credit granting process a total mean score of 3.74 is found. An unsatisfactory responses were recorded on 'Diversification of credit exposure to different economic sectors and geographical areas' and 'the importance of establishing a comprehensive credit limit' both receive 2.48 and 2.13 respectively; which is below the mean score of 2.5. a very high score of 4.99 is found with the parameter the importance of having independent credit risk management policy.

On the issue of maintaining an appropriate credit administration, measurement and monitoring the bank have scored 3.26. This value is relatively lower compared to the other measure variables. From the overall study parameters the first and the third least mean scores were found in this variable. Accordingly 'the bank monitor the business of client after granting credit on regular base' and 'the bank has well-structured documentation tracking system for credit and collateral files' has got a mean score of 1.94 and 2.20 respectively.

Finally, Majority of the respondents perceive that the bank has adequate credit risk control with a mean(3.8).In all the parameters that were used to measure adequate controls over credit risk has got better scores towards agreements.

From the secondary data analysis it is found that though, the loan giving capacity of awash bank is increasing from time to time however, the danger is almost more than two third of the total loan is concentrated on Domestic trade and service, Export and Building and construction loan sectors and this might bring a concentration risk for the bank. In addition to that the bank is not respecting the NBE directives, the bank credit policy and procedure and also the international accepted principles with regarding such risks.

On the matter of what the bank understudy lack most against the best practice/bench mark/ taken from Central Bank of Malaysia; huge dependency on collateral instead of looking to the business of the borrowers, lack to diversify or limit its credit exposure, lack of continuous staff training, and finally the bank only concentrate on the qualification its staffs they possess instead of rather than checking their competence levels.

5.2 Conclusions

Based on the findings of the study the following conclusions have been drawn with regard to the set of specific objectives. First, credit risk management practice of the bank is in a very good position. Though the scores related to the credit risk practice are average and above average, some parameters like the staffs quality and quantity as well as providing adequate and effective risk management training for the staffs of the bank should be given due attention on time. Therefore, there is a need to improve and enhance credit risk management practice of the Bank by recruiting qualified credit risk professionals and expertise and providing continuous and appropriate training.

Second, the bank is found exerting many efforts towards filling the gaps in methodologies of credit risk management practice against NBE standards and the other international credit risk management conventions like The Basel Committee. To this regard, though interesting results were found in favor of these, there are some areas that should the bank give high emphasis like in maintaining an appropriate credit administration, measurement and monitoring process.

The majority of the participants gave positive response on the establishment of appropriate Credit Risk Environment in the Bank. Therefore, the Bank needs to keep improving by promoting common understanding about credit risk management strategy, policy and procedures across the bank and by applying consistent credit risk management strategy, policies and procedures all over its products.

From this study, it can be concluded that credit granting process and having strong system and standards of risk management have significant impact on the Bank's risk system. Therefore, the Bank needs to keep improving by promoting diversification of its credit exposure to different economic sectors and geographical areas.

The bank has adequate credit risk control in terms of having appropriate criteria for credit classification, provisioning, and write –off, keeping actual risk profile at or below its risk tolerance/ appetite.

Finally, from the study it can be concluded that there are some best practices that are violated or missed by Awash bank; like focusing on collateral instead of the repayment capacity of counterparty, focusing on profitability instead of diversifying and limiting the credit exposure of the bank, and similarly giving much emphasis to qualification or certification instead of looking to their competence.

5.3 Recommendations

Based on the above major findings and conclusions of the paper the researcher forwarded the following recommendation to Awash bank.

Firstly, to have an effective credit risk management practice in the bank one of the most important things that should get precedence ahead of everything is to create a common understanding about credit risk management strategy, policy and procedures across the bank which will help the bank to do its business effectively and efficiently.

Secondly, the management of Awash bank must be sure that the diversification and exposure limit set by NBE is not violated at any time. This is because if the bank is giving its loan carelessly to only few selected geographical areas or economic sector or individual or group of people then the probabilities of credit risk occurrence will definitely increased.

Thirdly, the management of the bank should give more attention to enhance the knowledge or competence of their staffs who work in credit and risk related areas through continuous training programs.

Fourthly, the bank should improve the credit granting process to have sound credit risk management, and strengthen client credit worthiness assessment to minimize credit risk.

Fifthly, the bank should give much emphasis to those best practices missed in the process; like giving focus to the business of the counterparty rather than entirely depending to the collateral they provided.

Lastly, according to this study's assessment of credit risk management practice of Awash Bank against the NBE guidelines and Basel Committee credit risk management principle, it is found to be good but further effort is required in order to have an exceptional credit risk management practice in the Bank.

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Appendix

ST MARY'S UNIVERSITY

DEPARTEMENT OF MASTERS OF BUSINESS ADMINISTRATION

RESEARCH QUESTIONNAIRES

Questionnaires Objectives: This questionnaire is designed to gather valuable information regarding the "**Assessment of Credit Risk management practice of Awash Bank's**" for partial fulfillment of the requirements for Master's Degree in Business Administration. The data collected will be used only for study purpose. Thus, your ideas and comments are highly honored and kept confidential. Writing your name is not required and please put your choice as per the instruction. You are also kindly requested to write your opinion on the space provided for the questions that demands your additional view.

Part One: Background Information

1. Sex

□ Male □Female

2. Educational level

□ 1.Diploma □ 2.First Degree □ 3.Second Degree □ 4.PHD □ other

3. How long have you worked at Awash bank?

□1: Under 1 year □2:1 – 5 years □3: 5 – 10 years □4: Over 10 years

4. Your experience in credit field is:

□1: Under 1 year □2: 1 – 5years □3:5 – 10years □4: Over 10 years

Part Two: Statement designed to assess credit risk management practice of Awash Bank

I. Statement designed to assess whether the Bank complies with credit risk policy of its own and NBE procedures

Please mark to indicate to which degree you agree with the following statements where, 1 – Strongly disagree, 2 – Disagree, 3 –Neutral, 4 – Agree, 5 – Strongly agree

Questions	1	2	3	4	5
1. Establishing and Practicing effective Credit Risk Management system is one of the main objectives of Awash bank.					
2. Success and failure of Awash bank is mostly depends on the					

effectiveness of Credit Risk Management System and Practice.					
3. Awash bank has well-documented Credit Risk Management Strategy, Policy and Procedures that guide the staffs in their daily activities of managing credit risks.					
4. Awash bank has established Sound Credit Risk Management System in line with NBE's risk management guideline and directives.					
5. In Awash Bank there is suitable Organizational structure that enables me to undertake effective Risk Management System and practice.					
6. Awash Bank has adequate and qualified risk management staffs and expertise.					
7. There is adequate Deposit mobilization and fund utilization in Awash bank.					
8. Awash bank gives adequate and effective Risk Management training for its staffs					
9. Overall, I consider the level of Credit Risk Management system and Practices of Awash Bank is to be excellent					

Part Three: Evaluating Awash bank credit risk management practice by Basel committee credit risk management principles and NBERisk management guideline (2010)

I. **Statements designed to assess the establishment of an appropriate credit risk environment for credit risk management practice in AB.**

. Please mark to indicate to which degree you agree with the following statements where, 1 – Strongly disagree, 2 – Disagree, 3 –Neutral, 4 – Agree, 5 – Strongly agree.

Questions	1	2	3	4	5
1. Board of directors and management are exercising their power properly to oversight the credit risk management practice of AB.					
2. Accountability and responsibility about credit risk management is clearly set out and well understood in AB.					
3. It is important to continuously review and update credit risk management techniques.					

4.There is proper identification of Credit Risk inherent in all products and activities of our Bank					
5. There is common understanding about Credit Risk Management Strategy, Policy and Procedures across the Bank.					
6. Credit Risk management strategy, Policies and Procedures are consistently applied in all Credit product and activities of the bank.					
7. The credit policy of the bank has helped a lot in containing possible credit risk in AB.					

II. Statements designed to assess the operation of under a sound credit granting process for credit risk management practice in AB

Please mark to indicate to which degree you agree with the following statements where, 1 – Strongly disagree, 2 – Disagree, 3 –Neutral, 4 – Agree, 5 – Strongly agree

Questions	**1**	**2**	**3**	**4**	**5**
1. There is credit policy and procedure with clearly stated credit granting criteria in the bank.					
2. There is independent risk management policy and procedure from credit policy and procedure in your Bank.					
3. There is optimal diversification of its credit exposure to different economic sectors and geographical area.					
4. The bank checks the borrower history before granting loans.					
5. Credit granting approval process establishes accountability for decision taken.					
6. The bank properly assessed the customer ability to meet obligation.					
7. It is very important to establish a comprehensive credit limit in the bank.					

III. Statement related to maintaining an appropriate credit administration, measurement and monitoring process.

Please mark to indicate to which degree you agree with the following statements where, 1 – Strongly disagree, 2 – Disagree, 3 –Neutral, 4 – Agree, 5 – Strongly agree

Questions	**1**	**2**	**3**	**4**	**5**
1. The bank has well structured documentation tracking system for credit and collateral files.					
2. The process of credit administration is performed independently of individual involved in approval of the credit.					
3. The bank regularly undertake stress testing on overall credit Portfolio.					
4. The bank monitor the business of client after granting credit on regular bases					
5. The bank quantify its credit risk at individual and portfolio level					
6. There is effective system and practice of reporting and communicating risk data among relevant staffs of our bank.					
7. The bank's Credit risk management system and practice has been integrated with appropriate Management Information Systems.					
8. Credit risk assessment and monitoring is done regularly in AB					
9. There is a well-structured internal risk rating system in AB.					

IV. Statement related with ensuring adequate controls over credit risk

Please mark to indicate to which degree you agree with the following statements where, 1 – Strongly disagree, 2 – Disagree, 3 –Neutral, 4 – Agree, 5 – Strongly agree.

Questions	**1**	**2**	**3**	**4**	**5**
1. Awash bank periodically prepares credit quality report for warning sign loan loss in any portfolio.					
2. Customers are often given sufficient training on loan usage.					
3. Awash bank has appropriate criteria for credit classification,					

provisioning and writes off.					
4. The bank has loan recovery policy, procedure and techniques that clearly set out how problem credits are to be managed.					
5. Adequate measures are put in place to recover nonperforming Loans					
6.The bank's top managements have strong commitment toward Controlling default risk.					
7. Credit loss, Loan concentration, large exposure and level of NPL can be reduced if Awash banks' Credit policy, Procedure and Techniques are implemented properly.					
8. The Bank keeps its Actual risk profile at or below its risk tolerance /appetite.					
9. Establishment of a system of independent, ongoing assessment of credit risk management processes is mandatory.					
10. Bank should establish management information systems and analytical techniques that enable management to measure the credit risk inherent in all on- and off-balance sheet activities					

Part four: Statement designed to see what Awash Bank lack most against the best practice /bench mark/ for management of credit risk.

Please give short answers to the following questions

1. What do you think are the best credit risk management practices by Awash Bank?
   a) ______________________________
   b) ______________________________
   c) ______________________________
   d) ______________________________
   e) ______________________________
2. What do you think are the worst credit risk management practices by Awash Bank?
   a) ______________________________
   b) ______________________________

c) ____

d) ____

e) ____

3. What would you recommend to improve Awash Bank's credit risk management practices?

   a) ____

   b) ____

   c) ____

   d) ____

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Please write if you have any valuable suggestion and comment about the Bank' credit risk management practices

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Thank you for your cooperation!!