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RESEARCH TITLE ON: PRACTICE AND CHALLENGES OF NONPERFORMING LOANS IN THE CASE OF WEGAGEN BANK S.C.

BY:

WOSENYELESH TESFAYE G/HAWARIAT

JULY, 2023

ADDIS ABABA, ETHIOPIA

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A THESIS SUBMITTED TO ST.MARY'S UNIVERSITY, SCHOOL OF GRADUATE STUDIES IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION

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APPROVED BY BOARD OF EXAMINERS

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APPROVAL SHEET I

A Research paper Entitled "**Practice and challenges of nonperforming loans in the case of Wegagen Bank S.C.**" has been approved by the Business Administration (Post Graduate) in Partial Fulfillment of the requirements for the Degree of Master of Art in Business Administration.

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ENDORSEMENT

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

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Advisor	Signature
St. Mary's University, Addis Ababa	**Month, Year**

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ABSTRACT

Non-performing loans have been widely used as a measure of asset quality among lending institutions and are frequently related with failures and financial crises in both developed and developing countries. Any financial realities of a bank that result from a direct or indirect advance of funds or commitment to advance funds to a person and are contingent upon that person's obligation to repay the funds either on a specific date or on requests, typically with interest, are referred to be loans. To date, no bank crises have occurred in Ethiopia as a result of non-performing loans, but there is an indicator of significant NPLs in the country, which may lead to that direction if not handled on time. The aim of this study was to assess the major factors that affect non-performing loans financed by Wegagen Bank. The study was obtained from the five (four districts of Wegagen bank representative sites, east, west, north and south districts and head office). Accordingly, 58 representative samples were selected and 56 of them were responded to the questionaries' distributed. 12 interviews were planned and 11 of the interviews were successful. The findings indicated that, poll had a 96.55% response rate, while the interview had a 91.6% success rate. All respondents had more than or equal to five years of credit-related job experience, and interviewers have more than 10 years of credit-related experience on average, in addition to their other banking experiences. The result revealed that, opinions of experienced credit personnel and interview respondents, non-performing loans are an issue in Wegagen bank and can be caused by both internal and external sources. Internal factors such as weak credit analysis, poor credit monitoring, inadequate risk management, lenient credit policy, unfair competition among banks, borrower integrity (loan diversion), poor credit culture, shareholder influence, and high risk appetite. Loan growth and bank size (in terms of deposit and total asset) have no or very little link with the frequency of NPLs. The findings also suggested that non-performing loans had a detrimental impact on bank performance in terms of credit constraint and profitability. It was observed that a rise in non-performing loans reduced bank profitability as well as the amount of credit available to the needy. Despite management's efforts to minimize nonperforming loans, the volume of problem loans continues to grow, even if the ratio appears to be reducing in some of the banks assessed.

Key words: Nonperforming loans, Credit monitoring, Credit analysis, Risk management

CHAPTER ONE

INTRODUCTION

This chapter deals about background of the study; statement of the problem; objectives of the study; significance of the study; scope of the study; limitations of the study; operational definition of key terms, and organization of the study”.

1.1. Background of the Study

Financial institutions are crucial to the growth of a country's economy. The financial sector plays a crucial role in the expansion and development of the economy (Pautwoe & Piabuo, 2017). In addition to other things, banks are often set up to serve the community with a sufficient supply of loans at a competitively determined interest rate. Any financial realities of a bank that result from a direct or indirect advance of funds or commitment to advance funds to a person and are contingent upon that person's obligation to repay the funds either on a specific date or on requests, typically with interest, are referred to be loans (De Bock & Alexander, 2017).

The modern economy cannot be imagined without the usage of loans. Loan is a useful instrument and essential lubricant for a nation's economic development (Abebe, 2019). The quantity of financial resources an organization invests determines its success, especially for commercial enterprises. The backbone of banks is loans. It is crucial to properly mobilize and utilize this important input. Loan management activities are one of the many functions that banks perform, and they are crucial to the economic growth of any nation (Zeleke, 2018).

Due to the inherent risk in the lending industry, certain amounts of losses must be expected. However, significant or persistent loan losses might indicate flaws in loan administration and should be thoroughly examined, particularly when they rise above the threshold for acceptability. The loans and advances will be classified as non-performing loans for a number of reasons. Non-performing loans and advances are defined as loans or advances whose credit quality has declined to the point where the full collection of principal and/or interest in accordance with the contractual repayment terms of the loan or advance is in doubt, according to National Bank of Ethiopia Directive (NBE Directive, 2012). In the example of Wegagen Bank S.C., this research study aimed to identify the reasons behind non-performing loans and will also forwarded possible recommendations based on the findings.

1.2. Statement of the problem

Non-performing loans have been widely used as a measure of asset quality among lending institutions and are frequently related with failures and financial crises in both developed and developing countries (Chimkono, 2016). Despite continued efforts to rein down bank lending, non-performing loans continue to be a key source of worry for both international and domestic regulators. To date, no bank crises have occurred in Ethiopia as a result of non-performing loans, but there is an indicator of significant NPLs in the country, which may lead to that direction if not handled on time (Abebe, 2019). The recent global financial crisis and ensuing recession in many industrialized countries have increased household and firm defaults, resulting in large losses for banks (Zeng, 2012). To ensure a stable financial system and avert systemic crises, regular monitoring of loan quality is required, maybe with an early warning system capable of alerting regulatory authorities of impending bank stress. Prudent risk management, with a focus on credit risk, is critical. Understanding the factors that lead to the development of bad loans is critical for putting in place proper credit management instruments. The occurrence of non-performing loans is influenced by two elements: macroeconomic factors and bank-specific factors (Ejigu, 2015).

Government policy, inflation, currency change, and GDP are examples of macroeconomic factors, while bank-specific factors include interest rates charged by banks, bank size, ownership (state owned and private), integrity issues, credit follow-up weakness, and others studied by many outside researchers. Related papers were made in many countries as stated in knowledge gap but most of them are analyzed on limited factors such as bank size, interest rate and credit monitoring. However, the researcher identified all these bank specific factors as there is evidences of non-performing loans is seen in our country and a significant quantity of nonperforming loans are consistently being reported in the Wegagen bank's annual report. By conducting a comprehensive assessment of these factors, this study aims to contribute to the understanding of NPLs in Wegagen Bank S.C. and assist in formulating targeted policies and practices to mitigate the risks associated with nonperforming loans. The findings of this study will provide insights into improving loan quality, enhancing risk management frameworks, and promoting financial stability for Wegagen Bank S.C.

1.3. Objectives of the study

1.3.1. General Objective

The general objective of this study was to assess the major factors that affect non-performing loans financed by Wegagen Bank.

1.3.2. Specific Objectives

- To identify bank-specific factors affecting Non- performing loans of Wegagen Bank.
- To evaluate major borrower-specific factors that affect Non-performing loans of the Wegagen Bank.
- To suggest to the management the possible methods that they may take to improve the existing conditions of NPL

1.4. Research Questions

1) What are the major bank-specific factors affecting Non-performing loans of Wegagen Bank?
2) What are the major borrower-specific factors that affect Non-performing loans of Wegagen Bank?
3) What policy measures the bank's management that would help improve the NPLs status of Wegagen Bank must undertake?

1.5. Significance of the study

This investigation will help Wegagen Bank in gaining insight into what it takes to improve loan qualities and to assess its policy in banking supervision relevant to ensuring the bank's asset quality is maintained. This research contributes significantly to existing knowledge in the field of factors that create NPLs and their influence on financial performance in the context of Wegagen Bank. This, in turn, adds to the well-being of the economy's financial sector and society as a whole. As a result, the primary beneficiaries of this research are customers, regulatory agencies, the country's academic staff, and society as a whole.

1.6. The scope of the study

It would be better if this research were conducted by considering all branches of Wegagen Bank as well as other Banks. However, since the banking industry is broad, it was difficult and beyond the reach of the researcher, to include all branches of the Wegagen Bank.

Therefore, the study was limited to the case of Wegagen Bank S.C. head office and all districts (south district, north district, west district and east district) in Addis Ababa, Ethiopia. Moreover, the research covers only five years operation, which is from 2010 to 2014. Using the number of employment working on the area, the sample was drawn and the interview was obtained. The research didn’t include all employers working on the area because of budget and time constraint. However, following the scientific protocol, the samples were obtained from all districts and head office.

1.7. Limitations of the Study

Due to the confidential policy of banks, access to customer and banks, information, except officially disclosed financial information, is not possible. The study was limited to bank employees’ personal perception, and some data records of selected Wegagen Bank Branches. Non-availability of some data (number of loan applicant of each branch and number of loan disbursed) from Banks may hinder the quality of the finding. However, the researcher was tried her best to obtain and ensure genuine and adequate data from the respective Branches.

1.8. Operational Definitions

Loans and Advances: According to NBE Directives No SBB/43/2008 sub number 4.6, "Loans" or "Advances" refer to any financial assets of a bank arising from a direct or indirect advance or commitment to advance funds by a bank to a person that are conditioned on the person's obligation to repay the funds, either on a specified date or on demand, usually with interest. There are five categories of standard loan categorization for the system of reporting, follow-up, and provisioning them, according to National Bank of Ethiopia Directive number SBB/43/2008, Asset Classification and Provisioning. According to BIS, the most often used risk classification techniques in various nations are pass, special mention, substandard, doubtful, and loss (NBE, 2010).

Pass – Loans and advances that are entirely shielded by the borrowers' current financial and payment capacity and are not vulnerable to criticism.

Special Mention- Loans and advances with pre-set repayment plans that are 30 days or more past due but less than 90 days. This is equivalent to an overdraft facility if the account is inactive or if interest is due and unpaid for 30 days or more but less than 90 days (NBE Directive, 2012).

Substandard- Loans and advances with pre-established repayment plans that are 90 days past due or more, but less than 180 days, and a similar pattern was followed for the overdraft facility.

Doubtful- Loans and Advances pre-established repayment programs past due 180 days or more, but less than 360 days and uncollected interest for 180 days or more, but less than 360 days (Asfaw et al., 2016)

Loss- Loans and Advances with pre-established repayment programs past due 360 days or more. In the case of overdraft facility, the debt remains outstanding for 360 consecutive days or more beyond the scheduled payment date or maturity (Asfaw et al., 2016)

Non-performing loans: - Non-performing Loans or advances whose credit quality has deteriorated to the point that complete collection of principle and/or interest in line with the contractual repayment terms is in doubt or is due and uncollected for 90 (ninety) days or more beyond the planned payment date or maturity. According to NBE order No SBB/43/2008 sub 4.9, these loans are classified as substandard, doubtful, and loss (NBE Directive, 2012).

1.9. Organizations of the Study

The research paper is organized in five chapters. The first chapter is introduction, which includes background of the study, statement of the problem, basic research questions, objectives of the study, significance of the study, and limitation of the study. The second chapter deals with review of related literature. The third chapter presents details of research methodology, which includes research design, research approaches, source of data, sampling technique and methods of data analysis. The fourth chapter presents Result and discussion which further explained in details the research output. The final and fifth chapter explains the conclusion and possible recommendation of the research and case studies.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

This chapter deals about literature review related to the top: banking industry in Ethiopia, Evidences of non-performing loan like Empirical evidences cross countries, in Africa and Ethiopia, Theoretical concepts, Factors affecting NPL like institution specific factors and theoretical framework of the study.

2.1. Theoretical Review

2.1.1. Banking industry in Ethiopia

Modern banking in Ethiopia began in 1905, with the establishment of the Bank of Abyssinia. The Bank of Abyssinia was established under a fifty-year franchise agreement with the National Bank of Egypt, which was owned by the British, and it operated for approximately twenty-six years before being formally liquidated on August 29, 1931 (Araka et al., 2018). During this time, the Bank of Ethiopia (NBE Directive, 2012) replaced the Bank of Abyssinia.

Bank of Ethiopia was a national bank and one of Africa's first indigenous banks (NBE, 2010). The Bank of Ethiopia was in operation until 1935, when it was forced to close due to the Italian invasion. Many branches of Italian banks were functioning in Ethiopia's biggest town throughout the five years of Italian rule (1936-41).

Following the evacuation of the Italians, on November 30, 1943, the State Bank of Ethiopia was created with a capital of one million Marian Treasury of the Ministry of Finance. The State Bank of Ethiopia, which had acted as both a central and a commercial bank, was dissolved and split into the National Bank of Ethiopia and the Commercial Bank of Ethiopia S.C. under the Monetary and Banking Law of 1963. The National Bank of Ethiopia is in charge of central banking, whilst the Commercial Bank of Ethiopia is in charge of business transactions (normal banking operations) (NBE Directive, 2012). Following the 1974 change of administration and the country's command economic system, the Commercial Bank of Ethiopia S.C. and other banks and financial institutions were nationalized on January 1st, 1975.

The nationalized banks were reorganized into a single Commercial Bank of Ethiopia and two specialized banks: the Agricultural and Industrial Bank (AIB), which was renamed the Development Bank of Ethiopia (DBE), and a Housing and Savings Bank (HSB), which is now known as the Construction and Business Bank (CBB) (NBE, 2010. Following the fall of the Derge government in 1991 and the reorientation of economic policy, financial institutions were reorganized to operate within a market-oriented policy framework (Abate, 2015). As a result, the country established policy and issued a proclamation for operation. The Licensing and Supervision of Banking Business No.84/1994, issued under Monetary and Banking Proclamation No.83/1994, permitted the establishment of private banks, ushering in a new era in Ethiopia's banking sector (Abebe, 2019).

A large number of private banks have been founded as a result of the country's banking legislation being enacted in the 1990s. For example, the first private bank, Awash International Bank, was founded in 1994, and the second, Dashen Bank S.C, was founded in 1995. Bank of Abysinia S.C. was founded in 1996. Wegagen Bank S.C. began operations in 1997. United Bank S.C., the sixth private bank, was founded in 1998. Nib International Bank S.C. was founded in 1999. Cooperative Bank of Oromia S.C. was founded in 2004, Lion International Bank S.C. in 2006, Oromia International Bank S.C. and Zemen Bank S.C. in 2008, Buna International Bank S.C. and Birhan International Bank S.C. in 2009, Abay Bank S.C. in 2010, Addis International Bank S.C. in 2011, and Debub Global Bank S.C. and Enat Bank S.C. In the 2020/2021 fiscal year, the total number of banks already operational in the country reached twenty-nine. Out of these banks, twenty-six were private and the other three were government owned.

2.1.2. Concepts of Non-Performing Loans

Various literatures have defined the idea of non-performing loans. Non-performing loans are defined as defaulted loans from which banks cannot benefit (Abate, 2015). They are loans that cannot be repaid within a time period set forth by a nation's laws. "Non-performing loans" are defined as outstanding credit facilities that are past due for more than 90 days past the agreed-upon repayment period in National Bank of Ethiopia (NBE) Directive No. SSB/43/2008. Non-performing loans are also defined as loans that are ninety or more days behind on interest and/or principal payments or loans that are classified as substandard, doubtful, or loss as collections of unpaid loans (NPL) (Segal et al., 2022).

2.1.3. Factors Affecting Non Performing Loan

2.1.3.1. Macroeconomic factors

A significant amount of the literature suggests a connection between the stages of the business cycle and banking stability. Macroeconomic stability and soundness of the banking system are inextricably intertwined (Asfaw et al., 2016). Economic theory and other evidence clearly suggest that macroeconomic instability is linked to financial and banking market volatility, and vice versa. In the literature that links the stage of the business cycle with banking stability, the relationship between the macroeconomic environment and loan quality has been examined (Araka et al., 2018). In this line of research, the notion is put up that there are relatively few non-performing loans (NPLs) during the expansion phase of the economy since both consumers and businesses have enough income and revenues to pay off their debts. Credit is given to lower-quality debtors as the boom era goes on, though, and as a result, when the recession phase begins, NPLs rise (Carlo Msigwa, 2013). Inferring a speedy transmission of macroeconomic trends to the capacity of economic agents to service their loans, (Carlo Msigwa, 2013) claim that GDP growth has a large negative contemporaneous influence on the NPL ratio. Other macroeconomic factors, besides GDP growth, such unemployment and interest rates, have an impact on households and businesses and are related to the NPL ratio. More specifically, a higher unemployment rate ought to have a negative impact on household cash flow and add to debt loads. Increases in unemployment may indicate decreased production by businesses due to a decline in effective demand (Asfaw et al., 2016). This could result in a drop in revenue and a precarious debt situation. In the case of floating rate loans, the difficulty of debt payment is impacted by interest rate. This suggests that the impact of the interest rate should be favorable, and as a result, a greater number of NPLs should occur from the increased debt load brought on by rising interest rate payments

The choice of GDP, unemployment and interest rate as the primary determinants of NPLs may also be justified from the theoretical literature of life-cycle consumption models. (Araka et al., 2018) examines such a model and introduces explicitly the probability of default, explained earlier. The model implies that borrowers with low incomes have higher rates of default. This is explained by their increased risk of facing unemployment and being unable to pay. Additionally, in equilibrium, banks charge higher interest rates to riskier clients. Macroeconomic instability would have consequences for the loan quality of banks in any country (Abebe, 2019). Due to its unpredictable nature and the fact that it frequently results in a significant degree of variability in the rates of price growth of the specific items and services that make up the overall price index, high inflation makes corporate earnings more volatile (Abate, 2015; Abebe, 2019). Both the likelihood that businesses will experience losses and the likelihood that they will experience windfall profits are increasing. Studies on banks in many economies also show the relationship between loan defaults and macroeconomic variables including unemployment, inflation, and interest rates. In general, macroeconomic volatility has a negative impact on the banking industry and the financial sector as a whole, which contributes to non-performing loans (Long et al., 2020).

2.1.3.2. Bank specific factors that affect NPL

Banks face a risk of borrower default due to the nature of their business. According to (Chimkono, 2016), a large portion of the bad debts were caused by moral hazard, which created disincentives for bank owners to use risky lending practices, particularly insider lending and lending at high interest rates of interest offered to borrowers in the riskiest areas of the credit markets. He noted further that the high interest rates charged to borrowers who were involved in high-risk sectors of the credit market were the second significant factor contributing to bank failure. This featured some moral hazard on the part of the banks and their borrowers, as well as the borrowers being unfairly chosen.

The loan-loss rate and internal characteristics including high interest rates, excessive lending, and volatile finances have a considerable positive association, according to (Biru, 2021). Additionally, (Ming-Chang Cheng et al., 2016) found a significant correlation between loan growth and defective assets. He specifically demonstrates the link between rapid loan expansion and laxer credit criteria.

According to (Asfaw et al., 2016; Carlo Msigwa, 2013), market power, bank size, rapid credit expansion, and capital ratio all contribute to volatility in NPLs. According to (Asfaw et al., 2016), the NPLs of commercial banks in India are highly impacted by favorable macroeconomic conditions (measured by GDP growth) and financial characteristics including maturity, cost and terms of loan, bank size, and credit orientation. Additionally, according to (Carlo Msigwa, 2013), major predictors of NPLs include the real interest rate, net interest margins, and interbank loans. In a more recent study, (Chimkono, 2016) examined the connection between non-performing loans (NPLs) and the ownership structure of commercial banks and discovered that banks with larger government ownership had less NPLs. Banks should employ a variety of measures to spot potential loan problems early on. When the banking industry has a robust institutional and legal structure, regulation and monitoring will be successful. Due to this, most nations must impose stringent regulations on loans that are not performing. (Oynaka, 2019) asserts that in order to implement systems that aid in spotting early warning indicators, it is necessary to look at the underlying causes of loan default.

2.2. Empirical Review

2.2.1. Evidences of Non-Performing Loan

2.2.1.1. Empirical Evidences

Evidence that identifies the key causes of nonperforming loans is presented in this section. Due to their importance in the failure of the bank, many academics have studied the factors that contribute to nonperforming loans (NPLs). Accordingly, the first subsection lists the variables influencing non-performing loans internationally. The second subsection provides an analysis of earlier studies on the causes of non-performing loans in Africa and the most recent empirical data from Ethiopia.

2.2.1.2. Evidences Cross Countries

Using data from 26 advanced economies, (Nkusu, 2018) examined the relationship between nonperforming loans and macroeconomic performance by using macroeconomic variables and taking in to account empirical specification specifically GDP growth, unemployment, changes in the equity and home price indices, inflation, nominal effective exchange rates, and policy rates of interest. He reported that a link between rising non-performing loans in industrialized nations and bad macroeconomic performance, such as slower GDP growth, increased unemployment, or falling asset prices.

(De Bock & Alexander, 2017) used solely aggregate macroeconomic and credit data when analyzing the factors influencing bank asset quality in 25 emerging nations between 2010 and 2015. According to their findings, the primary factors influencing the amount of non-performing loans in the nations under study are the GDP growth rate, currency rates, and loan growth. In their analysis of the determinants of non-performing loans the case of the Eurozone, (Vasiliki Makri, 2014) found that the rate of non-performing loans from the previous year, the capital ratio, and ROE appear to exert a significant influence on the non-performing loans rate. Their findings largely agree with bank-specific variables.

However, from a macroeconomic standpoint, public debt, GDP, and unemployment appear to be three additional elements that influence the NPL index, demonstrating that the health of the economies of Eurozone nations is unmistakably correlated with the quality of their loan portfolios. Factors affecting NPL in banking sector, as reported by (Ming-Chang Cheng et al., 2016), the impact of government policies on the ratio of non-performing loans (NPLs) at domestic banks and showed that the loan to deposit ratio, debt ratio, bank size (asset), earnings per share, capital adequacy ratio (Basel ratio), and directors and supervisors shareholding ratio are the key variables in the NPL ratio that have the greatest impact on the incidence of non-performing loans.

2.2.1.3. Empirical Studies in Africa

The causes of non-performing loans in Kenyan banks as reported by (Gaitho & Edna W, 2018),bank-specific factors including lax credit risk assessment procedures, a lack of trained lending staff, a lack of aggressive credit collection methods, and banks' negligence in monitoring performing loans. The quick review of grant applications, insider financing, owner concentration, and customer-specific issues including bank clients starting new firms in which they had no experience the running of too many different types of businesses at once, misuse of the loan, Some crucial information is withheld by debtors in their applications, Bad loans were found to be influenced by the provision of inadequately valued collateral or problems with recovery (Mwinlaaru et al., 2016; Oynaka, 2019).

As reported by (Hassan et al., 2017; N.Viswanadham, 2015), lack of access to reliable information and inadequate application of credit policies and procedures were factors that contributed to an increase in the number of non-performing loans in Commercial Banks of Tanzania. On the other hand (Araka et al., 2018; Olarewaju, 2020) reported that the causes of non-performing loans in Kenyan commercial banks, discovered a positive correlation between non-performing loans and inflation, as well as a negative correlation between non-performing loans and real interest rates and loan growth rates. The non-performing loans were shown to have a positive correlation with the inflation rate among the macroeconomic independent variables (Khan & Ahmad, 2013). Furthermore, (Kumar, 2022) in his study concluded that real interest rates and the pace of loan growth in banks are inversely related with non-performing loans .

(Msigwa & Carlo, 2016) investigated the banking industry's non-performing loan factors in the context of the Morogoro and Msimbazi branches of KCB Bank (Tanzania). According to (Long et al., 2020; Nkusu, 2018) the function of political lobbying and administrative pressure, private fraud and corruption, bank size and performance, credit culture, market changes, legal environment, individual or entity capacity, speculation, macroeconomic factors, and internal and external factors all have an impact on non-performing loans.

According to the findings, factors influencing NPLs include the misallocation of funds for unneeded business expansion, speculation that results in investments in high-risk assets to earn high returns, and the legal environment, which reflects the existence or absence of laws regarding foreclosure and ownership rights for both domestic and foreign investors (Dirba, 2014; Ebba, 2014). A study by (Msigwa & Carlo, 2016) evaluated the effect of non-performing assets on the expansion of banking sector. They reported that the impact of non-performing assets, which were made worse by non-loan recovery, had a negative impact on the economy's framework and structure, as well as reduced customer purchasing power, legal problems, a lack of aggressive credit collection practices, and poor credit evaluation.

2.2.1.4. Empirical Studies in Ethiopia

(Biru, 2021) conducted on NPL and its Management in private Commercial Banks in Ethiopia. According to his findings, regarding the factors that cause nonperforming loans from the borrower side, the study's findings show that insufficient income, inadequate education in the business area they engaged in, a lack of savings accounts, inadequate infrastructure, inadequate bank supervision, and high consumption expenditures. Additionally, there are elements that contribute to NPL from the perspective of the lending institution, such as ineffective loan monitoring, slow loan approval, and delayed credit evaluation (Asfaw et al., 2016; Beyene, 2019;

Dirba, 2014). According to report of (Umer, 2015) between 2004 and 2013 on the factors that influence nonperforming loans in Ethiopian commercial banks, seven factors that affect banks' nonperforming loans were chosen and examined: four macroeconomic and three bank-specific ones. Their examination of balanced fixed effect panel data revealed that the influence of deposit rate, loan to deposit ratio, and lending interest rate on the banks' nonperforming loans was favorable and significant. According to the findings of (Ayalew, 2009; Kassa, 2018; Tamiru, 2017), lending interest rate plays a significant role in predicting non-performing loans in Ethiopia's banking sector. Cost effectiveness had a negative and considerable effect on the nonperforming loans held by banks. Bank nonperforming loans were negatively impacted by the bank solvency ratio and statistically insignificantly by the GDP growth rate, inflation rate, and bank solvency ratio (Biru, 2021; Gezu, 2014).

As reported by (Abebe, 2019) on the non-performing loans of the Development Bank of Ethiopia, indicate that insufficient credit monitoring and credit assessment are the main factors contributing to the occurrence of NPL in DBE. Bank-specific factors that contributed to the occurrence of nonperforming loans included credit size (which includes aggressive lending, compromised approval integrity, rapid credit growth, and banks' high risk appetite); high interest rates, poorly negotiated credit terms and lenient/lax credit terms; and a protracted loan approval process (Abebe, 2019; Laurent & Mwakajumilo, 2014). On the other hand, the main customer-specific causes of NPLs were found to include bad credit culture among customers, lack of expertise of the borrower for the company they engaged in, purposeful default, loan diversion, and project management issues (Tamiru, 2017).

2.3. Conceptual Framework

The following conceptual model has been developed in accordance with the objectives of the study. As discussed in the literature review section, bank- and customer-specific factors have an impact on nonperforming loans. Bank-specific factors include bank size and performance, credit size (such as aggressive lending, compromised integrity in approval, rapid credit growth, and bank great risk appetite), poor credit analyses and assessment, poor credit monitoring and banks loan supervision capacity, poor credit condition and absence of an aggressive credit collection system, and inadequate nature of collateral. On the other hand, customer-specific issues, such as the borrower's unwillingness to repay the loan and the customer's cash is diverted for unexpected purposes, was examined as factors causing non-performing loans.

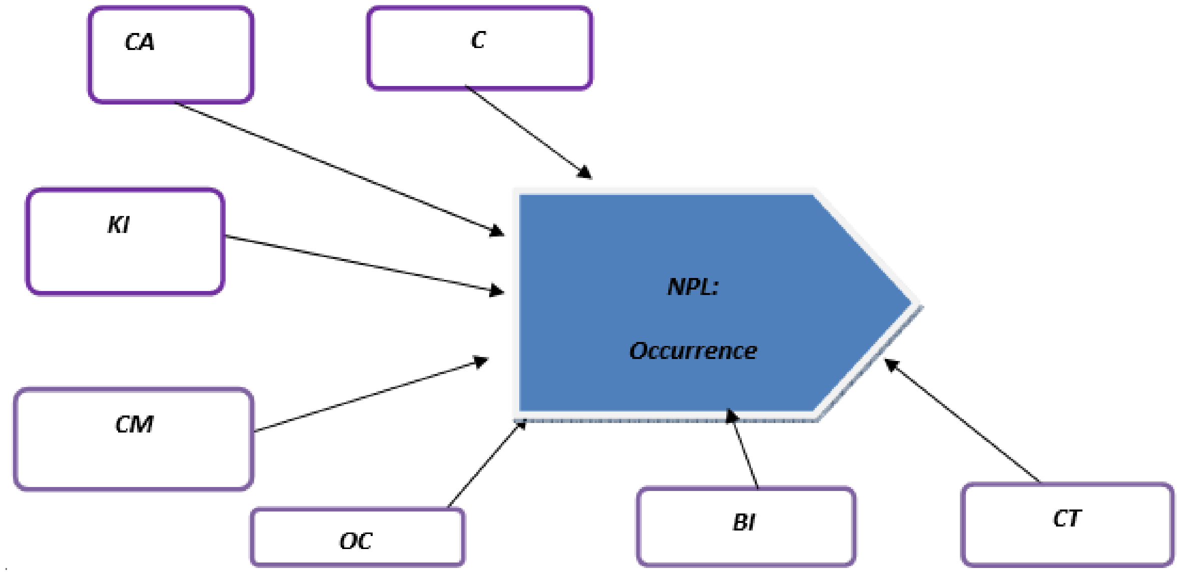

Figure 1.1: Conceptual Framework of the Study (Abebe, 2019)

Where

CA = Credit Assessment

KI = knowledge & Integrity CT= Credit Terms

CM= Credit Monitoring BI= bank size and Interest

C= Collateral NPL= Non-performing LoanOC= Ownership & Culture

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

This chapter deals about methodology of the study: Study area, Research design, Target Population and Sampling Technique, Sample size, Data Sources and Collection Procedure, Data analysis method, study variables, Validity and reliability and ethical considerations.

3. Research Methodology

3.1.Background of the Organization

Wegagen Bank is a privately owned share company formed in Ethiopia which started operations on June 11, 1997 with a subscribed capital of birr 60 million and a paid up capital of birr 30 million. The numbers of branches reached 399, deposit accounts reached 2,329,636 and the total capital (including paid up capital, share premium and legal reserves reached over 5 billion 2020/21 fiscal year. The board of directors consisting of chairperson, a vice chairperson and seven directors govern the bank. The overall management is entrusted to the management team, which comprises the president, who is appointed by the board of directors, two vice presidents and twelve department managers.

At the end of the fiscal year 2020/21, total employees of the Bank excluding outsourced staff reached 4,957, of which 3,285 (66%) are male and the remaining 1,674 (34%) are female (Wegagen Bank S.C Annual Report, 2021). Currently, the bank offers full-fledged banking services and products, which include the following. Deposit, All Types of Loans, Global Banking, Money Transfer, Corporate Banking, Personal Banking, ATM Banking, Internet Banking, SMS Banking, Agar Visa Card and Foreign Currency (Wegagen Bank S.c Brochure, 2021). Depending on their needs and the type of their business, the bank offers its customers a variety of credit facilities. Overdraft facilities, term loans, letter of credit facilities, goods loans, and personal loans are just a few of the credit lines that are available. The bank also offers deposit services, which include time/fixed deposits, demand deposits, savings deposits, and deposits for young people. The bank also offers services in the area of international banking, including opening letters of credit for importers, managing incoming letters of credit for exporters, buying and selling foreign currency-denominated notes, receiving and transferring foreign currency payments via Swift, and handling international letters of guarantee that are sent in and out. The main source of income for Wegagen Bank comes from interest fees on loans and cash advances given to customers. One of the main operations of the bank that requires appropriate professional care, a high degree of trust, and professional ethics is the procedure of authorizing loans and advances given the amount of income created by forwarding loans & advances and collecting interest (ibid) (Wegagen Bank S.C Annual Report, 2021)

3.2. Research Design

This research used mixed (the approach whereby researchers collect and analyze both quantitative and qualitative data within the same study) Descriptive research was used as a research approach to describe the collected data. Descriptive research is basically used to ascertain and describe the characteristics of variables of interest in some situation and subject of study. This research design enables the researcher to describe the phenomenon of interest from individual or organizational perspectives. It is a case study of specific bank and survey method enables the researcher to have a designed data. Accordingly this study found this research design appropriate to collects data from sources and was used quantitative research approach to analyzes the data collected in order to asses non-performing loan in Wegagen Bank S.C.

3.3. Target Population and Sampling Technique

3.3.1 Target Population

The target population of this study was Wegagen Bank S.C loan department employees who are involved in credit processing and administering. From head office credit department and all district office employees who are directly engaged in loan activities i.e. Loan section head, Loan analyst, Loan officers and Loan clerks in all districts in Addis Ababa were be included.

3.3.2. Sampling Technique and Sample size

The study employed Census method, which is the method of statistical enumeration where all members of the population are studied as it is assumed to provide more efficient sample by considering all members Credit Performing Unit (CPU) of the bank at head office and Addis Ababa district offices that was taken under the study. The loan structural set up of the bank is arranged in a way that loan requests that are below five million birr are handled at district offices and loan requests that are above five million birr are handled at head office level. So that all populations that are engaged in credit processing and administering at Addis Ababa district office and head office were taken. Hence, this enabled the researcher to find out occurrence of non-performing loan of the bank.

3.2.Data Sources and Collection Procedure

The type of data used in the study was including quantitative data. Primary and secondary sources of data were used for the study. The primary source of data was collected with self-administered questionnaires from loan processing and administering staffs at district offices and head office staffs. Questionnaire was used as an instrument to collect primary data from the respondents about their opinion at every question that designed to assess the occurrence of non-performing loan in the bank.

In case of secondary source of data, NBE directives, Wegagen bank unpublished reports, credit policy and procedures, annual reports was used to collect data on procedures and policy. Books, journals as well as different thesis were also used in the study.

3.3.Data Analysis Method

Descriptive analysis was used to investigate and describe the factors affecting non-performing loan. The analysis was performed by using IBM SPSS Statistics Version 26.0. Besides, measures of central tendency (mean, standard deviation), frequency and percentage will be used to analyze the data gathered through the questionnaire. Finally, the results were presented using tables, figures and charts

3.4.Measurements of Variables

The independent variables of this study were: Credit size, Poor credit assessments, Poor credit monitoring and banks loan supervision capacity, Poor credit condition, Lack of aggressive credit, Collection system and Nature of collateral. Whereas; the dependent variable of this study is Non-performing Loan

3.5. Measurement of Validity, and reliability

Validity and reliability of the research measurement instruments influence, first the extent that one can learn from the phenomena of the study. Second the probability that one will obtain statistical significance in data analysis and third the extent to which one can bring meaningful conclusion from the collected data. Most ethical issues in research fall into one of the four categories: protection from harm, informal consent, right to privacy and honesty with professional colleagues (Leedy and Ormrod, 2005).

3.5.1. Validity

Validity refers to the degree of success of an instrument in measuring what it is set to measure so that differences in individual scores can be taken as representing true references in the characteristics under study. The content validity was used to determine the validity of the data tools. In subjecting the tools to validation, the process was started by discussing with the supervisor of the study who scrutinizes all the questions in the tools to assess their appropriateness in addressing critical issues in the study (Araka et al., 2018). **T**he quality of research design can be defined in terms of validity of measurement instrument used in the research. The major types of validity are internal validity, external validity, construct validity, statistical conclusion validity. (http://www.changingminds.org)

i. **Content validity**

Content validity is the extent to which the measurement method covers the entire range of relevant behaviors, thoughts, and feelings that define the construct being measured. The instrument was tested through different stages. In the first stage, the questionnaire is distributed to selected staffs who work in credit and other related department before the pilot study to check for its clarity and accuracy. It is reviewed and some basic modifications were conducted to avoid ambiguity of items and maintain the precision to be clear for the participants to answer correctly. In addition to this, two participants were trained from each bank to provide the necessary and relevant data which helps to build on the relevancy of the questionnaire.

ii. Internal validity

The internal validity of a research study is the extent to which its design and the data it yields allow the researcher to draw accurate conclusions about the relationships within the data. In this case, it’s less likely that there will be a Hawthorne effect since the respondents have professional background and has knowledge about bank lending and credit management and those who were involved in the interview were not expected to change their behavior during interview. They were also asked to give their consent and they were given all the right not to answer any questions if they did not wish to.

iii. **External validity**

External validity is related to the extent to which the findings from one research can be applied to other similar situations. In other words, how the conclusions drawn can be generalized to other contexts (Leedy et al., 2005).

Iv. Construct Validity

Construct validity defines how well a test or experiment measures up to its claims. It refers to whether the operational definition of a variable actually reflects the true theoretical meaning of a concept and quality of an instrument. The researcher has tried to refer different literatures regarding the constructs only with some customization and thereby matching with the basic theories. So, all behaviors under each construct are measured properly realizing the issue of construct validity.

3.5.2. Reliability

Reliability is the ability of research instruments to consistently yield the same results when repeated measurements are taken under same condition Sharma (2012). Reliability of the data collection instrument first established through test re-tests method (Bryman and Cramer, 2007). Keeping all these facts the researcher made reliability analysis using Cronbach`s coefficient alpha.

To ensure the reliability of measurement instrument the researcher performed first standardize the instrument, which is modified to our context, from one person or situation to another.

Besides, the researcher also believes that this study is reliable since the respondents were selected based on their past experience on credit management and their answers were expected to be credible. Given the credibility of selected respondents, the same answers would probably be given to another independent researcher. Furthermore, ambiguous terms were not used in interviews to avoid confusion. Also, According to Rosemary & Gliem, (2003) to be reliable for a given measurement tool, α value is expected to be at least (0.70) which is the minimum acceptable limit. Hence the result indicated that all constructs of the model to all observation were reliable with overall alpha value of 0.93. Therefore, the internal consistency of the instrument was acceptable

Table 1.1: Reliability Test

Independent Variables	Cronbach Alpha	No of Item
Factors indicating relationship between credit assessment and loan default	**0.959**	**5**
Factors indicating relationship of credit monitoring and loan default	**0.892**	**5**
Relationship of lack of Knowledge and integrity and loan default	**0.942**	**2**
Relationship of Collateralizing Loan and loan default	**0.933**	**3**
Factors indicating relationships of credit terms, and loan default	**0.981**	**3**
Relation of shareholder (ownership) and Culture on non-performing loan	**0.889**	**4**
Relation between interest rate (price) of loan and loan default	**0.876**	**3**
Relationship of NPL on banks and on economy in the country	**0.96**	**2**
Total Items & Cronbach's Alpha	**0.929**	**27**

(Source: Own Survey, 2023)

3.6.Ethical Considerations

First of all the study was permitted from ST. Mary's University, Business Administration department in order to get acceptance by the banks for provision of data. For data that is collected from credit department of banks permission also be obtained from themselves‘. The confidentiality of responses and information obtained from the credit analysts, credit managers, and recovery officers and even from the financial statements of concerned bank branches kept properly. In order to keep in secret of the bank‘s internal operation only audited and provisional financial statements provided by the bank was used. In addition, at the time of data collection the researcher gave respect to the participants and asked permission about their voluntariness for response. The researcher was also ethically considered not to put the participants at risk and not to act against the human rights of the country. For the analysis of the data collected the researcher was ethically used only for this research project with integrity. The findings of the research presented without any deviation from the outcome of the research.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION

4. Results and Discussion

This chapter summarizes the outcomes of a research that was undertaken to examine the factors that influence the occurrence of non-performing loans. The data obtained from the survey questionnaire was properly coded and reviewed for consistency before being placed into the SPSS spreadsheet. The analysis was carried out using SPSS version 26. As a consequence, this chapter will analyzed the findings from the questionnaire responses and interviews conducted with senior staff and two consumers in order of research questions using descriptive statistics. The first part examines the respondents' backgrounds and response rates, while section 4.2 addresses the general viewpoint of respondents and interviews, as well as their recommendations in regard to the study issue. Section 4.3 concludes with a document analysis of the studied four districts of Wegagen banks during a five-year period.

4.1 Background information of Respondents

4.1.1 Questionnaire response rate and interview success rate

The questionnaire was issued to credit-related professionals like as credit managers, credit relationship managers, credit analysts, recovery officers, and loan officers in five Wegagen banks chosen at random (four districts and the head office). Fifty-six valid replies were gathered from the fifty-eight surveys physically given to the target demographic. This corresponded to a response rate of 96.55 percent, implying that 3.45 percent of the questionnaires were never returned. Only eleven of the twelve planned interviews were completed successfully, yielding a 91.6 percent success rate. One interview was cancelled because the desired interviewee refused to answer when he was available. Regardless, the target group was well represented since Directors or managers relevant to the research were questioned.

Table 1.2: Questionnaire response rate and interview success rate

Category	**Target Respondents**	**Successful**	**Success rate (%)**
Questioners	58	56	96.55
Interviews	12	11	91.6

Source: Own computation from primary data

The statistics in Table 1.2 above provide a good representation of the target population and hence the data's validity.

4.1.2 Profile of respondents

According to table 1.3, the majority of respondents have a Bachelor's degree (BA) and eighty have a Master's degree (MA). A PhD and three diploma holders were also discovered. This demonstrates that the respondents are better competent and can readily comprehend and reply to the inquiry.

Table 1.3: Profile of respondents

Educational Status		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Diploma	3	5.4	5.4	5.4
	BA degree	34	60.7	60.7	66.1
	MA Degree	18	32.1	32.1	98.2
	PhD	1	1.8	1.8	100.0
	Total	56	100.0	100.0	

Source: Computation from SPSS Ver. 26

4.1.3. Respondent's current position in the Bank they are working

The majority of questionnaire respondents were credit analysts, accounting for 42.9% of all respondents. As stated in table 1.4, credit relationship managers, loan officers, and monitoring officers account for 19.6%, 16.1%, and 8.9%, respectively. Credit managers from five representing offices account for 12.5% of the total. As a result, the responders' dependability is continuous or contemporaneous.

Table 1.4: Respondent's current position in the Bank they are working

Respondents Current Position		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Loan Officer	9	16.1	16.1	16.1
	Credit analyst	24	42.9	42.9	58.9
	Credit Manager	7	12.5	12.5	71.4
	Credit Relationship Manager	11	19.6	19.6	91.1
	Monitoring Officer	5	8.9	8.9	100.0
	Total	56	100.0	100.0	

Source: Computation from SPSS Ver. 26

4.1.4 Respondent's work experience in the banking industry.

According to table 1.5, all respondents have worked in the financial business for more than five years. That indicates that 100% of them have been with the bank.

Table 1.5: Respondent's Work experience in banking industry

Work Experience		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	5 to 10 years	48	85.7	85.7	85.7
	11 to 15 years	6	10.7	10.7	96.4
	16 to 20 years	2	3.6	3.6	100.0
	Total	56	100.0	100.0	

Source: Computation from SPSS ver.26

4.1.5 Respondent's work experience in the credit area

The respondents' job experience in the credit field is between five and ten years for 82.1%, while 3.6% have eleven to fifteen years, as shown in the table below. When we look at the experience of other credit department employees who were not included in the sample, we discover that they require more exposure or expertise to properly analyse loans and identify loan default loopholes. Still, 14.3% of respondents have fewer than five years of work experience in the region, and their job focuses on loan facilitation and time scheduling for consumers. They are recent graduates or management trainees who have been appointed to such an experience-required position.

As a consequence, all respondents have worked with the bank in lending units, as indicated in table 1.6 below. This demonstrates that all respondents have the necessary knowledge and expertise in lending activities to adequately reply to this questionnaire.

Table 1.6: Experience in credit processing (lending Area)

Experience in credit processing		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	<5	8	14.3	14.3	14.3
	5 to 10 years	46	82.1	82.1	96.4
	11 to 15 years	2	3.6	3.6	100.0
	Total	56	100.0	100.0	

Source: Computation from SPSS ver.26

4.1.6 Non-performing loans a problem in Wegagen Bank

Non-performing loans are a severe problem in many nations, as several studies have pointed out. Ethiopia is also getting concerned about this. The results provided in table 1.7 reveal that 62.5% of respondents answered "yes" to the question "are non-performing loans a problem in Wegagen Bank," 28.6% said no, and 8.9%, or 5 respondents, said they are indifferent. Non-performing loans, in general, are becoming an issue at Wegagen Bank, requiring the attention of owners, management, the board of directors, and regulatory agencies for attentive follow-up and proper performance or decrease.

Table 1.7: Is NPL is a problem in Wegagen Bank?

NPL problem		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	35	62.5	62.5	62.5
	No	16	28.6	28.6	91.1
	Neutral	5	8.9	8.9	100.0
	Total	56	100.0	100.0	

Source: Computation from SPSS ver.26

4.1.7 The causes of loan default in Bank are obvious.

Respondents were asked to indicate whether they agreed or disagreed with various assertions about bank-specific variables that contribute to the occurrence of non-performing loans. According to the study's findings, almost 50% of respondents agreed with the statement "the causes of loan default in banks are obvious," whereas 19.6% disagreed with the statement and 8.9% were indifferent, as indicated in table 8 below.

Table 1.8: The causes of loan default in banks are obvious

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	5	8.9	8.9	8.9
	Agree	28	50.0	50.0	58.9
	Neutral	5	8.9	8.9	67.9
	Dis agree	11	19.6	19.6	87.5
	Strongly disagree	7	12.5	12.5	100.0
	Total	56	100.0	100.0	

4.2 Descriptive Statistics.

Data was analyzed using descriptive statistics, and the results were evaluated using non-parametric tests of significance. Furthermore, measurements of central tendency (mean, standard deviation) were utilized to analyze the results of the questionnaire survey.

According to Straus and Corbin (1998), some academics feel that qualitative data should be presented rather than analyzed. Because the information gathered was qualitative, no comprehensive analysis was performed; instead, the qualitative data were organized topically, and content analysis was performed as follows.

Linkage of Research Question and Results

The study's overarching goal was to identify and explore the causes of non-performing loans in the context of Wegagen Bank. The following particular research questions (RQ) have been prepared and presented in the introductory section of this project document in the context of this general purpose. As a result, these study topics have been explored one by one, based on the responses and interview suggestions received. As a result, the study questions and the variables that express them are provided in Appendix Part. The analyses performed here are in accordance with their sequence and overall goal specified.

RQ1: Does inadequate credit evaluation contribute to the occurrence of NPLs in commercial banks?

RQ2: Is there a link between a lack of Credit Monitoring and the frequency of NPLs?

RQ3: Does a lack of knowledge and honesty lead to loan default?

RQ4: Does keeping collateral lower the likelihood of loan default?

RQ5: Do lax/lenient lending conditions and practices encourage loan default?

RQ6: Do unfair competition, increased risk appetite, and fast credit expansion contribute to loan default?

RQ7: Is there a relationship between bank ownership and borrower culture in terms of loan default?

RQ8: Do bank size and interest rate affect loan default?

RQ9: Do NPLs contribute to the credit crisis and Wegagen Bank's poor performance?

4.2.1. Credit Assessment at Wegagen Bank

A bank considers a borrower's quality, which is reflected in its past and projected profit performance, the strength of its balance sheet (for example, capital and liquidity), the nature of its product and the market for it, the economic and political condition of the nation in which it is based, the quality and stability of its management, as well as its overall standing and reputation, when deciding whether to lend money (Biru, 2021). The bank must understand the objective of the loan, evaluate its viability, and decide how the money needed to pay interest and repay the capital will be generated (Araka et al., 2018). The ability of the borrower to repay the loan is of utmost importance. The loan should ideally be self-financing, meaning that repayment will come from the cash flow the borrower is able to produce as a result of using the loan proceeds. A bank will frequently need a guarantee or mortgage as security for a loan, in which case it will be concerned about the asset's worth and ownership (Chimkono, 2016).

However, the decision to provide a loan should be founded on the borrower's prospects and solvency as well as a rigorous examination of how the money needed to repay the loan will be generated. Non-performing loans are a result of the objectivity of credit evaluation and appraisal being compromised. The deficiency in the accounting, disclosure, and granting of more loans exacerbates the issue. It is challenging to identify problematic loans since the creditworthiness of the borrower and the market value of the collateral are not taken into account when evaluating the condition of current loans (Ayalew, 2009)

Table 1.9: Factors indicating relationship between credit assessment and loan default

Factors	Strongly agree (1) %	Agree (2) %	Neutral (3) %	Disagree (4) %	Strongly disagree (5) %	Mean	Standard deviation
Know your customer (KYC) policy & applications of Banks highly contribute to low loan default.	64.3	32.1	0	3.6	0	1.43	0.68
Poor credit analysis contributes to theoccurrences of NPL.	51.8	33.9	8.9	5.4	0	1.68	0.86
Good credit assessment reduces loan default	42.9	41.1	12.5	3.6	0	1.77	0.81
Poor risk assessment would lead to loandefault	32.1	58.9	8.9	0	0	1.77	0.60
We have well experienced credit analysts in loan department.	62.5	26.8	7.1	1.8	1.8	1.54	0.85

Source: Survey outcome and SPSS computation

The above table shows responses on factors indicating the relation between credit assessment and occurrence of the non-performing loans. 96.4 percent of respondents, as shown in the table above (mean 1.43 and standard deviation 0.68), agreed that having a know your customer (KYC) policy in place results in good loan quality. A solid credit evaluation lowers the likelihood of a loan default, according to 84 percent of respondents. On the other hand, as stated by 85.7 and 91 percent of the respondents, respectively, poor risk assessment and credit analysis are viewed or considered (agreed) to contribute to or lead to loan default. The majority of respondents, 89.3 percent (mean 1.54 and standard deviation 0.85), agree that the credit departments of each district and the Wegagen Bank headquarters employ well-experienced credit analysts. As several academics noted in their papers, the ability to analyze a case thoroughly from all angles depends largely on experience and competence. According to the data in the table above, respondents generally agreed that a strict KYC procedure will result in improved loan quality when companies recruit customers and do good risk assessments. In other words, the majority of respondents concur with the assertion that understanding your customer lowers the likelihood of loan default, and that a poor risk assessment will result either in a loan default or a strong risk assessment will boost loan quality. On the other hand, loans are more likely to default when credit analysis and risk assessment are poor.

4.2.2. Credit Monitoring at Wegagen Bank

Reduced attention or less follow up with borrowers can be the cause of many loan defaults that give banks problems. When borrowers believe they are receiving better care, they pay more attention to the loans they have borrowed. Institutional lending officers should make an effort to stay on top of their loans, visiting the borrower's location at least once per year or twice per year for larger loans. A bank may monitor the borrower in a variety of ways. First, it can track a borrower's financial condition by routinely checking account activity, confirming the value of securities, and looking over stock statements. Second, bank representatives can make in-person visits to the borrower on a regular basis to assess how the borrower company's operations are doing and, as needed, to offer guidance on how to fix any issues. Banks, on the other hand, avoid this activity, either because they lack the staff members who are qualified to handle the duty or because they risk being held liable in the event that a borrower experiences financial difficulties. A bank, which constantly monitors a company's performance, is frequently able to alert the company to threats or opportunities and can also grant credit requests quickly. When it indicates worry, credit monitoring is more persuasive because it is generally proactive rather than a panicked reaction. 94.7 percent of respondents agreed that stringent loan monitoring assures successful loan performance, and 91.1 percent agree that inadequate loan follow-up results in the occurrence of loan default.

The assumption that a loan could perform well if carefully monitored despite a poor assessment during sanctioning, however, is disagreed by 84% of respondents (mean 3.86, standard deviation 0.86). This proves that good credit assessment cannot be replaced by loan follow-up. However, 82.2 percent of the respondents (mean 1.73, standard deviation 1.30) agreed that occurrence of non-performing loan is inversely related to loan follow up. However, 89.3% of respondents agreed that banks with more qualified staff and a larger budget for loan monitoring have fewer non-performing loans. Overall, it can be inferred from the discussion above that credit monitoring has a direct impact on loan performance. Despite this, the respondents rejected the claim that a loan would only perform effectively with thorough monitoring if proper assessment was not done while extending credit. This proves that credit analysis or assessment would never take the place of follow-up. On the other hand, even though loan-monitoring needs experienced staff members and a bigger budget, this may not guarantee loan performance.

Table 1.10: Factors indicating relationship of credit monitoring and loan default.

Factors	**Strongly agree (1) %**	**Agree (2) %**	**Neutral (3) %**	**Disagree (4) %**	**Strongly disagree (5) %**	**Mean**	**Standard deviation**
Poor Loan follow-up leads to occurrence of non-performing loans.	30.4	60.7	8.9	0	0	1.79	0.59
Strict loan monitoring ensures good loan performance.	28.6	66.1	5.4	0	0	1.77	0.54
Poorly assessed and advanced loans may perform well if properly monitored.	0	14.3	1.8	67.9	16.1	3.86	0.86
Loan monitoring is inversely related to occurrences of NPL.	67.9	14.3	3.6	5.4	8.9	1.73	1.30
Having qualified staffs and higher budgetfor loan monitoring have lower NPL.	66.1	23.2	7.1	1.8	1.8	1.50	0.85

Source: Survey outcome and SPSS computation

4.2.3. Lack of Knowledge and Integrity

According to study by (Asfaw et al., 2016; Carlo Msigwa, 2013), among the variables that contribute to a high occurrence of non-performing loans, include loan officials' lack of sufficient training and the quick evaluation of loans, which is mostly driven by external pressure. Public orientation and the development of the financial sector go hand in hand. According to (Ejigu, 2015) study, which involved panel regression analysis with regard to loan diversion, the orientation of the borrower has a considerable impact on the loan default rate. As we see from the table below 89.3 (mean 1.52 and standard deviation 1.59) percent of the respondents agreed to the statement stated as lack of proper orientation to borrowers can cause loan default. The respondents' agreement indicates strong relationship between credit orientation and occurrence of non-performing loans.

Table 1.11: Relationship of lack of Knowledge and integrity and loan default

Factors	Strongly agree (1) %	Agree (2) %	Neutral (3) %	Disagree (4) %	Strongly disagree (5) %	Mean	Standard deviation
Lack of proper orientation by banks to borrowers causes loan default.	76.8	12.5	0	3.6	7.1	1.52	1.59
The existing credit culture of borrowers leads to loan default.	14.3	66.1	5.4	14.3	0	2.2	0.86

Source: Computations from SPSS

4.2.4. Collateralizing Loan

94.7% (mean 1.77 and standard deviation 0.54) of respondents agree with the assertion that collateralizing loans lessen loan default in terms of the relationship between the occurrences of non-performing loans. However, the directors and supervisors who were interviewed believed that borrowers would pay off their loan if they were to put up enough collateral.

Table 1.12: Relationship of Collateralizing Loan and loan default

Factors	Strongly agree (1) %	Agree (2) %	Neutral (3) %	Disagree (4) %	Strongly disagree (5) %	Mean	Standard deviation
Securing loan by collateral minimize loan default	28.6	66.1	5.4	0	0	1.77	0.54
Collateralized loans perform well rather than non-collateralized loan.	8.9	83.9	0	7.1	0	2.07	0.62

Export loans (non-collateralized) is the sector that holds large numberof NPL	11.8	44.1	11.8	22.1	10.3	3.25	1.22

Source: survey outcome and SPSS computation

Accordingly, the respondent responses on non-collateralized loans (export loans) demonstrate that 55.9% of respondents (mean 3.25, standard deviation 1.2) agree with the claim that non-collateralized loans (export loans) hold a significant portion of the non-performing loans in Wegagen Bank at the moment. In general, the degree to which respondents agreed with the claim that collateralizing loans improves loan performance shows how strongly the two are related to loan default. Furthermore, the respondents believe that borrowers would repay the loan if they had pledged collateral because they would worry that it would be repossessed in the event of failure.

4.2.5. Lenient Credit terms and loan performance

Poor loan performance may result from credit approval that has not taken the credit terms into consideration. According to study by (Zeleke, 2018), disaster myopia, herd behavior, moral hazard, and agency issues may tempt bank managers to take risks and lend excessively during boom times, which is the reason for the leniency. According to (Gaitho & Edna W, 2018) study of Kenyan commercial banks, terms of credit also influence the prevalence of nonperforming loans. According to an FDIC (1997) study, bank managers may have responded to competition from other bankers by promoting laxer lending standards that result in loan defaults. According to the Office of the Comptroller of the Currency (OCC, 1988), low lending rules and bad bank management were the main causes of bank failure in the early 1980s. In the table below, it is shown whether circumstances related to credit terms (lax/lenient credit terms, poorly understood terms, and/or negotiated credit conditions) cause loan defaults to occur.

As shown on the table below, 73.3 (mean 2.18 and standard deviation 1.1) percent of respondents agreed that banks' loose or lenient credit policies lead to loan default. Similar in that while 66.8 (mean 3.75 and standard deviation 0.94) percent of respondents disagree with the claim that borrowers default because they do not understand credit terms, 83.9 (mean 2.07 and standard deviation 0.83) percent of respondents agree that poorly negotiated credit terms strongly contribute to loan default. According to the data in the table below, respondents agreed that there is a relationship between loan default and the credit conditions set by banks at the time of loan approval.

Table 1.13: Factors indicating relationships of credit terms, and loan default

Factors	**Strongly agree (1) %**	**Agree (2) %**	**Neutral (3) %**	**Disagree (4) %**	**Strongly disagree (5) %**	**Mean**	**Standard deviation**
Lenient/lax credit terms cause loan default.	30.4	42.9	5.4	21.4	0	2.18	1.1
Poorly negotiated credit terms lead to loan non-performance.	19.6	64.3	5.4	10.7	0	2.07	0.83
Borrowers default because they do not understand the credit terms well.	0	17.9	5.4	60.7	16.1	3.75	0.94

4.2.6. Ownership and Credit Culture

According to the interviewee in the Wegagen Bank North district, 42.9 (mean 3.0 and standard deviation 0.95) percent of respondents agree that influential shareholder business is directly related to the occurrence of loan default of that bank. If the risks happen on that business, which covers a significant portion of that bank loan, that bank's non-performing loan will increase by that amount. Contrarily, 16.1 percent of respondents are neutral, and 39.3 percent disagree with the assertion. Major shareholders of Wegagen Bank do not directly or indirectly influence the management to grant credit facilities to them or their businesses which may not be feasible to that bank professionals and highly fall in nonperforming loans, according to top management of credit department of surveyed districts and head office interview response and respondents disagreement shown by 55.3 (mean 3.46 and standard deviation 1.17) percent. In accordance with the data in the table below, 57.1 (mean 3.52, standard deviation 0.85%) respondents disagree with the claim that there is a connection between borrower culture and loan default.

Interviewees supported this as well, and it may be sustained over time by educating society and providing ongoing orientation.

Table 1.14: Relation of shareholder (ownership) and Culture on non-performing loan

Factors	Strongly agree (1) %	Agree (2) %	Neutral (3) %	Disagree (4) %	Strongly disagree (5) %	Mean	Standard deviation
The cause of loan default can be directly related to the business of influential shareholders.	0	42.9	16.1	39.3	1.8	3.0	0.95
Major shareholders influence the management to allow loan to their business and may fall in NPL	0	32.1	12.5	32.1	23.2	3.46	1.17
There is a relationship between loan default & borrowers culture.	0	14.3	28.6	48.2	8.9	3.52	0.85
The existing credit culture of borrowers leads to loan default.	14.3	66.1	5.4	14.3	0	2.2	0.86

4.2.7. Relation between Interest Rate and NPL

High interest rate banks will, on the whole, experience more non-performing loans or defaults. A high interest rate that banks charge is linked to loan defaults, according to a study by (Negera, 2012) on banks in the Ethiopia. High interest rates paid by the banks are one of the internal factors that contribute to the occurrence of non-performing loans, according to a (Gaitho & Edna W, 2018) on the commercial banks in Kenya using statistical analysis. In the current study, 87.5% of respondents agreed with the assertion that loans with high interest rates are more likely to become non-performing loans. On the contrary, 8.9% of those surveyed agreed with the claim that loan performance is unaffected by loan pricing. 46.4 (mean 3.09 and standard deviation 0.92) percent of respondents disagree with the claim that states with many borrowers can lead to non-performing loans when it comes to banks having a lot of borrowers. A big number of non-performing loans are a problem for banks when credit growth is strong, according to 41.1 (mean 3.0 and standard deviation 0.93) percent of respondents. Overall, the survey results regarding the relationship between having a large number of borrowers suggest that it is not the reason why loans default.

Table 1.15: Relation between interest rate (price) of loan and loan default

Factors	Strongly agree (1) %	Agree (2) %	Neutral (3) %	Disagree (4) %	Strongly disagree (5) %	Mean	Standard deviation
Charging big interest rate leads to loan default	46.4	41.1	3.6	8.9	0	1.75	0.90
Having large number of borrowers can cause NPL.	0	37.5	16.1	46.4	0	3.09	0.92
Credit growth highly causes large number of NPL level.	0	41.1	19.6	37.5	1.8	3.0	0.93

4.2.8. Relation of NPL on Banks Performance

According to the data in the table below, 87.5 (mean 1.66 and standard deviation 1.43) percent of respondents agreed that the profitability of banks is significantly impacted or reduced by non-performing loans. A substantial number of respondents, or 92.9 percent of them (mean 1.57 and standard deviation 0.63), agreed that having a high percentage of non-performing loans might lead to a credit crisis by making banks reluctant to provide new loans.

Table 1.16: Relationship of NPL on banks and on economy in the country

Factors	Strongly agree (1) %	Agree (2) %	Neutral (3) %	Disagree (4) %	Strongly disagree (5) %	Mean	Standard deviation
NPL highly affects the profitability.	51.8	35.7	0	7.1	5.4	1.66	1.43
Absence of NPL is the sign of efficiency of loan management	50.0	42.9	7.1	0	0	1.57	0.63

4.3. Summary of Descriptive Statistics and Interview Results

The respondents shared various beliefs on the variables that contribute to the occurrence of non-performing loans. The investigator attempted to categorize the responses and interviews based on the bank's unique (internal) characteristics, borrowers' connected circumstances, and the external environment. These can be explained further as follows:

I. Banks specific factors

Both respondents and interviewees cited the following factors linked to internal inefficiencies due to human resource, systems, governance, and non-application of policy and procedure concerns and the like.

On open-ended questions, the majority of interview participants identified the following factors as the leading cause of loan default. Bankers' lack of honesty, bad credit evaluation, terms and conditions that are not adequately specified and are not mentioned in contracts, credit analysts' ability limitations Bank aggressive lending to maximize profit and unfair competition, failing to follow Know Your Customers (KYC) principles before lending, poor collateral valuation, poor credit monitoring, excessive lending on a specific sector (poor portfolio diversification), overlooking of the bank and their own policies and procedures, inadequacy of credit risk management, insufficient institutional capacity (in terms of risk selection), lack of understanding of the situation (macro-econometrics).

II. **Customer related factors**

The interviewees (directors/managers and two defaulters) also commented on the following borrowers-side variables that induce loan defaults and have a substantial impact on the occurrences of non-performing loans. Some of the issues identified by interviewees include: money diversion, a lack of suitable bank orientation, a lack of business understanding, which implies not doing a competitive analysis before entering a certain market, a bad record keeping system, and borrowers' lack of awareness. The entrepreneurship gap (engaged in unstudied business and management competence restriction) suggests that the majority of middle-management men and women have a knowledge gap in managing their firm, as well as an issue of purposeful or voluntary default.

III. **External environment factors**

There are numerous external variables that impact non-performing loans, including as macroeconomic issues, market difficulties, exchange rates, and others, however these are not included in this study article. However, various variables outside the control of banks and borrowers are contributing to the frequency of non-performing loans, particularly in Ethiopia. These factors are specific to our nation (Ethiopia) and include society's culture and bad credit culture, the NBE's low capability for credit supervision, a lack of institutional capacity in the banking industry, unfair industry competition, and government policy uncertainty.

In general, participant observations on the causes affecting non-performing loans are more elaborative than responses from structured questionnaire respondents. The majority of the points expressed by the respondents are directly or indirectly related to the study issue. Except for interest rate and bank size, both respondents agreed with the questions. The following document analysis was discussed to see this bank's size, interest rate, and credit growth.

CHAPTER FIVE

5. FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

5.1 Summary of Major Findings

The overarching goal of this study was to discover Wegagen-specific characteristics influencing non-performing loans. A variety of particular study topics were generated based on the overarching purpose. The study employed a hybrid research technique to attain this wide goal. The study employed a poll of bank employees and an unstructured interview with directors or managers.

The poll had a 96.55% response rate, while the interview had a 91.6% success rate. All respondents had more than or equal to five years of credit-related job experience, and interviewers have more than 10 years of credit-related experience on average, in addition to their other banking experiences. According to the respondents' perspectives, the likert scale findings revealed that most of the variables that impact the occurrences of non-performing loans, as described in the study, are as follows.

Poor credit assessment due to credit operators' capacity limitations, institutional capacity drawbacks, and the lack of national data for project financing led to the establishment of terms and conditions that were not practical and/or were not properly discussed with borrowers, resulting in loan defaults. This demonstrates that NPLs were caused by over-financing due to poor credit evaluation and impaired credit operator integrity. In reality, defaults were related with incidents of underfunding credit requirements, which resulted in a lack of working capital or the inability to reach anticipated objectives.

Furthermore, credit monitoring/follow-up is critical to loan collection. Another gap for the emergence of ill loans is the failure to do effective credit monitoring. In addition, the responses and interviews suggest that not having enough collateral might contribute to the incidence of NPL.

Furthermore, the study discovered that owing to a lack of credit orientation, borrowers involved in business had no in-depth knowledge and Integrity, diverted loans granted for unexpected purposes, and at times committed a purposeful default. The study also revealed that unfair competition among banks, aggressive lending, and poor client selection done in a goal to maximize profit by the banks, as well as moral hazard or compromised integrity, were the other reasons of loan defaults.

Interviews with surveyed institutions also revealed that a lack of supervisory authority competency in policy formulation and monitoring capabilities contributed to the earlier incidence of non-performing loans. According to financial data from assessed banks, the trajectory of non-performing loans indicates minor drops in ratios for certain banks, but increases in absolute quantities.

According to trend analysis and respondents' perspectives, the study did not support the current literature that states NPL occurrences are connected to bank size and interest rate banks charge.

In short, survey respondents' perceptions, as analyzed through descriptive statistics, and director/manager credit department interview respondents indicated that the critical factors causing occurrences of non-performing loans include: lack of competency of credit operators, poor credit assessment by banks, poor credit monitoring and follow up of loans by lending banks, conflict of interest (ownership) and credit culture of the society, borrowers' lack of knowledge on non-performing loans.

5.2 Conclusions

Despite the fact that macroeconomic factors and environmental factors such as natural disasters, inflation, exchange rate, and government policy have a greater impact in causing non-performing loans, the focus of this study is on the empirical investigation of employees' perceptions of bank-specific factors that affect non-performing loans.

According to the research findings and the opinions of experienced credit personnel and interview respondents, non-performing loans are an issue in banks and can be caused by both internal and external sources. Internal factors such as weak credit analysis, poor credit monitoring, inadequate risk management, lenient credit policy, unfair competition among banks, borrower integrity (loan diversion), poor credit culture, shareholder influence, and high risk appetite, as many researchers pointed out in their research findings and selected private banks respondents agreed, are the major factors that caused the occurrence of non-performing loans in Wegagen Bank. However, as shown in the table of document correlations, loan growth and bank size (in terms of deposit and total asset) have no or very little link with the frequency of NPLs.

The findings also suggested that non-performing loans had a detrimental impact on bank performance in terms of credit constraint and profitability. It was observed that a rise in non-performing loans reduced bank profitability as well as the amount of credit available to the needy. Despite management's efforts to minimize nonperforming loans, the volume of problem loans continues to grow, even if the ratio appears to be reducing in some of the banks assessed. Internal issues are readily handled, however external influences might jeopardize a bank's sustainability.

Thus Banks must exercise caution while making lending choices in order to minimize loan losses and the buildup of non-performing loans. Banks must focus on sectors that are operating well while limiting lending to areas that are high risk and have already recorded a considerable proportion of non-performing loans in some banks. One thing to keep in mind is that these findings may be applied to the whole banking system in Ethiopia, since practically all banks have been hit by non-performing loans.

As a result, the provided recommendations represent a prescription for the Wegagen Bank.

5.3 Recommendations

It is clear that banks must thoroughly analyze all internal and external causes generating nonperforming loans when making loans and the impact of nonperforming loans on the bank's overall performance should be considered during credit evaluation. The researcher proposes the following items based on survey responses and information gathered via interviews.

- Banks should place a premium on improving credit operators' expertise, client selection, and credit process efficiency. Banks should teach their workers practically and monitor them for updates and integrity symptoms.
- The bank should establish and guarantee the execution of a clear policy framework that tackles concerns of conflict of interest, ethical standards, and check and balance in the decision-making process for all individuals involved in the lending process.

- A bank should have ample room for credit evaluation because it demonstrates the basic root and basis for a good loan. There should be a bank credit evaluation policy and method.
- Clean loans, primarily for export purposes, should be closely monitored during the credit operation term. Through increased credit monitoring, management must guarantee that borrowed funds are used for their intended purpose. A bank's continual methods for identifying possible problematic and dubious loans should be clearly defined. There

should be explicit processes in place within this system for the constant review of all significant loans and lending concentrations. These assessments should place a special emphasis on the borrower's capacity to service the loan in the future. Failure to conduct these ongoing evaluations and monitoring will result in bank losses or raise the risk of such losses.

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APPENDICES

Questionnaires to be filled by loan officers, workout loan officers and credit managers/ directors

Dear participants,

I am conducting a project assessment on "Factors that cause Non- Performing Loans in case of Wegagen Bank: An empirical study in employees prospective". This research is conducted in partial fulfillment of masters of Degree in Business Administration. The survey is intended to study the causes of non- performing loan: knowledge gap on loan assessment, lack of loan follow up or monitoring, loan (fund) diversion by borrowers, willful default by borrowers etc. and the researcher will test how the above factors contribute to the occurrences on NPL and result in low performance of Wegagen Bank.
Please note that the survey is developed to be anonymous and I, the researcher, will have no way of connecting the information to you personally or to your bank. The questionnaire will not take more than 20 minutes of your time. I do not foresee that you will experience any negative consequences by completing this questionnaire. The researcher will keep any individual information provided herein confidential, not to let it out of his possession, and to analyze the feedback received only at a group level. It will be a great contribution if you may complete all the items covered in the questionnaire since your opinion is of utmost importance.

I thank you in advance for sharing your valuable experience and time in completing the questionnaire.

Thanks you,

Wosenyelesh Tesfaye

Part I This part of the questionnaire covers items related to background of the respondents.(Please put □ in the appropriate boxes)

1. Please indicate your Educational level

Certificate □ Diploma □ BA degree □ MBA □ others specify ____________ □

2. Please indicate your current position in the Bank.

Loan officer □ Director/Manager Credit □

Loan clerk □ Relationship Manager □

Credit Analyst □ Recovery/Monitoring officer □

Others, please specify____

3. Please indicate your work experience in the Banking industry.

Less than one year □ 11- 15 years □

1-4 years □ 16 - 20 years □

5- 10 years □ above 20 years □

4. Please indicate your experience in credit processing.

5- 10 years □ 11- 15 years □

16 - 20 years ☐ above 20 years☐

5. Is non-performing loan is a problem in Ethiopia?

   1. Yes ☐ 2. No ☐ 3. I do not ☐ know

6. The causes of loan default in Banks are obvious.

   1. Strongly agree 2. Agree 3. Neutral 4. Disagree 5. Strongly disagree

Part II Internal factors

This part of the questionnaire covers items related to internal factor. Please indicate how much you agree or disagree with each of the following statements by circling the number that best represents your opinion. 1 indicates strongly disagree (SDA), 2 indicates disagree (DA), 3 indicates neutral (N), 4 indicates agree (A) and 5 indicates strongly agree (SA).

No	Issues	SDA	DA	N	A	SA
1	Know your customer (KYC) policy & applications of Banks highly contribute to low loan default.	1	2	3	4	5
2	Poor credit analysis contributes to the occurrences of NPL.	1	2	3	4	5
3	Good credit assessment reduces loan default	1	2	3	4	5
4	We have well experienced credit analysts in loan department.	1	2	3	4	5
5	Poor risk assessment would lead to loan default	1	2	3	4	5
6	Poor Loan follow-up leads to occurrence of non-performing loans.	1	2	3	4	5
7	Strict loan monitoring ensures good loan performance.	1	2	3	4	5
8	Poorly assessed and advanced loans may perform well if properly monitored.	1	2	3	4	5
9	Loan monitoring is inversely related to occurrences of NPL.	1	2	3	4	5

10	Having qualified staffs and higher budget for loan monitoring have lower NPL.	1	2	3	4	5
11	Having large number of borrowers can cause NPL.	1	2	3	4	5
12	Loan default rate is directly related to Bank's size.	1	2	3	4	5
13	Bank's high-risk appetite is a cause for loan default.	1	2	3	4	5
14	Aggressive lending leads to large NPL volume/ratio.	1	2	3	4	5
15	Credit growth highly causes large number of NPL level.	1	2	3	4	5
16	The cause of loan default can be directly related to the business of influential shareholders.	1	2	3	4	5
17	Major shareholders influence the management to allow loan to their business and may fall in NPL	1	2	3	4	5
18	Lenient/lax credit terms cause loan default.	1	2	3	4	5
19	Borrowers default because they do not understand the credit terms well.	1	2	3	4	5
20	Poorly negotiated credit terms lead to loan non-performance.	1	2	3	4	5
21	The existing credit culture of borrowers leads to loan default.	1	2	3	4	5
22	Lack of proper orientation by banks to borrowers causes loan default.	1	2	3	4	5

23	There is a relationship between loan default & borrowers culture.	1	2	3	4	5
24	In some areas, default is ascribed as to the culture of the borrowers.	1	2	3	4	5
25	Non-buying culture of defaulter's property encourages borrowers to default.	1	2	3	4	5

26	Loan (fund) diversion by borrowers cause loan default.	1	2	3	4	5
27	Compromised integrity in lending leads to loan default	1	2	3	4	5
28	Application of credit information bureau reduces the occurrences of NPL.	1	2	3	4	5
29	Charging big interest rate leads to loan default	1	2	3	4	5
30	Loan price affects loan performance	1	2	3	4	5
31	Securing loan by collateral minimize loan default	1	2	3	4	5
32	Collateralized loans perform well rather than non-collateralized loan.	1	2	3	4	5
33	Export loans (non-collateralized) is the sector that holds large number of NPL in Wegagen Bank	1	2	3	4	5
34	Unfair competition of Banks is the cause for occurrences of NPL.	1	2	3	4	5
35	NPL can cause credit crunch.	1	2	3	4	5
36	NPL highly affects the profitability.	1	2	3	4	5

37	Absence of NPL is the sign of efficiency of loan management	1	2	3	4	5

NB: Credit crunch is the phenomena that banks are reluctant to take new risks and commit newloans.

Variables	Variable Description
NPL (Dependent Variable)	The existence and a problem of NPL in Wegagen Bank
Independent Variables	
Credit Assessment (CA)	1. Application of KYC increase credit quality 2. Poor credit analysis contributes to the occurrences of NPL. 3. Good credit assessment reduces loan default 4. Poor risk assessment would lead to loan default 5. Sharing credit information reduces occurrences on loan default
Credit Monitoring(CM)	1. Poor Loan follow-up leads to occurrence of non-performing loans. 2. Strict loan monitoring ensures good loan performance. 3. Poorly assessed and advanced loans may perform well if properly monitored. 4. Loan monitoring is inversely related to occurrences of NPL 5. Having qualified staffs and higher budget for loan monitoring lowers NPL.
Knowledge & Integrity (KI)	1. Lack of proper orientation causes loan default 2. Loan (fund) diversion cause loan default. 3. Compromised integrity in lending leads to loan default. 4. We have well experienced credit analysts in loan department.
Collateral (C)	1. Securing loan by collateral minimize loan default 2. Collateralized loans perform well rather than non-collateralized loan in Wegagen Bank. 3. Export loans (non-collateralized) is the sector that holds large number of NPL currently in Ethiopia.
Credit Terms (CT)	1. Lenient/lax credit terms cause loan default. 2. Poorly negotiated credit terms lead to loan non-performance. 3. Borrowers default because they do not understand the credit terms well.
Unfair competition (UC)	1. Unfair competition of Banks causes occurrences of NPL. 2. Bank's high-risk appetite is a cause for loan default. 3. Aggressive lending leads to large NPL volume/ratio.

Ownership & Culture(OC)	1. The cause of loan default can be directly related to the business of influential shareholders. 2. Major shareholders influence the management to allow loan to their business and may fall in NPL 3. There is a relationship between loan default & borrowers culture. 4. The existing credit culture of borrowers leads to loan default. 5. In some areas, default is ascribed as to the culture of the borrowers. 6. Non-buying culture of defaulter's property encourages borrowers to default.
Interest Rate	1. Charging big interest rate leads to loan default. 2. Loan price affects loan performance 3. Having large number of borrowers can cause NPL.

Summary of research questions in relation to RQ (Appendix 2)

Summary of Interview Questions (Appendix 3)

1. In your opinion is non-performing loan is a problem in Wegagen Bank? ___________

2. What are the major factors affecting NPL occurrences in Wegagen Bank?

____

____

____

3. In your opinion do you think your bank adequately assessing credit applications of customers? If no what strategy to be used to overcome such

problem?

____

____

____

4. What is your order on the factors affecting NPL (credit assessment, credit follow up, knowledge & integrity, holding collateral, credit terms, unfair competition, ownership & culture and cost of loan) in relation to occurrence of NPL?

1. ____________________________

2. ____________________________

3. ____________________________

5. What is your recommendation to mitigate the occurrences of NPLs in Wegagen Bank?

____

____

____

Thank you for your valuable response and time.