**ADDIS ABABA UNIVERSITY**

**COLLEGE OF BUSINESS AND ECONOMICS**

**DEPARTMENT OF ACCOUNTING AND FINANCE**

# Assessment of credit management practices in the case of private commercial banks of Ethiopia

**A Thesis Presented in partial Fulfillment of Requirements for the Degree of Master of Science (Accounting and Finance)**

***Submitted to: The Department of Accounting and Finance***

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**Addis Ababa University**
**Addis Ababa Ethiopia**
**JUN, 2022**

# Declaration

I undersigned here by declared that this thesis work submitted by me under the supervision Takele Fufa (PHD), entitled ‘’Assessment of credit management practices in the case of private commercial bank of Ethiopia’’ for the award of the Masters of Addis Ababa University, Accounting and finance, is my original work and has never been discussed at any university. Because of recognition has been granted to all sources and materials

**Declared By**

**Bitanya Abebe Signature __________________ Date ___________________**

**Confirmed By Advisor**

**Takele Fufa (PHD) Signature _______________ Date ___________________**

# Certification

This to certify That Bitanya Abebe carried Out her Thesis on the topic entitled ‘’ Assessment of credit management policy and practice in case of private commercial banks of Ethiopia. The work is Original in nature and is suitable for the submission for the rewired of MSC Degree in accounting and finance.

Advisor; Takele Fufa (PHD):________________________________

Place and Submission Date Addis Ababa University, Jun, 2022

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Approved By the Board of Examiners

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Examiner

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Examiner

# Abstract

*This study attempt to assess credit management practices in case of private commercial banks of Ethiopia. the researcher use some Selection of banks for the study was done seven private commercial banks of Ethiopia Awash bank S.C, Dashen bank S.C, Bank of Abyssinia, wegagen Bank S.C, United bank share company , Nib international bank S.c and Addis international Bank S.C. From those selected seven commercial banks with so many branches nationwide. Therefore the researcher purposive sampling technique in order to select of the study. For the purpose of these study both primarily and secondary data is used. Primarily data was collected through questionnaires distributed to respondent that involve professional working in the bank such as loan clients of the commercial banks. Department managers and senior officers working on credit processing. Secondary data was obtained from National bank of Ethiopian regulations. The data collected via questionnaire were analyzed with descriptive statistic using statistical package for social science (SPSS-20). Respondents reported that the bank financial analyst before extending the loan 68% of respondent relied that the sum of agreed and strongly agreed Study participants reported that they agree about the procedure loan followed for loan approval by the bank is satisfactory and also assess borrower past financial history, credit worthiness and perform detailed financial analysis before extending the loans. The bank faced problems with credit management practice including non-performing loan at various level and identified the causes of NPL. The researcher can concluded that the researcher that the bank used different credit management tools, techniques and assessment models to manage their credit risk to reduce the amount of loan default. It is recommended that the banks should have credit management policies' measurement tools to achieve their objectives. Finding of this study assist in forwarding recommendation to improve the problem the present credit management activity. In addition to this, based on implication of the research also recommended areas for future research*



***Key words****: credit management practice, threats of credit management policy implementation*

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# Chapter One

## 1. Introduction

This introduction chapter presents background of the study, background of the study area, background for the statement of the problem, research questions, the research objectives, scope of the study, significance or implication of the study, limitation and organization of the study.

## 1.1 Background of the study

Banks are financial institutions that are established for lending, borrowing, issuing, exchanging, taking deposits, safeguarding or handling money under the laws and guide lines of a respective country. Up on their activities, credit provision is the main product which banks provide to potential business entrepreneurs as a main source of generating income. Credit management means the total process of lending starting from requesting potential borrowers up to recovering the amount granted. In the logic of banking sector, credit management is concerned with activities such as accepting application, loan appraisal, loan approval, monitoring, recovery of non-performing loans, etc (Shekhar, 1985). Credit management is the process of controlling and collecting payments from customer.

Moreland (2003) describes that credit management as method and strategies adopted by the firm to ensure that they maintain and optimal level of credit and it is effective management. It is an aspect of financial management involving credit classification and credit reporting. A good credit management would help to reduce the amount of capital tied up with debtor. Credit management exists in any industry sector. E.g. manufacturing, distribution, retail telecoms, utility, local authority financial service and with any size company from SMEs (small, medium enterprise) to large corporations. Nelson (2002) sights credit management as simply the means by which an entity manages it is credits. Its prerequisite for any entity dealing with credit translation since it is impossible to have zero credit or default risk.

Charles Mensah (1999) discussed the significance of credit management as follows: Credit management process deserves special emphasis because proper credit management greatly influences the success or failure of financial institutions. A work for specializing in credit management service E.g. debt collations agency, credit insurance company and credit reference agency is very important. A key responsibility with credit roles includes risk assessment billing quarry resolution, debt collection and taking legal action when payments are overdue. The credit ratings before or the credit application process which includes cheek of client credit rating before guarantying approval still incur bad debt even with sound credit management policies and procedures.

Credit management policy and practice is very essential for every banks to manage their loan that given to their loan customers like investors who receive loan from banks for the business purpose and individuals who receive a loan from banks for consumption, house construction, car purchase, medication, education and the like. This implies that credit provision should be accompanied by appropriate and attractive credit policies and procedures that enhance performance of credit management and protects the banking industry from failure. For this reason the credit departments of any banks work on identifying a prospect and potential customers before giving loan to the person or a business. This important task was be done with the help of policies and procedures as well as with the help of loan criteria which are presented on the bank credit management policy and practice manuals or documents and loan forms.

Private commercial banks of Ethiopia are financial institutions engaged in providing short and medium credit like other commercial banks in the country in general and in the Addis Ababa city in particular. The bank has been playing a significant role in providing loans and advances to its clients that enhances the investment need in the country and as means of generating income for its shareholders. Conducting study on such bank credit management policies, practical manuals and procedures is very important and used to save both loan givers (the banks) and borrowers (business making firms and individuals) who receive loan from the bank.

This is where the concern about this research topic began and stimulated the researcher to assess the Ethiopian private commercial banks for 2021/2022 fiscal year credit management policy and practice and to investigate credit management problems, show strengths and gaps of the banks from different perspectives in light of the practices of modern credit management in financial sectors.

## 1.2 Statements of the problem:

The banking industry plays a remarkable role in accepting deposit and granting loans to the individuals, cooperatives etc. The nature of bank in business is very sensitive, because more than 85% of their liability is deposit mobilized from depositors. Bank use these deposit to generate credit for their borrowers, in fact it is a revenue generating activity for most banks. According to Shekhar, 1985, credit theater an important role in the lives of many people and in almost all industries that involve monetary investment in some form. Credit is mainly insured by banks including to several other functions like mobilizing deposits, local and international transfers, and currency exchange service. Besides other service, bank must create credit management procedures to make some money grow and survive in stiff competition at market.

Credit management policy is the most important and necessary for achieving individual, group and organization performance. It is also very important in day to day business activity to improve sustainability brig advancement in the country. According to Hettihewa, 1997, Credit Management is extremely important as safeguarding credit is considered to be the equivalent of investing in a customer. Thus, Efficiency and effectiveness in performing every steps of loan processing using various bounds has significant effect on performance of credit management. Therefore, payment of the debt should not be postponed for too long as delayed payments and bad debts are a cost to the company. Though, the major problems in financial institutions are improper credit management greatly influence the success or failure of commercial banks and other financial institutions. The credit creation process, if not managed properly exposes the bank to high default risk might led to financial disaster including bankruptcy.

This is because the failure of deposit banks is influenced which would have greater impact for the survival of the economy. In all financial institution in general and Banks in particular, a credit management policy and practice is give grant for both loan provider (the bank) and the parties who receive a loan from banks like individuals and companies. But this credit management policy and practice lack clarities and used as low enforcement by the banks on them credit customers/borrowers. This inappropriate act creates a negative image on the bank credit customers who receive credit for business purpose on for personal consumption.

In case of banks, the issue of credit management is even greater concern because the higher level of perceived risks resulting from some of the characteristic of client, business condition and economic environment in they find themselves. The concern of credit management has a profound implication both at the micro and macro level. When credit is allocated weakly it raises costs to successful borrowers, erodes the fund, and reduces banks flexibility in redirecting towards alternative activities. Furthermore, the more the credit, the higher is the risk associated with it. In most banks some problem may exist such as poor selection of risk among borrowing customer and high proportion of loan outside of the lenders (Rose and Hunging, 2008).This adverse selection of credit customers creates a credit risk to the bank and results problem on loan.

The problem of loan default, which is resulted from adverse credit customer selection and poor credit management, reduces the lending capacity of a bank. It also rejected new applicants' access to credit as the bank's cash flow management problems augment in direct proportion to the increasing default problem. In other words, it may disturb the normal inflow and outflow of fund a bank has to keep waiting in sustainable credit market. For this reason, credit evaluation decisions are important for the financial institutions involved due to the high level of risk associated with wrong decision. The process of making credit evaluation decision is complex and formless. This complex and unstructured corrective action process of credit evaluation needs proper credit management by the concerned banks.

Accordingly, the previous studies provide less consideration to their credit management practices of the private commercial banks branches that would alleviate the problems encountered. Therefore according to the researcher, it's difficult to believe that the study exhaustively examine the credit management policy and practice especially in branch bank bases. This is the main problems that motivate the researcher to conduct this research with the connection of the above problem. Therefore, the principal concern of this study was be to assess the performance of credit management practices of private commercial banks of Ethiopia in Addis Ababa main offices and fill the existing gaps and provide conclusion and recommends in line with the main objective of the study.

## 1.3 Research Questions

The main objective of this study is to assess credit management practices private commercial Banks of Ethiopia. Based on the research problems, the researcher tried to answer the following research questions.

1. Does the Bank consistently comply with its policy and procedures in entertaining its loan applicants, loan processing, and collecting?
2. What threats are encountered in terms of implementing the credit policies & manuals and what measures and policy improvement was being done to secure banks from credit risk?
3. To what extent is the Bank accelerating the performance of credit management in line to its policy and national banks requirement?

4. How to evaluate the Bank's credit quality as compared to National Bank's requirements and its credit policy?

## 1.4 Objective of the study

### 1.4.1 General objective

The main objective of the study is to evaluate and assess the practices of credit management at private commercial banks of Ethiopia in Addis Ababa main offices.

### 1.4.2 Specific objective

1. To evaluate the Banks consistently comply with their policy and procedures in entertaining its loan applicants, loan processing, and collecting Bank consistently comply with its policy.
2. To evaluate the threats are encountered in terms of implementing the credit policies & manuals and their measures and policy improvement will be done to secure banks from credit risk.
3. To assess the extent is the Bank accelerating the performance of credit management in line to its policy and national banks requirement.
4. To assess the Bank's credit quality as compared to National Bank's requirements and its credit policy instrument.

## 1.5 Significance of the study

Generally, The following three important actors: practitioners (for each banking industries and their workers), policy makers and researchers and the implication of the study are: informing for policy which was be developed by national bank of Ethiopia and commercial banks, use as a guide for other researchers for additional study and used to develop a study related theory. Therefore, this study is assumed to be significant in indicating best practice and concepts for prudent lending to enhance the performance of credit management to all managers and policy makers of the banks and financial institutions.

The study assumed to provide positive contribution in finding solution to the banking area regarding credit management police and practice related problem, to develop the researcher experience, to give awareness to borrower on credit management policy and practice and take corrective actions for the problems identified regarding debt repayments, to help the researcher for partial fulfillment of course of seminar in Accounting and It was be used as guidance for the people who want to do more research on banking and other financial sector.

## 1.6 Limitations of the study

To conduct this study there are some challenges that the researcher expected to faced. Due to the current world pandemic covid-19 virus case, time was be a main constraint to conduct the study and was be a key limitation during data collection and analysis. And also since banks are profit making organizations and most information are held secret, assessing information as needed might be a bit difficult.  All these barriers restrain this study to investigate the problem in deep. However, the research group tried to minimize those problems and gives emphasis on systematic investigation system by devoting time on the study, convincing and informing the interviewees the purpose of the research.

## 1.7 Scope of the study

The overall scope of this study is focused on the extent to which the research objectives are concerned. The study was cover credit policies, procedures, and credit operations of the Bank. In addition, the study was concern with identifying the major reasons for best practices of credit management, loan growth, and causes of loan default if any in the selected banks branch. The study of credit management is wide and very vast and need long term study. Due to this reason, the study is restricted only on assessments of credit management policies and practices in the private commercial banks of Ethiopia in Addis Ababa and the study was be conducted within six months period of from January to June 2022.

## 1.8 Organization of the study

This study organized in to five chapters. Excluding the first chapter, the rest parts of this research was being organized in to four chapters. Accordingly, chapter two discusses the details of related Literature review, review of empirical studies and develops knowledge gaps focuses on the credit management policy and practice, the third chapter focuses on methodology employed for data collection and analysis, the fourth chapter deals with the results and discussions of the study and finally chapter five presents conclusion and recommendation of key findings, conclusion, recommendations and implication of the study based on the findings of the study.

# Chapter Two

## 2. Literature Review

This chapter presents the Literature review including concept and definition, theoretical review, review of empirical data and develops knowledge gaps by dividing them into four sections. The first section discusses the key concepts such as financial institution, Bank and credit management. The second section deals with the theoretical review of the study. The third section presents a review of empirical studies on credit management policy and practice. The final section develops a knowledge gap for analyzing the determinants of credit management policy and practice on the basis of the insights gained from literature review and the actual context of the study area.

### 2.1 The theoretical and conceptual Review

The society at that time being new for the banking service, private commercial Banks of Ethiopia had faced difficulty of familiarizing the public with it. They had also need to meet considerable cost of installation and the costly journeys by its administrative personnel. Generally, in its short period of existence, private commercial Banks of Ethiopia had been carrying out limited business such as keeping government accounts, some export financing and undertaking various tasks for the government. Moreover, the Banks faced enormous pressure for being inefficient and purely profit motivated and reached an agreement to abandon its operation and be liquidated in order to disengage banking from foreign control and to formulate the institution responsible to Ethiopia's credit needs. Thus by 1931 Bank of Abyssinia was legally replaced by Bank of Ethiopia shortly after Emperor Haile Selassie came to power, Awash bank was created in 1994, and is the first of the private commercial banks that were formed in Ethiopia, this came after Ethiopia's 1991 financial deregulation, Dashen bank was performed in 1995 by the National bank of Ethiopia's National licensing and supervision of banking Business proclamation 84/1984 and the commercial code of Ethiopia 1960, Wegagen Bank was formed in 1997, and today owns 211 branches, with 83 of them located in the capital Addis Ababa and the remainder 128 wegagen branches in regional cities and towns across Ethiopia, United Bank S.C. is a share company that was established in 1998 and today operates over 229 branches with about 3,700 employees across Ethiopia. They offer a range of commercial banking operations, NIB International Bank was created in 1999 and today has over 130 branches with 3,600 employees all across Ethiopia, Addis International Bank (AbIB), is another relatively young bank that is making head way while competing with the older banks, and Debub Global Bank reportedly made 142 million ETB gross profits for the 2017/2018 financial year. Those banks are established before 2 decay or above 20 years

Most of the contemporary capable economic literature emphasizes the relevance of financial innovations, embodied both in financial institutions and in financial technologies, in promoting and speeding up economic development. Basic transform and convenient arrangements conducive to economic development were brought up in Ethiopia also in the financial sector during the first decades. The private commercial banks of Ethiopia which means bank of Abyssinia, established starting from in 1905, was given a 50-years concession by the Emperor Menelek II. This institution was occupied in issuing notes as well as in any kind of commercial banking business. Haile Sellassie, after acceding to the throne in 1930, could never accept that the country's issuing bank was a foreign-owned share company and decided for nationalization.

The change was applied, however, in a soft way, providing an adequate compensation to shareholders, and in agreement with the main foreign shareholder, the National Bank of Egypt. The Bank of Abyssinia departed, therefore, into liquidation and a new organization, the Bank of Ethiopia, was established in 1931. The new bank, although under full Government control, kept management, staff, premises and clients of the ceased financial institution. Italian occupation of the country, in 1936, brought the insolvency of the Bank of Ethiopia
However, the banking business can never move further because of the nationalization of private investments by the Socialist regime (the Dergue regime) that came into power leaving only three government banks; the National Bank of Ethiopia, the Commercial Bank of Ethiopia and agricultural and Industrial Bank of Development. This was wrong way up when the Socialist regime was overthrown in 1991. Next to the overthrown of the Dergue regime in 1991, the EPRDF declared a liberal economic system.

### 2.1.1 Overview of banking and its theories

Definitions of financial sectors, Bank and credit management were discussed. Definitions of them given by different scholars were discussed and a classification scheme to describe the perceived attributes and perception were presented.

### 2.1.2 Credit management policy

There are many explanations given for credit management by different scholars. Among these some are here quoted as follows: Credit management is implementing and maintaining a set of policies and procedures to minimize the amount of capital tied up in debtors and to reduce the exposure of the business to bad debts. Credit management is the process of granting credit, setting the terms it's granted on, recovering this credit when it's due and ensuring compliance with company credit policy, up on other credit related functions. The goal within a bank or company in controlling credit is to maximize revenues and profit by facilitating sales and reducing financial risks. Credit management is concerned mainly with using the banks resource both productively and profitably to achieve a preferable economic growth.

Credit management contains two aspects; from one angle it is that how to distribute credit among all sectors of economy so that every sector can develop and banks also get profit and from the other angle, how to grant credit to various sectors, individuals and businesses to illuminate credit risk. Construction Credit Management is considered an area of specialty as it includes some specific skill sets:

There are several types of credit management policies such as based on industry, lending activities, Top management's business style or approach to lending.

### 2.1.3 Credit Management

There are many explanations given for credit management by different scholars. Among these some are here quoted as follows: Credit management is implementing and maintaining a set of policies and procedures to minimize the amount of capital tied up in debtors and to reduce the exposure of the business to bad debts. Credit management is the process of granting credit, setting the terms it's granted on, recovering this credit when it's due, and ensuring compliance with company credit policy, up on other credit related functions. The goal within a bank or company in controlling credit is to maximize revenues and profit by facilitating sales and reducing financial risks. Credit management is concerned mainly with using the banks resource both productively and profitably to achieve a preferable economic growth.

Credit management contains two aspects; from one angle it is that how to distribute credit among all sectors of economy so that every sector can develop and banks also get profit and from the other angle, how to grant credit to various sectors, individuals and businesses to illuminate credit risk. Construction Credit Management is considered an area of specialty as it includes some specific skill sets:

- Strong knowledge of security and lien law within your province, state or territory,
- The ability to understand how money moves through the construction pyramid,
- People skills that go beyond traditional credit management in that the credit manager may be required to deal with Managerial and non-managerial staff of both the white and blue collar variety and
- A basic knowledge of construction and the willingness to make site visits if needed.

The process of credit management begins with precisely assessing the credit-worthiness of the customer base and his/her business viability. This is particularly important if the company chooses to extend some type of credit line or revolving credit to confident customers. Hence, appropriate credit management is setting specific criteria that a customer must meet before receiving the proposed credit arrangement. As part of the evaluation process, credit management also calls for formative the total credit line that was being extended to a given customer. Several factors are used as part of the credit management procedure to evaluate and qualify a customer for the receipt of some form of commercial credit. This includes gathering data on the possible customer’s current financial condition, including the current credit track record that discloses the character of a customer in meeting obligations as well as collateral value.

The current ratio between income and outstanding financial obligations was also being in use into consideration. Competent credit management needs to not only protect the bank or any financial institution involved from possible losses, but also protect the customer from creating more debt obligations that cannot be settled in a timely manner. When the process of credit management functions efficiently, everyone concerned benefits from the effort. The financial institution such as banks has a logical amount of assurance that loans granted to a client was be paid back within terms, or that regular minimum payments were be received on credit account balances.

There are four basic types of credit. By understanding how each works, financial institutions were be able to get the most solution for their loan recovery and avoid paying needless charges.

1. **Service credit** is payments for utilities such as telephone, gas, electricity, and water. You frequently have to pay a deposit, and you may pay a late charge if your payment is not on time.
2. **Loans:** Loans can be for small or large amounts and for short or long periods. Loans can be repaid in one lump sum or in several regular installment payments until the amount borrowed and the finance charges are paid in full. Moreover, loans can be secured or unsecured.
3. **Installment credit**: is described as buying on time, financing through the store or the easy payment plan. The borrower takes the goods home in exchange for a promise to pay later.
4. **Credit cards** are issued by individual retail stores, banks, or businesses. Using a credit card can be the equivalent of an interest-free loan--if you pay for the use of it in full at the end of every month.

The fundamental objective of commercial and consumer lending is to make profitable loans with minimal risk. Management should target specific industries or markets in which lending officers have expertise. The credit process relies on each bank's systems and controls to allow management and credit officers to evaluate risk and return tradeoffs.

According to Timothy (1995), the credit process includes three functions: business development and credit analysis, credit execution and administration, and credit review.
Credit analysis is the primary method in reducing the credit risk on a loan request. This includes determining the financial strength of the borrowers, estimating the chance of default and reducing the risk of non-repayment to an acceptable level. In general, credit evaluations are based on the loan officer's subjective assessment (or judgmental assessment technique).

A bank's credit analysts often use the five C's of credit to focus their analysis on the key dimensions of an applicant's creditworthiness. Lawrence (1997:776-777), identified five C's of credit. They include; Character, Capacity, Capital, Collateral, and Conditions.

1. **Character:** The applicant's record of meeting past obligations, financial, contractual, and moral. Past payment history as well as any awaiting or resolved legal judgments against the applicant would be used to evaluate its character.
2. **Capacity**: The applicant's ability to repay the requested credit. Financial statement analysis, with particular importance on liquidity and debt ratios, is typically used to assess the applicant's capacity.

3. **Capital**: The financial strength of the applicant as reflected by its ownership position. Analysis of the applicant's debt relative to equity and its profitability ratios are frequently used to assess its capital.
4. **Collateral**: The amount of assets the applicant has available for use in securing the credit. The larger the amount of on hand assets, the greater the chance that a firm was recover its funds if the applicant defaults. A review of the applicant's balance sheet, asset value appraisals, and any legal claims filed against their assets can be used to evaluate its collateral.
5. **Conditions**: The current economic and business climate as well as any unique circumstances affecting either party to the credit transaction. Analysis of the general economic and business conditions, as well as special circumstances that may affect the applicant or firm is performed to assess conditions.

### 2.1.4 Credit policies and procedures

The credit policy procedure outlines the activity and responsibilities in obtaining a credit approval for a potential customer before sales order are processed. Credit policy and procedure reduces potential collection four your company. It is the process of assigning value to various elements of a customer credit history and payment performance to quantify its credit worthiness. This policy provides a process to evaluate and approve new customer account or customer credit limit increases through the use of credit scoring. These procedures are to be followed for all credit approval requested by the sale or customer service department for customer interested in open account lease or rental financing.

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

Therefore a number of collection methods are employed. Under normal situations loan clients are expected to pay in cash or deposit or keep their installment repayment as per the agreement made. As the loan account becomes past due or overdue the collection effort becomes more individual and strict. The basic techniques are:

1. **Telephone Calls:** If the loan client passes the due date, a telephone call may be used to the customer to request immediate repayment and up to date his or her account.

2. **Personal visits:** - If the telephone call made is not resulted positive response vesting his business and discussing the issue with the customer can be a very effective collection procedure.
3. **Letters**: - letter is to be served reminding the customer of its obligation followed by warning letters for the action to be taken in future and its consequence. Collection letters are the primary step in the collection process for past due and overdue loan accounts.
4. **Using Collection Agencies**: Firms can turn uncollectible accounts over to a collection agency or an attorney for collection. The fees for this service are typically moderately high; the firm may receive less than fifty percent on accounts collected in this way.
5. **Legal Action:** legal action is the most stringent step in the collection process. It is an option to the use of a collection agency not only is direct legal action expensive, but is may force the debtor in to bankruptcy, thereby reducing the possibility of future business without guarantying the ultimate receipt of overdue amount.

### 2.1.5 Credit/ Loan Follow up

Lending decision is made on sound credit risk analysis/appraisal and assessment of creditworthiness of borrowers. But past risk of satisfactory performance and integrity are no guarantee futures, though they serve useful guild to project trend in performance. A loan granted on the basis of sound analysis might go bad because of the borrower may not meet obligations per the terms and conditions of the loan contract. It is for this reason that proper follow up and morning is essential. According to the National bank of Ethiopia, monitoring or follow up deals with the following vital aspects:

- Ensuring compliance with terms and conditions
- Monitoring end of approved funds
- Detecting deviation from term of decision
- Making periodic assessment of the health of the loans and advances by nothing some of the key indicators of performance that might include; profitability, activity level and management of the unit and ensure that the assets created are effectively utilized for production purposes and are well maintained.
- Ensuring recovery of the installments of the principal and interest in case of term loan as per the programmed repayment program
- Identify early warning signals, if any, and initiate remedial measures thereby averting from possible default.

Basically there are three types of loan follow up systems. These are: physical follow up, financial follow up and legal follow up (NBE Directives, 2010). Each is discussed in section that follows:

A. Physical follow-up

   Physical follow-up helps to ensure existence and operation of the business, status of collateral properties, correctness of declared financial data, quality of goods, conformity of financial information with other records (such as taxes, register books), availability of raw materials, labor situation, management set up among others (NBE Directives, 2010).

B. Financial follow- up

   Financial follow up is required to verify whether the assumption on which lending decisions was taken continues to hold good both in regard to borrowers' operation and environment, and whether the end use is according to the purpose for which the loan was give (IBID).

C. Legal Follow-up

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

## 2.2 Reviewing Empirical studies

The research works conducted in Ethiopia about assessment of credit management policy and practice in case of private commercial banks of Ethiopia are as follows.

Haimanot Nigussie (2021) in this study “Assessment of credit management practice at dashen Bank” as the researcher conclude the analysis clearly shown that an effective credit management practice of a bank depends up on a number of important factors. The effectiveness of credit management practices depends up on the proper understanding of credit management among the bank staffs. Furthermore, it is very important for bank to formulate on active credit management process to identify measure, monitor and control credit risk, the credit management, i.e. to reduce amount of loan default. The bank faced problem with credit management practice including non-performing loan at various level and identified the causes of NPL. At borrower levels, diversion of the borrowed fund to other than initially intended purpose, lack of proper business plan and contingencies at borrower’s e.g. Death, sick holds stand were identified. At bank level, lack of continuous follow up and proper risk assessment, problem associated with loan eligibility criteria, lack of consultation and communication with defaulter, lack of sufficient credit information from other commercial bank, mistakes on estimation of collateral and evaluating the borrower’s financial report and other were also identified. Finally at the economic level were unstable political situation, weak economic plan and strategy implementation and change in fiscal and monetary policies.

Yihunalem (2015) in his investigation of ‘’ credit monitoring activity and asset quality in the case of dashen bank’’. The main finding recognized in the study were associated with that the relationship of credit monitoring activity, factors that affect credit monitoring activity and/ or asset quality, relationship of the factors and areas of improving credit monitoring activity progress of  asset quality. The findings were offered in the stylized truth summarized from the view of survey collected through structured questionnaire. Thu, were presented in a tabulation from by categorizing the expert’s responses based on their conceptual relationship.

Hable, (2018) ‘’assessment of credit management practice at united bank share company’’ as she completed the analysis clearly shown that the bank portfolio is invested in different sectors of the economy and as per the pre-set concentration limits in every sectors which respondents witness. The bank is currently concentrating on specific sectors within the year in to account. In addition, through interview acknowledged that thanks to underdevelopment of credit orientation borrowers engaged in business that they had no depth knowledge, diverted loans and advances for unintended purpose, willful default, over presenting of project costs and poor projects feasibility studies are factors which results in customers default. As some extent of future studies if a comparison among various commercial banks during this manner is undertaken to obviously see bank specific gaps within the credit management process of banks.

Hagos(2010), which may be a case study on ‘’credit management practice of the wegagen bank in Tigray Region’’ has found that the bank was managing its credit well in many aspects in this specific region. However, the research has also indicated that very long loan processes, in adequate credit policy in terms of customers aspect discouraging credit customers, the researcher has also only short-term credit facility resulted in repayment loan on the credit department process of loan and advice, but this research assessment was focus on the practice of credit management as a whole. As to the knowledge of the researcher there are no studies conducted mainly to identify the problems related to assessment of credit management at corporate level with reference to Dashen Bank Share Company. Thus, the researcher felt it appropriate to take up the present study entitled “Assessment of credit management practice at Dashen bank Share Company” to examine the credit management problems and thereby to recommended cource of action that are assumed to promote quality loan growth and restrict non-performing loan.

Dr.Shaik Abdul Majeeb Pasha1, Bayush Mintesinot2 (2017) as the researchers conclusion “Assessment of Credit Risk Management system in Ethiopian Banking”. Majority of employees of the bank working in credit department are by 2$^{nd}$ degree holders followed by 1$^{st}$ degree holders and highly experienced which might this enables the bank to accelerate its service delivery and become effective in the growing stiff competitive banking industry in Ethiopia as qualified and experienced work force enhances competence and increase in operating results.

The study concluded that banks used different credit risk management tools, techniques and assessment models to manage their credit risk, and that the all have one main objective. I.e. to reduce the amount of loan default which is the principal cause of bank failures?

The weaknesses in credit creation and procedure which most of the employee have agreed might adversely affect loan growth and client reputation.

The study also exposes that banks with good or sound credit risk management policies have lower loan default ratios (bad loans) and higher interest income (profitability).

The existing literatures indicate that a number of studies were carried out about credit risk management on commercial banks abroad and in Ethiopia. However due to diversify investments in the country during last 10 and or above years there is an increase on loan demands among investors from commercial banks in the country. Including to this, high demands for loan commercial banks are highly busy in launching branches across the country. These circumstances have created an environment in which commercial banks to encounter risks in credit management. Loans are becoming large and at the same time, bad loan has increased substantially during the past few years, Sahlemichael M. (2009). Therefore this study investigated these newly emerging challenges in credit risk management process in commercial banks encounter in Ethiopia.

## 2.3 Summaries of literatures and knowledge gap

As stated in the above different literatures and researchers try to examine the credit management policy and procedure by taking different measures like the impact of borrower financial position on credit management and the impact of borrower and lenders on credit management however the problem is not exhaustively solved. In some cases, the failure to perform adequate due diligence and financial analysis and to monitor the borrower can result in a breakdown of controls to detect credit related fraud. The current researcher would try to fill the aforementioned gaps by doing further study on related issues.

# Chapter Three

## 3. Research Design and Methodology

### 3.1 Introduction

The proposal for attaining research objectives and addressing research questions is the research deign. In other word, it's a master plan that lays out the strategies and procedures for gathering and analyzing the data that's needed. The aim of research design, according to Kothari (2004), is to allow for the collection of relevant evidence with minimal expenditure.

This chapter presents the overall research methods used to carry out the research. The chapter consists research design, research approaches research approach used, qualitative and quantitative, and data analysis technique.

### 3.2 Research Methods

A research design is the conceptual structure by which a research is conducted and constitutes a blueprint for collection, measurement and analysis of data. In order to achieve the objective of the study, the research was employ descriptive research methods in this study, in doing so, the study intended to describe, and interpret the existing facts about credit management. Further, the researcher's utilizes a survey as a research method. Primary data was collected through questionnaires distributed to respondents that involve loan clients of the commercial banks. Department managers and senior officers working on loan processing. Secondary data was obtained from publications of private banks.

### 3.3 Research approaches

There are three alternatives research approaches: qualitative, quantitative and mixed approaches. These approaches are different in terms of their philosophical assumptions as well as techniques used in data collection, analysis and interpretation. Each approach has been discuses briefly in the following paragraphs.

The first approach is qualitative research, which is concerned with subjective valuation of opinions, attitudes and behavior. In such a case, analysis is based on the researcher observations and experiences (Kothari 2004). Via approaches such as in-depth interviews and / or focus group discussion, it investigates perceptions, habit and experiences (Dawson 2002). The qualitative approach aims to elicit a detail response from participants. A side from that, it streamlines responses and offers in-depth data with key respondents (Dawson 2002). It can create a hypothesis by discussing problems that are not quantifiable. It often looks at topics that haven't had enough attention in the past (Creswell 2007). This method on the other hand, has received lackluster (boring) responses. It has been criticized for lack of scientific rigor, small samples, subjective and non replicable efforts. Because of the limited sample size and uniqueness of the research environment, the researcher inference in the researcher approach is very strong, resulting in the bias. It is also difficult to make large generation that extend to the whole population.

Another approach is quantitative research approach. This research method entails using large scale survey research, such as closed ended questionnaires and/ or structured interviews, to produce statistical data (Dawson 2002). (Creswell 2009) was noted that quantitative approach employs strategies of inquiry such as surveys, experiments and collects data on predetermined instruments that yield numeral data that can be analyzed using statistical procedures. It is a method of putting objective hypotheses to the test by looking at the relationship between variables. It is advantageous since it uses a scientific approach to assess the instrument's reliability and validity. It employees a broad sample size and minimizes bias from the researcher's power. Hence, the result can be believed on and the results can be generalized to larger population. However, it is unable to resolve problems that are not quantifiable. As a result, it may be reduced in scope.

The third approach is mixed research approach, as the name indicates that is combines both quantitative and qualitative research approach. To better understand the research issue, it employs inquiry techniques that include collecting data either simultaneously or sequentially. The data collection process entails collecting both numerical and textual data (Creswell 2009). The use of theory deductively in theory testing and verification, or inductively in an evolving theory or trend, is part of a mixed approach (Mertens 2003) cited in (Creswell 2007). As a result the mixture, offers a more comprehensive view of the research issues. It takes advantage of the strengths of both continuum methods while still addressing shortcomings. However, for extensive data collection. Mixed research approach characterized by its time-intensive nature of analyzing both numeric and text data.

### 3.3.1 Population of research

The target group of this study are the loan clients of the banks and the employees who are directly involved in loan processing and administering. This means, senior bank professionals, Department heads, Branch managers, Assistant branch managers, Loan section heads, Loan officers, Loan clerk, and Loan Committee members of branch are included in the target group.

### 3.3.2 Research type and Data sources

In order to achieve the general objective of the study, the researcher undertakes description approach using both quantitative and qualitative data. Such research type includes surveys and fact-finding enquiries of different kinds. The major purpose of descriptive research is description of the state of affairs as it exists at present. The research was employed both primary and secondary data sources. These data type was being obtained from both primary and secondary data sources. Primary and secondary data are collected; the primary data were collected through questionnaire and interview.

### 3.3.3 Sample and sampling techniques:

Hence, determining sample size is one of the most important components of the study. The sampling technique used for the purpose of this study was be stratified random sampling as it is assumed to provide more efficient sample considering the sort of loan clients and staff of the bank. Moreover, the sample is assumed to reflect accurately the population on the basis of the criterion used for stratification. As the bank classifies its clients as performing and non-performing clients based on their repayment status as per their repayment agreement and the regulatory body, National Bank of Ethiopia, (NBE) two stage sampling procedure is employed to select the clients for the study. Considering the objectives of the study, using Proportionate Stratified random Sampling (PSRS) approach about 50 loan clients out of whom 35 performing loan clients and 15 non- performing loan clients were be selected. So that PSS is followed to select the number of respondents.

As to May, 2022, there are twenty banks in Ethiopia. Out of them only seven banks facts have been taken. As noted by (Kothari, 2014) good sample design must be viable in the context of time and fund available for research study. Besides, purposive sampling offers the researcher to deliberately select items for the sample concerning the choice of items as supreme based on the selection criteria set by the researcher. Accordingly the study employed purposive sampling technique to select the required sample of banks from the above listed banks.

The selection criteria set by the investigator was being first, the required banks were being only commercial banks in Ethiopia. Second, those even commercial banks, which are selected for study, should operate during twenty years and above having financial statements for consecutive twenty years and their own credit management policy and exercising

In this investigation, the researcher utilized purposive sampling technique in order to select participants of the study. The behind purposive sampling is to concentrate on people who are directly involved in credit processing and administering because they would better be able to assist with the relevant research data.

#### 3.3.4 Sample size

Regarding the sample of participants engaged in survey were also purposive selected from senior managerial level staff member this help the researcher to incorporate well experienced individuals who can give valuable information for the study. Taking in to account sample size for a study decided to be 51. These were distributed to each bank proportionally.

**Table 3.1 Show the proportion of participants from each bank according to their establishment of year**

| No. | Name of the Bank | Starting Year | Number of survey participants |
|---|---|---|---|
| 1 | Awash bank S.C | 1994 G.C | 8 |
| 2 | Dashen bank S.C | 1995 G.C | 6 |
| 3 | bank of Abyssinia S.C | 1996 G.C | 6 |
| 4 | Wegagen bank S.C | 1997 G.C | 10 |
| 5 | united Bank S.C | 1998 G.C | 9 |
| 6 | Nib international bank S.C | 1999G.C | 7 |
| 7 | Addis international bank | 1996 G.C | 5 |
| | **Total** | | |

The above that selected by the researcher sample banks selection criteria was age and experience e.g. Addis International bank has long term loan credit management experience starting from 1996 G.C ( since micro finance). But February 21, 2008 Addis international bank changed from micro-finance to bank.

The researcher distributed questionnaire as per the respondent's willingness. Because majority of respondent was busy.

### 3.3.5 Data gathering tools

Gatrhering of data refers to a purposive Collecting of information relevant to the subject matter of the study from the units under investigation. Most argue that employment of multiple tools provide the investigator with a better understanding of the research question under investigation. Employing several instruments was also being helpful for triangulation of the results. By taking this into consideration, in this particular research a researcher was employ methods such as document analysis as data collection tools. The Study area was being held in order to collect data about the factors and problems.

### 3.3.6 Data analysis techniques

The gathered data were analyzed by using descriptive statistics. percentages, frequencies and tables was be used for the analysis of the collected data which assisted in the interpretation and analysis of the data collected to help measure the bank‘s performance. The information gathered from important sources was be triangulated and organized in to manageable manner using tables based on similarity of the issue in order to make the analysis easy with the help of Statistical Package for Social Science (SPSS version 21). Based on the organized data, analysis was undertaken mainly quantitatively. In the discussion part the major finding of data analysis briefly discussed by supporting various literatures. Finally conclusion and feasible recommendations have been drawn based on the major findings of the analysis.

## 3.4 Ethical considerations

Before data collection ethical clearance was obtained first from ethical review committee of Addis Ababa University. School of graduate studies. Letter of permission was taken to approach respondent's to take an appropriate data. Then consent was taken from individual respondent after assuring that information supplied kept strictly confidential and use full for the academic research purpose only.

# Chapter Four

## Data Analysis, Presentation, and Discussion

In the previous chapter the research design and methodology adopted has been discussed. This chapter encompasses the result and discussion of the finding in examination of the research questions raised in first chapter of this research study. The chapter is organized in three sections. The first section presents the broad research objective and specific research questions to connect it with the result of study. This is followed by the results of the document analysis and finally conclusion of the chapter has been presented in section

### 4.1 Broad research objective and particular questions

The broad objective of the study is to assess credit management policy and procedure in case of private commercial bank of Ethiopia

The following Basic Research questions (RQ) have been established based on the above research objective

RQ1. Does the Bank consistently comply with its policy and procedures in entertaining its loan applicants, loan processing, and collecting?

RQ2.What threats are encountered in terms of implementing the credit policies & manuals and what measures and policy improvement was being done to secure banks from credit risk?

RQ3.To what extent is the Bank accelerating the performance of credit management in line to its policy and national banks requirement?

RQ4. How to evaluate the Bank’s credit quality as compared to National Bank’s requirements and its credit policy?

### 4.2 Demographic characteristics of Respondent

The demographic nature of the employee has a large contribution in the credit management policy and procedures on top of exercising and improving it when demanded.  The researcher issued (56) questionnaires to the head office of 7 private banks of Ethiopia but the researcher received 51 responses Thus in this work process the demographic personality of respondents like gender, age, marital status, and educational level are assessed.

Table 4.1

| Variable | Name | Frequency | Percent |
|---|---|---|---|
| Gender | Male | 35 | 68.6 |
| | Female | 16 | 31.4 |
| Age | 18-25 | 10 | 19.6 |
| | 26-35 | 30 | 58.8 |
| | 36-50 | 11 | 21.6 |
| Marital status; | Single | 21 | 39.2 |
| | Married | 30 | 56.9 |
| Educational status | secondary and preparatory | 1 | 2 |
| | Degree | 24 | 47.1 |
| | MSc and above | 26 | 51 |
| Work experience: | 1-3 Years | 4 | 7.8 |
| | 4-7 Years | 22 | 43.1 |
| | 8 and above | 25 | 49 |
| Position | Senior Management | 4 | 7.8 |
| | Middle Management | 17 | 33.3 |
| | Line Management | 11 | 21.6 |
| | Other Clerical | 19 | 37.3 |

**The mix of gender** of the employee in the loan area is 35(68.6%) dominated by the male parts and 31.4% is female as it shown in table 4.1.

**The age** range of respondents. Majority of them lies 26-35 years which is the a share of 58.8% followed by both 36-50 and 18-25 years of age is which accounts 21.6% and 19.6% respectively in the total data; this implies than the bank manpower in loan staffs are younger age. So that the bank has energetic power staffs which means they can easily cop up when the bank is develop new technology. In other word the bank is beneficiary.

**The marital status of respondents** 56.9% was getting married and 31.4% are single. Since the nature of banking industries exposed to credit risk and this demands employees working there to be socially responsible to enable them to concentrates and apply their maximum professional experience and qualification for the quality of the banks' credit management practice, which guides to minimize credit risk. Therefore the implication of the findings is inconsistent with this argument, as large numbers of the employees working in credit processing area are married

Employees' educational background is an important factor to be considered with regard to making business decision. It increases the skill, capacity, communication and access to development activates. As it can be implies from table 4.1, on average only 2% of respondents have secondary and preparatory were the majority of them at 51% of master's degree qualification, as their highest qualification and the remaining 47.1% possess an undergraduate degree. Which respect to qualification the findings implies they most of the employees working in the credit department are well qualified, this contributed a lot to the effectives, and efficiency in credit management practices of the banks with work experience 7.8% of respondent was worked from 1-3 years, 43.1% of respondent was worked from 4-7 years and 49% of respondent worked 8 and above as per the respondent information majority of employees are experienced The table 4.1 also showed that the managerial position of the respondents, and clerical position of respondent. The clerical position has 37.3% respondent as well as the managerial level was 62.7%. Such different managerial positions of the respondent were important to understand the research choose the right respondents to get validity of information, all files are analyzed in their position

### 4.2.1 Organization Information

**Table 4.2**

| Variable | Name | Frequency | Percent |
|---|---|---|---|
| Name of the Organization | | | |
| | Bank of Abyssinia | 6 | 11.8 |
| | Awash bank s.c | 8 | 15.7 |
| | united bank | 9 | 17.6 |
| | wegagen | 10 | 19.6 |
| | Dashen bank | 6 | 11.8 |
| | Nib international bank | 7 | 13.7 |
| | Addis international bank | 5 | 9.8 |
| Organization category | Private bank | 6 | 11.8 |
| | Government bank | 45 | 88.2 |
| Source of Finance | Saving /deposit /loan interest | 51 | 100 |
| Finance system of the Organization | Decentralized System | 51 | 100 |
| Number of loan department staffs | 1-5 | 5 | 10 |
| | 6-10 | 6 | 12 |
| | 11-15 | 7 | 14 |
| | 16-20 | 4 | 8 |
| | 21 and above | 28 | 56 |
| Missing | System | 1 | |

To enable conclusions regarding the private commercial banks of Ethiopia 'credit management policy and practices their each names, types of organization, financing system, number of employees especially department of loan and lifetime establishment to date should be considered as important factors. As the above table shows most banks have more than 21 and above years experience in the banking industry since their establishment.

To arrive at good conclusions regarding the bank's credit managing practice, their lifetime from establishment to date should be considered as important factors. The finding presented in table 4.2 above, disclosed that more than average number of the sample banks (100%) have more than 10 years' experience since established and began operation. Then the selected banks are feasible enough to assess their credit management practice as far as their lifetime in banking operations are more than 20 years.

### 4.3 Data Analysis Data presentation

#### 4.3.1 The Bank consistently complies with its policy and procedures in entertaining its loan applicants, loan processing, and collecting

***1=Strongly Agree, 2=Agree, 3=neither Agree nor Disagree, 4=Disagree, 5=Strongly Disagree***

## Table 4.3

| Credit examination, credit assessment, credit scoring and credit reports | Measurement | 5 | 4 | 3 | 2 | 1 |
|---|---|---|---|---|---|---|
| **The bank has an excellent credit analysis procedure followed by the bank in extending credit** | **Frequency** | 2 | 5 | 9 | 18 | 17 |
| | %age | 3.9 | 9.8 | 17.6 | 35.3 | 33.3 |
| **The credit collection technique used by the bank is effective** | **Frequency** | | 2 | 8 | 26 | 15 |
| | %age | | 3.9 | 15.7 | 51 | 29.4 |
| **The bank carries out a compressive and systematic examination of the need of credit relating to each of its declared aims and objective** | **Frequency** | | 5 | 15 | 22 | 9 |
| | %age | | 9.8 | 29.4 | 43.1 | 17.6 |
| **Change in credit Demand are recognized and** | **Frequen** | 1 | 5 | 14 | 19 | 12 |

| | | | | | | |
|---|---|---|---|---|---|---|
| **identified with the bank's role and responsibilities** | **cy** | | | | | |
| | %age | 2 | 9.8 | 27.5 | 37.3 | 23.5 |
| **The bank is aware of the strength and weakness of the credit management systems** | **Frequency** | 3 | 4 | 7 | 29 | 8 |
| | %age | 5.9 | 7.8 | 13.7 | 56.9 | 15.7 |
| **The bank has developed and applied procedures for credit management practice** | **Frequency** | | | 15 | 19 | 17 |
| | %age | | | 29.4 | 37.3 | 33.3 |
| **The bank credit assess the necessity of providing credit** | **Frequency** | 5 | 11 | 18 | 14 | |
| | %age | 10.4 | 22.9 | 37.5 | 29.2 | |
| **The bank analyses and evaluates the opportunities of credit that has to achieve objectives** | **Frequency** | 2 | 2 | 8 | 22 | 15 |
| | %age | 4.1 | 4.1 | 16.3 | 44.9 | 30.6 |
| **Before granting credit by the bank undertakes specific analysis including the applicant's character, capacity, collateral, and condition** | **Frequency** | 2 | 6 | 18 | 23 | |
| | %age | 4.1 | 12.2 | 36.7 | 46.9 | |
| **The bank has a computer based support system to estimate the earnings and risk management variability** | **Frequency** | 1 | 6 | 8 | 27 | 9 |
| | %age | 2 | 11.8 | 15.7 | 52.9 | 17.6 |
| **The bank effectively monitors the credit limit of everyone counterparty** | **Frequency** | 2 | 3 | 10 | 26 | 10 |
| | %age | 3.9 | 5.9 | 19.6 | 51 | 19.6 |
| **The borrower's business performance is regularly observed by the bank following the extension of financing** | **Frequency** | 2 | 3 | 10 | 25 | 10 |
| | %age | 4 | 6 | 20 | 50 | 20 |
| **The bank has adopted a standard reporting system about the credit management practice from bottom to top management** | **Frequency** | | 2 | 9 | 27 | 13 |
| | %age | | 3.9 | 17.6 | 52.9 | 5.5 |

| | | | | | | |
|---|---|---|---|---|---|---|
| **The bank regularly prepares periodic report of practice** | **Frequency** | 1 | 5 | 5 | 21 | 18 |
| | %age | 2 | 10 | 10 | 42 | 36 |

**The bank has an excellent credit analysis procedure followed by the bank in extending credit**

The above table 4.3 describes the bank has an excellent credit analysis procedure followed by the bank in extending 17(33.3%) of respondent was strongly agree and also 18(35.3%) of respondent was agree, 9(17.6%) of respondent was neutral 5(9.8 %) of respondent was disagree and 2(3.9%) respondent was strongly disagree. relatively the aggregation of both Agree and strongly agree result is above 68.6% so that the researcher can conclude In this regard the result of respondent tendency is enable to conclude the banks have an excellent credit analysis procedure followed by the bank in extending credit.

**The credit collection technique used by the bank is effective** the result 15(29.4%) of respondent was strongly agree and 26(51%) agree there for this table result enabled to concluded the objective of the research. the aggregation of both Agree and strongly agree result is above 80% so that the researcher can conclude In this regard the result of respondent tendency is enable to conclude the credit collection technique used by the bank is effective.

**The bank carries out a compressive and systematic examination of the need of credit relating to each of its declared aims and objective**

The table 4.3 implies 9(17.6%) of respondent was strongly agree, 22(43.1%) respondent was agree, 15(29.4%) of respondent was neutral and 5(9.8%) was disagree so the respondent responses tendency the sum of agree and strongly agree 60.7% therefore the result of this statistical measurement show positive. regarding of the result the researcher can conclude the bank carries out a compressive and systematic examination of the need of credit relating to each of its declared aims and objective

**Change in credit Demand are recognized and identified with the bank's role and responsibilities**

The above table shows 12(23.5%) of respondent was strongly agree, 19 (37.3%) of respondent was Agree, 14(27.5%) of respondent was neutral, 5(9.8%) of disagree and 1(2%) of respondent was strongly disagree. the majority of respondent response was agree and strongly agree. the researcher can conclude depends on the result of 60.8% of the summation of agree and strongly agree. therefore Change in credit Demand are recognized and identified with the bank's role and responsibilities

**The bank is aware of the strength and weakness of the credit management systems**

The above table shows 8(15.7%) of respondent was strongly agree, 29 (56.9%) of respondent was Agree, 7(13.7%) of respondent was neutral, 4(7.8%) of disagree and 3(5.9%) of respondent was strongly disagree. the majority of respondent response was agree and strongly agree. the researcher can conclude depends on the result of 72.6 % of the summation of agree and strongly agree. therefore The bank is aware of the strength and weakness of the credit management systems

**The bank has developed and applied procedures for credit management practice**

The above table shows 17(33.3%) of respondent was strongly agree, 19 (37.3%) of respondent was Agree, 15(29.4%) of respondent was neutral. The majority of respondent response was agree and strongly agree. The researcher can conclude depends on the result of 70.6 % of the summation of agree and strongly agree. Therefore the bank has developed and applied procedures for credit management practice

**The bank credit assess the necessity of providing credit**

The table 4.3 implies 14(29.2%) respondent was agree, 18(37.5%) of respondent was neutral and 11(22.9%) was disagree, 5(10.4%) was strongly disagree so the respondent responses tendency the result show negative. regarding of the result the researcher can conclude there is no bank credit assess the necessity of providing credit

**The bank analyses and evaluates the opportunities of credit that has to achieve objectives**

the result 15(30.6%) of respondent was strongly agree and 22(44.9%) agree there for this table result enabled to concluded the objective of the research. the aggregation of both Agree and strongly agree result is above 75.5% so that the researcher can conclude In this regard the result of respondent tendency is enable to conclude The bank analyses and evaluates the opportunities of credit that has to achieve objectives.

**Before granting credit by the bank undertakes specific analysis including the applicant's character, capacity, collateral, and condition**

The above table 23 (46.9%) of respondent was Agree, 18(36.7%) of respondent was neutral, 6(12.2%) of disagree and 2(4.1%) of respondent was strongly disagree. even if the majority of respondent response was agree but the percentage or average result is under 50% that’s why the researcher can’t concluded

**The bank has a computer based support system to estimate the earnings and risk management changeability**

The above table shows 9(17.6%) of respondent was strongly agree, 27 (52.9%) of respondent was Agree, 8(15, 7%) of respondent was neutral and 1(2%) of respondent was strongly disagree. The majority of respondent response was agreeing and strongly agrees. the researcher can conclude depends on the result of 69.5 % of the summation of agree and strongly agree. Therefore the bank has a computer based support system to estimate the earnings and risk management variability

**The bank effectively monitors the credit limit of everyone counterparty**

The above table shows 10(19.6%) of respondent was strongly agree, 26 (51%) of respondent was Agree, 10(19.6%) of respondent was neutral and 3(5.9 %) of respondent was disagree and 2(3.9 %) of respondent was strongly disagree.. The majority of respondent response was agreeing and strongly agrees. The researcher can conclude depends on the result of 70.6 % of the summation of agree and strongly agree. Therefore the bank effectively monitors the credit limit of everyone counterparty

**The borrower's business performance is regularly observed by the bank following the extension of financing**

The above table shows 10(20%) of respondent was strongly agree, 25 (50%) of respondent was Agree, 10(20%) of respondent was neutral and 3(6 %) of respondent was disagree and 2(4 %) of respondent was strongly disagree.. The majority of respondent response was agreeing and strongly agrees. The researcher can conclude depends on the result of 70 % of the summation of agree and strongly agree. Therefore the borrower's business performance is regularly observed by the bank following the extension of financing

**The bank has adopted a standard reporting system about the credit management practice from bottom to top management**

The above table shows 13(5.5%) of respondent was strongly agree, 27 (52.9%) of respondent was Agree, 9(17.6%) of respondent was neutral and 2(3.9 %) of respondent was disagree and 2. The majority of respondent response was agreeing and strongly agrees. The researcher can conclude depends on the result of 58.4% of the summation of agree and strongly agree. Therefore the bank has adopted a standard reporting system about the credit management practice from bottom to top management.

**The bank regularly prepares periodic report of practice**

The above table shows 18(36%) of respondent was strongly agree, 21 (42%) of respondent was Agree, 5(10%) of respondent was neutral, 5(10%) of disagree and 1(2%) of respondent was strongly disagree. the majority of respondent response was agree and strongly agree. the researcher can conclude depends on the result of 78 % of the summation of agree and strongly agree. therefore the bank regularly prepares periodic report of practice

The researcher tried to investigate this research problem through the above that is analyzed by researcher related question. Even if the majority results have positive relationship with research question which means ‘’ the Bank consistently comply with its policy and procedures in entertaining its loan applicants, loan processing, and collecting’’ but some one of respondent responses have question mark so the researcher tried to see further the current situation of credit management policy still there is a gap

**4.3.2 The bank threats are encountered in terms of implementing the credit policies & manuals and their measures and policy improvement will be done to secure banks from credit risk**

**When the borrower's face a certain problem and unable to pay the loan, what mechanisms do?**

**Table 4.4**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Use safeguard and collateral for preventing NPL | 9 | 17.6 | 23.7 | 23.7 |
| | there is no mechanism | 9 | 17.6 | 23.7 | 47.4 |
| | Moderately | 20 | 39.2 | 52.6 | 100.0 |
| | Total | 38 | 74.5 | 100.0 | |
| Missing | System | 13 | 25.5 | | |
| Total | | 51 | 100.0 | | |

As the above table shows the banks prevention from different threats for implementing the credit policies and manuals use moderate policy it is concluded by the research 20(52.6%) of responded banks moderate credit policy used.

The following table shows Injection of additional loans/ Rearrangement of loan repayment structure /or others to answer this question the researcher tried to investigate 6(13.3%) of respondent was Injection of additional loans,16(35.6%) of respondent was Rearrangement of loan repayment structure and 23(51.1%) of respondent was other ( the respondent select others and justified ) which is it dependence on the nature of loan banks used both Injection of additional loans and Rearrangement of loan repayment structure interchangeably or both. As per statistical measurement law is if the result of responses may be under 50% the researcher can't conclude.

**The major causes of non-performing loans at Borrower Level**

**The researcher use the following causes to measure the research objective**

Lack of proper business plan, Contingencies at borrowers e.g. death, sick, Diversion of the borrower fund to other purpose, Diversion of the borrower fund to other purpose, Insufficient credit awareness, Unwilling customer to disclose the information required. 3(6%) of respondent was Lack of proper business plan2 (4%) of respondent was Contingencies at borrowers e.g. death, sick 34(68%) of respondent Diversion of the borrower fund to other purpose, 8(16%) of respondent was Insufficient credit awareness and 3(6%) of respondent was unwilling customer to disclose the information required. The result of this respondent response 68% of Diversion of the borrower fund to other purpose in this regard the researcher can conclude to measure the causes of non performance loan at borrowing level is Diversion of the borrower fund to other purpose.

**What are the major causes of nonperforming loans at Bank Level?** 22(43.1%) of respondent Lack of continuous follow up and proper risk assessment, 9(17.6%) of respondent was Lack of consultation and communication with defaulter, 6(11.8%) of respondent was Lack of sufficient credit information from other commercial banks, 9(17.6%) of respondent was Mistake on estimation of collateral and evaluating the borrowers' financial reports, 2(3.9%) Problems associated with loan eligibility criteria, 3(5.9%) of respondent was other. The result of respondent responses under 50% therefore the researcher cannot conclude.

**What measure/s/ is/are taken on the side of the bank to improve the repayment situation?** 23(47.9%) of respondent was Loan rescheduling, 13(27.1%) of respondent was frequently insisting the client, others, 11(22.9%) of respondent was (Specify) ______________________, all of the above. Therefore the respondent can't conclude because the result of the respondent responses was fewer than 50%.

**For what purpose you organization provide Loan to customers?** 33(70.2%) of the respondent was to run business, 4(8.5%) of respondent was for consumption, 10(21.3%) of respondent was both of them so that the researcher can conclude because the result of to run business 70.2% of respondent were response therefore the bank mostly provide loan to run business purpose.

**What type of business they do/undertake?**

23(52.3%) of respondent was Merchandise 13(29.5%) of respondent was service rendering, 6(13.6%) of respondent was manufacturing, 2(4.5%) of respondent was All. therefore the researcher can conclude banks available loan to merchandise companies

**Does the bank give grace (loan repayment duration) period?** 34(82.9%) of respondents was yes the other 7(17/1%) respondent was no. The result of this respondent response showed the bank give grace (loan repayment duration) period but 7(17.1%) of respondent was no so in this scenario as a researcher observation these response collected from the same industry why 17.1% of respondent was no still there is a gap.

**How is the length of your grace period given to clients by the bank?** 44(86.3%) of respondent responses was long 7(13.7%) of the respondent was very long. Therefore the researcher concluded as the bank given normal or long grace period to client.

**Do them happy with grace period given to clients by the bank**

45(90%) of respondent was yes, 5(10%) of respondent was no so that the researcher can confidentially concluded as per the result was 90% so that the clients do happy with grace period by bank.

**Do you analyze the risk of introducing more debt in your capital structure?** 31(62.0%) of respondent was yes 19(38.0%) of respondent was no. Therefore the researcher can concluded which is the bank analyze the risk of capital structure introducing more debt.

**How is the interest rate charged by the bank?** 29(59.2%) of respondent of high, 17(34.7%) of respondent was medium and 3(6.1%) of respondent was low. therefore the researcher concluded as the bank interest rate is high.

**Does the bank provide the amount loan you requests?** 23(47.9%) of respondent was yes, 25(52.1%) of respondent was no. So that the researcher can concluded the amount loan requested by client allowed to it depends on the nature of requested loan.

**What's the major reason that affects their loan repayment?** 24(47.1%) of respondent was market problem, 20(39.2%) of respondent was environmental problem, 5(9.8%) of respondent was policy problem and 2(3.9%) of respondent was contingencies. even though all are the major reason that affects banks' loan repayment but the researcher can't conclude based on the respondent response because all results were under 50% of the population.

**What mechanism have you design to collect the unpaid loan balance** 17(35.4%) of respondent was Change of the business 23(47.9%) of respondent was sell property, 8 (16.7%) of respondent was borrowing from other institution

**What measure is taken by the bank for delay?** 31(67.4%) of respondent was Legal under taking, 2(4.3%) of respondent was refusal additional loan, 9(19.6%) of respondent was foreclosing, 4(8.7%) of respondent was other specify.

**Does your organization have a credit manual or policy?**

All respondents were 51(100%) responded banks have a credit manual or policy so that the researcher can conclude.

**Do you think it is up date & convenient for loan creation?** 44(88.0%) of respondent was yes and 6 (12.0) of responses was No. therefore the researcher can conclude banks has updated convenient for loan creation.

**How can you see your institution's credit policy and procedure?** 6(12.0%) of respondent was Rigid, 17(34.0%) of respondent was flexible, 27(54.0%) of respondent was Average. The researcher can conclude the average bank has credit policy and procedure.

**The major challenges faced by the bank on credit management apply**

**Lack of follow up** 8(16%) of respondent was strongly disagree, 9(18%) of respondent was disagree, 9(18%) of respondent was neutral 18(36%) of respondent was agree and 6(12%), of strongly agree. in this regard the researcher cannot conclude because the result of respondent response was under 50%.

**Lack of training** 3(5.9%) of respondent was strongly disagree, 10(19.6%) of respondent was disagree, 14(27.5%) of respondent of neutral, 19(37.3%) of respondent was Agree and 5(9.8%) of respondent of strongly agree.

**Inadequate information about customer worthiness** 2(3.9%) of respondent was strongly disagree, 15 (29.4%) of respondent was disagree, 10(19.6%) of respondent of neutral, 19(37.3%) of respondent was Agree and 5(9.8%) of respondent of strongly agree

**Loan diversion** 2(4%) of respondent was strongly disagree, 10(20%) of respondent was disagree, 11(22%) of respondent of neutral, 18(36%) of respondent was Agree and 5(9.8%) of respondent of strongly agree

**Lack of market for client's product** 3(5.9%) of respondent was strongly disagree, 10(19.6%) of respondent was disagree, 25(49%) of respondent of neutral, 5(9.8%) of respondent was Agree and 8(15.7%) of respondent of strongly agree

**Unfavorable environment conditions 5**(10%) of respondent was strongly disagree, 5(10%) of respondent was disagree, 17(34%) of respondent of neutral, 8(16%) of respondent was Agree and 15(30%) of respondent of strongly agree

Those major challenges faced by the bank on credit management practice measurement question cannot concluded by researcher because those results were fewer than 50% of sample population

Table 4.5

| **Variables** | **Name** | **Frequency** | **percentage** |
|---|---|---|---|
| When the borrowers face a certain problem and unable to pay the loan, what mechanism do | Injection of additional loans | 6 | 13.3 |
| | Rearrangement of loan repayment structure | 16 | 35.6 |
| | Others_ | 23 | 51.1 |
| | Missing System | **6** | |
| What are the major causes of non-performing loans at Borrower Level | Lack of proper business plan | 3 | 6 |
| | Contingencies at borrowers e.g. death, sick | 2 | 4 |
| | Lack of sufficient credit information from other commercial banks | 34 | 68 |
| | Mistake on estimation of collateral and evaluating the borrowers' financial reports. | 8 | 16 |
| | Problems associated with loan eligibility criteria | 3 | 6 |
| | Other | | |
| What are the major causes of nonperforming loans at Bank Level? | Lack of continuous follow up and proper risk assessment | 22 | 43.1 |
| | Lack of consultation and communication with defaulter | 9 | 17.6 |
| | Lack of sufficient credit information from other commercial banks | 6 | 11.8 |
| | Mistake on estimation of collateral and evaluating the borrowers' financial reports. | 9 | 17.6 |
| | Problems associated with loan eligibility criteria | 2 | 3.9 |
| | Other | 3 | |
| | | | |
| What are the major causes of nonperforming loans at Economical Level? | Unstable political Situation | 37 | 72.5 |
| | Weak economic plan and strategy implementation | 13 | 25.5 |
| | Other | 1 | 2 |
| What measure/s/ is/are taken on the | Loan rescheduling | 23 | 47.9 |

| | | | |
|---|---|---|---|
| side of the bank to improve the repayment situation? | Frequently insisting the client | 13 | 27.1 |
| | Others, (Specify) ________________________ | 11 | 22.9 |
| | All of the above | 1 | 2.1 |
| | Mising | 3 | |
| For what purpose you organization provide Loan to customers? | Torun business | 33 | 70.2 |
| | for consumption | 4 | 8.5 |
| | Both of them | 10 | 21.3 |
| | Total | 47 | 100 |
| Missing | System | 4 | |
| What type of business they do/undertake? | Merchandise | 23 | 52.3 |
| | service rendering | 13 | 29.5 |
| | manufacturing | 6 | 13.6 |
| | All | 2 | 4.5 |
| | Total | 44 | 100 |
| Missing | System | 7 | |
| | No | 7 | 17.1 |
| | | | |
| Missing | System | 10 | |
| How is the length of your grace period given to clients by the bank? | long | 44 | 86.3 |
| | very long | 7 | 13.7 |
| | Total | 51 | 100 |
| do they happy with grace period given to clients by the bank | Yes | 45 | 90 |
| | No | 5 | 10 |
| | Missing | | |
| | System | 1 | |
| Do you analyze the risk of introducing more debt in your capital structure? | Yes | 31 | 62.0 |
| | No | 19 | 38.0 |
| Missing | System | 1 | |
| How is the interest rate charged by the bank? | High | 29 | 59.2 |
| | medium | 17 | 34.7 |
| | low | 3 | 6.1 |
| | Total | 49 | 100 |
| Missing | System | 2 | |
| Does the bank provide the amount loan you requests? | Yes | 23 | 47.9 |
| | No | 25 | 52.1 |
| | Total | 48 | 100 |
| Missing | System | 3 | |
| What’s the major reason that affects their loan repayment? | Market problem | 24 | 47.1 |
| | environmental problem | 20 | 39.2 |
| | Policy problem | 5 | 9.8 |

| | | | |
|---|---|---|---|
| | contingencies | 2 | 3.9 |
| | Total | 51 | 100 |
| What mechanism have you design to collect the unpaid loan balance? | Change of the business | 17 | 35.4 |
| | sell property | 23 | 47.9 |
| | borrowing from other institution | 8 | 16.7 |
| | Total | 48 | 100 |
| Missing | System | 3 | |
| What measure is taken by the bank for delay? | Legal under taking | 31 | 67.4 |
| | refusal additional loan | 2 | 4.3 |
| | foreclosing | 9 | 19.6 |
| | other specify | 4 | 8.7 |
| | System | 54 | 100 |
| Does your organization have a credit manual or policy? | Yes | 51 | 100.0 |
| | Total | 51 | |
| Do you think it is up date & convenient for loan creation? Y | Yes | 44 | 88.0 |
| | No | 6 | 12.0 |
| | System | 1 | 100.0 |
| How can you see your company's credit policy and procedure? | Rigid | 6 | 12.0 |
| | flexible | 17 | 34.0 |
| | Average | 27 | 54.0 |
| | System | 1 | |

**The major challenges faced y the bank on credit management practice**

| Statement | Measurement | 5 | 4 | 3 | 2 | 1 |
|---|---|---|---|---|---|---|
| **Lack of follow up** | **Frequency** | 8 | 9 | 9 | 18 | 6 |
| | %age | 16 | 18 | 18 | 36 | 12 |
| **Lack of training** | **Frequency** | 3 | 10 | 14 | 19 | 5 |
| | %age | 5.9 | 19.6 | 27.5 | 37.3 | 9.8 |
| **Inadequate information about customer worthiness** | **Frequency** | 2 | 15 | 10 | 19 | 5 |
| | %age | 3.9 | 29.4 | 19.6 | 37.3 | 9.8 |
| **Loan diversion** | **Frequency** | 2 | 10 | 11 | 9 | 18 |
| | %age | 4 | 20 | 22 | 18 | 36 |
| **Lack of market for client's product** | **Frequency** | **3** | **10** | **25** | **5** | **8** |
| | %age | **5.9** | **19.6** | **49** | **9.8** | **15.7** |
| **Unfavorable environment conditions** | **Frequency** | 5 | 5 | 17 | 8 | 15 |

| | | | | | | |
|---|---|---|---|---|---|---|
| | %age | 10 | 10 | 34 | 16 | 30 |

**4.3.3 The extent is the Bank accelerating the performance of credit management in line to its policy and national banks requirement.**

**Table 4.6**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Moderate | 15 | 29.4 | 37.5 | 37.5 |
| | only based on NBE | 25 | 49.0 | 62.5 | 100.0 |
| | Total | 40 | 78.4 | 100.0 | |
| Missing | System | 11 | 21.6 | | |
| Total | | 51 | 100.0 | | |

The above table shows 62.5% of respondent was only based on NBE and 37.5% of respondent was moderate so that the private commercial banks extent the performance of credit management in line to their policy and national banks requirement.

Even if banks use credit management policy based on regulated by National banks of Ethiopia, sometimes it may be moderately policy to keep the advantages of banks.

**4.3.4 Evaluate the Bank's credit quality as compared to National Bank's requirements and its credit policy.**

1- ***strongly agree, 2-agree 3-Neutral 4-disagree 5- strongly disagree***

**Table 4.7**

| **How Does the bank effectively practice credit management?** | | | | | | |
|---|---|---|---|---|---|---|
| | | 5 | 4 | 3 | 2 | 1 |
| **Creating clear and trustworthy information** | **Frequency** | 2 | 14 | 20 | 15 | |
| | %age | 3.9 | 27.5 | 39.2 | 29.4 | |
| **Developing understanding between management team and employee** | **Frequency** | 2 | 4 | 11 | 27 | 7 |
| | %age | 3.9 | 7.8 | 21.6 | 52.9 | 13.7 |
| **Fast and sharp communication between management team and stockholders** | **Frequency** | 2 | 5 | 7 | 27 | 8 |

| | | | | | | |
|---|---|---|---|---|---|---|
| | %age | 4.1 | 10.2 | 14.3 | 55.1 | 16.3 |
| **Regularly communicating among management and staff** | **Frequency** | 4 | 8 | 28 | 9 | |
| | %age | 8.2 | 16.3 | 57.1 | 18.4 | |
| **Creating and maintain a clear communication** | **Frequency** | 5 | 6 | 26 | 12 | |
| | %age | 10.2 | 12.2 | 53.1 | 24.5 | |

The above table contains five measurement questions but the respondent response result was not interested to conclude except the following measurement questions

**Developing understanding between management team and employee** 27(52.9%) of respondent was agree and 7 (13.7%) was strongly agree

**Fast and sharp communication between management team and stockholders 27(55.1%) of respondent was agree and 8(16.3%) was strongly agree**

**Therefore as per the researcher measurement questionnaire cannot conclude to** evaluate the Bank's credit quality as compared to National Bank's requirements and its credit policy

**Before granting credit by the bank undertakes specific analysis including the applicant's character, capacity, collateral, and condition**

The above table 23 (46.9%) of respondent was Agree, 18(36.7%) of respondent was neutral, 6(12.2%) of disagree and 2(4.1%) of respondent was strongly disagree. even if the majority of respondent response was agree but the percentage or average result is under 50% that's why the researcher can't concluded

**The bank has a computer based support system to estimate the income and risk management variability**

The above table shows 9(17.6%) of respondent was strongly agree, 27 (52.9%) of respondent was Agree, 8(15, 7%) of respondent was neutral and 1(2%) of respondent was strongly disagree. The majority of respondent response was agreeing and strongly agrees. The researcher can conclude depends on the result of 69.5 % of the summation of agree and strongly agree. Therefore the bank has a computer based support system to estimate the earnings and risk management variability

**The bank effectively monitors the credit limit of everyone counterparty**

The above table shows 10(19.6%) of respondent was strongly agree, 26 (51%) of respondent was Agree, 10(19.6%) of respondent was neutral and 3(5.9 %) of respondent was disagree and 2(3.9

%) of respondent was strongly disagree.. The majority of respondent response was agreeing and strongly agrees. The researcher can conclude depends on the result of 70.6 % of the summation of agree and strongly agree. Therefore the bank effectively monitors the credit limit of everyone counterparty

**The borrower's business performance is regularly experimental by the bank following the extension of financing**

The above table shows 10(20%) of respondent was strongly agree, 25 (50%) of respondent was Agree, 10(20%) of respondent was neutral and 3(6 %) of respondent was disagree and 2(4 %) of respondent was strongly disagree. The majority of respondent response was agreeing and strongly agrees. The researcher can conclude depends on the result of 70 % of the summation of agree and strongly agree. Therefore the borrower's business performance is regularly observed by the bank following the extension of financing

**The bank has adopted a standard reporting system about the credit management practice from bottom to top management**

The above table shows 13(5.5%) of respondent was strongly agree, 27 (52.9%) of respondent was Agree, 9(17.6%) of respondent was neutral and 2(3.9 %) of respondent was disagree and 2. The majority of respondent response was agreeing and strongly agrees. The researcher can conclude depends on the result of 58.4% of the summation of agree and strongly agree. Therefore the bank has adopted a standard reporting system about the credit management practice from bottom to top management.

**The bank regularly prepares periodic report of practice**

The above table shows 18(36%) of respondent was strongly agree, 21 (42%) of respondent was Agree, 5(10%) of respondent was neutral, 5(10%) of disagree and 1(2%) of respondent was strongly disagree. the majority of respondent response was agree and strongly agree. the researcher can conclude depends on the result of 78 % of the summation of agree and strongly agree. Therefore the bank regularly prepares periodic report of practice.

## 4.4 Discussion

The analysis section address the Bank consistently comply with its policy and procedures in entertaining its loan applicants, loan processing, and collecting, the threats are encountered in terms of implementing the credit policies & manuals and measures and policy improvement was being done to secure banks from credit risk, the extent is the Bank accelerating the performance of credit management in line to its policy and national banks requirement as well as evaluate the Bank's credit quality as compared to National Bank's requirements and its credit policy in private commercial banks of Ethiopian.

**The bank consistently complies with its policy and procedures in entertaining its loan applicants, loan processing, and collecting**

Regarding the bank consistently, complies its policy and procedures in entertaining its loan applicants, loan processing, and collecting (Table 4.3) document review result showed that the bank has an excellent credit analysis procedure followed by the bank in extending credit. The bank carries out a compressive and systematic examination of the need of credit relating to each of its declared aims and objective, the change in credit Demand are recognized and identified with the bank's role and responsibilities. the banks had awareness strength and weakness of credit management system, and developed and applied procedures for credit management practice, there is no bank credit assess the necessity of providing credit, the bank analyses and evaluates the opportunities of credit that has to achieve objectives. According to respondent responses the banks were less performed before granting credit by the bank undertakes specific analysis including the applicant's character, capacity, collateral, and condition, the bank has a computer based support system to estimate the earnings and risk management variability, the bank effectively monitors the credit limit of everyone counterparty, the borrower's business performance is regularly observed by the bank following the extension of financing. The bank has adopted a standard reporting system about the credit management practice from bottom to top management, the bank regularly prepares periodic report of practice.

Thus, the researcher tried to investigate this research problem through the above that is analyzed by researcher related question. Even if the majority results have positive relationship with research question which means ‘‘ **the Bank consistently comply with its policy and procedures in entertaining its loan applicants, loan processing, and collecting’’** but some one of respondent responses have question mark so the researcher tried to see further the current situation of credit management policy still there is a gap.

**The bank threats are encountered in terms of implementing the credit policies and manuals and their measures and policy improvement will be done to secure banks from credit risk**

Regarding bank threats are encountered in terms of implementing the credit policies & manuals and their measures and policy improvement will be done to secure banks from credit risk (Table 4.4 and 4.5) showed that the banks prevention from different threats for implementing the credit policies and manuals use moderate policy it is concluded by the research 20(52.6%) of responded banks moderate credit policy used. In addition the banks used it dependence on the nature of loan banks used both Injection of additional loans and Rearrangement of loan repayment structure interchangeably or both. The major cause of nonperforming loans at borrower levels are the following; such as Lack of proper business plan, Contingencies at borrowers e.g. death, sick, Diversion of the borrower fund to other purpose, Diversion of the borrower fund to other purpose, Insufficient credit awareness, Unwilling customer to disclose the information required. And also the major cause of nonperforming loan at bank level was Lack of continuous follow up and proper risk assessment, lack of consultation and communication with defaulter, Problems associated with loan eligibility criteria, Mistake on estimation of collateral and evaluating the borrowers' financial reports, Lack of sufficient credit information from other commercial banks.

The measurement taken on the side of the bank to improve the repayment situation as per the respondent responded the researcher tried to put orderly. First, Loan rescheduling, second frequently insisting the client. The banks provide loan for to run business purpose and available loan to merchandise companies. The banks have long term grace period of loan give to clients and the clients were happy. The banks always make analysis about the risk of introducing more debt in your capital structure and the interest rates charged by the banks were high. But the amount of loan requested by clients was allowed by bank it depends on nature of requested loan. The major reason that affects their loan repayment, according to the respondent responses the researcher tried to put orderly; first market problem, second environmental problem, third policy problem, fourth contingency . According to respondent response the Banks have average credit manual or policy and update and convenience for loan creation but the major challenges faced by the bank credit management apply lack of market for client's product and unfavorable environment conditions.

Even if banks use credit management policy based on regulated by National banks of Ethiopia, sometimes it may be moderately policy to keep the advantages of banks.

**The extent is the Bank accelerating the performance of credit management in line to its policy and national banks requirement**

Regarding of the extent is the bank accelerating the performance of credit management in line to its policy and national requirement (Table 4.6 and 4.7) showed The above table shows 62.5% of respondent was only based on NBE and 37.5% of respondent was moderate so that the private commercial banks extent the performance of credit management in line to their policy and national banks requirement.

**Evaluate the bank's credit quality as compared to National bank's requirements and its credit policy**

The banks developing understanding team and employee and fast communication between management and stockholders

The researcher cannot conclude by using the result of analysis because the respondent result was under average or 50% so before granting credit by the bank inefficient undertakes specific analysis including the applicant's character, capacity, collateral, and condition. The bank has a computer based support system to estimate the earnings and risk management variability and effectively monitors the credit limit of everyone counterparty. The borrower's business performance is regularly observed by the bank following the extension of financing and the bank has adopted a standard reporting system about the credit management practice from bottom to top management and also the bank regularly prepares periodic report of practice

Therefore, as per the researcher measurement questionnaire cannot conclude to evaluate the Bank's credit quality as compared to National Bank's requirements and its credit policy.

## 4.5 Conclusion

The chapter has presented the data analysis, presentation and discussion of the study along with the presentation of research objective and questions. In the first section, research objective and questions were presented to connect them with the result of the study. The second section has presented the result of the survey analysis. The discussion of the study's findings was discussed in the third section of the subject.

The results obtained through these four instruments were employed to assess credit management practices in the case of private commercial banks of Ethiopia. The finding of all data collection method was consistent. The findings of all approaches were pooled together and analyzed simultaneously in the third section in order to address the study goal and questions.

In the third section, the results of all methods were combined by pooling them together and analyzed concurrently in order to address the research objective and questions. The study was based on the literature examined in chapter 2 as well as Ethiopia's Socio- economic realities.

# Chapter Five

## 5. Summary, Conclusion and Recommendation

### 5.1. Summary

This chapter emphasized and highlighted summary of certain findings, conclusion and recommendation of the analysis data. The main concern of this study is to collect necessary information about credit management policy and practice at private commercial banks of Ethiopia.

The researcher used descriptive research method to make the study complete. All relevant primarily and secondary data were collected through questionnaires. This study was done at head offices of the banks. The questionnaire gives to senior bank professionals, Department heads, Branch managers, Assistant branch managers, Loan section heads, Loan officers, Loan clerk, and Loan Committee members of branch.

The following are major finding of the study;

A total of 51 study participants were involved in this study. The gender mix of respondents showed that male was the dominants, 35(68.6%), gender. Majority of study participants age lies between 26-35 years which is the share of 30 (58.8%) and out of the total respondent, 56.9% were getting married and 26(51%) were masters degree holder. the position was participants such as Senior Management, Middle Management, line management, and other clerical which were 4(7.9%) 17(33.3%), 11(21.6%) and 19(37.3%) ,respectively. and 25(49%) of the respondent worked in private commercial banks of Ethiopia were between 8 and above years.

Regarding the bank financial analyst before extending the loan 68% of respondent relied that the sum of agreed and strongly agreed Study participants reported that they agree about the procedure loan followed for loan approval by the bank is satisfactory and also assess borrower past financial history, credit worthiness and perform detailed financial analysis before extending the loans.

80% of the respondents replied that the bank used all mechanism in order to collect the loan but 33.3% strongly agree and 35.3% of respondent was agreed said that extension of the life of the loan and repayment of loan structure as a mechanism to collect the loan respectively.

43.1% of respondent was agreed and 7.6% of respondent was strongly agreed by the bank carries out a compressive and systematic examination of the need of credit relating to each of its declared aims and objective.

23.5% and 37.5% of respondents were strongly agreed and agreed respectively by Change in credit Demand are recognized and identified with the bank's role and responsibilities.

As per the majority of respondent response 15.5% and 56.9% were strongly greed and agreed respectively the bank is aware of the strength and weakness of the credit management systems.

33.3% and 37.3% of respondent was strongly agree and agree by the banks has enveloped and applied procedures for credit management practice respectively. But the respondent's responses were negative so that there is no bank credit assesses the necessity of providing credit bank.

30.6% and 44.9% of respondent response were strongly agreed and agreed by the bank analyses and evaluate the opportunities of credit that has to achieve objectives respectively

As per respondent responses before granting credit by the bank inadequately undertakes specific analysis including the applicant's character, capacity, collateral, and condition only 46.9% of respondent were agree there for the respondent can't conclude because the result is under the mean or average.

17.6% and 52.9% of respondents were strongly agreed and agreed by the bank has a computer based support system to estimate the earnings and risk management variability respectively.

19.6% and 51% of respondents were strongly agreed by the bank effectively monitors the credit limit of everyone counterparty respectively.

20% and 50% of respondent was strongly agreed and agreed by the borrower's business performance is regularly observed by the bank following the extension of financing respectively.

5.5% and 52.9% of respondent were strongly agreed and agreed by the bank has adopted a standard reporting system about the credit management practice from bottom to top management respectively

36% and 42% of respondent were strongly agreed and agreed by the bank regularly prepares periodic report of practice respectively.

The majority of participants respond 52.6% were banks used to moderate mechanisms to prevent non participant loan, when the borrower's face a certain problem and unable to pay the loan**.** And also as per respondent 51.1%, 35.6%, and 13.3%banks are used to both or rearrangement of loan repayment structure and injection of additional loans, either Injection of additional loans or rearrangement of loan repayment structure or they use interchangeably respectively.

According to respondent responses the major causes of nonperforming loan at borrower level the researcher tried to put orderly first 68% of respondent were Lack of sufficient credit information from other commercial banks, second 16% of respondent were Mistake on estimation of collateral and evaluating the borrowers' financial reports, third 6% of respondent were Lack of proper business plan and Problems associated with loan eligibility criteria, and fourth 4% of respondent Contingencies at borrowers e.g. death, sick.

According to give rank by participants the researcher tried to put orderly of the major cause of nonperforming loans at bank level first 43.1% of respondents were Lack of continuous follow up and proper risk assessment, Second 17.6% of respondents were Lack of consultation and communication with defaulter and Mistake on estimation of collateral and evaluating the borrowers' financial reports, third 11.8% of respondents were Lack of sufficient credit information from other commercial banks, and fourth 3.9% of respondents were Problems associated with loan eligibility criteria.

As per participants respond the researcher tried put orderly of the major causes of nonperforming loans at economical level first 72.5% of respondents were Unstable political Situation, second 25.5% of respondent were Weak economic plan and strategy implementation, and 2% of respondent was other.

The majority 47.9% of respondent were loan rescheduling is the measures are taken on the side of bank to improve the repayment situation but the researcher cannot conclude because the result of the respondents' response was under mean or average.

The majority of respondent response 70% of respondent were to run business is the purpose of the bank provide loan to customers. And 52.3% of respondent were the type of business undertake by banks is merchandise company.

86.3% of respondent responses were the banks give to client's the length of grace period is long and also as per 90% of respondent were the bunks customer also happy.

62% of respondent of the banks do analyze the risk introducing more debt in its capital structure.

59.2% of respondents were banks charged high interest rate. 52.1% of respondent were Banks are not provide requested loan.

47.1%, 39.2%, 9.8%, and 3.9% of respondent were Market problem, environmental problem, Policy problem, and contingencies are the major reason that affects their loan repayment respectively. But all responded were not equivalent or above the average, therefore the researcher cannot conclude for which one is better.

47.9%, 35.4%, and 16.7% of respondents were sell property, change of the business and borrowing from other institution are mechanism of designed to collect the unpaid loan balance respectively. And as per the 67.4% of respondent were legal undertaking measurement taken by bank.

As per 100% of respondent were banks having a credit manual policy. And also by 54% of respond the banks' credit policy and procedures were Average.

The majority (36% strongly agree and 18% of agree) 54% of respondent were loan diversion was the major challenges faced by the bank on credit management practice.

62.5% of respondent were the bank keep the national bank of Ethiopia requirement therefore accelerating the performance of credit management in line to its policy and national banks requirement.

As per the respondent (13.7% strongly agreed and 52.9% agreed) 66.6% of respondent were Developing understanding between management team and employee and (16.3% strongly agreed and 55.1% agreed) 71.4% Fast and sharp communication between management team and stockholders were the bank effectively practice credit management

## 5.2 Conclusion

This study finding shows that the private banks of Ethiopia are consistently comply with its policy and procedures in entertaining its loan applicants, loan processing, and collecting. The respondent's response shows that, the major challenges faced by the bank on credit management practice are lack of follow –up. Mostly the tendency of respondents is the cause lack of training is the challenge of the bank on credit management policy. Based on the tendency of the respondent response, one of the major challenges of the bank on credit management policy is inadequate information about customer credit worthiness. The loan diversion influenced on credit management policy is inadequate information about customer credit worthiness. Lack of market for client's product is one of the major challenges of the bank on credit management policy and procedures.

The researcher can conclude to answer the question of '' how does the bank effectively practice credit management?'' creating clear and trustworthy information is there in private bank of Ethiopia. Majority of respondent responses enable to answer the question ''how does the bank effective practice credit management by developing understanding between management team and employee. Majority of respondent response moderately perform the national bank of Ethiopia requirement, therefore researcher can conclude some one of private commercial banks of Ethiopia are perform the national bank of Ethiopia requirement when the client may not be able to repay based on the contract agreement, in order to protect the bank from non-performance loan, the bank has requesting the client to avail save guard of collateral coverage. The other one of private commercial banks of Ethiopia has their own internal policy in addition to national bank of Ethiopia requirement which is used to keep the advantage of banks.

As per the respondent responses researcher tried to conclude this research objective there are a lot of mechanism to extension of the life of the loan by keeping the banks advantage. It can be taken both injection of additional loan and rearrangement of loan repayment structure in accordance with National bank of Ethiopia. As per the respondent response the cause of nonperforming loan occurrence at borrower level is the major cause Diversion of the borrower fund to other purpose. Majority of responses private commercial banks of Ethiopia loan provide to the purpose of run business and Merchandise Company is advisable for bank clients

The sampled banks give grace (loan repayment duration) period to their loan to client. But all loan which requested by clients are not allowed as per respondent response the banks provide loan to client it depends on nature of loan. The majority of respondent response to market problem and the researcher can conclude market problem is one of the major reasons that affect their loan repayment. According to the majority respondent response when the clients unable to pay their loan the private banks of Ethiopia sells clients' property (collateral) and collects the loan. The private commercial banks of Ethiopia taken measurement for delay legal undertaking action. So that all private banks of Ethiopia has a credit manual or policy.

The majority of response agrees and strongly agreed on that, the private banks of Ethiopia changes in credit demand are recognized and identified with the bank's roles and responsibilities. As per majority respondent confirmed on their response some of the credit policy and procedures are rigid and the other one flexible. All private commercial banks of Ethiopia are before granting credit by the bank undertakes specific analysis including the applicant's character, capacity, and collateral and conditions. The majority of respondent confirmed that, as their bank have computer based support systems to estimate the earnings and risk management variability and effectively monitored the credit limit of everyone counterparty.

The researcher can conclude based on the respondent's response. Even if the majority of respondent response is the banks provide training before and after allowing loan to client, still the number responses indicates as there is a gap on credit administration. So that the private commercial banks of Ethiopia should test the awareness and understanding of the credit customers on the credit management policy and practice that the bank used to give and collect a loan. The private commercial banks of Ethiopia is aware of the strengths and weaknesses of the credit management systems, adopted a standard reporting system about the credit management practice from bottom to top management and regularly prepares periodic report of credit. And also all challenges of the respondent banks are Inadequate information about customer credit worthiness, lack of market for clients, unfavorable environment conditions, Loan diversion, Lack of follow – up, and Lack of training are the major challenge of the bank the loan diversion influenced on credit management policy.

**Research Question and Answer**

RQ1. Does the Bank consistently comply with its policy and procedures in entertaining its loan applicants, loan processing, and collecting?

- Yes, according to participant responses the private commercial banks consistently comply with its policy and procedures in entertaining its loan applicants, loan processing, and collecting.

RQ2.What threats are encountered in terms of implementing the credit policies & manuals and what measures and policy improvement will be done to secure banks from credit risk?

- According to some one of respondent was before granting credit by the bank inadequately undertakes specific analysis including the applicant's character, capacity, collateral, and condition. This result was contradicted with current situation so it needs additional investigation.
- the major challenges faced by the bank on credit management practice was loan diversion

RQ3.To what extent is the Bank accelerating the performance of credit management in line to its policy and national banks requirement?

- The banks keep the national bank of Ethiopia requirement therefore accelerating the performance of credit management in line to its policy and national banks requirement.
- But as a researcher further investigation the banks have their own credit management policy including NBE regulation, they are using to keep the advantage of bank.
- When the researcher studied about the banks undertaken specific analysis including the applicant's character, capacity, collateral, and condition the result of respondent responses were less than average so that still there is a gap between National bank of Ethiopia requirement and bank performance.

RQ4. How to evaluate the Bank’s credit quality as compared to National Bank’s requirements and its credit policy? AS per researcher finding

- National Bank’s requirements credit policy is as we know banks’ credit analysts often use the five C’s of credit to focus their analysis on the key dimensions of an applicant’s creditworthiness such as character, capacity, capital , collateral, and condition but the previous or No, 3 answers was ‘’there is a gap between National bank of Ethiopia requirement and bank performance.’’

## 5.3 Recommendation

Based on the fundamental of the results and conclusions, the following recommendations re suggested so as to be considered in the future involvement strategies which are aimed at involving the credit management of the banks

- Since, one of the major weaknesses that were identified from this finding was lack of effective loan monitoring by credit officers due to the deficiency of supervision. So, it is recommended that Private Banks’ of Ethiopia management needs to develop measurements to confirm that the credit offers fulfill the entirely credit delivery policies of the organization.
- One of the major causes of NPLs at borrower level as diversion of fund other than intended purpose of loan. In this regard the credit officers of the bank should have clear and trustworthy information that are useful in maintaining a clear communication between management team, stakeholders and staff.
- The banks are advised to develop different types of credit facilities to the borrower. In this competitive world, the banks must try to advice the credit policy line with the existing status of the market.
- In addition to this most of the banks client and the bank staff especially they can directly communicate with customer should have the knowledge of the bank’s loan process and procedures.
- The Banks are advised to create awareness of his entire customer by using different communication methods, (it may be social media like face book, telegram), published publisher, etc.
- Finally, further investigator would be recommended to be conducted using various methods of data collections with larger sample size of generating more accurate findings of credit management on the structure of financial organizations.

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# Appendix -1 Survey Questionnaire

**Addis Ababa University college of Business and Economics Department of accounting and finance**

**Dear respondents,**

This research entitled **"Assessment of credit management policy and practice: in the case of private commercial banks of Ethiopia**" is to be conducted by Mis. Bitanya Abebe Addis Ababa University for the partial fulfillment of MSc in Accounting and Finance.

The target respondents of these questionnaires are the loan clients of the banks and the employees who are directly involved in credit processing and administering. This means, senior bank professionals, Department heads, Branch managers, Assistant branch managers, Loan section heads, Loan officers, Loan clerk, and Loan Committee members of branch are included in the target group Your participation is essential to this study and will enhance knowledge of credit management policy and practices in banking industry and please give due attention to respond. You will not be identified either by name or position; your feedback will be treated as confidential at any stage of the research and it will be used purely for academic purpose. Please write the appropriate response on the space provided.

Do you agree to participate on this study? Yes ☐ No ☐

If your answer is yes please put your Signature _______________

I thank you in advance for your valuable response, time and support. Please do not hesitate to contact the researcher, if you require further information about the research or for any question about the items in this questionnaire.

**Yours Sincerely**

BitanyaAbebe

Email: Bitanyaabebe2016@gmail.com

Mobile: 09 13 76 84 55

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**Instruction: Please tick in the box provided for your answer.**

**Part One ---Respondents Information**

1. Gender status male ☐ female ☐
2. Age 18-25 ☐ 26-35 ☐ 36-50 ☐ above
3. Marital status; single ☐ married ☐
4. Education level; primary and below ☐ secondary and preparatory ☐

Diploma ☐ Degree ☐ MSc and above ☐

5. Work in experience: 1-3 Years ☐ 4-7 Years ☐ 8 and above ☐
6. . Position
   1. Top Management ☐ 4.Line Management ☐
   2. Senior Management ☐ 5.Other Clerical ☐
   3. Middle Management ☐

**Part Two --- Organizational Information/Profile**

1. Name of the Organization ________________________________________________

   Head quarter Location _________________________ Sub city ___________________

   Woreda _______________Address Tell. _______________
2. Organization category Private bank ☐ Government bank ☐
3. Year of Establishment _______________G.C and Organizational work experience

   1-5 ☐ 6-10 ☐ 10-15 ☐ 16-20 ☐ 20-25 ☐ >25
4. Source of Finance

   Saving /deposit /loan interest ☐ Government fund ☐
5. Finance system of the Organization

Centralized system ☐ Decentralized System ☐ Other system ______________

6. Number of loan department staffs

1-5 ☐ 6-10 ☐ 11-15 ☐ 16-20 ☐ 21 and above ☐

**Part Three --- Organizational credit management policy Implementation practice/Status test Questions**

The following questions can help me as a guide to reach on conclusion of the study. In order to assess the credit management policy and practice whose are currently implementing in private bank of Ethiopia, the following questions are proposed and expected to be answered by you.

1. Does the Bank consistently comply with its policy and procedures in entertaining its loan applicants, loan processing, and collecting?

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2. What threats are encountered in terms of implementing the credit policies & manuals and what measures and policy improvement will be done to secure banks from credit risk?

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3. To what extent is the Bank accelerating the performance of credit management in line to its policy and national banks requirement?

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4. How do you see the awareness and understanding of the credit customers on the credit management policy and practice that the bank used to give and collect a loan?

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5. When the borrowers face a certain problem and unable to pay the loan, what mechanism do you apply in order to collect the loan? Extension of the life of the loan

   1. Injection of additional loans
   2. Rearrangement of loan repayment structure
   3. Others________________________________________

6. What are the major causes of non-performing loans at Borrower Level? (Please rank them)

   I. Lack of proper business plan ☐
   II. Contingencies at borrowers e.g. death, sick ☐
   III. Diversion of the borrower fund to other purpose ☐
   IV. Insufficient credit awareness ☐
   V. Unwilling customer to disclose the information required ☐
   VI. Willful default/unwillingness to pay ☐

7. What are the major causes of nonperforming loans at Bank Level? (Please rank them)

   b. Lack of continuous follow up and proper risk assessment ☐
   c. Lack of consultation and communication with defaulter ☐
   d. Lack of sufficient credit information from other commercial banks ☐
   e. Mistake on estimation of collateral and evaluating the borrowers' financial reports. ☐
   f. Problems associated with loan eligibility criteria ☐
   g. Other ☐

8. What are the major causes of nonperforming loans at Economic Level? (Please rank them)

   a. Unstable political Situation
   b. Excessive government intervention
   c. Political power of the borrower
   d. Weak economic plan and strategy implementation
   e. Change in fiscal and monetary policies
   f. Other

9. What measure/s/ is/are taken on the side of the bank to improve the repayment situation?

1. Loan rescheduling
2. Additional loan
3. Frequently insisting the client
4. Others, (Specify) ___________________________________________________

10. For what purpose you organization provide Loan to customers?

Torun business ☐ for consumption ☐

Other specify _______________________________________________

11. What type of business they do/undertake?

Merchandise ☐ service rendering ☐ manufacturing ☐

12. Do the bank give grace (loan repayment duration) period?

Yes ☐ No ☐

13. How is the length of your grace period given to clients by the bank? At Short very short long ☐ very long ☐

14. Do they happy with grace period given to them?

Yes ☐ No ☐

15. If your answer for question No 8 "No" cans you suggests the most suitable repayment schedule which you think was appropriate? ___________________________________

16. Do you analyze the risk of introducing more debt in your capital structure?

Yes ☐ No ☐

17. How is the interest rate charged by the bank?

High ☐ medium ☐ low ☐

18. Does the bank provide the amount loan you requests?

Yes ☐ No ☐

19. What's the major reason that affects their loan repayment?

Market problem ☐ environmental proble☐ Policy problem c☐encies problem such like death

Specify other___________________________________________________

20. What mechanism have you design to collect the unpaid loan balance?

Change of the business ☐ sell property ☐ borrowing from other institution

Specify other ____________________________

21. What measure are taken by the bank for delay?

Legal under taking ☐ refusal additional loan ☐ foreclosing ☐ other specify_______

22. Do your organization have a credit manual or policy? Yes ☐ No ☐

23. Do you think it is up date & convenient for loan creation? Yes ☐ No ☐

24. How can you see your institution's credit policy and procedure?

Rigid ☐ flexible ☐ Average ☐

**Part Four ---Current status of your credit management policy**

**Instruction:** - Please rate how strongly you agree or disagree with each of the following statements listed credit management policy and practice in case of private commercial banks of Ethiopia table section by placing a check mark in the appropriate box.

The scale below will be applicable as a five point Liker scale ranging from "Strongly Agree, Agree, Neither Agree nor Disagree, Disagree and Strongly Disagree" as represented as follows;

***5 = Strongly Agree 4 = Agree 3 = neither Agree nor Disagree 2 = Disagree 1 = Strongly Disagree***

| 1. **Credit examination, credit assessment, credit scoring and credit reports** | 5 | 4 | 3 | 2 | 1 |
|---|---|---|---|---|---|
| The bank has an excellent credit analysis procedure followed by the bank in extending credit | | | | | |
| The credit collection technique used by the bank is effective | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| The bank carries out a compressive and systematic examination of the need of credit relating to each of its declared aims and objectives | | | | | |
| Changes in credit demand are recognized and identified with the bank’s roles and responsibilities | | | | | |
| The bank is aware of the strengths and weaknesses of the credit management systems | | | | | |
| The bank has developed and applied procedures for credit management practice | | | | | |
| The bank credit assesses the necessity of providing credit | | | | | |
| The bank analyses and evaluates the opportunities of credit that has to achieve objectives | | | | | |
| Before granting credit by the bank undertakes specific analysis including the applicant’s character, capacity, collateral, and conditions | | | | | |
| The bank has a computer based support system to estimate the earnings and risk management variability | | | | | |
| The bank effectively monitors the credit limit of everyone counterparty | | | | | |
| The borrower’s business performance is regularly observed by the bank following the extension of financing | | | | | |
| The bank has adopted a standard reporting system about the credit management practice from bottom to top management | | | | | |
| The bank regularly prepares periodic report of credit | | | | | |

| **2. The major challenges faced by the bank on credit management practice** | 5 | 4 | 3 | 2 | 1 |
|---|---|---|---|---|---|
| Lack of follow – up | | | | | |
| Lack of training | | | | | |
| Inadequate information about customer credit worthiness | | | | | |
| Loan diversion | | | | | |
| Lack of market for clients‟ product | | | | | |
| Unfavorable environment conditions | | | | | |

| **3. How does the Bank effectively practice credit management?** | 5 | 4 | 3 | 2 | 1 |
|---|---|---|---|---|---|
| Creating clear and trustworthy information | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Developing understanding between management team and employee | | | | | |
| Fast and sharp communication between management team and stakeholders | | | | | |
| Regularly communicating among management and staff | | | | | |
| Creating and maintain a clear communication | | | | | |

**I. List any other challenges in your bank faced during the implementation of credit management policy?**

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**II. List any measures that will be undertaken by your organization to mitigate the challenges listed above.**

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***Thank you very much for your participation and cooperation!***

# Appendix -2 Descriptive Statistics

| | | | |
|---|---|---|---|
| What measure/s/ is/are taken on the side of the bank to improve the repayment situation? | Loan rescheduling | 23 | 47.9 |
| | Frequently insisting the client | 13 | 27.1 |
| | Others, (Specify) ____________ | 11 | 22.9 |
| | All of the above | 1 | 2.1 |
| | Mising | 3 | |
| For what purpose you organization provide Loan to customers? | Torun business | 33 | 70.2 |
| | for consumption | 4 | 8.5 |
| | Both of them | 10 | 21.3 |
| | Total | 47 | 100 |
| Missing | System | 4 | |
| What type of business they do/undertake? | Merchandise | 23 | 52.3 |
| | service rendering | 13 | 29.5 |
| | manufacturing | 6 | 13.6 |
| | All | 2 | 4.5 |
| | Total | 44 | 100 |
| Missing | System | 7 | |
| | No | 7 | 17.1 |
| | | | |
| Missing | System | 10 | |
| How is the length of your grace period given to clients by the bank? | long | 44 | 86.3 |
| | very long | 7 | 13.7 |
| | Total | 51 | 100 |
| do they happy with grace period given to clients by the bank | Yes | 45 | 90 |
| | No | 5 | 10 |
| | Missing | | |
| | System | 1 | |
| Do you analyze the risk of introducing more debt in your capital structure? | Yes | 31 | 62.0 |
| | No | 19 | 38.0 |
| Missing | System | 1 | |
| How is the interest rate charged by the bank? | High | 29 | 59.2 |
| | medium | 17 | 34.7 |
| | low | 3 | 6.1 |
| | Total | 49 | 100 |
| Missing | System | 2 | |
| Does the bank provide the amount loan you requests? | Yes | 23 | 47.9 |
| | No | 25 | 52.1 |
| | Total | 48 | 100 |
| Missing | System | 3 | |

| | | | |
|---|---|---|---|
| What's the major reason that affects their loan repayment? | Market problem | 24 | 47.1 |
| | environmental problem | 20 | 39.2 |
| | Policy problem | 5 | 9.8 |
| | contingencies | 2 | 3.9 |
| | Total | 51 | 100 |
| What mechanism have you design to collect the unpaid loan balance? | Change of the business | 17 | 35.4 |
| | sell property | 23 | 47.9 |
| | borrowing from other institution | 8 | 16.7 |
| | Total | 48 | 100 |
| Missing | System | 3 | |
| What measure is taken by the bank for delay? | Legal under taking | 31 | 67.4 |
| | refusal additional loan | 2 | 4.3 |
| | foreclosing | 9 | 19.6 |
| | other specify | 4 | 8.7 |
| | System | 54 | 100 |
| Does your organization have a credit manual or policy? | Yes | 51 | 100.0 |
| | Total | 51 | |
| Do you think it is up date & convenient for loan creation? Y | Yes | 44 | 88.0 |
| | No | 6 | 12.0 |
| | System | 1 | 100.0 |
| How can you see your institution's credit policy and procedure? | Rigid | 6 | 12.0 |
| | flexible | 17 | 34.0 |
| | Average | 27 | 54.0 |
| | System | 1 | |

**The major challenges faced y the bank on credit management practice**

| Statement | Measurement | 5 | 4 | 3 | 2 | 1 |
|---|---|---|---|---|---|---|
| **Lack of follow up** | **Frequency** | 8 | 9 | 9 | 18 | 6 |
| | %age | 16 | 18 | 18 | 36 | 12 |
| **Lack of training** | **Frequency** | 3 | 10 | 14 | 19 | 5 |
| | %age | 5.9 | 19.6 | 27.5 | 37.3 | 9.8 |
| **Inadequate information about customer worthiness** | **Frequency** | 2 | 15 | 10 | 19 | 5 |
| | %age | 3.9 | 29.4 | 19.6 | 37.3 | 9.8 |
| **Loan diversion** | **Frequency** | 2 | 10 | 11 | 9 | 18 |
| | %age | 4 | 20 | 22 | 18 | 36 |

| | | | | | | |
|---|---|---|---|---|---|---|
| | **Frequency** | **3** | **10** | **25** | **5** | **8** |
| **Lack of market for client's product** | %age | **5.9** | **19.6** | **49** | **9.8** | **15.7** |
| **Unfavorable environment conditions** | **Frequency** | 5 | 5 | 17 | 8 | 15 |
| | %age | 10 | 10 | 34 | 16 | 30 |
| **How Does the bank effectively practice credit management?** | | | | | | |
| | | 5 | 4 | 3 | 2 | 1 |
| **Creating clear and trustworthy information** | **Frequency** | 2 | 14 | 20 | 15 | |
| | %age | 3.9 | 27.5 | 39.2 | 29.4 | |
| **Developing understanding between management team and employee** | **Frequency** | 2 | 4 | 11 | 27 | 7 |
| | %age | 3.9 | 7.8 | 21.6 | 52.9 | 13.7 |
| **Fast and sharp communication between management team and stockholders** | **Frequency** | 2 | 5 | 7 | 27 | 8 |
| | %age | 4.1 | 10.2 | 14.3 | 55.1 | 16.3 |
| **Regularly communicating among management and staff** | **Frequency** | 4 | 8 | 28 | 9 | |
| | %age | 8.2 | 16.3 | 57.1 | 18.4 | |
| **Creating and maintain a clear communication** | **Frequency** | 5 | 6 | 26 | 12 | |
| | %age | 10.2 | 12.2 | 53.1 | 24.5 | |

**The bank has adopted a standard reporting system about the credit management practice from bottom to top management**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Strongly Disagree | 2 | 3.9 | 3.9 | 3.9 |
| | Neither Agree Nor Disagree | 9 | 17.6 | 17.6 | 21.6 |
| | Agree | 27 | 52.9 | 52.9 | 74.5 |
| | Strongly Agee | 13 | 25.5 | 25.5 | 100.0 |
| | Total | 51 | 100.0 | 100.0 | |

**Creating clear and trustworthy information**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Strongly Disagree | 2 | 3.9 | 3.9 | 3.9 |
| | Neither Agree Nor Disagree | 14 | 27.5 | 27.5 | 31.4 |
| | Agree | 20 | 39.2 | 39.2 | 70.6 |

| | | | | | |
|---|---|---|---|---|---|
| | Strongly Agee | 15 | 29.4 | 29.4 | 100.0 |
| | Total | 51 | 100.0 | 100.0 | |

## Frequency Table

**Gender status**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | male | 35 | 68.6 | 68.6 | 68.6 |
| | female | 16 | 31.4 | 31.4 | 100.0 |
| | Total | 51 | 100.0 | 100.0 | |

**The borrower's business performance is regularly observed by the bank following the extension of financing**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Strongly Disagree | 2 | 3.9 | 4.0 | 4.0 |
| | Disagree | 3 | 5.9 | 6.0 | 10.0 |
| | Neither Agree Nor Disagree | 10 | 19.6 | 20.0 | 30.0 |
| | Agree | 25 | 49.0 | 50.0 | 80.0 |
| | Strongly Agee | 10 | 19.6 | 20.0 | 100.0 |
| | Total | 50 | 98.0 | 100.0 | |
| Missing | System | 1 | 2.0 | | |
| Total | | 51 | 100.0 | | |

**The bank regularly prepares periodic report of credit**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Strongly Disagree | 1 | 2.0 | 2.0 | 2.0 |
| | Disagree | 5 | 9.8 | 10.0 | 12.0 |
| | Neither Agree Nor Disagree | 5 | 9.8 | 10.0 | 22.0 |
| | Agree | 21 | 41.2 | 42.0 | 64.0 |
| | Strongly Agee | 18 | 35.3 | 36.0 | 100.0 |
| | Total | 50 | 98.0 | 100.0 | |
| Missing | System | 1 | 2.0 | | |
| Total | | 51 | 100.0 | | |

**Inadequate information about customer credit worthiness**

| | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|

| | | | | | |
|---|---|---|---|---|---|
| Valid | Strongly Disagree | 2 | 3.9 | 3.9 | 3.9 |
| | Disagree | 15 | 29.4 | 29.4 | 33.3 |
| | Neither Agree Nor Disagree | 10 | 19.6 | 19.6 | 52.9 |
| | Agree | 19 | 37.3 | 37.3 | 90.2 |
| | Strongly Agee | 5 | 9.8 | 9.8 | 100.0 |
| | Total | 51 | 100.0 | 100.0 | |

**Loan diversion**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Strongly Disagree | 2 | 3.9 | 4.0 | 4.0 |
| | Disagree | 10 | 19.6 | 20.0 | 24.0 |
| | Neither Agree Nor Disagree | 11 | 21.6 | 22.0 | 46.0 |
| | Agree | 9 | 17.6 | 18.0 | 64.0 |
| | Strongly Agee | 18 | 35.3 | 36.0 | 100.0 |
| | Total | 50 | 98.0 | 100.0 | |
| Missing | System | 1 | 2.0 | | |
| Total | | 51 | 100.0 | | |

**Lack of market for clients" product**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Strongly Disagree | 3 | 5.9 | 5.9 | 5.9 |
| | Disagree | 10 | 19.6 | 19.6 | 25.5 |
| | Neither Agree Nor Disagree | 25 | 49.0 | 49.0 | 74.5 |
| | Agree | 5 | 9.8 | 9.8 | 84.3 |
| | Strongly Agee | 8 | 15.7 | 15.7 | 100.0 |
| | Total | 51 | 100.0 | 100.0 | |

**Unfavorable environment conditions**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Strongly Disagree | 5 | 9.8 | 10.0 | 10.0 |
| | Disagree | 5 | 9.8 | 10.0 | 20.0 |
| | Neither Agree Nor Disagree | 17 | 33.3 | 34.0 | 54.0 |
| | Agree | 8 | 15.7 | 16.0 | 70.0 |
| | Strongly Agee | 15 | 29.4 | 30.0 | 100.0 |

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| | Total | 50 | 98.0 | 100.0 | |
| Missing | System | 1 | 2.0 | | |
| Total | | 51 | 100.0 | | |

**Developing understanding between management team and employee**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Strongly Disagree | 2 | 3.9 | 3.9 | 3.9 |
| | Disagree | 4 | 7.8 | 7.8 | 11.8 |
| | Neither Agree Nor Disagree | 11 | 21.6 | 21.6 | 33.3 |
| | Agree | 27 | 52.9 | 52.9 | 86.3 |
| | Strongly Agee | 7 | 13.7 | 13.7 | 100.0 |
| | Total | 51 | 100.0 | 100.0 | |

**Lack of training**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Strongly Disagree | 3 | 5.9 | 5.9 | 5.9 |
| | Disagree | 10 | 19.6 | 19.6 | 25.5 |
| | Neither Agree Nor Disagree | 14 | 27.5 | 27.5 | 52.9 |
| | Agree | 19 | 37.3 | 37.3 | 90.2 |
| | Strongly Agee | 5 | 9.8 | 9.8 | 100.0 |
| | Total | 51 | 100.0 | 100.0 | |

Age

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | 18-25 | 10 | 19.6 | 19.6 | 19.6 |
| | 26-35 | 30 | 58.8 | 58.8 | 78.4 |
| | 36-50 | 11 | 21.6 | 21.6 | 100.0 |
| | Total | 51 | 100.0 | 100.0 | |

**Fast and sharp communication between management team and stakeholders**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Strongly Disagree | 2 | 3.9 | 4.1 | 4.1 |
| | Disagree | 5 | 9.8 | 10.2 | 14.3 |
| | Neither Agree Nor Disagree | 7 | 13.7 | 14.3 | 28.6 |
| | Agree | 27 | 52.9 | 55.1 | 83.7 |

| | | | | | |
|---|---|---|---|---|---|
| | Strongly Agee | 8 | 15.7 | 16.3 | 100.0 |
| | Total | 49 | 96.1 | 100.0 | |
| Missing | System | 2 | 3.9 | | |
| Total | | 51 | 100.0 | | |

**Regularly communicating among management and staff**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Disagree | 4 | 7.8 | 8.2 | 8.2 |
| | Neither Agree Nor Disagree | 8 | 15.7 | 16.3 | 24.5 |
| | Agree | 28 | 54.9 | 57.1 | 81.6 |
| | Strongly Agee | 9 | 17.6 | 18.4 | 100.0 |
| | Total | 49 | 96.1 | 100.0 | |
| Missing | System | 2 | 3.9 | | |
| Total | | 51 | 100.0 | | |

**Creating and maintain a clear communication**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Disagree | 5 | 9.8 | 10.2 | 10.2 |
| | Neither Agree Nor Disagree | 6 | 11.8 | 12.2 | 22.4 |
| | Agree | 26 | 51.0 | 53.1 | 75.5 |
| | Strongly Agee | 12 | 23.5 | 24.5 | 100.0 |
| | Total | 49 | 96.1 | 100.0 | |
| Missing | System | 2 | 3.9 | | |
| Total | | 51 | 100.0 | | |

**Lack of follow – up**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Strongly Disagree | 8 | 15.7 | 16.0 | 16.0 |
| | Disagree | 9 | 17.6 | 18.0 | 34.0 |
| | Neither Agree Nor Disagree | 9 | 17.6 | 18.0 | 52.0 |
| | Agree | 18 | 35.3 | 36.0 | 88.0 |
| | Strongly Agee | 6 | 11.8 | 12.0 | 100.0 |
| | Total | 50 | 98.0 | 100.0 | |
| Missing | System | 1 | 2.0 | | |
| Total | | 51 | 100.0 | | |

**Marital status;**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | single | 20 | 39.2 | 39.2 | 39.2 |
| | married | 29 | 56.9 | 56.9 | 96.1 |
| | 3.00 | 2 | 3.9 | 3.9 | 100.0 |
| | Total | 51 | 100.0 | 100.0 | |

**Education level**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | secondary and preparatory | 1 | 2.0 | 2.0 | 2.0 |
| | Degree | 24 | 47.1 | 47.1 | 49.0 |
| | MSc and above | 26 | 51.0 | 51.0 | 100.0 |
| | Total | 51 | 100.0 | 100.0 | |

**Work experience:**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | 1-3 Years | 4 | 7.8 | 7.8 | 7.8 |
| | 4-7 Years | 22 | 43.1 | 43.1 | 51.0 |
| | 8 and above | 25 | 49.0 | 49.0 | 100.0 |
| | Total | 51 | 100.0 | 100.0 | |

**Position**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Senior Management | 4 | 7.8 | 7.8 | 7.8 |
| | Middle Management | 17 | 33.3 | 33.3 | 41.2 |
| | Line Management | 11 | 21.6 | 21.6 | 62.7 |
| | Other Clerical | 19 | 37.3 | 37.3 | 100.0 |
| | Total | 51 | 100.0 | 100.0 | |

**Name of the Organization**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Bank of abysinia | 6 | 11.8 | 11.8 | 11.8 |
| | Awash bank s.c | 8 | 15.7 | 15.7 | 27.5 |
| | united bank | 9 | 17.6 | 17.6 | 45.1 |
| | wegagen | 10 | 19.6 | 19.6 | 64.7 |
| | Dshen bank | 6 | 11.8 | 11.8 | 76.5 |
| | Nib international bank | 7 | 13.7 | 13.7 | 90.2 |
| | Addis international bank | 5 | 9.8 | 9.8 | 100.0 |
| | Total | 51 | 100.0 | 100.0 | |

**Organization category**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Private bank | 6 | 11.8 | 11.8 | 11.8 |
| | Government bank | 45 | 88.2 | 88.2 | 100.0 |
| | Total | 51 | 100.0 | 100.0 | |

**Year of Establishment ________________G.C and Organizational work experience**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | 1-5 | 1 | 2.0 | 2.0 | 2.0 |
| | 6-10 | 2 | 3.9 | 4.1 | 6.1 |
| | 10-15 | 3 | 5.9 | 6.1 | 12.2 |
| | 20-25 | 41 | 80.4 | 83.7 | 95.9 |
| | >25 | 2 | 3.9 | 4.1 | 100.0 |
| | Total | 49 | 96.1 | 100.0 | |
| Missing | System | 2 | 3.9 | | |
| Total | | 51 | 100.0 | | |

**Source of Finance**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Saving /deposit /loan interest | 51 | 100.0 | 100.0 | 100.0 |

**Finance system of the Organizatio**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Decentralized System | 51 | 100.0 | 100.0 | 100.0 |

**Number of loan department staffs**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | 1-5 | 5 | 9.8 | 10.0 | 10.0 |
| | 6-10 | 6 | 11.8 | 12.0 | 22.0 |
| | 11-15 | 7 | 13.7 | 14.0 | 36.0 |
| | 16-20 | 4 | 7.8 | 8.0 | 44.0 |
| | 21 and above | 28 | 54.9 | 56.0 | 100.0 |
| | Total | 50 | 98.0 | 100.0 | |
| Missing | System | 1 | 2.0 | | |
| Total | | 51 | 100.0 | | |

**When the borrowers face a certain problem and unable to pay the loan, what mechanism do**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Injection of additional loans | 6 | 11.8 | 13.3 | 13.3 |
| | Rearrangement of loan repayment structure | 16 | 31.4 | 35.6 | 48.9 |
| | Others__ | 17 | 33.3 | 37.8 | 86.7 |
| | 4.00 | 4 | 7.8 | 8.9 | 95.6 |
| | 6.00 | 2 | 3.9 | 4.4 | 100.0 |
| | Total | 45 | 88.2 | 100.0 | |
| Missing | System | 6 | 11.8 | | |
| Total | | 51 | 100.0 | | |

**What are the major causes of non-performing loans at Borrower Level?**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Lack of proper business plan | 3 | 5.9 | 6.0 | 6.0 |
| | Contingencies at borrowers e.g. death, sick | 2 | 3.9 | 4.0 | 10.0 |
| | Diversion of the borrower fund to other purpose | 34 | 66.7 | 68.0 | 78.0 |

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| | Insufficient credit awareness | 8 | 15.7 | 16.0 | 94.0 |
| | Unwilling customer to disclose the information required | 3 | 5.9 | 6.0 | 100.0 |
| | Total | 50 | 98.0 | 100.0 | |
| Missing | System | 1 | 2.0 | | |
| Total | | 51 | 100.0 | | |

**What are the major causes of nonperforming loans at Bank Level?**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Lack of continuous follow up and proper risk assessment | 22 | 43.1 | 43.1 | 43.1 |
| | Lack of consultation and communication with defaulter | 9 | 17.6 | 17.6 | 60.8 |
| | Lack of sufficient credit information from other commercial banks | 6 | 11.8 | 11.8 | 72.5 |
| | Mistake on estimation of collateral and evaluating the borrowers' financial reports. | 9 | 17.6 | 17.6 | 90.2 |
| | Problems associated with loan eligibility criteria | 2 | 3.9 | 3.9 | 94.1 |
| | Other | 3 | 5.9 | 5.9 | 100.0 |
| | Total | 51 | 100.0 | 100.0 | |

**What are the major causes of nonperforming loans at Economic Level? (**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Unstable political Situation | 37 | 72.5 | 72.5 | 72.5 |
| | Weak economic plan and strategy implementation | 13 | 25.5 | 25.5 | 98.0 |
| | Other | 1 | 2.0 | 2.0 | 100.0 |
| | Total | 51 | 100.0 | 100.0 | |

**What measure/s/ is/are taken on the side of the bank to improve the repayment situation?**

| | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|

| | | | | | |
|---|---|---|---|---|---|
| Valid | Loan rescheduling | 23 | 45.1 | 47.9 | 47.9 |
| | Frequently insisting the client | 13 | 25.5 | 27.1 | 75.0 |
| | Others, (Specify) ____________________ | 11 | 21.6 | 22.9 | 97.9 |
| | All of the above | 1 | 2.0 | 2.1 | 100.0 |
| | Total | 48 | 94.1 | 100.0 | |
| Missing | System | 3 | 5.9 | | |
| Total | | 51 | 100.0 | | |

**For what purpose you organization provide Loan to customers?**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Torun business | 33 | 64.7 | 70.2 | 70.2 |
| | for consumption | 4 | 7.8 | 8.5 | 78.7 |
| | Both of them | 10 | 19.6 | 21.3 | 100.0 |
| | Total | 47 | 92.2 | 100.0 | |
| Missing | System | 4 | 7.8 | | |
| Total | | 51 | 100.0 | | |

**What type of business they do/undertake?**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Merchandise | 23 | 45.1 | 52.3 | 52.3 |
| | service rendering | 13 | 25.5 | 29.5 | 81.8 |
| | manufacturing | 6 | 11.8 | 13.6 | 95.5 |
| | All | 2 | 3.9 | 4.5 | 100.0 |
| | Total | 44 | 86.3 | 100.0 | |
| Missing | System | 7 | 13.7 | | |
| Total | | 51 | 100.0 | | |

**Do the bank give grace (loan repayment duration) period?**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Yes | 34 | 66.7 | 82.9 | 82.9 |
| | No | 7 | 13.7 | 17.1 | 100.0 |
| | Total | 41 | 80.4 | 100.0 | |
| Missing | System | 10 | 19.6 | | |
| Total | | 51 | 100.0 | | |

**How is the length of your grace period given to clients by the bank?**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | long | 44 | 86.3 | 86.3 | 86.3 |
| | very long | 7 | 13.7 | 13.7 | 100.0 |
| | Total | 51 | 100.0 | 100.0 | |

**Do they happy with grace period given to them?**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Yes | 45 | 88.2 | 90.0 | 90.0 |
| | No | 5 | 9.8 | 10.0 | 100.0 |
| | Total | 50 | 98.0 | 100.0 | |
| Missing | System | 1 | 2.0 | | |
| Total | | 51 | 100.0 | | |

**Do you analyze the risk of introducing more debt in your capital structure?**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Yes | 31 | 60.8 | 62.0 | 62.0 |
| | No | 19 | 37.3 | 38.0 | 100.0 |
| | Total | 50 | 98.0 | 100.0 | |
| Missing | System | 1 | 2.0 | | |
| Total | | 51 | 100.0 | | |

**How is the interest rate charged by the bank?**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | High | 29 | 56.9 | 59.2 | 59.2 |
| | medium | 17 | 33.3 | 34.7 | 93.9 |

| | | | | | |
|---|---|---|---|---|---|
| | low | 3 | 5.9 | 6.1 | 100.0 |
| | Total | 49 | 96.1 | 100.0 | |
| Missing | System | 2 | 3.9 | | |
| Total | | 51 | 100.0 | | |

**Does the bank provide the amount loan you requests?**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Yes | 23 | 45.1 | 47.9 | 47.9 |
| | No | 25 | 49.0 | 52.1 | 100.0 |
| | Total | 48 | 94.1 | 100.0 | |
| Missing | System | 3 | 5.9 | | |
| Total | | 51 | 100.0 | | |

**What's the major reason that affects their loan repayment?**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Market problem | 24 | 47.1 | 47.1 | 47.1 |
| | environmental problem | 20 | 39.2 | 39.2 | 86.3 |
| | Policy problem | 5 | 9.8 | 9.8 | 96.1 |
| | contingencies | 2 | 3.9 | 3.9 | 100.0 |
| | Total | 51 | 100.0 | 100.0 | |

**What mechanism have you design to collect the unpaid loan balance?**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Change of the business | 17 | 33.3 | 35.4 | 35.4 |
| | sell property | 23 | 45.1 | 47.9 | 83.3 |
| | borrowing from other institution | 8 | 15.7 | 16.7 | 100.0 |
| | Total | 48 | 94.1 | 100.0 | |
| Missing | System | 3 | 5.9 | | |
| Total | | 51 | 100.0 | | |

**What measure are taken by the bank for delay?**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Legal under taking | 31 | 60.8 | 67.4 | 67.4 |
| | refusal additional loan | 2 | 3.9 | 4.3 | 71.7 |
| | foreclosing | 9 | 17.6 | 19.6 | 91.3 |
| | other specify | 4 | 7.8 | 8.7 | 100.0 |
| | Total | 46 | 90.2 | 100.0 | |
| Missing | System | 5 | 9.8 | | |
| Total | | 51 | 100.0 | | |

**Do your organization have a credit manual or policy?**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Yes | 50 | 98.0 | 98.0 | 98.0 |
| | 3.00 | 1 | 2.0 | 2.0 | 100.0 |
| | Total | 51 | 100.0 | 100.0 | |

**Do you think it is up date & convenient for loan creation? Y**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Yes | 44 | 86.3 | 88.0 | 88.0 |
| | No | 1 | 2.0 | 2.0 | 90.0 |
| | 3.00 | 5 | 9.8 | 10.0 | 100.0 |
| | Total | 50 | 98.0 | 100.0 | |
| Missing | System | 1 | 2.0 | | |
| Total | | 51 | 100.0 | | |

**How can you see your institution's credit policy and procedure?**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Rigid | 6 | 11.8 | 12.0 | 12.0 |
| | flexible | 16 | 31.4 | 32.0 | 44.0 |

| | | | | | |
|---|---|---|---|---|---|
| | Average | 26 | 51.0 | 52.0 | 96.0 |
| | 5.00 | 2 | 3.9 | 4.0 | 100.0 |
| | Total | 50 | 98.0 | 100.0 | |
| Missing | System | 1 | 2.0 | | |
| Total | | 51 | 100.0 | | |

**The bank has an excellent credit analysis procedure followed by the bank in extending cedit**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Strongly Disagree | 2 | 3.9 | 3.9 | 3.9 |
| | Disagree | 5 | 9.8 | 9.8 | 13.7 |
| | Neither Agree Nor Disagree | 9 | 17.6 | 17.6 | 31.4 |
| | Agree | 18 | 35.3 | 35.3 | 66.7 |
| | Strongly Agee | 17 | 33.3 | 33.3 | 100.0 |
| | Total | 51 | 100.0 | 100.0 | |

**The credit collection technique used by the bank is effective**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Disagree | 2 | 3.9 | 3.9 | 3.9 |
| | Neither Agree Nor Disagree | 8 | 15.7 | 15.7 | 19.6 |
| | Agree | 26 | 51.0 | 51.0 | 70.6 |
| | Strongly Agee | 15 | 29.4 | 29.4 | 100.0 |
| | Total | 51 | 100.0 | 100.0 | |

**The bank carries out a compressive and systematic examination of the need of credit relating to each of its declared aims and objective**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Disagree | 5 | 9.8 | 9.8 | 9.8 |
| | Neither Agree Nor Disagree | 15 | 29.4 | 29.4 | 39.2 |
| | Agree | 22 | 43.1 | 43.1 | 82.4 |
| | Strongly Agee | 9 | 17.6 | 17.6 | 100.0 |
| | Total | 51 | 100.0 | 100.0 | |

**Changes in credit demand are recognized and identified with the bank's roles and responsibilities**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Strongly Disagree | 1 | 2.0 | 2.0 | 2.0 |
| | Disagree | 5 | 9.8 | 9.8 | 11.8 |
| | Neither Agree Nor Disagree | 14 | 27.5 | 27.5 | 39.2 |
| | Agree | 19 | 37.3 | 37.3 | 76.5 |
| | Strongly Agee | 12 | 23.5 | 23.5 | 100.0 |
| | Total | 51 | 100.0 | 100.0 | |

**The bank is aware of the strengths and weaknesses of the credit management systems**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Strongly Disagree | 3 | 5.9 | 5.9 | 5.9 |
| | Disagree | 4 | 7.8 | 7.8 | 13.7 |
| | Neither Agree Nor Disagree | 7 | 13.7 | 13.7 | 27.5 |
| | Agree | 29 | 56.9 | 56.9 | 84.3 |
| | Strongly Agee | 8 | 15.7 | 15.7 | 100.0 |
| | Total | 51 | 100.0 | 100.0 | |

**The bank has developed and applied procedures for credit management practice**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Neither Agree Nor Disagree | 15 | 29.4 | 29.4 | 29.4 |
| | Agree | 19 | 37.3 | 37.3 | 66.7 |
| | Strongly Agee | 17 | 33.3 | 33.3 | 100.0 |
| | Total | 51 | 100.0 | 100.0 | |

**The bank credit assesses the necessity of providing credit**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Disagree | 5 | 9.8 | 10.4 | 10.4 |
| | Neither Agree Nor Disagree | 11 | 21.6 | 22.9 | 33.3 |
| | Agree | 18 | 35.3 | 37.5 | 70.8 |
| | Strongly Agee | 14 | 27.5 | 29.2 | 100.0 |
| | Total | 48 | 94.1 | 100.0 | |
| Missing | System | 3 | 5.9 | | |
| Total | | 51 | 100.0 | | |

**The bank analyses and evaluates the opportunities of credit that has to achieve objectives**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Strongly Disagree | 2 | 3.9 | 4.1 | 4.1 |
| | Disagree | 2 | 3.9 | 4.1 | 8.2 |
| | Neither Agree Nor Disagree | 8 | 15.7 | 16.3 | 24.5 |
| | Agree | 22 | 43.1 | 44.9 | 69.4 |
| | Strongly Agee | 15 | 29.4 | 30.6 | 100.0 |
| | Total | 49 | 96.1 | 100.0 | |
| Missing | System | 2 | 3.9 | | |
| Total | | 51 | 100.0 | | |

**Before granting credit by the bank undertakes specific analysis including the applicant's character, capacity, collateral, and conditions**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Disagree | 2 | 3.9 | 4.1 | 4.1 |
| | Neither Agree Nor Disagree | 6 | 11.8 | 12.2 | 16.3 |
| | Agree | 18 | 35.3 | 36.7 | 53.1 |
| | Strongly Agee | 23 | 45.1 | 46.9 | 100.0 |
| | Total | 49 | 96.1 | 100.0 | |
| Missing | System | 2 | 3.9 | | |
| Total | | 51 | 100.0 | | |

**The bank has a computer based support system to estimate the earnings and risk management variability**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Strongly Disagree | 1 | 2.0 | 2.0 | 2.0 |
| | Disagree | 6 | 11.8 | 11.8 | 13.7 |
| | Neither Agree Nor Disagree | 8 | 15.7 | 15.7 | 29.4 |

| | | | | | |
|---|---|---|---|---|---|
| | Agree | 27 | 52.9 | 52.9 | 82.4 |
| | Strongly Agee | 9 | 17.6 | 17.6 | 100.0 |
| | Total | 51 | 100.0 | 100.0 | |

**The bank effectively monitors the credit limit of everyone counterparty**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Strongly Disagree | 2 | 3.9 | 3.9 | 3.9 |
| | Disagree | 3 | 5.9 | 5.9 | 9.8 |
| | Neither Agree Nor Disagree | 10 | 19.6 | 19.6 | 29.4 |
| | Agree | 26 | 51.0 | 51.0 | 80.4 |
| | Strongly Agee | 10 | 19.6 | 19.6 | 100.0 |
| | Total | 51 | 100.0 | 100.0 | |