



Assessment of Credit Management Practice a Case Study on Bank of Abyssinia

Master of Science (Msc) in Accounting and Finance

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Feb, 2025

Addis Ababa, Ethiopia

**ASSESSMENT OF CREDIT MANAGEMENT PRACTICE A CASE STUDY ON
BANK OF ABYSSINIA**

By:

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**A Thesis Submitted to the Department of Accounting and Finance of Addis Ababa
University in partial Fulfillment of the Requirements for the Degree of Master of
Science in Accounting and Finance**

Advisor:

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Feb, 2025

AddisAbaba, Ethiopia

Declaration

In partial Fulfilment of Requirements for the Degree of Master of Science in Accounting and Finance, I, Abel Getu Abdisa, hereby declare that this thesis titled "Assessment of Credit Management Practices in the Case of Bank of Abyssinia" is my original work and has not been submitted for any other degree or qualification at this University or any other institution.

This work is the result of my own research and investigation, except where clearly acknowledged otherwise by citations and references. All sources of information have been appropriately acknowledged.

I have strictly followed the principles of academic integrity and honesty in all stages of this research.

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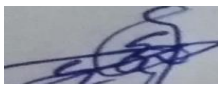
Certificate of Completion

This is to certify that Abel Getu Abdisa has successfully completed a study entitled “Assessment of Credit Management Practices a Case Study on Bank of Abyssinia S.C.” in partial fulfillment of the requirements for the Degree of Master of Science in Accounting and Finance at Addis Ababa University.

This study represents original research conducted by the author, and all sources utilized in the preparation of this project paper have been properly acknowledged.

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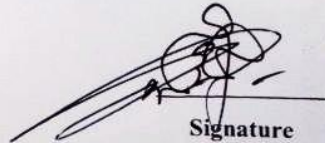
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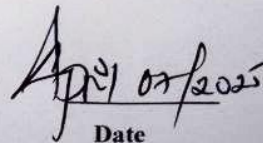
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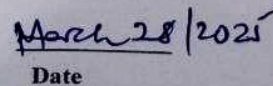
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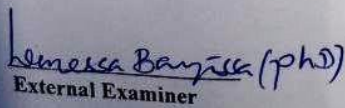
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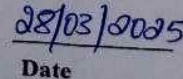
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List of Acronyms

NBE	National Bank of Ethiopia
NPL	Non-Performing Loan
S.C.	Share Company
SD	Standard Deviation
SPSS	Statistical Package for Social Science
LPM	Loan Portfolio Management
CBE	Commercial Bank of Ethiopia

Abstract

This study investigates the credit management practices of Bank of Abyssinia, aiming to understand its approach to responsible lending and risk mitigation. A mixed-method approach was employed, utilizing a questionnaire survey distributed to bank staff and in-depth interviews with bank management. The collected data was analyzed using descriptive statistics with the help of SPSS version 20. The analysis focused on current practices of bank, the efforts underway and internal challenges (staff training, technology investments), external influences (economic challenges, regulations), and transparency in communication. Key findings reveal a strong foundation for credit management at Bank of Abyssinia. The bank utilizes well-defined loan assessment processes, emphasizes staff training on responsible lending principles, and prioritizes loan quality through performance metrics. However, the study also identifies areas for improvement in resource allocation, with some respondents perceiving limitations in technology investments and staffing levels. The research highlights the significance of a comprehensive approach to credit management, emphasizing responsible lending practices alongside effective resource allocation and adaptation to external challenges. This study contributes to the field by providing valuable insights into the credit management practices of a leading Ethiopian bank, offering a framework for analysis applicable to other financial institutions. The recommendations presented, focusing on optimized resource allocation, technology utilization, and continuous improvement strategies, can benefit banks seeking to enhance their credit risk management capabilities.

Keywords: Credit Management, Responsible Lending, Resource Allocation, Bank of Abyssinia, Risk Management, Ethiopia

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Numerous nations' economies rely heavily on banks. They serve as the main conduit between individuals who have extra money (depositors) and others who have good ideas but lack the resources to finance their investment (creditors). In any case, banks are capable of lending money, protecting customer deposits, sending money locally or internationally, and acting as a payment agent. The types and degree of risk that banks are exposed to depends on a number of criteria, including the size of the bank, the complexity of the business operations, and the volume (Werner, R. A., 2016).

Effective management of the loan and the credit function is fundamental to a Bank's safety and soundness. Loan portfolio management (LPM) is the process by which risks that are inherent in the credit process are managed and controlled. Because assessing and reviewing of the credit process is so important and it is a primary managerial activity (Essendi, L. K., 2013).

According to Essendi (2013), credit management success is determined by the bank's credit policy, credit portfolio, monitoring, supervision, and loan and advance follow-up. According to Basel Committee on Banking Supervision (1999) credit can be defined as a transaction in which one party (the creditor or lender) provides money or monetary equivalent goods and services to the other. Efficient credit management practices, according to (Mekonnen, S., 2018), allow banks to choose the right type of loan proposals/projects/ventures/enterprises and the right type of borrower.

One of the most important steps in the loan approval process is ensuring enough protection. Protection is important, but it's not the only consideration. One of the key challenges is still the duty of bank experts to do analysis. Credit lenders can determine if a customer would be able to economically repay the Bank loan in accordance with the stipulated terms and circumstances and repayment schedule by using credit lending principles such the borrower's liquidity and integrity. Additionally, the National Credit Union Administration (NCUA)

outlines in order to improve both borrowers' financial literacy and lenders' transactional procedures and avert possible financial catastrophes, credit regulation is crucial.

The most significant products that banks offer to their customers are loans, which also generate the majority of the bank's annual earnings. It's also true that bank loans carry risk in addition to their financial rewards. For instance, changes in economic policy and the state of the economy as a whole have an impact on and fluctuate with bank loans. In essence, a well-structured and adaptable lending policy, coupled with continuous monitoring, allows banks to manage the risks associated with loans while ensuring they continue to generate stable returns (Federal Deposit Insurance Corporation [FDIC], n.d.).

Globally, credit management practices have profound implications at both micro and macro levels. Poor credit allocation increases costs for successful borrowers, reduces bank funds, and limits flexibility in redirecting activities. In Ethiopia, the banking sector faces significant challenges in credit management. Selamawit (2017) identified poor credit analysis, inadequate follow-up, and portfolio management practices as key issues contributing to high levels of non-performing loans in private banks. Meti (2021) highlighted insufficient internal control activities over credit management, affecting efficiency. Hagos (2010) observed poor credit management performance in Wegagen Bank S.C., particularly in its Tigray region branches.

Bank of Abyssinia S.C., established in 1996, is one of Ethiopia's leading private commercial banks. It has played a significant role in the country's financial sector, offering a range of services including deposit mobilization, lending, and international banking. Despite its achievements, the bank faces challenges in credit management, which necessitates a thorough evaluation of its practices. Recent studies, such as those by Kebede and Tehulu (2020), indicate that Ethiopian banks struggle with inadequate credit risk assessment tools and lack of skilled personnel, leading to higher default rates. Abate and Rao (2021) discussed the impact of economic volatility on credit risk, highlighting the vulnerability of Ethiopian banks to macroeconomic shocks.

While existing studies provide valuable insights, there is a notable gap in understanding the specific credit management practices at Bank of Abyssinia S.C., one of Ethiopia's leading private commercial banks. The current literature lacks a detailed examination of how this bank manages its credit risk and the challenges influencing its practices. Recent works, such as those by Gizaw and Kebede (2022), suggest that there is a need for more granular analysis

of credit management practices in individual banks to understand the nuances and challenges specific to each institution. This study aims to fill this gap by evaluating the Bank of Abyssinia's credit management practices, identifying strengths, weaknesses, and areas for improvement. By addressing this specific knowledge gap, the research will contribute to enhancing the bank's credit management framework and inform policy formulation for better credit practices in the banking sector.

This study seeks to provide a comprehensive analysis of the credit management practices at Bank of Abyssinia S.C. By examining the theoretical approaches and reviewing previous studies, including recent research, the study aims to identify gaps and offer insights for improving credit risk management.

1.2 Statement of the problem

Effective credit management is essential for banks to navigate the dynamic financial landscape. While traditional credit risk management focuses on borrower analysis and loan security, emerging trends like rapid technological advancements, changing economic conditions, and evolving customer behavior pose new challenges (Beck, Demirgüç-Kunt & Levine, 2008; Ongena, Popov & Udell, 2017).

Bank of Abyssinia, a leading Ethiopian private commercial bank, operates within a rapidly evolving economic environment. Understanding how Bank of Abyssinia adapts its credit management practices to address these emerging challenges can provide valuable insights for the broader Ethiopian banking sector.

Among the researches made in the area in our country Ethiopia, Selamawit (2017) conducted a study on credit management practice in the case of awash international Bank S.C and found that private commercial banks is facing severe troubles as a result of the practice of poor credit analysis, poor follow-up and portfolio management practice which leads banks to maintain high percentage of nonperforming loans that will directly raise the provision expense and inversely affect the overall profitability of the bank. Hagos, (2010) conducted a study on Wegagen bank S.C. focusing specifically on credit management performance of nine branches in Tigray region and concluded that there was poor credit management performance.

Flagot (2021) conducted an assessment of credit risk management practices at Awash Bank S.C., utilizing descriptive statistical tools to examine these practices. The study focused on

employees in the credit and loan departments at the bank's head office, collecting primary data through questionnaires. The collected data were analyzed using frequency, percentage, mean, and standard deviation. The findings revealed that the bank has a well-designed credit risk strategy and policy, which clearly identifies areas of credit engagement and the associated risks. Additionally, the respondent employees indicated a high level of satisfaction with the bank's credit appraisal and granting processes.

In her study assessment of OIB S.C.'s credit management practice, Meti, K. (2021), also found that there is insufficient internal control activity maintained over the bank's credit management practice. When evaluating United Bank S.C.'s credit management practices, Immergluck, D. (2016), as cited in Meti, K (2021), discovered that there was a lack of credit follow-up by branches, a lack of an information system to support the bank's credit risk grading system, branches' disregard for the bank's credit policy and procedure when using their discretionary lending limit, full borrower default, borrower ignorance of loan use, fund diversion for unintended purposes, and the banks centralized decision-making power.

Singh (2021) investigated credit risk management practices at the Dashen Bank, Mettu Branch in Ethiopia, employing both primary data (collected through questionnaires) and secondary data. The analysis was conducted using qualitative and descriptive statistical techniques, including frequency tables. The research concluded that the bank faces several pitfalls, such as a lack of training for customers, which leads to loan diversion, and the absence of a credit risk model to predict the risk level of businesses. Additionally, the bank's priority sectors for credit facilities are highly exposed to credit risk, contributing directly to an increase in non-performing loans (NPLs).

Mekonnen, A. (2019), also assessed the credit management practice of the Commercial Bank of Ethiopia based on three basic dimensions namely adequacy of credit policy content, compliance of the actual credit activities of the Bank against the formulated policy and the overall existing credit control practice of the Bank and found that CBE has adequate credit policy with a good content as per the examining statements provided. Similarly credit activities of the Bank are complied with the stipulated credit policy document more than the average level. On the other hand, the overall credit control activities of the Bank are performing in an average level. Commercial Banks should be strong and determining to protect themselves from loss arising from their credit activities.

This study offers a comprehensive analysis of Bank of Abyssinia's credit management practices, with a specific focus on their approach to mitigating evolving credit risks. Despite the growing importance of credit risk management in the rapidly changing financial environment, a detailed examination of the bank's strategies and challenges in this area is currently lacking. This study aims to fill this gap by investigating: the current practices and extent of credit management at Bank of Abyssinia; the ongoing efforts to enhance effective credit management practices; internal challenges that impact credit management and contribute to loan defaults; and external factors, including economic fluctuations and regulatory changes, that influence credit practices and loan default rates at the bank.

As credit management practices continue to evolve in response to both internal and external pressures, existing research has not sufficiently evaluated the bank's current approach to managing these dynamic risks. This study seeks to address this gap by deeply assessing the internal challenges, such as ineffective credit analysis procedures, inadequate follow-up mechanisms, and weak internal controls that may lead to non-performing loans (NPLs) and loan defaults. On the external side, the research will explore challenges like economic volatility, shifting regulatory frameworks, and technological disruption that may affect the bank's ability to mitigate credit risk effectively. By identifying these internal and external challenges in the context of the evolving banking environment, the research will not only offer valuable insights for Bank of Abyssinia to improve its practices but will also serve as a reference for other Ethiopian banks grappling with similar issues in credit management.

1.3 Research Question

The researcher's work is guided by the following basic research questions by taking into consideration the above mentioned facts.

1. What are the current practices and the extent of credit management at the bank?
2. What are the efforts underway to promote effective credit management practice by Bank of Abyssinia?
3. What are the internal challenges that are influencing the credit management practice and triggering loan default in the bank?
4. What external challenges are influencing the credit management practice and triggering loan default in the bank?

1.4 Objective of the Study

The following are the general and specific objectives that the researcher tried to practices through undertaking the research study.

1.4.1 General Objective

The general objective of the study is to assess the credit management practices in the Bank of Abyssinia.

1.4.2 Specific Objectives

1. To examine the current practice and extent of credit management practice of the bank.
2. To assess the efforts underway to promote effective credit management practice by Bank of Abyssinia.
3. To examine the internal challenges that are influencing the credit management practice and triggering loan default in bank.
4. To identify external challenges that are influencing the credit management practice and triggering loan default in the bank.

1.5 Significance of the Study

By analyzing Bank of Abyssinia's approach to mitigating evolving credit risks, the study will offer valuable insights for other banks facing similar challenges in dynamic financial landscapes. This can lead to improved credit management practices across the Ethiopian banking sector.

The research findings can provide Bank of Abyssinia and other Ethiopian banks with practical guidance on adapting their credit management strategies to address new threats and opportunities. This can lead to more informed decision-making, potentially reducing NPLs and increasing profitability. This study's findings can inform policymakers and regulators regarding potential areas where existing regulations might need adjustments to better support effective credit risk management practices within the Ethiopian banking sector.

The study's findings can contribute to the existing body of knowledge on credit management practices in emerging economies. The research may offer insights applicable to banks in other developing economies facing similar challenges with evolving credit risks.

1.6 Scope of the Study

This study focused on the credit management practices employed at the headquarters of Bank of Abyssinia S.C. in Addis Ababa, Ethiopia. While the findings may provide insights applicable to other Districts with standardized practices, acknowledging this limitation is important.

The primary target population for this study was personnel directly involved in Bank of Abyssinia's credit management processes at the headquarters. This included credit analysts, loan officers, credit risk management specialists, and relevant department heads. Interviews and surveys with these individuals will provide valuable insights into the decision-making processes, methodologies, and challenges associated with credit management at Bank of Abyssinia.

The study was delving into the following key aspects of Bank of Abyssinia's credit management practices: Credit Policy and Procedures, Credit Risk Management, Loan Monitoring and Control, and Credit Collection and Follow-Up.

While the study focuses on Bank of Abyssinia's headquarters, the findings may offer valuable insights applicable to other Districts within the bank, particularly if standardized credit management practices are implemented across the organization. Additionally, the research may contribute to a broader understanding of credit management practices in the Ethiopian banking sector facing similar challenges with evolving credit risks.

1.7 Limitation of the study

Every research project has inherent limitations that can potentially influence the generalizability or conclusiveness of its findings. This study is no exception. The study focuses solely on the credit management practices at Bank of Abyssinia's headquarters. While the findings may offer insights applicable to other branches, it's important to acknowledge that practices might differ across locations. The study rely on data collected from Bank of Abyssinia headquarters personnel through interviews, surveys, and internal documents. This can limit the study's ability to capture a comprehensive picture of practices across all departments or historical trends. Some data may be based on self-reported information from

bank personnel. This can be susceptible to biases or inconsistencies in how practices are perceived or implemented.

Despite these limitations, the study employed several strategies to enhance its credibility and trustworthiness: Triangulation of Data Sources, Pilot Testing of Instruments and, Transparency in Reporting. This allows readers to understand the boundaries of the research and interpret the findings with appropriate caution.

1.8 Organization of the study

This study was organized into five chapters; the first chapter consists Back ground of the Study, Statement of the Problem, Research Objectives, Significance of the Study, Scope and Limitation of the study and Organization of the study The second chapter deals with the Review of Related Literature in the area which consists of Theoretical Discussion, Empirical Review, Conceptual Frame Work of the Study. The third chapter covers Research Methodology and Design. The fourth chapter provides Data Analysis and Interpretation. The last chapter reports Summary of the Findings, Conclusions and Recommendations of the Research. Finally List of References and Appendix will annex at the end of the page.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

Introduction

The literature review aims to provide a comprehensive background to the study, situating it within the current research landscape. This chapter covers theoretical reviews, empirical reviews, and the conceptual framework of the study, with an emphasis on credit management practices at the Bank of Abyssinia. The literature review is structured to provide an in-depth examination of the foundational theories, key concepts, and empirical studies related to credit management.

2.1 Theoretical Review

The theoretical review provides a comprehensive examination of the key theories, concepts, and models that are pertinent to the study of credit management practices at the Bank of Abyssinia. This section highlights foundational theories such as Credit Risk Theory, Information Asymmetry Theory, Agency Theory, and Portfolio Theory. It also discusses key concepts like credit scoring, collateral management, and loan portfolio management, and models including the Basel Accords, CAMELS Rating System, and various credit risk models.

2.1.1 Theories

2.1.1.1 Credit Management

Historical Background: Credit management has evolved significantly over the past few decades, reflecting changes in the global financial landscape. Historically, credit management was primarily concerned with simple credit approval processes and basic risk assessment. Over time, as financial markets grew more complex, the need for sophisticated credit management practices became apparent.

Evolution of Practices: The development of advanced financial instruments and the globalization of banking services have necessitated more rigorous credit management practices. Modern credit management involves a comprehensive set of procedures, including credit analysis, risk assessment, credit monitoring, and debt recovery.

Comparative Analysis: Comparing credit management practices across different banking systems globally reveals significant variations. For instance, while Western banks may emphasize automated credit scoring and sophisticated risk models, banks in developing countries might rely more heavily on relationship-based lending and manual assessments due to limited access to advanced technologies.

Credit management, among other credit-related tasks, is the process of making loans, establishing the terms that it is granted, trying to recover this credit after it is due, and helping to ensure that the company's credit policy. By facilitating sales and lowering financial risks, a bank or business aims to increase revenues and profit through credit control (Nwanna & Oguezue, 2017).

Credit management, according to Asiedu-Mante (2011), entails the establishment of formal, lawful procedures and policies that will guarantee that the appropriate authorities grant credit, the credit goes to the right people, and the credit is given for productive activities or for businesses that are both economically and technically viable. The credit is granted in the proper amount, is recoverable, and the organisation has a sufficient flow of management information to keep track of credit activity.

Credit management is an essential process for any firm that engages in the business of credit. The process when done in the right manner ensures that the customer pays on services delivered. The techniques of organization employs to make sure its level of credit is acceptable and that it is effectively managed are known as credit management practices. It is a component of financial management that includes credit analysis, appraisal, rating, classification, approval and reporting (Myers and Berkley, 2013).

Effective debtor management and prudent receivables financing are the main focuses of credit management. Therefore, it is expressly possible to claim that the goals of credit management are to protect the portfolio of bank investments in debtors and to increase shareholder wealth. Policies and procedures for providing credit to consumers, collecting past-due payments, and reducing the high risk element of non-performing loans should be strictly enforced.

2.1.1.2 Credit Risk Theory

Credit Risk Theory is fundamental in understanding how banks assess the likelihood of a borrower defaulting on a loan. This theory involves evaluating the creditworthiness of

borrowers through various quantitative and qualitative methods. Credit risk models like the Altman Z-Score, KMV-Merton model, and CreditMetrics play a critical role in this assessment (Altman, 2018). These models help banks predict default probabilities and manage their credit exposure effectively, thereby ensuring a balanced risk-return profile in their loan portfolios.

Several models are commonly used to assess credit risk and predict the likelihood of default. One of the most widely used is the Altman Z-Score, developed by Edward Altman, which employs five financial ratios to assess the probability of bankruptcy. This model has been extensively applied in evaluating the financial health of companies (Altman, 1968). Another prominent model is the KMV-Merton Model, which utilizes option pricing theory to estimate the probability of default based on the market value of a firm's assets. This model treats a company's equity as a call option on its assets, making it particularly useful for firms with publicly traded equity (Merton, 1974).

Additionally, CreditMetrics, developed by J.P. Morgan, evaluates the credit risk of a portfolio by considering the correlations between the creditworthiness of different borrowers. It aims to quantify the potential credit losses that could arise from changes in the credit ratings of borrowers over time (J.P. Morgan, 1997). These models have become integral in the assessment and management of credit risk, each providing unique insights into the financial stability and default risk of companies or portfolios.

Recent Developments: Recent advancements in credit risk theory have integrated big data analytics and machine learning algorithms to enhance predictive accuracy. These innovations allow banks to analyze vast amounts of data and identify patterns that traditional models might miss, providing more accurate risk assessments.

2.1.1.3 Information Asymmetry Theory

Information Asymmetry Theory, first articulated by Akerlof (1970), suggests that in financial transactions, lenders and borrowers often possess different levels of information. This imbalance can lead to adverse selection and moral hazard, where lenders may inadvertently lend to high-risk borrowers. To mitigate this, banks implement mechanisms such as credit scoring, collateral requirements, and loan covenants to ensure they have adequate information to make informed lending decisions (Stiglitz & Weiss, 1981). The theory underscores the importance of robust information systems in enhancing credit management practices.

Case studies of information asymmetry in credit markets highlight its significant impact on financial stability and risk management. The subprime mortgage crisis of 2007-2008 is a prominent example, where lenders issued mortgages to borrowers with poor credit histories, relying on incomplete or misleading information. This resulted in widespread defaults and financial instability. In contrast, microfinance institutions address information asymmetry by utilizing relationship-based lending and group lending practices. These models leverage local knowledge and peer pressure to ensure repayment, reducing the information gap between lenders and borrowers. Both cases illustrate how information asymmetry can shape credit risk and influence financial outcomes, with differing results depending on how it is managed.

To mitigate the risks associated with information asymmetry in lending, several strategies can be employed. Credit scoring systems are one of the most effective tools, providing a standardized and objective measure of a borrower's creditworthiness, which reduces the uncertainty for lenders. Collateral requirements also play a crucial role by ensuring that lenders have assets to recover in the event of borrower default, thereby reducing the overall risk of lending to high-risk individuals or entities. Additionally, loan covenants—contractual clauses that impose specific conditions on borrowers—offer lenders further control over borrower behavior, enabling them to manage risk more effectively and ensure compliance with the terms of the loan. Together, these mitigation strategies help bridge the information gap and safeguard both lenders and borrowers.

2.1.1.4 Agency Theory

Agency Theory, introduced by Jensen and Meckling (1976), examines the conflicts of interest that can arise between principals (e.g., shareholders) and agents (e.g., managers). In the context of credit management, agency theory helps to understand how managerial incentives and monitoring can influence credit risk management practices. For example, managers may take on excessive risk to achieve short-term gains if their incentives are not aligned with the long-term interests of the bank. Effective credit management practices involve aligning these incentives through appropriate performance metrics and monitoring mechanisms (Eisenhardt, 1989).

In practical applications of risk management, banks use performance metrics to align managerial incentives with the institution's long-term objectives, such as achieving a risk-adjusted return on capital. This ensures that management decisions support the bank's financial health and sustainability. Additionally, monitoring mechanisms like regular audits,

risk assessments, and robust internal controls are implemented to oversee managerial actions. These mechanisms help ensure compliance with risk management policies, minimizing potential risks and maintaining the integrity of the bank's operations.

In the context of risk management, two major challenges faced by banks include excessive risk-taking and misalignment of goals between managers and shareholders. Managers may engage in high-risk activities to achieve short-term bonuses, which can jeopardize the bank's long-term stability. To mitigate this behavior, banks can implement long-term incentive plans that align managerial rewards with the institution's sustained success. Additionally, misalignment of goals can arise when managers pursue objectives that do not coincide with the interests of shareholders. This issue can be addressed by establishing proper governance structures and designing compensation packages that ensure both managers and shareholders are working toward the same financial goals, promoting alignment and reducing conflicts.

2.1.1.5 Portfolio Theory

Portfolio Theory, developed by Markowitz (1952), provides insights into how banks can manage credit risk through diversification. By spreading credit exposure across various sectors, geographic areas, and borrower profiles, banks can reduce the overall risk of their loan portfolios. This theory is crucial for understanding how banks like the Bank of Abyssinia can achieve an optimal balance between risk and return by diversifying their credit products and managing sectoral concentration risks (Markowitz, 1991).

To effectively mitigate risk, banks can employ various diversification techniques. Sectoral diversification is one approach, where banks spread their loan portfolios across different industries, such as agriculture, manufacturing, and services, reducing dependence on any single sector. Another strategy is geographic diversification, which involves expanding lending activities to different regions, thus minimizing the impact of regional economic downturns. Additionally, borrower profile diversification helps balance risk by lending to a mix of small, medium, and large enterprises, ensuring that the bank's exposure is spread across different borrower types and sizes. Together, these diversification strategies enable banks to reduce the potential risks associated with market fluctuations and economic instability.

Risk management tools are essential for assessing and mitigating potential financial losses. One key tool is Value-at-Risk (VaR), a statistical method that helps measure the potential loss in value of a portfolio over a defined period, given a certain confidence interval. This allows banks to quantify potential risks in a more structured manner. Another important tool is stress testing, which evaluates the impact of extreme but plausible adverse scenarios on the loan portfolio. By simulating such scenarios, banks can assess their vulnerability to unexpected market conditions and prepare strategies to manage potential risks effectively.

2.1.2. Concepts in Credit Management

2.1.2.1 Credit Scoring

Credit scoring is a vital tool used by banks to assess the creditworthiness of borrowers. Models like the FICO score aggregate various borrower attributes, including credit history, income, and existing debt levels, to produce a score that predicts the likelihood of default (Mester, 1997). Advanced credit scoring models incorporate machine learning algorithms to enhance predictive accuracy and help banks make more informed lending decisions.

Advanced models have revolutionized credit risk assessment by providing more accurate predictions and tailored solutions. One of the most widely used models is the FICO score, which incorporates a range of borrower attributes, including credit history, outstanding debt, and payment behavior, to determine creditworthiness in the United States. In addition, machine learning models have gained prominence in recent years, utilizing advanced algorithms to analyze vast datasets and improve predictive accuracy. By leveraging machine learning, lenders can enhance their ability to assess risks and make more informed lending decisions, adapting to evolving patterns in borrower behavior.

Technological integration has significantly enhanced credit risk management. Big data analytics allows lenders to gather comprehensive borrower profiles by analyzing large volumes of data, which can lead to more accurate and nuanced credit scoring models. Additionally, the use of artificial intelligence (AI) has revolutionized credit assessment by enabling AI-driven models to adapt quickly to changing borrower behaviors and economic conditions. These AI models offer more flexibility and precision compared to traditional methods, allowing lenders to make more informed and dynamic lending decisions in a rapidly evolving financial landscape.

2.1.2.2 Collateral Management

Collateral management involves securing loans with assets to mitigate risk. This practice includes assessing the value and liquidity of assets pledged against loans. Effective collateral management ensures that the bank can recover its funds in the event of borrower default, thereby minimizing potential losses (Berger & Udell, 1990). The use of collateral is particularly important in high-risk lending environments and forms a core component of the bank's credit risk mitigation strategies.

Types of collateral commonly used in lending include real estate, such as residential, commercial, or industrial properties; securities, including stocks and bonds; and inventory and receivables, where businesses offer their goods or outstanding payments as collateral. These assets help reduce the lender's risk by providing a means of recovery in case of default.

Valuation techniques are crucial in determining the worth of collateral. Appraisals involve professional assessments that provide an independent evaluation of an asset's value, ensuring accuracy and objectivity. Market comparables utilize market data to compare similar assets, helping to establish a fair value based on current market trends. Additionally, Discounted Cash Flow (DCF) analysis estimates the present value of future cash flows generated by the collateral, offering a more dynamic view of its potential financial return.

2.1.2.3 Loan Portfolio Management

Loan portfolio management refers to the process of managing a bank's collection of loans to ensure a balance between risk and return. This includes monitoring loan performance, managing delinquent loans, and restructuring problematic loans. Effective loan portfolio management requires continuous assessment of the loan portfolio's health and proactive measures to address emerging risks (Sinkey, 1998). By implementing robust loan portfolio management practices, banks can maintain financial stability and support sustainable growth.

Monitoring tools play a vital role in managing credit risk. Loan performance tracking involves regularly monitoring key metrics, such as delinquency rates and loan loss provisions, to assess the health of the loan portfolio. Additionally, credit risk dashboards provide a visual representation of key risk indicators, allowing lenders to quickly analyze and identify potential issues across the entire loan portfolio.

Case studies from leading banks illustrate effective loan portfolio management. Bank of America has implemented a comprehensive loan portfolio management system, which

includes real-time monitoring and stress testing to better assess potential risks and maintain stability. Similarly, Wells Fargo leverages advanced analytics to optimize its loan portfolio, using data-driven insights to manage risk effectively and make more informed lending decisions.

2.1.3 Models in Credit Management

2.1.3.1 Basel Accords

The Basel Accords, developed by the Basel Committee on Banking Supervision, provide a regulatory framework for ensuring the stability and soundness of the global banking system. The Basel I, II, and III Accords set guidelines on capital adequacy, stress testing, and market liquidity risk. These accords are critical for understanding how regulatory influences shape credit management practices at banks like the Bank of Abyssinia (BIS, 2011). Compliance with Basel standards ensures that banks maintain sufficient capital buffers to absorb losses and continue operating during periods of financial stress.

Detailed analysis of the Basel frameworks highlights the evolution of regulatory standards in response to financial risks. Basel I, introduced in 1988, primarily focused on credit risk and established minimum capital requirements to ensure the stability of financial institutions. Building on this, Basel II enhanced the regulatory framework by incorporating three pillars: minimum capital requirements, supervisory review, and market discipline, aiming to improve risk management practices. In response to the 2008 financial crisis, Basel III was implemented, emphasizing stricter liquidity requirements and more stringent capital standards to strengthen the resilience of banks and reduce the likelihood of future financial instability.

Case examples of Basel Accords implementation show varied outcomes across regions. In European banks, the adoption of Basel III requirements has led to increased capital buffers and enhanced risk management practices, strengthening the resilience of the banking sector. However, in developing countries, the adoption of Basel Accords faces challenges, as many institutions struggle with limited resources and underdeveloped regulatory frameworks, making it difficult to fully comply with the stringent requirements set by the Basel standards.

2.1.3.2 CAMELS Rating System

The CAMELS Rating System is a supervisory rating system used by regulatory authorities to evaluate the overall health of financial institutions. The components—Capital adequacy, Asset quality, Management quality, Earnings, Liquidity, and Sensitivity to market risk—

provide a comprehensive assessment of a bank's credit management practices (Cole & Gunther, 1998). The CAMELS framework helps identify strengths and weaknesses in a bank's operations and guides regulatory interventions to enhance financial stability.

In-depth components of bank performance evaluation provide a comprehensive understanding of its stability and risk exposure. Capital adequacy measures the bank's capital in relation to its risk-weighted assets, ensuring that it can absorb potential losses. Asset quality assesses the health of the bank's loan portfolio and other assets, indicating the level of risk in its investments. Management quality evaluates the effectiveness of the bank's leadership in guiding the institution through challenges. Earnings analysis focuses on the bank's profitability and revenue generation capabilities. Liquidity is crucial for assessing the bank's ability to meet its short-term obligations. Lastly, sensitivity to market risk evaluates the bank's exposure to fluctuations in market conditions, such as interest rate changes, that could affect its financial health.

The impact of CAMELS ratings on banks is significant, influencing both regulatory compliance and strategic decision-making. Regulatory compliance is affected as CAMELS ratings guide regulators in determining necessary actions, such as imposing capital requirements or other corrective measures to ensure financial stability. Additionally, banks utilize CAMELS ratings to make informed strategic decisions, such as capital allocation, risk management strategies, and operational improvements, helping them enhance performance and mitigate potential risks.

2.1.3.3 Credit Risk Models

Credit risk models, such as the Altman Z-Score, KMV-Merton model, and CreditMetrics, are essential tools for quantifying the credit risk of individual loans and loan portfolios. The Altman Z-Score, for instance, uses financial ratios to predict the likelihood of bankruptcy (Altman, 2000). The KMV-Merton model applies option pricing theory to estimate the probability of default based on the market value of a firm's assets (Crosbie & Bohn, 2003). CreditMetrics evaluates the credit risk of a portfolio by considering the correlations between different borrowers' creditworthiness (Gupton, Finger, & Bhatia, 1997). These models provide valuable insights for banks in managing credit risk and making informed lending decisions.

Comparative analysis of credit risk models highlights different approaches to estimating default risk. Structural models, such as the Merton model, rely on a firm's asset value and

volatility to assess the likelihood of default. In contrast, reduced-form models, like the Jarrow-Turnbull model, use observable market data to estimate default probabilities without considering a firm's specific asset dynamics. More recently, machine learning models have emerged, leveraging algorithms to analyze large datasets, significantly improving predictive accuracy and offering more dynamic insights into credit risk.

Real-world applications of credit risk models are essential for managing financial stability. Stress testing is one key application, where banks use these models to assess the impact of adverse economic scenarios on their loan portfolios, helping them prepare for potential risks. Additionally, credit risk models play a crucial role in ensuring regulatory compliance, as they are used to meet the requirements outlined in frameworks like the Basel Accords, ensuring banks maintain adequate capital and risk management practices.

2.1.4 Application to Research Objectives

To examine the current practice and extent of credit management at the Bank of Abyssinia, applying credit risk theory and credit risk models is essential. These tools help evaluate how the bank assesses and manage credit risk, ensuring that lending practices are robust and effective. Exploring concepts such as credit scoring, collateral management, and risk mitigation strategies will shed light on the efforts underway at the Bank of Abyssinia to promote effective credit management practices. These efforts are critical for enhancing the bank's risk management capabilities and ensuring sustainable lending practices.

Agency theory and information asymmetry theory provide a framework for identifying internal challenges that influence credit management practices. Understanding these challenges helps in addressing managerial incentives, improving information systems, and enhancing internal policies to reduce the risk of loan defaults. Using the Basel Accords and economic theories related to market and regulatory impacts, this study will examine how external challenges such as government regulations, economic conditions, and competition influence the bank's credit management practices. These challenges play a significant role in shaping the bank's approach to managing credit risk and ensuring financial stability

2.2 Empirical Review

The empirical review examines existing studies on credit management practices in various contexts, providing insights into their effectiveness and applicability to the Bank of Abyssinia.

Introduction

The purpose of the empirical review is to examine existing research on credit management practices, focusing on studies conducted in different countries and their relevance to the Bank of Abyssinia. This section provides a detailed analysis of empirical findings, highlighting best practices and identifying gaps in the current literature.

Banks play a crucial role in the economy by serving as intermediaries between depositors with surplus funds and borrowers with viable investment opportunities. They provide essential services such as lending, deposit protection, money transfers, and payment processing. The level and type of risks banks are exposed to depend on challenges like their size, business complexity, and transaction volume (Werner, 2016).

2.2.1 Credit Risk Management Practices in Developed Countries

2.2.1.1 United States

Credit risk management practices in the United States are highly advanced due to the mature financial system and stringent regulatory environment. Banks in the U.S. leverage sophisticated credit risk models, comprehensive credit information systems, and robust regulatory frameworks to manage credit risk effectively.

Advanced Credit Scoring Models play a vital role in assessing credit risk. One of the most widely used models is the FICO score, developed by the Fair Isaac Corporation. This model aggregates various borrower attributes, such as credit history, income, and existing debt levels, to predict the likelihood of default (Mester, 1997). Additionally, many banks have incorporated machine learning algorithms to enhance the predictive accuracy of their credit assessments. These models analyze large datasets, identifying patterns and trends that traditional methods might overlook, enabling banks to make more informed lending decisions.

Comprehensive Credit Information Systems are essential for effective credit risk management. Credit bureaus such as Experian, Equifax, and TransUnion maintain extensive databases on individual and business credit histories, offering detailed credit reports that banks use to evaluate applicants. Furthermore, banks utilize centralized data repositories to store and analyze customer credit information. This centralization improves the accuracy of risk assessments, streamlines decision-making processes, and ensures that banks have up-to-date and complete credit data to guide their lending practices.

To ensure the stability and safety of financial institutions, robust regulatory frameworks are necessary. U.S. banks comply with international standards, such as the Basel Accords, which establish guidelines on capital adequacy, stress testing, and market liquidity risk (BIS, 2011). Adherence to these standards ensures banks maintain sufficient capital buffers to absorb potential losses during periods of financial instability. Additionally, the Dodd-Frank Act introduced significant changes to U.S. financial regulation, mandating stricter oversight of credit risk management. Among its requirements, the Act obligates banks to conduct regular stress tests and submit detailed risk management plans to regulatory authorities (Acharya et al., 2011).

Credit risk models are essential tools that help banks accurately assess the credit risk of individual loans and entire loan portfolios. Advanced models, such as the Altman Z-Score and the KMV-Merton model, allow for a more precise evaluation of default risk by incorporating financial ratios and market data. These models offer banks a robust framework to quantify credit risk and make informed lending decisions (Altman, 2018; Crosbie & Bohn, 2003). By leveraging these models, banks can better predict and mitigate potential loan defaults.

Risk mitigation strategies are critical to managing and reducing credit risk exposure. U.S. banks employ a range of strategies, including securitization, credit derivatives, and collateral management. Securitization allows banks to transfer credit risk to other parties by bundling loans into securities. Credit derivatives help banks hedge against potential losses, while collateral management ensures that loans are secured with assets that can be liquidated in case of default. These strategies collectively enhance financial stability by reducing the concentration of risk within the bank.

Regulatory compliance plays a vital role in ensuring effective credit risk management. Adhering to strict regulatory frameworks ensures that banks maintain high standards in their credit risk practices. Regular audits and compliance checks conducted by regulatory authorities help identify potential weaknesses and areas for improvement in credit risk management systems. By complying with these regulations, banks can mitigate the risk of financial instability and ensure the long-term sustainability of their lending practices.

2.2.1.2 United Kingdom

The United Kingdom's banking sector also demonstrates advanced credit risk management practices, supported by a strong regulatory framework and innovative risk assessment techniques.

Credit risk assessment plays a crucial role in managing lending risk. UK banks utilize behavioral scoring models to evaluate credit risk by analyzing customer behavior patterns, including transaction data, spending habits, and repayment behaviors. These models predict the likelihood of default based on a customer's financial behavior over time. Additionally, banks conduct stress testing to assess their resilience against adverse economic conditions. This involves simulating various economic scenarios to evaluate the impact on the bank's loan portfolio and ensure that the bank can withstand potential financial shocks (Bank of England, 2018). These tools help banks make informed decisions and manage risks effectively.

Regulatory frameworks play a vital role in ensuring effective credit risk management within the UK banking sector. The Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) oversee and regulate credit risk management practices, setting guidelines on capital requirements, risk management, and consumer protection to maintain financial stability (FCA, 2020). Additionally, the UK has implemented Basel III standards, which require banks to maintain higher capital buffers and liquidity ratios. Compliance with these standards enhances the stability and resilience of the banking sector, ensuring banks are better prepared to handle financial challenges (BIS, 2011).

Innovative Risk Management Tools: UK banks utilize innovative risk management tools, such as artificial intelligence (AI) and big data analytics, to enhance credit risk assessment and monitoring. These tools enable banks to identify emerging risks and take proactive measures to mitigate them (McKinsey & Company, 2020).

Robust Collateral Management: Effective collateral management practices ensure that banks can recover their funds in case of borrower default. UK banks conduct regular valuations and monitor the quality and liquidity of collateral assets (Berger & Udell, 1990).

Consumer Protection Measures: Regulatory frameworks in the UK emphasize consumer protection, ensuring that credit risk practices are fair and transparent. Banks are required to

provide clear information to borrowers and adhere to responsible lending practices (FCA, 2020).

2.2.1.3 Germany

Germany's banking sector is known for its conservative approach to credit risk management, emphasizing rigorous credit assessments and strong regulatory oversight.

Credit risk assessment in Germany involves a comprehensive approach to evaluating borrowers' financial stability. German banks conduct detailed financial analyses of borrowers, examining their income, assets, and liabilities to ensure that only creditworthy individuals or businesses are approved for loans (Deutsche Bundesbank, 2019). Additionally, banks implement risk-based pricing, setting interest rates and loan terms according to the assessed credit risk of the borrower. Higher-risk borrowers are charged higher interest rates to offset the additional risk posed to the bank (Schneider & Bürki, 2015). This dual approach allows German banks to manage risk effectively while maintaining financial stability.

Regulatory frameworks in Germany are overseen by key authorities that ensure robust credit risk management practices. The Federal Financial Supervisory Authority (BaFin) regulates these practices, setting stringent guidelines on credit assessments, capital requirements, and risk management procedures to maintain financial stability (BaFin, 2020). Additionally, German banks comply with European Banking Authority (EBA) standards, which offer comprehensive guidelines on credit risk management, including stress testing, risk assessment, and regulatory reporting to enhance transparency and ensure the resilience of the banking sector (EBA, 2019).

Conservative Lending Practices: German banks' conservative lending practices result in lower default rates and a stable financial system. Rigorous credit assessments and risk-based pricing help manage credit risk effectively (Deutsche Bundesbank, 2019).

Comprehensive Risk Management Frameworks: German banks implement comprehensive risk management frameworks that include stress testing, scenario analysis, and regular risk reviews. These frameworks ensure that banks can identify and address potential risks promptly (Schneider & Bürki, 2015).

Regulatory Compliance: Adherence to BaFin and EBA standards ensures that German banks maintain high standards of credit risk management. Regular audits and compliance checks by

regulatory authorities help identify and address potential weaknesses in credit risk practices (BaFin, 2020).

Conclusion

Credit risk management practices in developed countries are characterized by advanced risk assessment models, comprehensive credit information systems, and robust regulatory frameworks. In the United States, the use of sophisticated credit scoring models, extensive credit information systems, and stringent regulatory requirements ensure effective credit risk management. The United Kingdom's banking sector leverages innovative risk management tools and strong regulatory oversight to enhance credit risk practices. Germany's conservative approach to credit risk management, emphasizing rigorous credit assessments and strong regulatory frameworks, results in a stable financial system with low default rates. These best practices from developed countries provide valuable insights for improving credit risk management practices in other contexts.

2.2.2 Credit Management Practices in Various Developing Countries

2.2.2.1 Rwanda

Kagoyire and Shukla (2016) examined the impact of credit management on the performance of Equity Bank Rwanda Ltd. The study aimed to understand how credit management affects the financial performance of Rwandan commercial banks. Using a descriptive survey design, the study targeted 57 employees from the bank's credit department. Data collected through questionnaires were analyzed using descriptive and inferential statistics. The findings indicated that client appraisal, credit risk management, and collection policies significantly influenced the bank's financial success.

Extended findings highlight the importance of comprehensive credit management practices for banks. Credit analysis plays a critical role, with detailed financial assessments and background checks ensuring that only creditworthy borrowers are approved for loans. Risk assessment is equally vital, with practices such as stress testing and scenario analysis helping banks identify potential risks and take necessary preventive measures to safeguard their financial stability. Additionally, credit monitoring, which involves proactive reviews and regular follow-ups with borrowers, significantly reduces the likelihood of default by addressing issues early and maintaining ongoing oversight of loan performance.

Comparative Analysis: Comparing these findings with other banks in Rwanda or similar regions reveals common challenges, such as limited access to credit information and the need for improved regulatory frameworks to support credit management practices.

2.2.2.2 Bangladesh

Bhattacharai (2016) conducted a study on the credit assessment practices of commercial banks in Bangladesh. The research utilized both primary and secondary data sources and employed qualitative and quantitative analysis methods. The study evaluated the bank's credit assessment practices, including loan growth, income from loans, sectorial credit allocation, and credit risk management. The findings revealed sustainable loan and advance growth, well-managed allocated loans, and increasing income from loans, although some banks needed to improve their overall loan policies.

Detailed evaluation of credit risk management practices highlights several key components. The use of advanced credit risk models, such as CreditMetrics and the KMV-Merton model, is essential for accurately assessing and managing credit risk. Additionally, regulatory oversight plays a crucial role in ensuring stability, with adherence to international standards like Basel II and III helping maintain sound financial practices. Finally, maintaining high standards of credit analysis, including thorough borrower assessments and due diligence, is critical for effectively managing credit risk and minimizing potential defaults.

Policy Implications: The findings have significant policy implications, suggesting that banks in Bangladesh should invest in advanced credit risk models and strengthen regulatory frameworks to enhance credit risk management practices

2.2.2.3 Nigeria

Omboto and Ombaba (2019) investigated the sources of bad debts in Nigerian commercial banks. Using both primary and secondary data collected from 1993 to 2011, the study employed ANOVA and autoregressive models for analysis. The study recommended the establishment of a credit bureau system to prevent multiple borrowing by defaulting customers.

Collins and Miebaka (2018) examined the impact of credit management on bank performance in Nigeria. The study used a cross-sectional survey design, targeting managerial personnel from 11 selected commercial banks. Using purposive sampling, questionnaires were distributed to six respondents from each bank. Multiple regression analysis showed that credit

management challenges, particularly credit risk control, significantly influenced bank performance.

Extended analysis reveals several challenges in credit risk management. Poor credit analysis practices, such as insufficient borrower assessments and inadequate due diligence, are significant contributors to high levels of non-performing loans. Additionally, inadequate risk assessment practices, including the absence of stress testing and scenario analysis, exacerbate credit risk by failing to anticipate potential economic shocks. Furthermore, weak regulatory frameworks that lack effective oversight and support for credit management practices hinder the ability of banks to maintain robust credit risk strategies, ultimately undermining financial stability.

Comparative Studies: Comparing these studies with other research conducted in Nigeria reveals common challenges, such as inadequate credit information systems and the need for improved regulatory oversight to enhance credit management practices.

2.2.2.4 Ethiopia

Flagot (2021) conducted an assessment of credit risk management practices at Awash Bank S.C., utilizing descriptive statistical tools to examine these practices. The study focused on employees in the credit and loan departments at the bank's head office, collecting primary data through questionnaires. The collected data were analyzed using frequency, percentage, mean, and standard deviation. The findings revealed that the bank has a well-designed credit risk strategy and policy, which clearly identifies areas of credit engagement and the associated risks. Additionally, the respondent employees indicated a high level of satisfaction with the bank's credit appraisal and granting processes.

Singh (2021) investigated credit risk management practices at the Dashen Bank, Mettu Branch in Ethiopia, employing both primary data (collected through questionnaires) and secondary data. The analysis was conducted using qualitative and descriptive statistical techniques, including frequency tables. The research concluded that the bank faces several pitfalls, such as a lack of training for customers, which leads to loan diversion, and the absence of a credit risk model to predict the risk level of businesses. Additionally, the bank's priority sectors for credit facilities are highly exposed to credit risk, contributing directly to an increase in non-performing loans (NPLs).

Several studies have examined credit management practices in Ethiopian banks. Selamawit (2017) found that poor credit analysis, follow-up, and portfolio management practices led to high non-performing loans at Awash International Bank S.C., negatively affecting profitability.

Meti (2021) assessed credit management practices at Oromia International Bank S.C. and found inadequate internal control activities. Similar issues were noted in United Bank S.C., where Immergluck (2016) (as cited in Meti, 2021) reported lack of credit follow-up, inadequate information systems, and centralized decision-making power as significant challenges.

Hagos (2010) studied Wegagen Bank in Tigray Region and identified issues with loan growth, property valuation for collateral, loan processing times, and discretionary limits. The study recommended innovative loan processing and approval procedures to meet loan demand and avoid delays.

Tekeste (2016) evaluated credit management in Berhan International Bank S.C., finding that loan processing times, volume of loans processed, loan length, and discretionary constraints limited loan growth and increased client complaints.

The empirical studies reviewed demonstrate common themes in credit management practices across different contexts. Key issues such as credit risk management, client appraisal, and internal controls are recurrent across multiple studies. For instance, both Kagoyire and Shukla (2016) and Collins and Miebaka (2018) highlight the critical role of credit risk management in influencing bank performance. Similarly, the findings from Ethiopia by Selamawit (2017) and Meti (2021) underscore the impact of poor internal controls and follow-up mechanisms on credit performance.

While the studies provide valuable insights, it is essential to contextualize these findings to the specific environment of the Bank of Abyssinia. The issues identified in other banks, such as poor credit analysis and inadequate internal controls, may also be relevant to the Bank of Abyssinia. Understanding these challenges can help in developing targeted strategies to improve credit management practices. The empirical review highlights the critical importance of effective credit management practices in ensuring the financial performance and stability of banks. By examining studies from various contexts, common challenges and best practices

can be identified, providing a foundation for assessing and improving credit management practices at the Bank of Abyssinia.

2.2.3 Comparative Analysis

Comparing credit management practices across different countries reveals common challenges and best practices. Common challenges include limited access to credit information, inadequate risk assessment practices, and weak regulatory frameworks. Best practices include thorough credit analysis, robust risk assessment, effective collateral management, and adherence to international standards, such as the Basel Accords.

Global perspectives highlight a clear divide between developed and developing countries in terms of credit management. Banks in developed countries typically benefit from access to advanced credit risk models and comprehensive credit information systems, which significantly enhance their credit management practices. In contrast, banks in developing countries often face challenges such as limited access to credit information and inadequate regulatory frameworks, which hinder the implementation of effective credit management practices, making it more difficult for them to assess and mitigate credit risks effectively.

Best practices in credit management include conducting thorough credit analysis through detailed financial assessments and background checks, which are essential for identifying creditworthy borrowers. Additionally, implementing robust risk assessment practices, such as stress testing and scenario analysis, enables banks to identify potential risks and take preventive measures. Effective collateral management is also vital, ensuring that banks can recover their funds in the event of default. Furthermore, adhering to international standards like the Basel Accords strengthens financial stability and reduces systemic risk, creating a more resilient banking environment.

2.3 Conceptual Frame Work

The conceptual framework for assessing credit management practices at the Bank of Abyssinia focuses on key internal and external challenges influencing credit management and loan default rates. Internally, it examines the clarity of guidelines for loan assessment, regular training for loan officers, verification methods for borrower information, monitoring procedures for existing loans, and comprehensive credit decision-making based on borrowers' financial health. The bank's efforts to improve practices include promoting responsible lending, establishing consequences for policy violations, updating practices to

match regulations, using technology for efficiency, and ensuring inter-departmental communication.

Resource allocation is crucial, highlighting the need for adequate staffing and budget, regular internal audits, continuous staff training, and investment in technology. Externally, government regulations, economic fluctuations, and market competition significantly impact credit management practices. Effectively managing these challenges can reduce loan defaults and enhance the bank's financial performance. This framework provides a structured approach to understanding and improving credit management at the Bank of Abyssinia.

2.4 Summary of Literature Review

The literature review highlights the critical role of banks in economic systems, primarily through lending activities, which pose significant risks if not managed effectively. Studies indicate that effective credit management practices, including thorough credit assessments, risk management, and adherence to regulatory guidelines, are vital for maintaining financial stability and profitability. Key challenges influencing credit management include internal practices such as staff training and technology utilization, and external challenges like economic conditions and regulatory frameworks. Empirical evidence from various studies, including those on Rwandan, Nigerian, and Ethiopian banks, underscores the importance of comprehensive credit management strategies to mitigate risks and enhance performance. This review sets the foundation for assessing the credit management practices of the Bank of Abyssinia, identifying both internal and external influences on these practices.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

Introduction

The research design, study's target population, data collection procedures, sample size and sampling method, types of data and their sources, and data analysis procedures are all covered in this section. The information is provided as follows under each subtitle.

3.1. Research Design

This study adopted a descriptive research design to comprehensively explore credit management practices at Bank of Abyssinia. Descriptive research design, as defined by Denzin & Lincoln (2018), "seeks to understand and describe the nature of a phenomenon" (p. 300). This approach allows for a detailed examination of the "what" and "how" of Bank of Abyssinia's credit management processes.

Incorporating both qualitative and quantitative methods, the study uses quantitative data collected through structured questionnaires to identify patterns and trends in credit management practices, alongside qualitative interviews that provide deeper insights into the underlying reasons and challenges behind these practices. The mixed-methods approach, as described by Creswell (2014), ensures a well-rounded understanding by combining numerical data with rich, narrative insights.

The focus is not solely on internal bank procedures but also encompasses the broader context in which these practices operate. This includes external challenges that may influence credit risk management strategies, such as the evolving economic landscape or regulatory environment.

3.2 Target Population and Sampling Technique

3.2.1 Target Population

The target population for this study consists of 45 employees within the Credit and Risk Management department at the head office of Bank of Abyssinia. This department holds central authority for establishing credit policies, assessments, and approval processes across the bank's extensive branch network (over 900 branches nationwide, with 225 in Addis Ababa).

The target population, however, focuses specifically on those employees with the most relevant knowledge and experience in credit management. Therefore, the study's target population consists of employees directly involved in credit management processes, such as Loan Officers, Credit Analysts, Credit Policy Specialists, and individuals with a minimum of one year of experience in the Credit department at Bank of Abyssinia.

This research targeted employees within the Credit department at Bank of Abyssinia's head office. The target population of 45 employees within the Credit and Risk Management department will provide valuable insights into the bank's credit management framework.

3.2.2. Sampling Technique

This study utilized a judgemental sampling technique to gather data on the assessment of credit management practices at Bank of Abyssinia's. The target population for this research consists of 45 employees within the Credit and Risk Management department, who hold positions directly involved in credit management processes, such as Loan Officers, Credit Analysts, and Credit Policy Specialists, and have at least 1 year of experience in the credit department. Given that the entire target population is included in the study, no sampling is necessary.

3.3. Data Sources and Collection Procedure

Data from primary sources is used in the study. The major source of data was gathered from the head office's credit processing and administration workers via self-administered questionnaires and interview. A questionnaire is utilized as a major data collection tool to gauge respondents' opinions on each issue intended to assess the bank's credit management procedures. To collect data from primary sources, open-ended interviews and standardized questionnaires were used.

Respondents were given a questionnaire that includes both closed- and open-ended questions. To conduct this study, questionnaires was created and used, and they contain statements that are specifically made to gauge the Bank's credit management practices based on its credit policy, credit management practices, and credit monitoring and controlling dimensions.

The interview questions are used to get more details about the bank's credit risk management procedures. The head of credit department is chosen for an interview since it is directly involved with credit management. This research conducted an Interview as it affords a follow up questions to respondents for clarity.

3.4. Data Analysis Method

In research, once data is collected, the researcher goes for analyzing them. The data analysis process consists of five stages: identification, collection, cleaning, analysis and interpretation. Data analysis is the process by which researchers transform large amounts of data into meaningful insights (Mishra &Alok, 2011).

The study analysed the data collected from respondents through questionnaire by using SPSSSoftware version 20. The study used descriptive statistics and tables to present data from primary sources that are expressed as frequency, percentage, mean, and standard deviation. To analyse the information from the conducted interview, narration were employed. The data collected, analyzed, presented, and interpreted to provide solutions for the research problem using descriptive statistical tools like mean, SD, percentage, frequency, and ratios. The data was summarized and presented using tables, ratios, and figures.

3.5 Validity and Reliability

The concepts of reliability and validity are used to assess the quality of research. According Middleton (2022), the consistency of a measure is referred to as reliability, whereas the accuracy of a measure is referred to as validity.

The researcher developed 17 questions with Liker scale levels of agreement on five aspects of credit management activities, and to ensure its validity, the researcher conducted a pilot test, distributing questionnaires to 5 Bank of Abyssinia credit department employees. All credit analysts provided feedback to the researcher.

While census sampling ensures that all individuals in the target population are included in the study, it's important to note that the findings may still have limitations in generalizability due to the study's specific context. To enhance the robustness and comprehensiveness of the results, multiple data collection methods were employed, including questionnaires, interviews, and secondary data.

3.6 Ethical Considerations

According to Bhandari, (2022) noted that a researcher must adhere to principles of ethics, before collecting data from respondents. Voluntary engagement, informed consent, anonymity, confidentiality, potential for harm, and results communication are among these principles. Therefore, while carrying out the study, an ethical value must be considered.

In this study, the researcher described the purpose of distributing the questionnaire to the respondents. This was done to ensure that the respondents gave their informed consent to participate in the study. Furthermore, this assured cooperation from the respondents and helped to avoid any skepticism on the part of the study subjects. The secondary data that was used in the study was obtained from Bank of Abyssinia's annual reports and website, which are available to the public.

CHAPTER FOUR

RESULTS AND DISCUSSION

In this section researcher presents the research analyses and interpretations of information gathered from primary sources such as questionnaires and interviews, as well as secondary sources such as the bank's annual reports.

4.1 Response rate

To gather primary data, a total of 45 questionnaires were distributed. The researcher received a high response rate, with 42 questionnaires returned, representing a completion rate of 93.3%. Only 3 questionnaires, or 6.7%, were not returned. Additionally, five planned interviews were successfully conducted.

The responses from both the interviews and questionnaires were used for data analysis. According to Mugenda and Mugenda, a response rate of 50% is considered adequate for analysis and reporting, with 60% being good and 70% or higher being excellent. Given this benchmark, the response rate of 93.3% achieved in this study falls within the 'excellent' category. This high rate demonstrates that the majorities of participants were willing to contribute to the study and actively responded by completing the questionnaires.

The respondents' response rate is summarized in Table 1 below:-

Table 1 Respondents response rate

Description	No	Returned question	Response rate	Unreturned rate
Questionnaires issued	45	42	93.3%	6.7%

Source: Primary Data, 2024

4.2 Demographic characteristics of respondents

The questionnaire began by collecting demographic information from respondents. This section included details such as education level, experience and current position within the bank.

Educational levels

This study examined how a respondent's educational level (presented in Table 2) might influence their reactions to diverse viewpoints.

Table 2 Current position of respondents

Educational qualification	Frequency	Percent
BADegree	20	47.6%
Master'sDegree	22	52.4%
Total	42	100

Source: Primary Data, 2024

Table 2 shows the distribution of educational attainment among participants. With 47.6% holding a Bachelor's Degree and 52.4% possessing Master's qualifications, the sample reflects a well-educated group. This educational background likely contributed to their ability to understand and respond thoughtfully to the questionnaire, facilitating the collection of valuable data.

Current position of respondents

Table 3 details the breakdown of respondent job titles. Loan Officers formed the largest group (47.6%), followed by Relationship Officers (21.4%), Credit Analysts (19.1%), Credit Follow-up Managers (7.1%), and Relationship Managers (4.8%). This distribution provides a variety of perspectives within the credit management department at Bank of Abyssinia, enriching the data collected for analysis.

Table 3 Current position of respondents

Position	Frequency	ValidPercent
Loan Officer	20	47.6%
Credit Analyst	8	19.1%
Relationship Officer	9	21.4%
RelationshipManager	2	4.8%
CreditFollow-upManager	3	7.1%
Total	42	100

Source: Primary data, 2024

Working experience of respondents

Understanding the work experience of respondents is crucial in this study. Experience accumulates knowledge and expertise on various credit management issues. Table 4 presents the distribution of working experience among participants. Analyzing this data will shed light on the level of expertise within the sample, potentially influencing their perspectives on credit management practices at Bank of Abyssinia.

Table 4 Working experience of respondents in credit section

Working experience in year	Frequency	Valid Percent	Cumulative %
1-3	7	16.6%	16.6%
4-7	23	54.8%	71.4%
8-10	6	14.3%	85.7%
>10	6	14.3%	100%
Total	42	100	

Source: Primary Data, 2024

According to the results shown in table 4 below, the majority of respondents (54.8%) have between 4 and 7 years of work experience. This suggests a relatively experienced group, but not necessarily one with extensive experience. A significant portion (16.6%) has 1-3 years of experience. This indicates a presence of newer employees who may offer fresh perspectives but might have a less developed knowledge base compared to their more experienced colleagues.

A smaller group (14.3% each) has 8-10 years of experience and over 10 years of experience. These individuals likely possess in-depth knowledge and can provide valuable insights from a long-term perspective. Overall, the data reveals a range of work experience levels within the respondent pool. This variety can be beneficial for the research as it allows capturing viewpoints from individuals at different stages of their careers in credit management.

4.3. Descriptive Analysis

This study employed descriptive statistics (frequency, percentages, mean, and standard deviation) to analyze data collected through a five-point Likert scale (1=Strongly Disagree, 5=Strongly Agree). Following Pallant (2020), the mean was used to assess the central tendency of the data for each variable. The mean represents the average score on a specific variable, reflecting the overall perception of respondents on a group of related questions.

Standard deviation (SD) served to measure data dispersion, indicating the variability in responses to a given question. A lower SD suggests responses are clustered closer to the mean, reflecting homogeneity in opinion. Conversely, a higher SD suggests greater variability or heterogeneity in responses. For interpretation of mean scores, this study adopted the approach outlined by Sekaran & Bougie (2016): 1.00 - 2.49: Very Weak Agreement, 2.50 - 3.49: Weak Agreement, 3.50 - 4.49: Strong Agreement, and 4.50 - 5.00: Very Strong Agreement.

4.3.1 Internal Practices

A strong financial institution relies on a foundation of sound internal practices. These practices guide how the bank assesses loan applications, train its loan officers, verify borrower information, monitor existing loans, and ultimately makes credit decisions. Understanding these internal practices is crucial for ensuring the bank lends responsibly, manages risk effectively, and fosters trust with its customers. This analysis dives into the results of a questionnaire to assess perceptions of the bank's internal practices in these key areas. Table 5 below shows this:

Table 5 Survey result of internal practice

Question	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Mean	Standard Deviation
1. The bank has clear and well-defined guidelines for assessing loan applications.	42	0	0	0	0	5	0
2. Loan officers receive regular training to stay up-to-date on credit risk analysis techniques.	42	0	0	0	0	5	0
3. The bank employs a variety of methods (e.g., credit checks, references) to verify the accuracy of borrower information.	42	0	0	0	0	5	0
4. There are clear and documented procedures for monitoring existing loans to identify potential problems.	42	0	0	0	0	5	0

5. Credit decisions are based on a comprehensive evaluation of the borrower's financial health, not solely on the value of collateral offered.	20	22	0	0	0	4.48	0.5
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Source: Primary Data, 2024

As reported in the aforementioned Table 5, the data collected from the questionnaires reveal strong positive feedback on the internal practices of the bank. Specifically: Guidelines for Assessing Loan Applications: All respondents strongly agreed that the bank has clear and well-defined guidelines. This suggests a high level of clarity and satisfaction among employees regarding loan assessment procedures. Training of Loan Officers: All respondents strongly agreed that loan officers receive regular training. This highlights the bank's commitment to continuous professional development in credit risk analysis. Verification Methods for Borrower Information: Again, unanimous strong agreement suggests robust and trusted verification processes are in place. Monitoring Procedures: All respondents strongly agreed that there are clear procedures for monitoring existing loans, indicating strong internal controls to identify potential problems early. Comprehensive Credit Decisions: While there is some variation, with 47.6% strongly agreeing and 52.4% agreeing, the mean response of 4.48 and a relatively low standard deviation of 0.50 indicates overall positive feedback. This suggests that the majority of respondents believe credit decisions are thorough and not overly reliant on collateral value.

Based on the available data, the bank seems to have well-established internal practices for loan assessment, officer training, information verification, and loan monitoring. However, there might be some room for improvement in ensuring credit decisions solely rely on a comprehensive borrower financial health evaluation. Further investigation might be needed to understand the specific processes and potential areas for improvement.

4.3.2 Bank Efforts to Improve Practices

In today's dynamic financial landscape, continuous improvement is key for banks to maintain responsible lending practices. This section dives into the results of a questionnaire that assesses the bank's efforts in this area. We'll examine five key aspects: promoting a culture of responsible lending, enforcing consequences for policy violations, regularly updating credit

management practices, utilizing technology to streamline processes, and ensuring clear communication between departments involved in loan decisions. By understanding these efforts, we can gain valuable insights into the bank's commitment to responsible lending and identify areas for potential improvement.

Table 6 Survey result of Bank Efforts to Improve Practices

Question	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Mean	Standard Deviation
6. The bank actively promotes a culture of responsible lending among its staff, emphasizing sound credit risk management practices.	23	19	0	0	0	4.55	0.5
7. There are well-defined consequences (disciplinary actions) for employees who violate credit management policies.	42	0	0	0	0	5	0
8. The bank regularly reviews and updates its credit management practices to adapt to changing regulations and market conditions.	28	14	0	0	0	4.67	0.48
9. The bank utilizes technology (e.g., credit scoring models, loan processing software) to streamline and improve the	26	10	6	0	0	4.48	0.79

efficiency of credit processing.							
10. There is open and clear communication between different departments involved in the credit management process (loan origination, risk assessment, collections).	14	20	0	8	0	4.14	0.93

Source: Primary Data, 2024

The following analysis evaluates the responses to questions on the bank's efforts to improve practices, based on the questionnaire results presented on Table 6. The data is analyzed using the mean and standard deviation for each question to provide a clearer understanding of the central tendency and dispersion of the responses.

The bank actively promotes a culture of responsible lending among its staff, emphasizing sound credit risk management practices. The high mean score of 4.55 indicates that the majority of respondents either strongly agree or agree that the bank actively promotes a culture of responsible lending. The relatively low standard deviation of 0.50 suggests that there is a high level of agreement among respondents on this issue.

There are well-defined consequences (disciplinary actions) for employees who violate credit management policies. The perfect mean score of 5.00 indicates unanimous strong agreement among respondents that there are well-defined consequences for violating credit management policies. The standard deviation of 0.00 reflects absolute consistency in the responses.

The bank regularly reviews and updates its credit management practices to adapt to changing regulations and market conditions. The high mean score of 4.67 shows strong agreement that the bank regularly updates its credit management practices. The standard deviation of 0.48 suggests a high level of consensus among respondents, although not as unanimous as question 7.

The bank utilizes technology (e.g., credit scoring models, loan processing software) to streamline and improve the efficiency of credit processing. With a mean score of 4.48, the responses indicate general agreement that the bank uses technology to improve credit processing efficiency. The standard deviation of 0.79, while still relatively low, is higher compared to other questions, indicating some variability in responses.

There is open and clear communication between different departments involved in the credit management process (loan origination, risk assessment, collections). The mean score of 4.14 suggests agreement that there is open and clear communication between departments, though this is the lowest mean among the questions analyzed. The standard deviation of 0.93 indicates a wider spread of opinions, suggesting that while many agree, there is a notable portion of respondents who are neutral or disagree.

Overall, the responses indicate a positive perception of the bank's efforts to improve its practices, particularly in promoting responsible lending and having well-defined disciplinary actions for policy violations. The use of technology and regular updates to credit management practices are also seen positively, though there is slightly more variability in opinions regarding communication between departments. This suggests areas where the bank might focus on improving consistency and addressing any gaps in perceptions among staff.

4.3.3 Bank Resource Allocation (Internal Challenges)

A bank's success hinges on two crucial challenges: its internal practices and its resource allocation strategy. Internal practices establish the framework for responsible lending, ensuring sound credit decisions and mitigating risk. Resource allocation, on the other hand, determines how effectively the bank utilizes its resources – financial, human, and technological – to support these practices.

This analysis delves into the results of a questionnaire that assesses both internal practices and resource allocation within the bank. By examining these challenges together, we can gain a comprehensive understanding of the bank's approach to loan management.

Table 7 Survey result of Bank Resource Allocation (Internal Challenges)

Question	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Mean	Standard Deviation

11. Bank management allocates adequate resources (staffing, budget) to ensure effective credit management.	24	10	0	8	0	4.14	1.16
12. The bank conducts regular internal audits to assess the effectiveness of its credit management practices and identify areas for improvement.	42	0	0	0	0	5	0
13. The bank provides ongoing training and development opportunities for staff involved in credit management.	20	16	6	0	0	4.33	0.73
14. The bank invests in technology and infrastructure to support its credit management processes.	18	20	0	4	0	4.33	0.83

Source: Primary Data, 2024

The following analysis evaluates the responses to questions about bank management and credit management practices presented on Table 7. The data is presented and analyzed using the mean and standard deviation for each question to provide a clearer understanding of the central tendency and dispersion of the responses.

The Bank management allocates adequate resources (staffing, budget) to ensure effective credit management. The mean score of 4.14 indicates that respondents generally agree that bank management allocates adequate resources for effective credit management. However, the standard deviation of 1.16 reflects considerable variability in responses, with some disagreement present.

The bank conducts regular internal audits to assess the effectiveness of its credit management practices and identify areas for improvement. The perfect mean score of 5.00 indicates unanimous strong agreement among respondents that the bank conducts regular internal audits. The standard deviation of 0.00 confirms absolute consistency in the responses.

The bank provides ongoing training and development opportunities for staff involved in credit management. The mean score of 4.33 shows a strong general agreement that the bank provides ongoing training and development opportunities. The standard deviation of 0.73 suggests moderate variability in responses, indicating that while most agree, some respondents are neutral.

The bank invests in technology and infrastructure to support its credit management processes. The mean score of 4.33 reflects a strong agreement that the bank invests in technology and infrastructure to support credit management. The standard deviation of 0.83 indicates some variability, with a few respondents expressing disagreement.

The responses indicate a generally positive perception of the bank's credit management practices. There is unanimous agreement on the regularity of internal audits, which reflects a strong commitment to evaluating and improving credit management practices. However, there are varying opinions on resource allocation, training opportunities, and technology investment, indicating potential areas for improvement.

4.3.4 External Challenges on Credit Management

Beyond internal practices and resource allocation, external challenges also significantly influence a bank's credit management effectiveness. These external influences, such as economic conditions, regulatory changes, and industry competition, can impact the risk profile of borrowers and necessitate adjustments to lending strategies. Understanding how the bank considers and adapts to these external forces is crucial for gaining a holistic view of its credit management approach.

Table 8 Survey result of External Challenges on Credit Management

Question	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Mean	Standard Deviation
15. Government regulations significantly influence the overall credit management practices implemented by the bank.	42	0	0	0	0	5	0
16. Economic fluctuations (e.g., inflation, interest rate changes) significantly impact the bank's ability to manage credit risk.	42	0	0	0	0	5	0
17. Competition from other banks in the market influences the bank's credit risk management practices (e.g., loan pricing, lending criteria).	28	9	5	0	0	4.55	0.73

Source: Primary Data, 2024

This section analyzes the responses to questions about external influences on credit management practices at the bank presented on Table 8. The data includes the mean, standard deviation, and percentage for each response category to provide a comprehensive understanding of how external challenges impact the bank's credit management.

Government regulations significantly influence the overall credit management practices implemented by the bank. All respondents strongly agree that government regulations significantly influence the bank's credit management practices. The mean score of 5.00 and a standard deviation of 0.00 indicate unanimous agreement and no variability in responses, reflecting a strong consensus on the impact of government regulations.

Economic fluctuations (e.g., inflation, interest rate changes) significantly impact the bank's ability to manage credit risk. Similar to question 15, all respondents strongly agree that economic fluctuations significantly impact the bank's ability to manage credit risk. The perfect mean score and zero standard deviation again indicate unanimous agreement.

Competition from other banks in the market influences the bank's credit risk management practices (e.g., loan pricing, lending criteria). The majority of respondents (66.7%) strongly agree that competition from other banks influences the bank's credit risk management practices, while 21.4% agree and 11.9% remain neutral. The mean score of 4.55 indicates strong agreement overall, and the standard deviation of 0.73 suggests moderate variability in responses.

The findings suggest a strong recognition among respondents that external challenges play a major role in shaping the bank's credit management approach. Government regulations and economic fluctuations are universally acknowledged as significant influences. While competition is also seen as a factor by a majority, some perceive a less pronounced impact. Further investigation could provide a more nuanced understanding of how the bank incorporates these external influences into its credit management strategies.

4.4 Summary of Interview

This interview report summarizes key findings from discussions with bank management regarding their credit management practices. The interviews aimed to complement a questionnaire assessing similar themes. Here's a breakdown of the key areas explored:

Management confirmed that the bank has a well-defined loan assessment process, which aligns with the findings from the questionnaire. Loan officers use a range of tools and resources, such as credit scoring models, loan application data, and borrower financial statements, to assess creditworthiness. In terms of improving responsible lending practices, the bank has placed a strong emphasis on training, alongside other initiatives to promote responsible lending. As one manager stated, 'We believe our employees are our greatest asset in ensuring responsible lending.' These efforts include performance metrics that prioritize loan quality over quantity, recognition programs that reward responsible lending practices, and regular communication to reinforce the principles of responsible lending.

Management acknowledged challenges in resource allocation, particularly in balancing staff training needs with technology investments and ensuring adequate staffing levels across

credit management departments. However, the bank prioritizes staff training and development to maintain a skilled workforce for effective credit risk management. Additionally, management expressed concern about current economic trends potentially impacting credit risk and outlined strategies to mitigate these risks, such as monitoring economic indicators and adjusting lending criteria, as well as maintaining a diversified loan portfolio to reduce exposure to specific sectors. The bank also emphasized its commitment to transparency, which includes providing clear explanations to loan applicants about credit decisions and maintaining open communication with staff regarding credit policies and procedures.

Overall, the interview findings corroborated the questionnaire results, painting a consistent picture of the bank's credit management approach. The interviews provided additional insights into efforts to promote responsible lending beyond training and the challenges faced in resource allocation. Both quantitative and qualitative data suggest the bank prioritizes responsible lending practices and strives to adapt its strategies to internal and external challenges impacting credit risk management.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATION

This chapter includes a summary of the study's findings, conclusion, and recommendation, which are as follows.

5.1 Summary of major findings

Through a comprehensive examination of internal practices, efforts to improve practices, resource allocation (Internal Challenges), and external influences on credit management within the Bank of Abyssinia, several key findings have emerged.

5.1.1 Summary of findings on the Current Practices and Internal Challenges Bank of Abyssinia:

The findings revealed a strong foundation for credit management practices at Bank of Abyssinia. The bank employs well-defined loan assessment guidelines, utilizes various tools for borrower evaluation, and emphasizes ongoing training for loan officers. Management confirmed a commitment to responsible lending, evidenced by performance metrics favoring loan quality and recognition programs rewarding responsible practices. However, the analysis also identified potential areas for improvement in resource allocation. While staff training receives significant focus, some respondents perceived limitations in resource allocation for staffing and technology investments.

5.1.2 Summary of findings on the External Influences and Bank Adaptation:

The study acknowledged the significant influence of external challenges on credit management. All respondents, including management, recognized the impact of government regulations and economic fluctuations on credit risk and management. The bank demonstrates adaptability by monitoring economic indicators and adjusting lending criteria accordingly. Additionally, they maintain a diversified loan portfolio to mitigate risk exposure within specific sectors.

5.1.3 Summary of findings on the Transparency and Communication:

Both the questionnaire and interview data highlighted a focus on transparency in credit decision-making. The bank prioritizes providing clear explanations to loan applicants regarding decisions and fostering open communication channels with staff about credit policies.

5.2 Conclusion

This study concludes that Bank of Abyssinia demonstrates a strong commitment to responsible lending practices. The bank employs well-defined internal practices, invests in staff training, and prioritizes responsible lending principles. Furthermore, the bank acknowledges the influence of external challenges and adapts its strategies accordingly. However, some aspects of resource allocation, particularly regarding technology investments and staffing levels across credit management departments, might require further analysis to ensure optimal effectiveness.

5.3 Recommendation

Based on the findings, the following recommendations are offered to further strengthen Bank of Abyssinia's credit management practices:

- **Resource Allocation:** Conduct a comprehensive review of resource allocation across staff training, technology investments, and staffing levels within credit management departments. This review should identify potential areas for optimization to ensure a balance between staff development and technological advancements.
- **Leveraging Technology for Efficiency:** Explore opportunities to leverage technology to streamline credit processing and enhance risk assessment capabilities. This could involve implementing advanced credit scoring models or utilizing data analytics tools for borrower evaluation.
- **Continuous Monitoring and Communication:** Maintain continuous monitoring of internal practices, external influences, and their impact on credit risk management. Open communication channels with staff regarding credit policies and industry trends should be emphasized to ensure a well-informed workforce.
- **Investing in Staff Development:** While training is already a focus, consider incorporating specialized training programs on emerging risks and best practices in responsible lending.
- **Benchmarking and Knowledge Sharing:** Regularly benchmark the bank's credit management practices against industry leaders and encourage knowledge sharing within the bank to foster a culture of continuous improvement.

By implementing these recommendations, Bank of Abyssinia can further optimize its credit management approach, ensuring responsible lending practices while adapting to a dynamic financial landscape. This will contribute to the bank's long-term success in managing credit risk and fostering a healthy loan portfolio.

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Appendix I



ADDIS ABABA UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF ACCOUNTING AND FINANCE

Questionnaire to be filled by Employees of Bank of Abyssinia S.C

Subject: Invitation to Participate in Research on Assessment of Credit Management Practice at Bank of Abyssinia.

Dear Sir/Madam,

My name is Abel Getu Abdisa, and I am currently pursuing a Master's degree in Accounting and Finance at Addis Ababa University. As part of my studies, I am conducting research on "Credit Management Practices at Bank of Abyssinia."

To gain valuable insights for this research, I am kindly requesting your participation in a brief questionnaire. Your responses will be anonymous and treated with strict confidentiality. Your honest feedback will significantly contribute to my understanding of credit management practices at the Bank of Abyssinia.

Completing the questionnaire will take approximately twenty minutes. Your participation is entirely voluntary, and you may skip or stop any questions you are uncomfortable answering. By participating, you will be helping me achieve the following:

- Gain valuable insights into credit management practices at Bank of Abyssinia.
- Contribute to the advancement of knowledge in this field.
- Fulfill the requirements for my Master's degree.

I deeply appreciate your time and willingness to participate. If you have any questions, please do not hesitate to contact me at abelabdi54@gmail.com or Abel.Getu@bankofabyssinia.com.

Thank you for your consideration.

Sincerely,

Abel Getu Abdisa

Instructions:

This questionnaire aims to understand credit management practices at Bank of Abyssinia. Please answer all questions honestly based the questions. Your responses are confidential.

Section 1: Background Information

1. Highest level of education in finance or related fields:

- A. Bachelor's degree in finance or related field
- B. Master's degree in finance or related field
- C. PhD or higher in finance or related field
- D. Other (please specify) _____

2. Years of experience working in credit-related roles at Bank of Abyssinia.

- 1-3 years 4-7 years
- 8-10 years Over 10 years

3. What is your current position in the Bank of Abyssinia credit department?

3.1 Managerial:

- A. Senior credit manager
- B. Credit team leader
- C. Portfolio manager
- D. Other (please specify) _____

3.2 Professional:

- A. Credit analyst
- B. Loan officer
- C. Account manager
- D. Other (please specify) _____

3.3 Clerical:

- A. Data entry clerk
- B. Customer service representative
- C. Other (please specify) _____

SECTION 2: This section contains a scale questions related with Credit Management Practice. Therefore, Please Answer the following questions by putting a tick mark (√) in the box that most truly describes your opinion. The values of scales are:-

5 = strongly agree, 4 = Agree, 3 = Neutral, 2 = Disagree, 1 = strongly disagree

Questions Related with Current Internal Practices

No.	Statement	1	2	3	4	5
1	The bank has clear and well-defined guidelines for assessing loan applications.					
2	Loan officers receive regular training to stay up-to-date on credit risk analysis techniques.					
3	The bank employs a variety of methods (e.g., credit checks, references) to verify the accuracy of borrower information.					
4	There are clear and documented procedures for monitoring existing loans to identify potential problems.					
5	Credit decisions are based on a comprehensive evaluation of the borrower's financial health, not solely on the value of collateral offered.					

Questions Related with Bank Efforts to Improve Practices

No.	Statement	1	2	3	4	5
6	The bank actively promotes a culture of responsible lending among its staff, emphasizing sound credit risk management practices.					
7	There are well-defined consequences (disciplinary actions) for employees who violate credit management policies.					
8	The bank regularly reviews and updates its credit management practices to adapt to changing regulations and market conditions.					
9	The bank utilizes technology (e.g., credit scoring models, loan processing software) to streamline and improve the efficiency of credit processing.					

10	There is open and clear communication between different departments involved in the credit management process (loan origination, risk assessment, collections).					
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Questions Related with Internal Factor or Bank Resource Allocation

No.	Statement	1	2	3	4	5
11	Bank management allocates adequate resources (staffing, budget) to ensure effective credit management.					
12	The bank conducts regular internal audits to assess the effectiveness of its credit management practices and identify areas for improvement.					
13	The bank provides ongoing training and development opportunities for staff involved in credit management..					
14	The bank invests in technology and infrastructure to support its credit management processes.					

Questions Related with External Influences on Credit Management

No.	Statement	1	2	3	4	5
15	Government regulations significantly influence the overall credit management practices implemented by the bank.					
16	Economic fluctuations (e.g., inflation, interest rate changes) significantly impact the bank's ability to manage credit risk.					
17	Competition from other banks in the market influences the bank's credit risk management practices (e.g., loan pricing, lending criteria).					

Thanks for Your Time!

Appendix II



ADDIS ABABA UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING AND FINANCE

Interview Questions for Bank Management on Credit Management Practices:

1. Internal Practices:

- Can you describe the process followed by loan officers when assessing loan applications? What tools and resources do they utilize?

2. Bank Efforts to Improve Practices:

- Beyond training, how does the bank promote a culture of responsible lending among its staff? Are there any incentive programs or recognition systems in place?

3. Bank Resource Allocation:

- In your experience, what are some of the biggest challenges the bank faces in terms of resource allocation for effective credit management? How do you prioritize resource allocation between different areas (e.g., staff training, technology)?

4. External Influences on Credit Management:

- How do you see current economic trends impacting the bank's ability to manage credit risk? What strategies does the bank have in place to mitigate these risks?

5. Transparency and Communication:

- How does the bank ensure transparency in its credit decision-making process for both loan applicants and staff?