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COLLEGE OF BUSINESS AND ECONOMICS  
DEPARTMENT OF ACCOUNTING AND  
FINANCE

**Assessment on Credit Management Practices of  
Awash Bank S.C.**

**A Thesis Submitted to the College of Business and  
Economics in partial Fulfillment of Requirements for the  
Degree of Master of Science in Accounting and Finance**

**By:**

Lensa Sheleme

**Adviser:**

Abebaw Kassie (PHD)

June, 2023  
Addis Ababa, Ethiopia

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## Statement of Declaration

I, the undersigned hereby declare that the thesis entitled "Assessment on Credit Management Practices of Awash Bank S.C." is my own original work and hasn't been submitted for the awarding of a Degree from this university or any other. I have carried out this study independently with the guidance and supervision of the research adviser, Abebaw Kassie (PHD). Any sources used in this thesis have all been properly acknowledged.

Name: Lensa Sheleme

Signature:



Date:

03/07/2023

## **Certification**

This is to certify that Lensa Sheleme has done a study entitled “Assessment on Credit Management Practices of Awash Bank S.C.” for the partial fulfillment of the requirements for the Degree of Masters in Accounting and Finance at Addis Ababa University. This study is my original work and all the sources of materials used for the research project paper have been properly acknowledged.

**Adviser: Name:** Abebaw Kassie (PhD)

**Signature:** \_\_\_\_\_ **Date:** \_\_\_\_\_

**Addis Ababa University College of  
Business and Economics  
Department of Accounting and  
Finance Graduate Program**

**Assessment on Credit Management Practices  
of Awash Bank S.C**

By:

**Lensa Sheleme**

**Approved by Board of Examiners**

\_\_\_\_\_  
Dean, Graduate Studies

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Date

Abebaw Kassie (PHD)  
Adviser

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Date

Alem Hagos (PHD)  
Internal Examiner

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Date

Tenkir Seifu (PHD)  
External Examiner

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Date

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## Abstract

*The banks act as an intermediary to mobilize the excess fund of surplus sectors to provide necessary finance, to those sectors, which are needed to promote for the sound development of the economy. The main purpose of this study is to assess credit management practices of Awash Bank S.C. The study was used descriptive research design. Both qualitative and quantitative research approach were employed to collect and analyze data. The study selected a sample size of 110 respondents using a stratified sampling method. Relevant data were collected from both primary and secondary sources. Questionnaires and interviews were used to gather primary data while secondary data was gathered from the Bank's annual reports from FY 2013 to 2022, as well as other relevant publications. The collected data was analyzed using descriptive statistics with the help of SPSS version 25. The study found that the bank is operating using a sound credit-granting process and that the duration of the granting process needs to be changed; credit administration teams are appropriately approving credit requests; the bank does not periodically visit all borrowers after credit granting; the bank's total amount of loans and advances granted each year has continuously increased; the bank has developed its own internal credit customer risk rating system, but it does not apply to personal loan and project loan borrowers, loan requests under 5 million and the NPL ratio from FY 2013 to FY 2022 was less than 5% NBE threshold. The study recommended that the bank should automate credit granting process, develop a customer credit risk grading system for personal loans, projects loans, and also minimize NPL ratio to nearly zero levels.*

**Keywords:** *Credit management, granting process, customer risk grading, monitoring and NPL.*

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## **List of Acronyms**

AB	Awash Bank
NBE	National Bank of Ethiopia
NPL	Non-Performing Loan
CBE	Commercial Bank of Ethiopia
S.C.	Share Company
SD	Standard Deviation
SPSS	Statistical Package for Social Science
FY	Fiscal year
HO	Head Office
TIN	Tax payer identification number

# Chapter One

## Introduction

This chapter includes Background of the Study, Background of the Company, Statement of the Problems, Research Objectives, Significance of the Study, Scope and Limitations of the Study, and Organization of the Study.

### 1.1 Background of the Study

The issue of finance is a major concern in modern times around the world. The financial institution is essential and there is no doubt about that. Banks are financial institutions established under the laws and regulations of each country to provide banking services, such as deposit mobilization and credit facilities to various economic sectors. Among the many financial services that banks offer, issuing credit is the bank's most important revenue-generating activity. (Pasha, & Mintesinot, 2017).

The Bank Industry in Ethiopia has made a significant contribution to the country's economic growth. The expansion and soundness of the country's banking system are directly related to the economy's health. Although banks don't create new wealth, they do make the process of distributing, exchanging, and consuming wealth easier through their fund collection, lending, and related activities. Banks act as financial intermediaries by using the money they receive from depositors for lending purposes. (Jubair et al., 2011).

Credit has been given different definitions by different authors. Credit is all about trust. The word “credo” is a derivative of the Latin word meaning trust. The international dictionary gives several definitions of credit, but the main definition is one most relevant to credit: a person or things reliance on and confidence in the truth, worth, reliability, etc. (Edwards, 2004).

Credit is a common core component of any financial system. Different economic units need credit, both on the demand side and on the supply side. Individuals need loans for their economic and social needs. Governments also need credit to finance the deficit and build public projects. Most business organizations make extensive use of external financing sources for expansion, modernization, working capital requirements and new project financing (Asfaw and Veni, 2015).

Credit management is the process of issuing credit, determining terms, repaying credit on time, and ensuring compliance with a company's credit policies, among other credit-related functions. Credit Management is a practice that organizations use to manage their credit sales. This is an important practice in any organization that has credit services. This is because some organizations manage their credit transactions well so that there is no credit risk. (Nelson, 2012, as cited in Nwanna & Oguezue, 2017).

Credit management practices are achieved through appropriate policies that define procedures and guidelines to facilitate credit facilities in the banking industry. The goal of good credit management is to maximize profitable sales with the least amount of bad debt in the shortest possible period of time. In other words, the main purpose is to protect company's investment in receivables, that is, to provide the best possible return on the borrowed funds that the company has invested in receivables (Edwards, 2004).

According to Central Bank of Belize (2021), credit management is an important factor in maintaining the safety and soundness of a bank. Once a credit is approved, it is the business unit's responsibility to see to it that it is properly maintained. This implies keeping an up-to-date credit file, gathering recent financial data, sending renewal notices, and preparing various documents like loan agreements.

Banks take many factors into account in their credit management to help reduce the risk of default leading to financial trouble and bankruptcy. This is because lending banks are exposed to interest and principal repayment risks that must be effectively managed to achieve desired levels of credit growth and performance. Credit management is very important because a loan is considered an investment in a customer (Pasha, & Mintesinot, 2017).

Credit management is one of the main issues for banks that concern many stakeholders, where better credit management leads to higher bank profitability (Pasha, & Mintesinot, 2017). Thus, the purpose of this research is to assess the credit management practices of Awash Bank S.C. which is one of Ethiopia's top private commercial banks, and to propose appropriate findings and recommendations.

## **1.2 Background of the company**

Awash Bank S.C. was incorporated on November 10, 1994, by 486 members with an initial paid-up capital of Birr 24.2 million. It was the first private commercial bank established in Ethiopia following the post-1991 financial deregulation and the declaration of market-oriented economic policy. It started banking operation on February 13, 1995. At the end of June 2023, shareholders and paid-up capital rose to over more than 5,400 and Birr 12 billion respectively. Currently, AB has 725 branches all over the country and its employees are 17,393. The bank, which is the largest of all private banks in Ethiopia, had deposits of Birr 152 billion and a gross profit of Birr 5.34 billion for the fiscal year 2021/2022.<sup>1</sup>

According to the AB audited financial statement (2021/22), Awash Bank provides different types of credit facilities that help to improve the lives of individuals, boost business activities and enhance the overall economic development of Ethiopia as a whole. The total outstanding loan and advance balance provided to various economic sectors increased by Birr 41.7 billion (47.6%) and reached Birr 129.2 billion as of June 30, 2022. Awash Bank extends loans and advances to different sectors of the economy in line with the government's policy of encouraging priority sectors, broad-based economic growth, and risk diversification composition wise, loans and advances availed to the domestic trade and services sector account for lion's share (23%), followed by export (21%), building and construction (18%), import (13%), manufacturing (12%), personal loans (8%), staff loans and transport, (3% each) and other sectors (0.4%).

## **1.3 Statement of the Problems**

The financial institution's stability and ongoing profitability depend on effective credit management. The aim of credit management is to ensure the best point of loan and advance and their effective management, as well as to maximize performing assets and minimize nonperforming assets. The bank's credit policy, credit portfolio, monitoring, measurement, and follow-up of the loan and advance are all important factors in determining the overall success of credit management. To ensure prompt repayment and reduce default, constant oversight, monitoring, and follow-up are essential. Actually, the credit portfolio is essential to the bank's success in addition to making up its asset structure. Only a proper credit analysis that takes into

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<sup>1</sup> (Source: <https://www.awashbank.com/company-profile/>)

account genuine business factors will reveal the likelihood of credit loss, and explore possible mitigate to help control it. (Rana-Al-Mosharrafa, 2013 as cited in Pasha, & Mintesinot, 2017).

The researcher attempted to asses various published and unpublished research works in the bank credit management practices area in order to find a gap for contributing new research. Accordingly, numerous scholars conducted research on the topic of bank credit management practices in different factors, banks and countries. Below are some of the studies that were done.

Mosharrafa (2013) studied the credit assessment practice of a commercial Bank in Bangladesh using variables including the credit risk grading technique and the credit appraisal system. Chane (2016) evaluated the CBE credit management practice on three main dimensions: the suitability of the credit policy's content, the conformity of the bank's actual credit activities with the formulated policy, and the bank's overall existing credit control practice. Selamawit (2017) conducted research on the credit management practice of Awash International Bank S.C. The evaluation of the bank's credit policy, procedure, and credit operations was the study's main objective. Findings from the study found that the bank performs its loan process and implementation per credit policy and procedure.

Habel (2018) investigated United Bank S.C.'s credit management practices. The variables studied are credit policy, procedure, credit collection strategies, and credit portfolio diversification are the variables under investigation. Mesfin (2021) focused on credit policy, procedure, products, credit appraisal, and credit follow-up as the study's variables while studying credit management practices at Enat Bank. Meti (2021) carried out an investigation to assess credit management practices in Oromia International Bank S.C. The study has focused on major components of credit management such as credit policy, procedure, loan default, credit risk mitigation strategies and credit collection strategies.

Despite the fact that numerous studies on the topic of credit management practices have been conducted, many of them have concentrated on credit policy and procedure as essential components of commercial banks' credit management practices, with only Head Office Credit Department and Branch employees representing as respondents.

Since July 2016, Awash Bank S.C. has adopted a decentralized credit process and approval system in order to improve credit management performance. As has been intended, the delivery time of its credit granting process has improved and the workload has also been distributed from Head Office credit department to other regional offices.

There hasn't been a study that includes the population of all Regional and Head Office credit management practices since the Awash Bank started using a decentralized system for credit granting process and approval in 2016. For this reason, the researcher in this study prefers to assess credit management practices from all Regional Offices and the Head Office Credit Appraisal and Analysis Directorate.

Furthermore, no recent research has been made on Awash Bank's Credit Management Practices using variables such as the credit granting process; credit administration, customer risk grading, and monitoring strategy; as well as trends of NPL and granted loans for the last ten years, from F/Y 2013 to 2022. This study attempts to partially fill the knowledge gap relating to credit management practices.

#### **1.4 Research Questions**

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

1. Has Awash Bank implemented a sound credit-granting process?
2. Has Awash Bank maintained an appropriate credit administration strategy?
3. Does Awash Bank has an effective customer risk grading and monitoring strategy?
4. What are the trends of non-performing loans and granted loans in Awash Bank for the last ten consecutive years, from F/Y 2013 to 2022?

#### **1.5 Research Objectives**

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

##### **1.5.1 General Objective**

The general objective of the study is to assess the credit management activities of Awash Bank S.C.

### **1.5.2 Specific Objectives**

The study's specific goals are listed below: -

- To evaluate the credit granting process at Awash Bank.
- To assess Awash Bank's credit administration strategy.
- To evaluate Awash Bank's customer risk grading and monitoring strategy.
- To examine the trends of non-performing loan and granted loans at Awash Bank for the last consecutive 10 years, from F/Y 2013 to 2023.

### **1.6 Significance of the Study**

The research's findings and recommendations are essential for various stakeholders in the Banking industry. These include Awash Bank and other Commercial Banks' management in order to improve existing credit management operations. It may also be useful as a reference for other researchers/academicians who intend to conduct more studies on Bank credit management procedures as reference.

### **1.7 Scope of the Study**

The researcher focused on the credit management practices of Awash Bank in this study because there hasn't been recent research on Bank Credit Management Practices using variables like the credit granting process, credit administration, customer risk grading, monitoring process, trends of NPL and granted loan for the past ten years from 2013-2022. The researcher also selected the bank because it has more than 25 years of experience in credit-granting and the researcher currently works there as a credit analyst, which makes data collection simple. Credit Professionals from Awash Bank who worked in the Credit Portfolio and Monitoring Directorate, 14 Regional Offices, and the Credit Appraisal and Analysis Directorate at the Head Office participated in the study. Relationship Manager, Credit Analyst, Credit Manager, Regional Credit Management Director, Credit Analysis and Appraisal Director, Portfolio Officer, Portfolio Manager, and Portfolio Director were their job titles.

### **1.8 Limitation of the study**

This study is limited to Awash Bank because it has over 25 years of experience in loan granting for various types of credit facilities that improve the lives of individuals, and increase business activities, as well as it is one of the best economic growth contributor in Ethiopia. If the study covers all private banks in Ethiopia, it will be more reliable and deliver better results.

## **1.9 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. 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**

This chapter covers Theoretical reviews, Empirical reviews, and Conceptual framework of the study with an emphasis on the review of literature review on credit and other important aspects of the subject being studied.

#### **2.1 Theoretical Review**

##### **2.1. 1. Concept of Credit, Credit Management and Credit Assessment**

Banks are not only responsible for accepting deposits but also for granting credit, making them inadvertently exposed to the risk of managing credit. Credit is the faith lender has in a borrower so that resources can be transferred to the borrower without receiving early payment (Greuning & Bratanovic, 2003 as cited in Nwanna & Oguezie, 2017). One of the most main concepts for improving financial institutions' financial standing is responsible credit-giving. This researcher emphasized the importance of sound credit practices in establishing credit limits and creating procedures for approving new credit. A nation's economic growth and development depend heavily on credit. These roles that credit plays can be classified into two: first, it makes it possible to move money to where it will be used most effectively and efficiently, and second, credit reduces the amount of cash or coin used because it increases the amount of money in circulation. (Nwanna & Oguezie, 2017).

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).

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 & Oguezie, 2017).

Credit assessment is a stage where a series of activities are performed at different levels to determine the prudent amount of loan to be approved to ascertain smooth recovery of the loan. Credit assessment also referred as credit analysis/appraisal, is generally performed to assess the creditworthiness of a borrower and it involves examining the ability of a borrower to repay debt of certain amount. Credit Analysis should screen out both the positive and the negative aspects of each credit request. (Nwanna & Oguezue, 2017).

### **2.1.2 A sound credit granting process**

According to Central Bank (2023), establishing sound, and well-defined credit-granting criteria is essential to approving credit in a safe and sound manner. The criteria should set out who is eligible for credit and for how much, what types of credit are available, and under what terms and conditions the credits should be granted. Regulated entities must receive sufficient information to enable a comprehensive assessment of the true risk profile of the borrower or counter-party.

In approving borrowers or counter parties for the first time, consideration must be given to the integrity and reputation of the borrower or counter party as well as their legal capacity to assume the liability. Once credit-granting criteria have been established, it is essential for the regulated entity to ensure that the information it receives is sufficient to make proper credit granting decisions. This information will also serve as the basis for rating the credit under the regulated entity's internal rating system.

Regulated entities need to understand to whom they are granting credit. Therefore, prior to entering any new credit relationship, a regulated entity must become familiar with the borrower or counter party and be confident that they are dealing with an individual or organization of sound repute and creditworthiness. Strict policies must be in place to avoid association with individuals involved in fraudulent activities and other crimes. This can be achieved through several ways, including asking for references from known parties, accessing credit registries, and becoming familiar with individuals responsible for managing a company and checking their personal references and financial condition. However, a regulated entity should not grant credit simply because the borrower or counter party is familiar to the regulated entity or is perceived to be highly reputable.

Regulated entities should have procedures to identify situations where, in considering credits, it is appropriate to classify a group of obligors as connected counter parties and, thus, as a single obligor. This would include aggregating exposures to groups of accounts exhibiting financial interdependence, including corporate or non-corporate, where they are under common ownership or control or with strong connecting links (for example, common management, familialties).

Regulated entities should have policies covering the acceptability of various forms of collateral, procedures for the ongoing valuation of such collateral, and a process to ensure that collateral is, and continues to be, enforceable and realizable. Regarding guarantees, regulated entities should evaluate the level of coverage being provided in relation to the credit-quality and legal capacity of the guarantor.

### **2.1.3 Credit Administration**

According to Basel Committee on Banking supervision (2021), Credit administration is essential to a bank's continued safety and soundness. Once a credit has been granted, it is the business unit's obligation to see to it that it is properly maintained. This is frequently done in collaboration with a credit administration support team. This include maintaining an up-to-date credit file, obtaining recent financial data, sending renewal notices, and preparing different documents such as loan contracts. The organizational structure of the credit administration function varies depending on the size and sophistication of the bank. The various aspects of credit administration are typically delegated to different departments in larger banks. Few people might handle several of the functional areas in smaller banks. Individual who handle sensitive tasks as custody of key documents, entering limits into a database, they should report to supervisors who are not involved in the procedures of business organization and credit approval processes.

### **2.1.4 Credit Customer Risk Grading**

According to AB credit policy, (2021), credit risk is a multi-faceted phenomenon in a bank and it takes multi-dimensional approaches to monitor and control the risks that may possibly arise from this class of risk. One type of the techniques is **customer grading** which is classifying customers (borrowers) in to different segments based on the relative magnitude of risk they pose to the bank. Credits of customers under the different risk category are, then, subjected to appropriate credit follow up, management and credit pricing commensurate with the respective risk category.

Credit customer risk rating is an important risk management tool as it helps to identify, measure and control credit risks from the outset. It also paves the ground for attaching corresponding returns to the level of risks a bank exposes itself to as a result of lending to a client. Credit customer risk rating is basically concerned with the identification and measurement of risk from individual borrowers at file (contract) level and provides important information in risk management. An equally important task is the application of the information in managing the risk and determining the amount of income that must be earned from such transaction. In other words, credit customer risk rating by itself does not serve the intended purpose unless the result is properly utilized.

Notwithstanding its important role in risk management, credit customer risk rating is not, however, a perfect or error-free technique. It has its own weaknesses as a number of qualitative data are used to explain the conditions of variables related to personal behavior of clients, their management practice and the market in which their business operates. The qualitative data are converted to quantitative figures to reduce their subjectivity and to allow objective manipulation of the data and inference of conclusion. Hence, the system has to be periodically reviewed, updated, and used with proper care so as to attain the intended result. Borrowers are special customers who are granted credit access to facilitate their business endeavors. Loans and advances is the major part of the bank's asset that needs critical risk management practice. In so doing, designing and implementing credit customer risk rating is of paramount importance.

### **2.1.5 Credit Monitoring**

According to Central Bank (2023), regulated entities must have in place a system for monitoring the condition of individual credits, including provisioning standards. Regulated entities need to develop and implement comprehensive procedures and information systems to monitor the condition of individual credits and single obligors across the regulated entity's various portfolios. These procedures need to define criteria for identifying and reporting potential problem credits and other transactions to ensure that they are subject to more frequent monitoring as well as possible corrective/remedial action, classification, and provisioning.

An effective credit monitoring system will include measures to:

- a. Regularly assess the current financial condition and results of operations of the borrower or counter party.
- b. Monitor compliance with existing covenants.
- c. Assess, where applicable, collateral coverage relative to the obligor's current condition.
- d. Identify contractual payment delinquencies and classify potential problem credits on a timely basis; and
- e. Direct problems promptly for remedial management.

Specific individuals should be responsible for monitoring credit quality, including ensuring that relevant information is passed to those responsible for assigning internal risk ratings to the credit. In addition, individuals should be made responsible for monitoring on an ongoing basis any underlying collateral and guarantees. Such monitoring will assist the regulated entity in making necessary changes to contractual arrangements as well as maintaining adequate allowance for credit losses. In assigning these responsibilities, management should recognize the potential for conflicts of interest, especially for personnel who are judged and rewarded on such indicators as loan volume, portfolio quality or short-term profitability. The measurement of allowances should build upon those robust procedures and result in the appropriate and timely recognition of expected credit losses in accordance with the applicable accounting framework. A regulated entity's aggregate amount of allowances, regardless of whether allowance components are determined on a collective or an individual basis, should be adequate and consistent with the objectives of the applicable accounting framework.

Regulated entities should have in place a reliable credit classification system to promptly identify deteriorating credit exposures to enable management to implement prompt remedial measures and recognize timely and adequate allowance for credit losses.

Regulated entities should adopt, document, and adhere to sound methodologies that address policies, procedures, and controls for assessing and measuring credit risk on all lending exposures. The measurement of allowances should build upon those robust methodologies and result in the appropriate and timely recognition of expected credit losses in accordance with the applicable accounting framework.

### **2.1.6 Non- Performing Loans (NPL)**

It is the major determinant of credit risk in deposit money banks. It is the ratio of nonperforming loans to total loans which reveals the quality of a bank's loan portfolio. That percentage of the total loans and advances that is on the verge of going bad. A higher ratio sends a signal that the management was not efficient when evaluating loan applications. Again, it shows that there is a higher probability the most of the loans might not be recovered. Non-Performing credit facilities should be classified into three categories namely, substandard, doubtful or lost on the basis of criteria specified by the Banking laws in a country (Nwanna & Oguezue, 2017).

**Non-Performing Management:** NPLs management means the process of restoring/recovering a doubtful debt through applying correcting action (restructure, renewal cash collection, foreclosure, legal measure etc) with a view to improving the condition or the capacity of the borrower and to minimize loss to the bank. (AB credit policy, 2021).

#### **Classification of Loans and Advances**

All loans and advances shall be classified according to NBE's Directive no SBB/69/2018 as follows:

**Pass:** Loan or advances in this category are fully protected by the current financial and paying capacity of the borrower and are not subject to criticism. Thus, any loan or advance, or portion thereof, which is fully secured, both as to principal and interest, by cash, cash-substitutes or guarantee from Federal Government, first class Foreign Bank Guarantee shall be classified under this category regardless of past due status or other adverse credit factors.

**Special Mention:** The following loans and advance at a minimum shall be classified as special mention:

- a. Loan or advances with pre-established repayment program past due 30 days or more, but less than 90 days;
- b. Overdrafts and loans and advances that do not have a pre-established repayment program, if the debt remains outstanding for 30 consecutive days or more beyond the scheduled payment date or maturity, but less than 90 days.

**Substandard:** The following non-performing loans and advances at a minimum shall be classified substandard:

- a) Loans or advances with pre-established repayment programs past due 90 days or more, but less than 180 days;
- b) Overdrafts and loans or advances that do not have a pre-established repayment program, if the debt remains outstanding for ninety consecutive days or more beyond the scheduled payment date or maturity, but less than one hundred eighty days.

**Doubtful:** The following non-performing loans and advances at a minimum shall be classified doubtful.

- a. Loan or advances with pre-established repayment programs pas due one hundred eighty days or more, but less than 360 days.
- b. Overdraft and loans or advances that do not have a pre-established repayment program, if the debt remains outstanding for 180 consecutive days or more beyond the scheduled payment date or maturity, but less than 360 days.

**Loss:** The following non-performing loans and advances at a minimum shall be classified as loss.

- a. Non-Performing loans or advances with pre-established repayment programs past due 360 days or more;
- b. Overdrafts and loans or advances that do not have a pre-established repayment program, if the debt remains outstanding for 360 consecutive days or more beyond the scheduled payment date or maturity.

## **2.2 Empirical Review**

In this section, the researcher described empirical researches done by various scholars on credit management in the financial sector.

Mosharrafa (2013) studied the credit assessment practice of a commercial Bank in Bangladesh using variables as credit risk grading technique and credit appraisal system. For this study, both primary and secondary data were collected, and data analysis included time series analysis, trend analysis, and regression analysis. Primary sources were face to face conversation with the executives and officers, practical desk workers and personal observation.

Secondary information was collected through different manuals, periodical and publications of Bangladesh Bank, annual reports of a well-known private commercial bank in Bangladesh, the Ministry of Finance and other related publications. Finding from the study concluded that the bank maintained standard credit management policies in the changing market situation in order to establish a set of credit management policies.

Murthoni et al. (2020) evaluated how credit management practices affected the loan performance of Kenya commercial banks. The study's objective was to identify how Kenyan commercial banks' loan performance was impacted by their policies on debt collection, client evaluation, and lending. The explanatory research design method was used. Both primary and secondary data were used. Primary data was collected through structured questionnaires and related to credit management practices while secondary data was obtained from review of existing bank loan records in relation to loan amount advanced and non-performing loans for a period of four years from 2015-2018. The data collected was analyzed using both descriptive and inferential statistics with the help of SPSS version 22. According to the findings debt collection policy and lending policy had a positive significant effect on loan performance of commercial banks in Kenya. However, client appraisal had no significant effect on loan performance of commercial banks in Kenya.

Chane (2016) evaluated the CBE credit management practice on three main fronts: the suitability of the credit policy's content, the conformity of the bank's actual credit activities with the formulated policy, and the bank's overall existing credit control practice. Primary and secondary data sources were used. A questionnaire was used as the primary data collection instrument, while secondary data were gathered from various publications. The data was analyzed with SPSS 16.0, and the results are described using statistical mean and standard deviation values. The study's findings concluded that CBE has an adequate credit policy with good content. Similarly, the bank's credit activities exceed the average level of compliance with the credit policy document. On the other hand, the bank's overall credit control activities are performing at an average level. This implies that the bank is expected to strengthen its credit controlling practice as a basic credit portfolio management tool in order to avoid the risks associated with ongoing credit activities.

Selamawit (2017) studied the credit management practice of Awash International Bank S.C. The goal of the research was to assess credit policy, procedure and credit operations of the bank. The primary data source for the study was a questionnaire, and the secondary data sources were the bank's manuals, procedures, publications, and NBE directives. SPSS 2010 (version 20.1) was used in the study. The study found that the bank performs its loan process and implementation per credit policy and procedure. The researcher suggests that loan repayment be strictly monitored, with a focus on raising awareness among bank loan clients. However, the study did not include all of the bank's outlying branches as well as some Addis Ababa branches.

Habel (2018) examined the credit management practices of United Bank S.C. The variable studied are credit policy, procedure, credit collection strategies and credit portfolio diversification. Primary and secondary data were used in the study. Primary data was gathered through the use of a semi-structured questionnaire and an interview. Secondary data was gathered from the bank's audited annual reports (2013-2017), directives, credit policy and procedure. The research discovered that lack of credit follow-up by branches, branches' disregard for the bank's credit policy and procedure when practicing their discretionary lending limit, full default by borrower, borrower lack of knowledge on loan usage, fund diversion for unintended purpose. The study suggests that to maintain current portfolio quality, adhere to and implement the bank's credit policy and procedures, include per-audit as part of the credit analysis process, and manage the time it takes to process one loan request.

Mesfin (2021) assessed the credit management practices of Enat Bank S.C. he focused in credit policy, procedure, credit products, credit appraisal and credit follow-up as variables of the study. Both primary and secondary data were used. The gathered data was analyzed using descriptive statistics in SPSS version 20. The study found that the bank credit management and its practice needs improvement particularly in area of credit risk policy formulation and implementation; product development and modification to enhance products quality and acceptance. The study's limitations were the exclusion of outlying branches and the presence of corona virus, which limited access to primary data.

Meti (2021) carried out an investigation to assess credit management practices in Oromia International Bank S.C. The study has focused on major components of credit management such as credit policy, procedure, loan default, credit risk mitigation strategies and credit collection strategies. Both primary and secondary data was employed for this study; primary data was collected using questionnaire and interview which was conducted with the managers and supervisory staffs of credit department. Based on nature of study the secondary data was gathered from yearly reports of the Bank 2016 to 2019, arrangement and technique dependent on policy and procedure. The research design was descriptive. Data analysis was undertaken using Excel Spreadsheet and SPSS version 20. The findings of the study concluded that the bank has insufficient credit monitoring and administration practice lack of confirming the end use of loan, low quality of lending practice and weak control over the credit caused high provision and uneven distribution of loan portfolio to different economic.

### **Gap in Literature**

Various researchers conducted on the bank credit management area in different countries and showed different findings. The majority of earlier studies and the research mentioned above were carried out with only head office credit department and branch employees as respondents and they concentrated on credit policy and procedure as essential components of commercial bank's credit management practices. However, no researcher has put the research on Awash Bank Credit Management Practices using variables like the credit granting process; credit administration, measurement, and monitoring processes; and trends of NPL and loan performance for the previous ten years from 2013-2022, which are the population of the research adequately represented from regional offices and the head office credit management departments, have been conducted. Therefore, the researcher identified a knowledge gap and committed to conducting research on it.

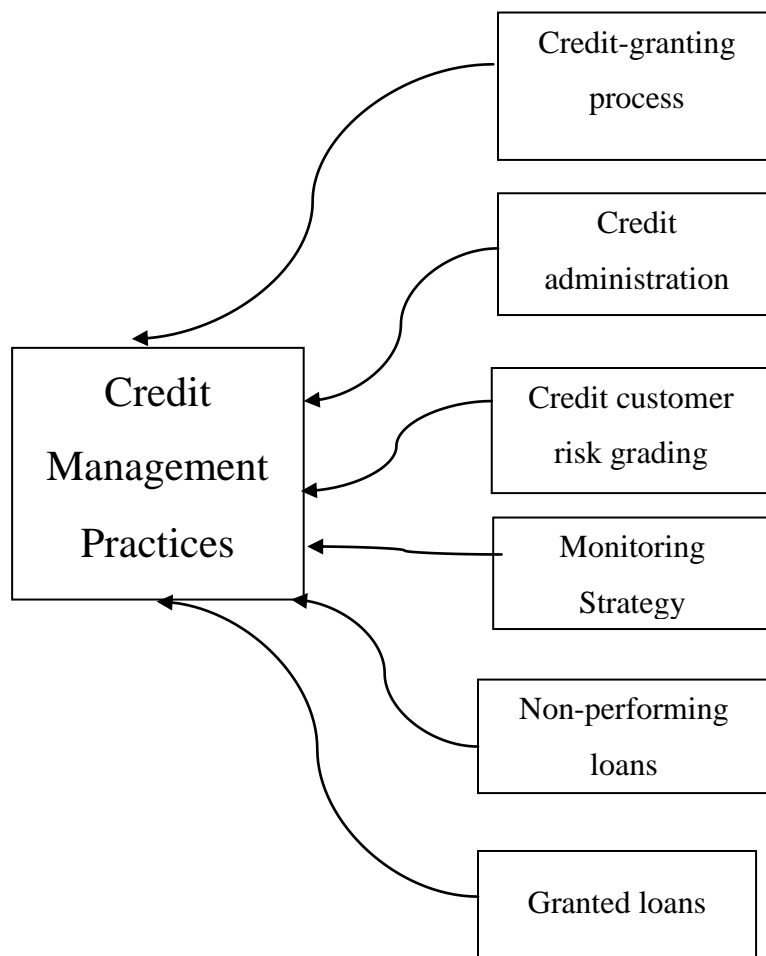
### **2.3 Conceptual frame work**

According to Wikipedia a conceptual framework defines, as an analytical tool with several variations and contexts. It can be applied in different categories of work where an overall picture is needed. It is used to make conceptual distinctions and organize ideas. Strong conceptual frameworks capture something real and do this in a way that is easy to remember and apply.

The conceptual framework shows the relationship between the independent variables and the dependent variable. Independent variables are credit granting process, credit administration, credit customer risk grading, monitoring strategy, trends of NPL and granted loans as well as the dependent variable which is credit management of Awash Bank (Gichuki and Kagiri, 2013).

The figure 2.1 below shows the relationship between the independent and dependent, variables.

**Figure 2.1 Conceptual frame work**



Source: Own developed, 2023.

# **Chapter Three**

## **Research Methodology**

This chapter describes the research methodology used in the study. The section covers Research Design, Research Data Approach, Target Population, Sample Size, Sampling Technique, Data collection Methods, Data Analysis, Validity, Reliability and Ethical Consideration.

### **3.1 Research Design**

The term "research design" refers to a blueprint or plan specifically to answer the research question and control variables (Helen et al., 1993). According to Singh (2006), a mapping strategy served as the research design. In essence, it is a description of the topic under investigation as well as the procedures for collecting the evidence, analyzing the evidence, and reporting the findings.

The study was carried out through a descriptive research design because it enables the researcher to describe the present situation of Awash Bank credit management while also achieving the intended objective of the study. According to Creswell (2021), a descriptive method of research involves learning about the current situation and what it is like, instead of judging or interpreting, the focus is on describing. Combes (2022) defines descriptive research as a type of quantitative research, through qualitative research can also be used for descriptive purposes. The research design should be carefully developed to ensure that the results are valid and reliable.

### **3.2 Research Data Approach**

According to Kabir (2018), Research data approaches are categorized into two main categories: qualitative and quantitative.

Qualitative data is non-numerical and is typically nominal or descriptive in nature. This indicates that the data were gathered in the form of sentences and words. Such data frequently (but not always) record sentiments, feelings, or individual opinions about something. Qualitative approaches typically use non-structured data collection methods to fully explore the topic and aim to address the "how" and "why" of a program. Qualitative inquiries are unrestricted. Examples of qualitative research techniques include focus groups and interviews.

Examples of qualitative data include open-ended survey responses, interview transcripts, and observational notes. Examples of quantitative data include numerical survey responses, test scores, and website traffic data. Qualitative data is typically subjective and descriptive, while quantitative data is objective and numerical.

Quantitative data address the "what" of the program. Since they are standardized for easy comparisons and can typically be measured, quantitative approaches have the advantages of being less expensive to implement. It is acceptable to mathematically compute quantitative data because it has a numerical nature. Numerous scales, including nominal, ordinal, interval, and ratio scales, are used in quantitative data measurement. Often (but not always), such information includes measurements of something.

According to Kabir (2018), a mixed methodologies approach is a research methodology that combines quantitative and qualitative research data, procedures, and methods into a single study framework. Mixed methods approaches can refer to a combination of qualitative and quantitative methods as well as a number of different kinds of techniques used in a study or at different phases within a study. This approach combines a number of methodologies to maximize benefits and reduce drawbacks brought on by a single study design. Using this method to collect and assess data may help to improve the research's validity and dependability.

For the purpose of this study, both quantitative and qualitative data methods of analysis (mixed methods approach) were used. Interviews and personal observations were used to gather qualitative data, while questionnaires were used to collect quantitative data. The data from the interview with open-ended questions were analyzed using a qualitative analysis technique, and quantitative data gathered from closed-ended questions in a survey as well as secondary data acquired from bank annual reports were analyzed using a quantitative analysis technique.

### **3.3 Target Population of the Study**

The entire universe of individuals or objects from which the sample was drawn is the target population (Greener, 2008). Bhandari (2021) also defines a population as the entire group that you want to draw a conclusion about. The bank categorized its credit approval & credit process activities in regions and head office Credit Management Department. According to AB's annual report (2020/21), the bank has 14 regions. Each region could be able to approve loan requests amounting up to 50 million and above 50 million will be approved by the head office Credit Management Department.

The target population of this study is 156 Awash Bank Credit Professionals from 14 Regions, as well as the Credit Administration Department at head office, which includes Credit Analysis and Appraisal; Portfolio Management, Corporate Banking, Business Banking; Personal, and SME Banking.

### 3.4 Sample size

Sample size refers to the section of the population chosen for the study (Greener, 2008). A smaller sample is taken using a purposive sampling technique when it is not possible to study a population as a whole but the population is known. A researcher can sample the population with the desired level of accuracy using Slovin's formula (Stephanie, 2013). To determine the sample size, Slovin's formula was used.

The researcher used a 95% confidence level with significance level of 5% as recommended by Kothari (2004) for the accuracy level, which means that there are 95 chances in 100 (or.95 in 1) that the sample results accurately reflect the true condition of the population within a given precision range. The following calculation was made using Slovin's formula:

$$n = \frac{N}{1 + Ne^2}$$

Where: n= Number of samples or sample size N= Total population e= Error tolerance

The population size of this study was 156 workers of AB. We took a sampling error of 5%, and then the sample size was:  $n = \frac{156}{1 + 156(0.05 \cdot 0.05)}$   $n = \frac{156}{1 + 156 \cdot 0.0025}$   $n = \frac{156}{1 + 0.39}$   $n = \frac{156}{1.39}$   $n = 112.23$ . Therefore, the sample size was 112 respondents.

After identifying the sample size using the above equation the researcher allocated the estimated sample size to each stratum in the study to maximize the predictive power of the sample size. One method is proportional allocation. Thus the proportional allocation was done using the Kothari (2004) formula as follows:

$$N_h = \frac{n N_1}{N}$$

**Where:**

$N_h$  = Proportional sample to the strata

n = Sample size determined using the formula provided by (Stephanie, 2013)

$N_1$  = Total number of population in each strata

N = Target population

Table 3:1 Sample size determination for each stratum

<b>Respondents</b>	<b>Population size</b>	<b>Sample size</b>
Regional Credit Analyst	49	36
Regional Credit Manager	14	10
Relationship Manager	50	36
Credit follow-up/Portfolio Officers	20	15
Credit follow-up/Portfolio Manager	2	1
HO Credit Analyst	19	13
HO Credit Manager	2	1
<b>Total</b>	<b>156</b>	<b>112</b>

**Source:** HR attendance lists of AB, 2022

### **3.5 Sample Technique**

As stated by Singh (2018), sampling techniques are very helpful for research. One of the most crucial factors in figuring out how accurate your research/survey results are this. Your sample's flaws will be evident in the outcome if anything goes wrong with it. In addition, purposive or judgmental sampling is an approach in which specific situations, people, or events are purposefully chosen in order to offer essential information that cannot be gathered through other means. When a researcher decides to include participants in a sample because they think they merit it (Maxwell, 1996 as cited Taherdoost, 2016). If a population from which a sample is to be drawn does not constitute a homogeneous group, stratified sampling technique is generally applied in order to obtain a representative sample. Under stratified sampling the population is divided into several sub-populations that are individually more homogeneous than the total population and then we select items from each stratum to constitute a sample. (Kothai, 2004)

In this research, the researcher both stratified sampling and purposive sampling techniques to select participants for the study. A stratified random sampling technique is preferred because it is used to obtain a representative sample and to assist in minimizing bias when dealing with those populations who are heterogeneous in nature. With this technique, the sampling frame can be organized into relatively homogeneous groups (strata) before selecting elements for the sample. According to Kothari (2004), stratified random sampling technique increases the probability that the final sample would be representative in terms of the stratified groups. Seven strata's are created, these are: stratum 1 = Regional Credit Analyst, stratum 2 = Regional Credit Manager, stratum 3 = Relationship Manager, stratum 4 = Credit follow-up/Portfolio Officers, stratum 5 = Credit follow-up/Portfolio Manager, stratum 6 = Head Office Credit Analyst and stratum 7 = Head Office Credit Manager.

### **3.6 Data Collection Methods**

The data collection method is one of the most important steps because if the data are inadequate the research could be biased and hence, it becomes necessary to collect data that are appropriate. There are several methods for collecting the appropriate data which differ significantly in perspective of cost, time and other resources. Data can be obtained from primary and secondary sources. Primary data are those which are collected a fresh and for the first time, and thus happen to be original in character. The secondary data are those which have already been collected by someone else and which have already been passed through the statistical process.

#### **3.6.1 Primary data**

The researcher gathered primary data from credit section personnel at Awash Bank's Regional Offices and Head Office credit departments through questionnaire and interview.

##### **Questionnaires:**

The researcher developed the questionnaire based on the Basel's Credit Management Principles of 2021. The questionnaires are closed ended such as multiple choose, Likert scale and some open-ended questions. The questionnaire is divided into three sections. The first section was designed to collect demographic information, the second section includes principles to assess the credit granting process, and the final section consists principles to identify the credit administration, credit customer risk rating and monitoring process of Awash Bank.

##### **Interview:**

To support the data obtained through questionnaires the researcher used interview guides to gather information from respondents purposively selected from the bank credit Managers and Credit Directors. All participants who are willing to participate in the interview were selected and then the interview sessions were conducted in Amharic language, and then translated to English. The interview conversations were recorded; through brief memo-taking during conversation and summarizing the conversations immediately after the conversation have been completed.

According to Hyndman (2008), data processing involves translating the answers on a questionnaire into a form that can be manipulated to produce statistics. This involves coding, editing, data entry, and monitoring the whole data processing procedure. The data that was collected through questionnaires was tabulated and analyzed using the Statistical Package for the

Social Sciences (SPSS) software package. Before processing the responses, the completed questionnaires were edited for completeness and consistency. The data was coded to enable the responses to be grouped into various categories. Descriptive statistics was used to analyze data. The findings were presented using tables and percentages.

### **3.6.2 Secondary data**

The secondary data was obtained from Awash Bank financial statements from 2013 to 2022, credit manuals, credit policy, NBE directive SBB/69/2018, research studies, various websites, and books.

### **3.7 Methods of data Analysis**

In research, once data is collected, the researcher go for analyzing them. The data analysis processes consist 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 collected data through different methods were analyzed using descriptive statistics tools such as frequency, percentage, mean and standard deviation by applying statistical package for the social sciences (SPSS) tools. Tables and graphs are used to interpret the study results.

### **3.8 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 25 closed-ended questions with five Liker scale levels of agreement on four aspects of credit management activities, and to ensure its validity, the researcher conducted a pilot test, distributing questionnaires to 5 Awash Bank credit department employees. Three of the five credit analysts provided feedback to the researcher. They mainly advised to remove unnecessary demographic questions as well as double questions.

The reliability of the instrument refers to the instrument's stability and consistency. The instrument's reliability is represented by Cronbach Alpha. (Creswell, 2010, as cited in Daud et al., 2018). According to Nunnally and Bernstein, (2010), an Alpha Cronbach's value greater than 0.6 indicates high reliability and an acceptable index. Whereas, a value of Alpha Cronbach less than 0.6 is considered low.

Cronbach's Alpha scores between 0.60 and 0.80 are considered moderate and acceptable. While Cronbach's Alpha values between 0.8 and 1.00 are considered very good.

In this study, the Cronbach's Alpha was used to assess the questionnaire's consistency. Credit-granting process, credit administration, credit customer risk grading and credit monitoring had high reliability, all Cronbach's Alpha=0.70. The Cronbach Alpha values for the total items and each clustered item are shown in table below.

**Table 3.2: Cronbach's Alpha Reliability Analysis**

<b>Four aspects of credit management activities</b>	<b>Cronbach's alpha</b>	<b>No of items</b>
1. Operating with a sound credit-granting process	0.70	8
2. Credit Administration	0.69	6
3. Credit customer risk rating	0.71	3
4. Credit monitoring	0.70	3
<b>Total</b>	<b>0.70</b>	<b>18</b>

### **3.9 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 Awash Bank's annual reports and website, which are available to the public.

# Chapter four

## Data Analysis and Interpretation

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 collect primary data, a total of 112 questionnaires were distributed. The researcher received 100 of the total number of questions, which represents 89.28% response rate; the remaining 12 questionnaires, or 10.71% were not returned. Four of the five planned interviews were successfully conducted. The responses from the interviews and questionnaires were used for analyzing the data. According to Mugenda and Mugenda (2003), a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good; and a rate of 70% or more is excellent. According to this assumption the response rate was considered to be excellent for the study's objective. This has shown that the major portion of participants were willing to provide information to the study and positively responded by completing the questionnaires that were provided to them.

The respondents' response rate is summarized in Table 4.1 below:-

Table 4.1 Respondents response rate

Description	No	Returned question	Response rate	Un returned rate
Questionnaires issued	112	100	89.28%	10.71%

Source: Primary Data, 2022

### 4.2 Demographic characteristics of respondents

Demographic data about the respondent are requested in the questionnaire's first section. The following table presents detail information about respondent, including gender, age, education level and position.

### Distribution of Respondents by Gender

The gender of the respondents involved in study was necessary for the study because it helped in knowing who participated in the study. The results are shown in the Table 4.2 below:

Table 4.2 Gender Respondents

Gender respondent	Frequency	Percent	Cumulative %
Male	55	55	55
Female	45	45	100
<b>Total</b>	<b>100</b>	<b>100</b>	

Source: Primary Data, 2022

As has been seen in the above table 4.2, the gender mix of the employees in the credit area is 45% female and 55% male. This indicates that male respondents were greater than female respondents. In addition, it shows the data obtained is free of gender bias.

### Age Distribution of Respondents

The respondent's age is crucial in research because people of different ages have different opinions on particular issues. The results of the study, which aimed to assess the respondent's age are shown in the table 4.3.

Table 4.3 Age of the respondents

Age in years	Frequency	Percent	Cumulative %
20-35	50	50	50
36-45	47	47	97
>46	3	3	100
<b>Total</b>	<b>100</b>	<b>100</b>	

Source: Primary Data, 2022

The age of the employees are shown in the above-mentioned table 4..3, the majority (50%) of respondents were between the age range of 20 to 35, followed by (47% ) within the age range of 36 to 45, and the remaining 3% are above the age of 45. This implies that the population was fairly represented, as practically all age classes were represented, and the majority of the respondents are matured, implying that they provide a mature view in order to achieve the research objective.

### Educational levels

The degree of education has an effect on how people react to different viewpoints. The study attempted to determine the respondent's educational level. Table 4.4 shows the results.

**Table 4.4 Educational levels of the respondents**

<b>Educational qualification</b>	<b>Frequency</b>	<b>Percent</b>	<b>Cumulative %</b>
BA Degree	57	57%	57%
Master's Degree	43	43%	100
<b>Total</b>	<b>100</b>	<b>100</b>	

Source: Primary Data, 2022

According to the table 4.4 above, 57% of respondents have BA Degree, and the remaining 43% are Master's Degree qualifications. This implies that the majority of participants hold Degrees, indicating that they were educated and capable of reading, understanding and reliably interpreting questionnaires, which allowed for the collection of accurate data.

### Current position of respondents

As shown by the finding in Table 4.5 below, Relationship Manger represented the majority of respondents (31%), followed by Regional Credit Manager (10%), Head Office Credit manager (1%) and Credit Follow-up officer (14%), Head Office Credit Analyst (13%), Regional Credit Analyst (30%), Credit follow-up Manager (1%). This shows that the researcher obtains adequate data for the purpose of data analysis.

**Table 4.5 Current position of respondents**

<b>Position</b>	<b>Frequency</b>	<b>Valid Percent</b>	<b>Cumulative %</b>
Regional Credit Analyst	30	30%	30%
Regional Credit Manager	10	10%	40%
Ho Credit Manager	1	1%	41%
Relationship Manager	31	31%	72%
HO Credit Analyst	13	13%	85%
Credit Follow-up Officer	14	14%	99%
Credit Follow-up Manager	1	1%	100
<b>Total</b>	<b>100</b>	<b>100</b>	

Source: Primary data, 2022

### Working experience of respondents

The working experience of respondents is helpful because one gain experience and have knowledge on different issues. The study attempted to determine the respondent's working experience Table 4.6 shows the results.

**Table 4.6 Working experience of respondents in credit section**

Working experience in year	Frequency	Valid Percent	Cumulative %
1-5	38	38%	38%
6-10	40	40%	78%
11-15	19	19%	97%
>16	3	3%	100%
<b>Total</b>	<b>100</b>	<b>100</b>	

Source: Primary Data, 2022

According to the results shown in table 4.6 below, 40% of respondents had work experience in the credit area ranging from 6 to 10 years, 38% had experience ranging from 1 to 5 years, 19% had experience ranging from 11 to 15 years, and the reaming 3% had experience more than 16 years. This demonstrates that participants had between six and ten years of work experience, that the information provided was believed to be reliable and that nearly all respondents were familiar with and had experience with credit activities.

### 4.3. Descriptive Analysis

The descriptive analysis part of this study was analyzed using a descriptive statistic such as frequency, percentage, mean, and standard deviation. The response of the respondents for the variables listed below was measured on a five-point Likert scale, the scale represents 1=Strongly Disagree, 2=Disagree, 3=Neutral, 4=Agree, and 5= Strongly Agree. According to Aggesti (2009), the mean was used to measure the data's central tendency. The mean ( $\bar{x}$ ) is the average value created by summing the values of each case's study variables and dividing them by the total number of subjects and also the mean value represents the average perceptions of all respondents on a group of related questions. The SD is a figure that represents how variable the data are and indicates the variety of responses to a given question. It indicates how close the data is to the mean the evaluation of mean was done in accordance to Aggesti (2009) who stated that a mean of 1.00 - 2.49 was represented to be very weak, 2.50 - 3.49 Weak, 3.50 - 4.49 Strong, and 4.50 - 5.00 Very Strong, while a standard deviation of greater than 0.5 was evaluated to indicate homogeneity and a standard deviation less than 0.5 indicates heterogeneity of data.

### 4.3.1 Operating with a sound Credit-granting process

Operating with a sound credit-granting process is the foundation of an efficient credit management process, which identifies potential and creditworthy customers. The study sought to evaluate the credit granting process at the Awash Bank. Table 4.7 below shows this:

Table 4.7: Survey result of sound credit granting process

No	Statements	1	2	3	4	5	Mean	SD
1	Before granting a loan, the bank receives enough information to properly conduct creditworthiness analysis.	2%	1%	2%	47%	48%	4.38	0.763
2	Investing the bank's funds in a single sector of the economy is too risky.	2%	1%	2%	48%	47%	4.37	0.761
3	The bank appropriately diversifies its credit products to different sectors of the economy and geographic areas.	2%	2%	-	39%	57%	4.47	0.784
4	The primary purpose of credit appraisal is to determine repayment capacity.	4%	2%	3%	40%	51%	4.32	0.94
5	The bank strictly follows a well-defined credit granting process for approving new credit facilities as well as renewing, rescheduling and additional credit facilities.	3%	2%	-	41%	54%	4.41	0.854
6	The duration of the bank credit granting process is short.	8%	66%	16%	10%	-	2.28	0.753
7	For evaluating the credibility of each loan applicant, the bank uses well-defined credit granting criteria.	4%	2%	2%	30%	62%	4.44	0.946
8	The bank's credit granting process is automated.	21%	73%	2%	2%	2%	1.91	0.698

**Source: Primary Data, 2022**

As reported in the aforementioned Table 4.7, the 1<sup>st</sup> question's mean score is 4.38, indicating strong level of positive answer on the bank receives enough information to properly conduct credit worthiness analysis, before granting a loan. The 2<sup>nd</sup> question's mean score is 4.37, which indicates a strong level of positive answer on the bank's credit management employees have a clear understand of and a good view of portfolio diversification. The mean score for the third, fourth, fifth, and seventh questions are 4.47, 4.32, 4.41 and 4.44, respectively, which on the scale of measurement represents a strong level of positive answer. The sixth and final questions mean score are 2.28 and 1.91, respectively. This outcome indicated that the respondents disagree with the statements that the duration of the bank credit granting process is short and that it is automated.

Similarly, the employees' interviewee indicated that the main reasons for credit-granting process delays are the entire loan application process is currently manual, RMs fail to submit complete loan documents for review, and delay in gathering accurate data during the loan application process. This means that the Awash Bank granting process is not short.

Moreover, the standard deviation was greater than 0.5 and ranged from 0.69 to 0.94, showing the homogeneity of the study's data.

### 4.3.2 Maintaining an appropriate credit administration, customer risk grading and monitoring strategy

Proper credit process administration, monitoring borrower status, loan terms and conditions, collateral valuation, maintaining current credit files are some of the fundamental credit administration and monitoring activities that help to find mistakes at an early stage as well as internal customer risk grading.

#### A. Credit Administration

Credit administration begins with the receipt of a customer's application and continues through processing and approval, opening of credit files, collateral valuation, updating credit files, monitoring of the credit analysis and other related activities. This section aimed to identify the current credit administration practices of Awash Bank S.C.

Table 4.8: Survey result of credit administration

No	Statements	1	2	3	4	5	Mean	SD
1	The credit administration ensures that all new credit applications are properly approved.	2%	2%	2%	48%	46%	4.47	0.709
2	The credit administration strictly monitors credit terms and conditions that were stated at the time of loan approval.	2%	-	-	38%	60%	4.54	0.702
3	The credit administration maintains a complete, neatly organized, and regularly updated credit file.	-	2%	-	44%	54%	4.48	0.703
4	The credit administration performs a collateral valuation.	2%	-	-	53%	45%	4.48	0.702
5	The credit administration ensures proper management and monitor the credit analysis performance including turnaround time and quality of analysis.	-	2%	-	46%	52%	4.46	0.702
6	The bank has adequate number of staff in HO & regional credit management department.	-	4%	73%	4%	19%	2.38	0.836

Source: Primary Data, 2022

As reported in the above mentioned Table 4.8, the first, second, third, fourth and fifth questions, which have high mean scores of 4.47, 4.54, 4.48 and 4.46, respectively and are also higher than the grand cumulative mean value of 4.14, as well as the SD value between 0.502 and 0.702. This indicates that employees responded positively, indicating that Awash Bank's credit administration team are appropriately approving credit request, strictly monitoring credit terms and conditions, updating credit files, and appropriately evaluating collateral.

The lowest mean score for question number six, 2.38, which is also less than the average and with SD of 0.836. This indicates that the majority of participants disagree with the statement that the bank has an adequate number of workers in its head office and regional credit management department.

### **B. Credit customer risk rating**

The Awash Bank credit customers are generally graded based on two classes of parameter, business risk aspects and security (risk mitigation) aspects. The study sought to examine the credit customer risk rating procedure at Awash Bank. The table 4.9 displays this.

Table 4.9 Customer risk rating

No	Statements	1	2	3	4	5	Mean	SD
1	The bank has developed its own internal credit customer risk rating system.	2%	-	-	36%	62%	4.56	0.71
2	The Bank's customers are evaluated and graded in accordance with strict regulations set by the NBE and credit policy and procedure manual of the bank.	-	-	2%	40%	58%	4.60	0.512
3	The Bank's credit customer risk grading rates all customers including new applicants whose request are above Birr 5 million.	-	66%	-	30%	4%	2.72	1.026

Source: Primary Data, 2022

According to the above results of the survey, the mean score and standard deviation for the bank's internal credit customer risk rating system were 4.56 and 0.71, respectively. This indicates that employees responded positively, indicating that the bank has developed its own internal credit customer risk rating system. Respondents implied their agreement at a mean score value of 4.60 and a standard deviation of 0.512 on the question of whether Awash Bank customers are evaluated and graded in accordance with the strict regulations set by the NBE and credit policy and procedure manual of the bank.

This implies that Awash Bank customers are evaluated and graded in accordance with the strict regulations set by the NBE and credit policy and procedure manual of the bank.

The majority of respondents indicated their dissatisfaction with the statement that the Bank's credit customer risk grading assesses all customers, including new applicants whose requests are above Birr 5 million, with a mean score value of 2.72 and a standard deviation of 1.026. Similarly, based on the interview respondents' responses, the bank has a well-developed Microsoft Excel sheet form to grade customer past performance in credit repayment, relationship with banks (AB or other banks), management practices, business profitability, record keeping, and the attractiveness of the industry in which they are operating. Credit customers are generally graded based on two criteria of parameters, business risk aspects and security (risk mitigation) aspects. The grading system does not apply to personal loan borrowers, customers with requests below five million, customers who are developing new projects and loan requests under Birr 5 million. This implied that the bank's rating system for credit customer risk is limited and does not include all customers.

### C. Credit monitoring

Credit monitoring refers to the day-to-day and/or periodic checking of disbursed loans and advances and reported that the credit decision is properly implemented. The study sought to assess the credit monitoring procedure of Awash Bank. The following table 4.10 displays this.

Table 4.10 Credit monitoring

No.	Statement	1	2	3	4	5	Mean	SD
1	The bank has an efficient credit monitoring system and procedure.	2%	3%	4%	45%	46%	4.56	0.71
2	The credit administration reviews and monitors credit quality performance at the individual and portfolio levels on a regular basis.	-	2%	-	50%	48%	4.60	0.512
3	The bank has a practice of visiting all borrowers after credit granting	26%	44%	-	30%	-	2.72	1.026

Source: Primary Data, 2022

As reported in the aforementioned Table 4.10, the bank has an efficient credit monitoring system and procedure, as demonstrated by a mean of 4.56, and that the credit administration regularly reviews and monitors credit quality performance at the individual and portfolio levels, as demonstrated by a mean value of 4.60.

This indicates that the majority of employees have positive perception, that the bank has an efficient credit monitoring system and that it appropriately implements evaluations and monitoring of credit quality performance at the individual and portfolio levels on a regular basis.

Finally, the majority of respondents indicated disagreed with the statement that the bank visits all borrowers after credit granting, as indicated by a mean score value of 2.72. This implied that even though the bank has an effective system and procedure for credit monitoring, the bank does not periodically visit all borrowers after credit granting and much effort is required for successful credit monitoring.

Similarly, based on the interview respondents' responses, the credit Portfolio Management team is responsible for conducting loan monitoring/follow-ups. However, there is limited monitoring of loans to ensure they are used for their intended purposes in comparison to the number of loans. These findings are in line with the results reported by Meti (2019) and Habel (2018).

#### **4.4 Trends of granted loans and non-performing loans**

This section analyzes the loans granted by Awash Bank and the NPL trend during the past 10 years, from F/Y 2013 to 2022, in order to evaluate the quality of loans.

##### **4.4.1 Trends of loans and advances granted by Awash Bank for ten consecutive years**

Awash Bank provides loans and advances that help to improve the lives of individuals, boost business activities and enhance the overall economic development of Ethiopia as a whole. The researcher gathered the data from F/Y 2013 to 2022 in order to observe the trend of loans and advances granted by Awash Bank. The trends of the total amount of loans and advances granted by AB for the past ten consecutive years are shown in Table 4 below.

According to AB annual reports, the Awash Bank's total loans and advances increased from Birr 7,709,998,250 in 2013 to Birr 129,244,185 in 2022. As a result, AB has continuously increased trends in the total amount of loans and advances it grants each year.

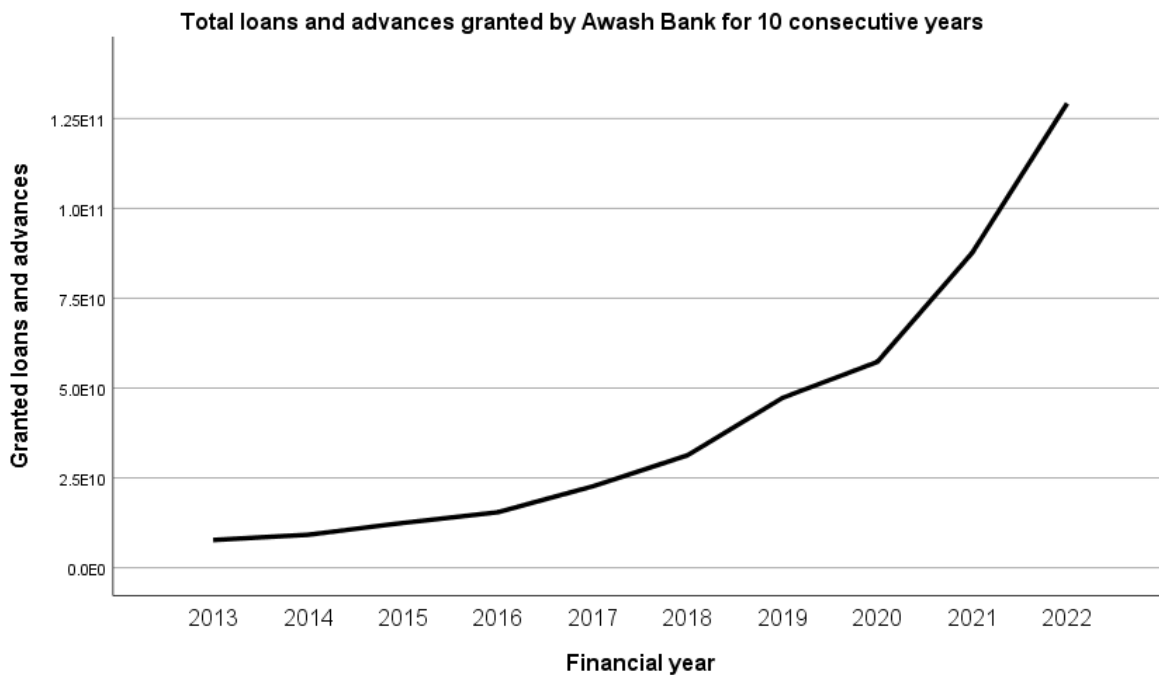
Table 4.11 the total amount of loans and advances granted by AB for the past ten consecutive years.

Year	Amount Granted loans and advances	Growth Rate
2013	7,709,998,250	-
2014	9,176,359,926	19%
2015	12,482,040,953	36%
2016	15,450,777,367	24%
2017	22,645,875,000	46%
2018	31,304,221,000	38%
2019	47,262,072,000	50%
2020	57,274,280,000	21%
2021	87,635,527,000	53%
2022	129,234,455,000	47%

Source: AB's Annual reports

The graphs below can be used to explain the above table.

**Figure 4.1 Trends of loans and advances granted by AB for 10 consecutive years**



The above Table 4.11 and Figure 4.1 showed that the trends in loans and advances from FY 2013 to FY 2022. The total loans and advances granted has continuously increased trends year on year, but liquidity constraints has resulted in a steep decline in the growth rate of granted loans in fiscal years 2016, 2019, and 2022.

The year 2021 had the largest loan and advance growth (53%) while the year 2014 had the lowest loan and advance growth (19%). At the end of June 2022, the total outstanding loans and advances provided to various sectors of the economy reached Birr 129.2 billion, up by 47% increase over the previous year.

#### 4.4.2 Trend of NPL at Awash Bank for ten consecutive years

Non-performing Loans to Total Loan Ratio is one of the most important criteria to assess the quality of loans. High NPL ratios impact the bank's asset quality. The trend NPL analysis of Awash Bank in table 4.12 and figure 4.3 showed that the NPL ratio from FY 2013 to FY 2022 was less than the 5% NBE threshold. The NPLs ratio in comparison with the total loan is not such big enough but still effort will be exerted with greater vigor to keep the ratio at the lowest possible limit.

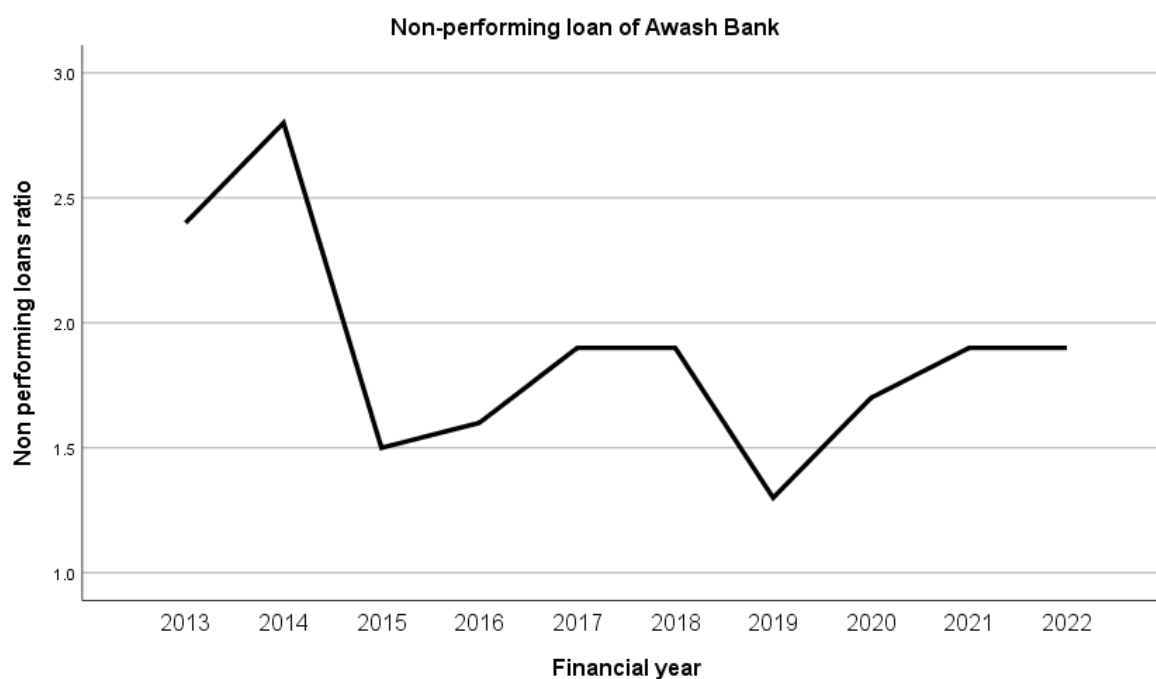
**Table 4.12** Trend analysis of NPL at Awash Bank for ten consecutive years

<b>Year</b>	<b>Amount Granted loans and advances</b>	<b>NPL amount</b>	<b>NPL Ratio</b>
2013	7,709,998,250	186,185,115	2.4%
2014	9,176,359,926	260,157,285	2.8%
2015	12,482,040,953	184,650,000	1.5%
2016	15,450,777,367	245,456,000	1.6%
2017	22,645,875,000	437,163,000	1.9%
2018	31,304,221,000	582,879,000	1.9%
2019	47,262,072,000	628,405,000	1.3%
2020	57,274,280,000	999,792,000	1.7%
2021	87,635,527,000	1,640,271,000	1.9%
2022	129,234,455,000	2,440,263,000	1.9%

Source: AB's Annual reports

The graphs below can be used to explain the above table.

**Figure 4.2 Trend analysis of NPL at Awash Bank for ten consecutive years**



As has been seen in the above figure 4.2, the non-performing loan rate of Awash Bank was 1.9% in fiscal years 2016, 2018, 2021 and 2022. The NPL ratio's minimum and maximum values are 1.3% in 2019 and 2.8% in 2014, respectively. From FY 2019 to FY 2022, the percentage of non-performing loans increased (1.3% to 1.9%).

## **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**

The study was mainly concerned about the credit management practices of Awash Bank. This summary was based on the objectives of the study.

##### **5.1.1 Summary of findings on the credit granting process of Awash Bank**

The following findings were drawn from the descriptive and interview analysis of Awash Bank's credit-granting process.

Awash Bank obtains enough information to properly conduct creditworthiness analysis, before granting a loan; credit management employees have a clear understanding of and a good view of portfolio diversification; end-to-end loan application process is currently manual with system interactions only limited to email exchanges; involving completion and filing of hard copy forms and documents that are physically transferred to credit Appraisal and Analysis Directorate or Regional Office for review – a process that makes days. Therefore, these findings showed that Awash Bank is operating using a sound credit-granting process and also the duration of the granting process has to be changed.

##### **5.1.2 Summary of findings on the credit administration process**

The study findings that the Awash Bank's credit administration team are appropriately approving credit requests, strictly monitoring credit terms and conditions, updating credit files, and appropriately evaluating collateral; limited number of credit analysts serving all customers of the bank in its Head Office and Regional Credit Departments.

### **5.1.3 Summary of findings on the credit customer risk grading**

The study found that the bank has developed its own internal credit customer risk rating system; Awash Bank customers are evaluated and graded in accordance with the strict regulations set by the NBE and credit policy and procedure manual of the bank; the grading system does not apply to personal loan borrowers, loan requests under 5 million, customers who are developing new projects and also credit customers are graded based on two criteria of parameters, business risk aspects and security (risk mitigation) aspects.

### **5.1.4 Summary of findings on the credit monitoring process**

The study found that the bank has an efficient credit monitoring system and procedure, appropriately implements evaluations and monitoring of credit quality performance at the individual and portfolio levels on a regular basis. Even though the bank has an effective system and procedure for credit monitoring, the bank does not periodically visit all borrowers after credit granting as well as limited monitoring of loans to ensure they are utilized for their intended purpose.

### **5.1.5 Summary of findings on trends of loan and advances granted by AB**

The researcher collected the data from F/Y 2013 to 2022 in order to observe the trend of loans and advances granted by Awash Bank. Accordingly, the study found that AB has continuously increased trends in the total amount of loans and advances it grants each year.

### **5.1.6 Summary of findings on trends of NPL at Awash Bank**

The trend NPL analysis of Awash Bank in the study showed that the NPL ratio from FY 2013 to FY 2022 was less than 5% NBE threshold. The NPL ratio's minimum and maximum values are 1.3% in 2019 and 2.8% in 2014, respectively.

## 5.2 Conclusion

Based on the research findings presented in the previous chapter, the researcher draws the following conclusions:

- The Awash Bank's process for granting credit has been delayed. The main reason for delaying facts are the manual credit granting process, the completion and filing of hard copy forms and documents that are physically transferred to the credit appraisal and analysis directorate or regional office for review. These delays have a negative impact on customers' satisfaction.
- The Bank monitors borrower status; credit terms and conditions; credit quality performance at the individual and portfolio levels; as well as administration of credit documentation in accordance with strict regulations set by the NBE and the bank's credit policy and procedure manual.
- Even though the bank has an effective system and procedure for credit monitoring, the bank does not periodically visit all borrowers after credit granting. Limited monitoring of loans to ensure they are utilized for their intended purpose could pose a risk of loan non-performance.
- Despite the fact that the bank uses a credit customer risk grading system, personal loans, project loans, and loan request under Birr 5 million are not included in the system. Therefore, it is essential that the bank establish a system for grading the credit risk of its customers for personal loans, project loans and loan request under Birr 5 million in order to safeguard the bank's assets.
- The total amount of loans and advances of the bank has continuously increased trends each year from F/Y 2013 to 2022 which can help the bank earn more interest on the loan and advances.
- The NPL ratio from FY 2013 to 2022 was less than the 5% NBE threshold. The NPLs ratio in comparison with the total loan is not such big enough but still effort will be exerted with greater vigor to keep the ratio at the lowest possible limit.

### **5.3 Recommendation**

Based on the findings and conclusions of the study, the following recommendations are made for the bank's further growth and development:

- The bank should automate credit granting process and minimize paper work to improve efficiency and cut down on time.
- The bank should create monitoring system after the loan has been disbursed in order to minimize NPL.
- The bank should also develop a customer credit risk grading system for personal loans, project loans, and loan requests under Birr 5 million in order to safe guard the bank's assets.
- The NPL ratio from FY 2013 to 2022 was less than the 5% NBE threshold. However, the bank should minimize its NPL ratios to nearly zero levels.

Finally, the researcher recommends that other researchers conduct additional research on topics not covered in this study, such as collateral registration, collateral estimation, credit collection, and credit product development.

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## Appendix - I



Dear Respondent,

I am a postgraduate student at Addis Ababa University. I am currently conducting research on Awash International Bank S.C.'s Credit Management Practices. The purpose of this survey is to collect data for final thesis, so you are kindly requested to assist the study's completion by providing the necessary information.

The questionnaire will only take about 15-20 minutes of your time. I promise that your responses will be kept strictly confidential and will only be used for the aforementioned academic purpose.

Thank you very much for your kind cooperation and dedication of your valuable time to complete this questionnaire.

Best regards,

Lensa Sheleme

## Part 1: Demographics Questions

**Direction:** Please put a tick mark (√) in the appropriate option.

**1. What is your gender?**

Male  Female

**2. Which category describes your age?**

20-35  36-45  >46

**3. What is your highest educational level?**

Diploma  Bachelor Degree  Master's Degree   
PHD & above

**4. For how many years have you been working in credit department?**

1-5 years  6-10 years  11-15 years   
>16

**5. What is your current position at Awash Bank?**

Credit analyst  Credit Manager   
Relationship Manager  Credit follow-up/  
Portfolio officers

## Part 2: Questions on the credit- granting processes

**Direction:** Please indicate how strongly you **Agree or Disagree** with each statement by putting a tick mark (√) in the box that most truly describes your opinion. The scale represents: **1=Strongly Disagree, 2=Disagree, 3=Neutral, 4=Agree, and 5= Strongly Agree.**

No.	Statement	1	2	3	4	5	6
6	Before granting a loan, the bank receives enough information to properly conduct creditworthiness analysis.						
7	Investing the bank's funds in a single sector of the economy is too risky.						
8	The bank appropriately diversifies its credit products to different sectors of the economy and geographic areas.						
9	The primary purpose of credit appraisal is to determine repayment capacity.						
10	The bank strictly follows a well-defined credit granting process for approving new credit facilities as well as renewing, rescheduling, and additional credit facilities.						
11	The duration of the bank credit granting process is short.						
12	For evaluating the credibility of each loan applicant, the bank uses well-defined credit granting criteria.						
13	The bank's credit granting process is automated.						

### **Part 3: Questions on the credit administration, customer rating, and monitoring process**

**Direction:** Please indicate how strongly you Agree or Disagree with each statement by putting a tick mark (√) in the box that most truly describes your opinion. The scale represents: **1=Strongly Disagree, 2=Disagree, 3=Neutral, 4=Agree, and 5= Strongly Agree.**

<b>No.</b>	<b>Statement</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<b>Credit Administration</b>						
14	The credit administration ensures that all new credit applications are properly approved.					
15	The credit administration strictly monitors credit terms and conditions that were stated at the time of loan approval.					
16	The credit administration maintains a complete, neatly organized, and regularly updated credit file.					
17	The credit administration performs a collateral valuation.					
18	The credit administration ensures proper management and monitor the credit analysis performance including turnaround time and quality of analysis.					
19	The bank has adequate number of staff in HO & regional credit management department.					
<b>Credit customer risk rating</b>						
20	The bank has developed its own internal credit customer risk rating system.					
21	The bank's customers are evaluated and graded in accordance with strict regulations set by the National Bank of Ethiopia and Credit Policy and Procedure manual of the bank.					
22	The bank's credit customer risk grading rates all customers including new applicants whose requests are above Birr 5 million.					

<b>Credit monitoring</b>						
23	The bank has an efficient credit monitoring system and procedure.					
24	The bank reviews and monitors credit quality performance at the individual and portfolio levels on a regular basis.					
25	The bank undertakes regular and periodic credit monitoring to identify problems and recognize early warning signals in good time with the view to minimizing the risk of default.					

**Note: Please explain if there is any suggestion or feedback?**

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**Thank you for your cooperation!!**