



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

**ASSESSMENT OF CREDIT RISK MANAGEMENT SYSTEMS AND  
PRACTICES OF ETHIOPIAN COMMERCIAL BANKS.  
(CASE OF SOME PRIVATE BANKS)**

**By**

**Gedefaw Getaneh**

**A Thesis Submitted to the Department of Accounting and Finance in Partial  
Fulfillment of the Requirement for Degree of Master of Science in Accounting  
and Finance.**

**June, 2019**

**Addis Ababa, Ethiopia**

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## **DECLARATION**

I, Gedefaw Getaneh, hereby declare that the project work entitled “Assessment of Credit Risk Management systems and Practices- case of selected private banks. In Addis Ababa Submitted by me for the award of degree of Master of Accounting and Finance.

Place: Addis Ababa

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## **Approval**

The Thesis prepared by Gedefaw Getaneh entitled “Assessment of Credit Risk Management Systems and Practices in Private Commercial Banks of Ethiopia: The Case of Selected Private Banks” has been submitted for examination with my approval as an advisor.

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## **LISTS OF ACRONYMS AND ABBREVIATIONS**

ACOCR	Adequate Control over Credit Risk
ACRE	Appropriate Credit Risk Environment
BCBS	Basel Committee on Banking Supervision
BOD	Board of Directors
CAMMP	Credit Administration, Measurement and Monitoring Process
CRMP	Credit Risk Management Practice
EPRDF	Ethiopian People's Revolutionary Democratic Party
LAF	Loan Approval Form
NBE	National Bank of Ethiopia
NPLS	Non Performing Loans
RAA	Risk Assessment and Analysis
RI	Risk Identification
SCGP	Sound Credit Granting Process
SMEs	Small Scale and Medium Enterprises.
SPSS	Statistical Package for Social Sciences
St.Dev	Standard Deviation
URM	Understanding Risk and Risk Management

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## ***Abstract***

*The main objective of this study was to assess credit risk management system and practices in Ethiopian banking industry of some private commercial banks. Selection of banks for the study was done based on two criteria; one it involved only private commercial banks in Ethiopia and two those banks that operated during the period 2013-2018. Four commercial banks out of eighteen banks were selected. These banks were Berhan International Bank S.C, Bunna International Bank S.C, Dehub Global Bank S.C and Enat Bank S.C. From these four commercial banks with so many branches nationwide, it could be difficult to be managed by the research due to time and resource constraints. In this study, purposive sampling technique was used in order to select participants of the study. For the purpose of this study, both primary and secondary data was used. Primary data was collected through questionnaires distributed to respondents that involved professional working in the banks such as Department Managers and Senior Officers working on loan processing. The data were analyzed using descriptive statistics by using SPSS software version 21. Finding of this study would assist in forwarding recommendations to improve the problems the present credit risk management situation prevailing in the banking sector in Ethiopia by assessing selected private commercial banks credit risk management activity or Banks need to establish effective management information system, communication and reporting risk related data, reviewing and quantifying credit risk both at individual and portfolio level were some issues that require great attention of banks. In addition to this, based on the implication of the research findings, the research also recommended areas for future research.*

***Keywords:*** Commercial banks, Credit risk, Managers, Credit risk Management, Assessing.

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## **CHAPTER I**

### **INTRODUCTION**

#### **1.1 Background of the Study**

Credit was the common fundamental component in any financial system. Different economic units, both demand and supply side, require credits. Individual require credit for economic and social need. Governments also require credit for financing its deficit and building public project. Most of businesses organizations heavily relay on external source of finance for expansion, modernization, working capital requirement and financing new project. As a result of it, credit risk was the most important risk banks face especially in developing country where no formal stock market available as alternative source of external fund. Despite its economic and social benefit, credit was evil for economy if it was not properly used and managed. Its improper management causes default and bad reputation and credit losses /bankruptcy Joseph,(2013). And also taking excessive credit risk influences money supply which may lead to economic and financial instabilities.

Many authors considered that failure of credit risk management system and practice as one of the main cause of financial crises in general and banking failure particularly (Hussain & Al-Ajmi, 2012), ( Al-Tamimi & Al-Mazrooei, 2007). Thus banking industry was the backbone of economic development if only if comprehensive credits risk management system was practiced. Banking based financial system of Ethiopia, dominated by public sector banks, need to be changed, improved and developed so as to cope up with changing environment. As there are dynamic change in technology, competition, regulation and liberalization as well as continuous expansion of public and private sector banks, risks were also increased simultaneously in volume as well as in types. As a result banking business were getting complex. As everyone knows, Banking innovation and competition make banking service easily and widely accessible than before under which banks confront various risks in a single transaction. Therefore, banks should withstand this change through latest development in the area of credit risk management system.

Ethiopia banking system had been not given enough attention before 2010 specially regarding to the development of modern system of assessing, controlling and managing risk in banking operation in line with the changing environment and global financial standard. Risk management guideline of 2010 paved the way for the latest development of risk management

practice in Ethiopian banking industry. Commercial banking earn profit out of managing risk as a result banking business was all about managing risk. As no gain no loss principles of nature, Verma (2005) noted that ‘Profiting without exposing to risk was like trying to live without being borne’. Risk and return were therefore the core reason for the existence of commercial banks. Banks should have sound and effective credit risk management system in the view of the fact that their fund was highly leveraged or public fund. As a result, sound credit risk management system and practice in bank was not an alternative rather it was a matter of survival for not only safety of individual bank and depositors but also for national and global financial stability.

Practicing effective credit risk management system play great role in protecting consumers and investors against risk of losing their deposits and capital not only through maintaining soundness, liquidity, profitable and stability of banking industry but also through enhancing competitive advantage, improving mobilization and deployment of fund as well as optimizing risk – return trade off and reducing cost.

According to poudel (012) Poor risk management lead to the accumulation of nonperforming loan under which the generated profit were not only eroded through loan provision but also soundness, safety and stability of bank while effective credit risk management improve credit performance through establishing appropriate credit risk environment, maintaining credit limit at acceptable level, undertaking sound credit granting process, proper monitoring and controlling credit risk. Therefore it was important to examine level of credit risk management system and practice of Ethiopian commercial banks to initiate top level management and regulatory bodies to take policy measure toward maintaining adverse effect of their credit function.

The purpose of this research was to investigate the level of credit risk management system and practice of Ethiopian commercial banks and assess the perception and awareness of risk management staffs as well as to identify the types of risks and risk identification method through descriptive survey research approach.

## **1.2 Background of the Banking Industry in Ethiopia**

As a result of the agreement reached between Emperor Minilik II and Mr.Ma Gillivray, representative of the British owned National Bank of Egypt; modern banking in Ethiopia began in 1905 with the Bank of Abyssinia, a private company controlled by the Bank of Egypt In 1931. It was liquidated and replaced by the Bank of Ethiopia which was the bank of issue until the Italian invasion of 1936. During the Italian occupation, Bank of Italy banknotes formed the legal tender. Under the subsequent British occupation, Ethiopia was briefly a part of the East Africa Currency Board. In 1943; the State Bank of Ethiopia was established, with two

departments performing the separate functions of an issuing bank and a commercial bank. In 1963, these functions were formally separated and the National Bank of Ethiopia (the central and issuing bank) and the Commercial Bank of Ethiopia were formed. In the period to 1974, several other financial institutions emerged including the state owned: The Agricultural and Industrial Development Bank (established largely to finance state owned enterprises); The Savings and Mortgage Corporation of Ethiopia; The Imperial Savings and Home Ownership Public Association (which provided savings and loan services).

Major private commercial institutions, many of which were foreign owned, included the Addis Ababa Bank, the Banco di Napoli, the Banco di Roma. However, the banking business could not move further because of the nationalization of private investments by the Socialist regime (the Dergue regime) that came into power leaving only three government banks; the National Bank of Ethiopia, the Commercial Bank of Ethiopia and agricultural and Industrial Development Bank.

This was reversed when the Socialist regime was overthrown in 1991. Following the overthrow of the Dergue regime in 1991, the EPRDF declared a liberal economic system. In line with this, Monetary and Banking proclamation of 1994 established the National Bank of Ethiopia (NBE) as a judicial entity, separated from the government and outlined its main function.

Monetary and Banking proclamation No.83/1994 and the Licensing and Supervision of Banking Business No.84/1994 laid down the legal basis for investment in the banking sector ([www.nbe.gov.com](http://www.nbe.gov.com)). After the proclamation of 1994, the first private bank, Awash International Bank was established in 1994 by 486 shareholders paving a way to the establishment of related private banks such as Dashen Bank (1995), Abyssinia Bank (1996), Wegagen Bank (1997), United Bank (1998), Nib International Bank (1999), Cooperative Bank of Oromia (2004), Lion International Bank (2006), Oromia International bank (2008), Zemen Bank (2006), Bunna International Bank (2009), Berhan International Bank (2009), Enat Bank (2011), Debub Global Bank (2012) and others which are under establishment.

### **1.3 Statement of the Problem**

The overall success in credit management depends on the banks credit policy, portfolio of credit, monitoring, supervision and follow-up of the loan and advance. Continuous supervision, monitoring and follow-up were highly required for ensuring the timely repayment and minimizing the default. Actually the credit portfolio not only constitutes the bank's asset structure but also was a vital factor of the bank's success. Only a proper credit analysis would bring to light the probability of credit loss arising out of genuine business factors and explore

the possible mitigates regarding this ominous situation to put a check on it (Rana Al-Mosharrafa, 2013). Adequately managing credit risk in financial institutions was critical for the survival and growth of the financial institutions. In the case of banks, the issue of credit risk management was of even greater concern because of the higher levels of perceived risks resulting from some of the characteristics of clients, business conditions, and economic environment in which they find themselves.

The very nature of the banking business was so sensitive because more than 85% of their liability was deposits mobilized from depositors, (Saunders, Cornett, 2005 cited in Hagos, 2010). Banks use these deposits to generate credit for their borrowers, which in fact was a revenue generating activity for most banks. Credit assessment helps the banker to ensure selection of right type of loan proposals and right type of borrower. For selecting the borrower, security should not be the only thing to be relied upon. So responsibilities of the bankers to investigate the client from different view point i.e. the strength and weakness of the client so that the client will be able to repay the bank loan as repayment schedule with profit. To prevent future financial crises, it was necessary to improve the borrowers' financial literacy, the lenders' process of transparency and to better assess loan product affordability and suitability.

Due to diversified and intensified investments in the country in the last 5 and or above years there was an increase of loan demands among investors from commercial banks in the country. In addition to this high demands for loan from commercial banks were highly busy in launching branches across the country. These situations have created an environment in which commercial banks to encounter risks in credit management. Loans were becoming large and at the same time bad loans have increased substantially during the past few years, (Sahlemichael, 2009). Since commercial banks expansion and high demand for loans are a recent phenomenon, the challenge they encounter in the manner loans are managed a huge concern. Although there were some studies on commercial banks risk management conducted in Ethiopia (Sahlemichael, 2009) on credit risk management system in Ethiopian commercial banks (Case of public and private banks). Similar studies were also done by Charles Mensha (1999) cited in Hagos M. (2010) on the importance of credit management in Ethiopia. Those studies made on this issue were not comprehensive and credit risk management system may differ and change over time. Nevertheless, the studies did not assess the challenge they encounter in the manner loans were managed on the diversified and intensified investment in the country. Therefore, the study attempts to assess the credit risk management systems and practices in commercial banks of Ethiopia.

## **1.4 Research Questions**

1. Have the four private commercial banks established appropriate credit risk environment?
2. Have the four private commercial banks undertaken sound credit granting process?
3. Have the four private commercial banks maintained appropriate credit administration, measurement and monitoring system?
4. Have the four private commercial banks ensured the adequate control over credit risk?
5. Do the four private commercial banks have effective credit risk management system and practice?

## **1.5 Objectives of the Study**

### **1.5.1 General Objectives of the Study**

The general objective of the study was to assess or examine credit risk management system and practice in Ethiopian banking industry in some of private sector banks (i.e, Berhan International Bank S.C, Bunna International Bank S.C , Dehub Global Bank S.C and Enat Bank S.C).

### **1.5.2 Specific Objectives of the Study**

- 1.5.2.1 To assess the four private commercial banks established appropriate credit risk environment
- 1.5.2.2 To review the four private commercial banks that has undertaken sound credit granting process
- 1.5.2.3 To assess the four private commercial banks have proper credit administration, measurement and monitoring process
- 1.5.2.4 To review the four private commercial banks that ensured the adequate control over credit risk
- 1.5.2.5 To assess the four private commercial banks that have effective credit risk management system and practice

## **1.6 Significance of the Study**

This study was significant because it deals with issues banks were facing and will continue to confront them in the future. Giving that interest on loans and advances constitute a major source of income to banks, it was very important that loans were properly appraised before approval and that when granted, they were monitored to ensure that they don't go bad.

In light of the present challenges facing banks in the management of credit, to ensure minimal loan loss through maintenance of a good risk assessment and control, this study would significantly assist the banks in setting a clear credit risk management and implementation

strategy. In reducing bad debts to the barest minimum by assessing the capacity of bank risk assessment and credit control procedures to provide for close analysis and monitoring of banks credit administration. Bring to the notice of credit managers the importance of effective risk assessment and control in credit administration and make useful contributions to effective and efficient credit risk management in those banks.

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

The scope of this study covered the assessment of commercial banks credit risk management systems and practices those that operated in between 2013-2018 having financial statements for consecutive five years. Based on this criterion, up to June, 2018, there were eighteen banks in Ethiopia, out of them four banks were selected for this study at head office level.

### **1.8 Limitations of the Study**

This study had constraints which served as limitations to the study. Firstly, access to data posed a great challenge to the research. On numerous occasions, an interview appointment with the Head of Credit of the bank was unsuccessful because of the tight schedules of the respondent. Feedback from staff respondents was also another constraint due to lack of time, resulting in the case of unanswered and semi-answered questionnaires. Most of the respondents had to interrupt their work in order to provide answers to the questionnaires making it a challenge.

Meeting higher officials in the head offices of the commercial banks was another lacuna of our study.

### **1.9 Organization of the Study**

The Study was organized into five chapters. The first chapter introduces the background of the study, statement of the problem ,research questions, research objectives , significance of the study, scope of the study, limitation of the study and organization of the study . The second chapter presents theoretical and empirical review of the related literatures. The third chapter deals with methodology of the study. The fourth chapter describes the analysis, results and discussions. The fifth chapter presents the conclusion and recommendations drawn from findings of the data in addition with implications for further research.

## **CHAPTER II**

### **REVIEW OF LITERATURE**

This chapter summarizes the information from the available literature in the same field of study. It would review theories of credit risk management as well as empirical studies on credit risk management in Ethiopia and in other countries.

#### **2.1 Theoretical Review**

This study anchors on information asymmetry theory, because the theory was very relevant to this study. Information asymmetry theory elucidates on basic information to be known by both lenders and business owners in terms of potential risks and returns associated with investment projects for which the funds are earmarked. Binks and Ennew (1992) note that perceived information asymmetry poses two problems for the banks; moral hazard (monitoring entrepreneurial behavior) and adverse selection (making errors in lending decisions). This implies that before credit could be granted, the “5Cs” (character, capacity, capital, collateral and conditions) must be adequately evaluated. This was because data needed to screen credit applications and to monitor borrowers were not freely available to banks. Bankers face a situation of information asymmetry when assessing lending applications. Edwards and Turnbull (1994) argue that information asymmetry arises when a borrower who takes a loan usually had better information about the potential risks and returns associated with investment projects for which the funds were earmarked. The banker on the other hand does not have sufficient information concerning the entrepreneurs. In the same vein, (as cited in Olalere and Ahmad, 2015) also note that information asymmetry was the extents to which banks’ managers know more about the firm than investors as a group.

##### **2.1.1 Definitions and Concepts of Credit Risk Management**

The principal goal of credit risk management was to decrease the effects of risks, related to an influence accepted by the public (Brigham et al., 2016). Usually, loans were the prime and most apparent source of credit risk of banks. However, there were other sources of credit risk which exist throughout the bank activities; including in the banking book and trading book that could appear on and off the balance sheet. Nowadays, commercial banks were increasingly prone to reasonably higher credit risk levels Olson and Zoubi (2017). These financial mechanisms include foreign exchange transactions, interbank transactions, bonds, trade financing, equities, swaps etc. In 2017, Brink (2017), Falkner (2017) and (Harper et al. 2017) demonstrated that

risks were several types of threats caused by humans, technology, organizations, environment and politics. Conversely, risk management involves all means available for person, staff, and organization to minimize or avoid a potential peril McIlwraith (2016). It was the duty of management to set up a credit supervision team to ensure that credit was properly maintained and administered. Gibson (2014) re-counted that one of the principal functions of an organization should be focused on risk management. Risk management involves identification, measurement, aggregation, planning and management as well as monitoring of the risk. Procedures for measuring a firm's overall exposure to credit risk as well as stringent internal rating system should be adequate (Kalunda et al., 2012).

Effective credit risk management involves establishing a suitable environment; operating under a sound credit granting process; maintaining an appropriate credit administration that involves monitoring process as well as satisfactory controls over credit risk Gaitho (2013). Top management was mandated to ensure that appropriate and clear credit risk management guidelines. They plainly outline the scope and allocation of the bank credit facilities and the mode in which a credit portfolio was managed, i.e. how loans are initiated, evaluated, supervise and collected. In view of this, the guidelines should be well communicated throughout the organization; and that all and sundry involved in credit risk management was obliged to understand them. This would enhance better application of those guidelines in the interest of the banking organization. Effective system ensures that loan repayment by borrowers was critical, thereby reducing the amount of loan losses to boost long-term success of the bank. Screening borrowers was a strategic activity that has generally been implemented

### **2.1.2 Credit Risk Management Process**

The process of management of credit risk in banking business tracks on the risk identification, measurement, assessment, monitoring and control. It involves identification of possible risk factors, evaluate their consequences, monitor activities exposed to the identified risk factors and institute control measures to prevent or reduce the unwanted effects. Problem loans were at the end of the credit channel. Before a loan becomes bad, it needs to be granted. Moreover, as we referred to so far, the poor quality of a loan was sometimes due to factors not attributable to the lending bank such as adverse selection and moral hazard (Stiglitz and Weiss, 1981) or any other external shock that may alter the borrower's ability to repay the loan (Minsky, 1982 & 1985). Nevertheless, there were cases where the way banks grant and monitor credits can be responsible for the bad loan portfolio. In other terms, weak credit risk management systems could also be sources of problem loans (Nishimura et al, 2001). For these last reasons, it was

essential to overview the credit risk management process of banks in order to capture the framework of the bad loans management. Significant details related to the credit management processes were revealed here. Banks credit management processes can be summarized in three main stages. These stages were: credit initiation, documentation and disbursement and credit administration.

### **2.1.2.1 Credit Initiation**

According to Edward (2004) the credit initiation was a process that starts from a market analysis and ends at the credit application approval. The steps involved in credit initiation processes was listed below:

Surveys and industry studies: Loan officers/ Customer relationship officers/branch managers scan the market and economic sectors to identify key players and potential business for the Bank. In the same vein, industries with high potential of growth that could be good business for the Bank are also listed with their expected risks.

Prospect lists: some prospects (companies and individual customers) identified as the main role players were short listed in accordance with the industry studies and the minimum risk criteria. This prospect list was ranked in order of preference.

Customer solicitation: at that stage, although the primary source of target was the prospect list, the initiation of a credit comes either at the bank request in the frequent contact with existing customers or at the clients request if they have a need for financing.

Negotiation: the Loan officer /relationship officer / branch manager scan identifies the financing needs of the borrower and gathers background information such as the latest financial statements, project details, projections over the loan life. This information will allow the officer to check whether the risk is bearable by the bank and its compliance with the bank's targets.

Presentation: the conformity of information given with the market and industry analysis is the reliability of the information once again verified by consulting other sources.

Credit committee approval: a copy of that annex and loan approval form (LAF) was submitted to each member of the credit committee. The members review and approve or decide on the request.

Advice to customers: once the credit was approved, the customer was advised in writing with details concerning the terms and conditions and with the statement that the credit could be subject to review, modification or cancellation at the bank option or in line with the decision.

#### **2.1.2.2 Documentation and Disbursement**

The documentation and disbursement refers to the compliance of documents provided with the law applicable and the requirements of the bank's legal department. Documentation provided must satisfy the bank's legal department and afford maximum protection to the bank. The documentation was periodically reviewed to keep them in fine with ever-changing legal systems and practices Edward (2004).

The legal department was consulted before making any compromises with the customer. Any amendments were done in consultancy with the legal department. Once the credit application satisfies all these conditions, a thorough analysis was done and if the application complies with the bank's conditions, instruction was given to the credit administration for disbursement.

#### **2.1.2.3 Credit Administration**

The credit administration refers to the credit support, control systems and other practices necessary for the effective monitoring of credit risks taken by the bank. Some of the important points of the credit administration were: control of credit files, safekeeping of credit and documentation files, follow-ups for expirations of essential documents like insurance, control of credits and excesses over approved lines, monitoring of collateral inspections, site visits and customer calls, monitoring of repayments under term credits Edward (2004). Reporting: the portfolio is periodically reviewed to make sure that the names tiered were still complying with the risk acceptance criteria.

### **2.2 Empirical Review**

There have large number of empirical study in the area of safety and soundness specially in the area of credit risk management with the pace of changing environment in Ethiopian banking system while few academic and professional researches related to history and performance of Ethiopian bank system were conducted. The following attempt was made to summarize the main finding of some selected studies in the area of risk management in commercial banks. (Al-Tamimi & Al-Mazrooei, 2007) carried out comparative study of bank's risk management between national and foreign banks in the United Arab of Emirates through survey. The survey questionnaire mainly composed seven items clustered under risk management practice (independent variable) and thirty three items under understanding risk and risk management,

risk identification, risk assessment and analysis, risk monitoring, and credit risk analysis (independent variables). The regression result revealed that risk identification and risk assessment and analysis had significant positive impact on risk management practice while other variables had insignificant positive Impact. The researcher also found that risk identification and risk assessment and analysis were the most influential variables for risk management practice of nationally owned bank. It also further concluded that there was a significant difference between nationally owned and foreign banks in the aspect of understanding risk and risk management(URM), risk assessment and analysis (RAA) and Monitoring and controlling aspects while did not with practice of risk identification (RI),risk management practice and credit risk analysis. Generally reported as foreign bank were more effective in risk management practice then nationally incorporated bank due to quality of staffs and regulatory requirement.

(Nazir, Daniel & Nawaz, 2012) conducted research entitled ‘risk management practices: a comparison of conventional and Islamic banks in Pakistan using the same model suggested by (Al-Tamimi& Al-Mazrooei, 2007) and found positive relationship between dependent variable and explanatory variables. (Hussain & Al-Ajmi, 2012) also conducted research with the same instrument and found similar relationship in Bahrain. The regression result further indicates that credit risk analysis, risk monitoring and understanding of risk and risk management had the most explanatory power of risk management practice in Pakistan.

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

Richard et. al (2008) conduct research on the credit risk management system of Tanzanian commercial banks and found that checklist with the help of 5c (character, capacity, condition ,credit history, and collaterals) was used to assess borrower's creditworthiness. Researcher also found that the quantitative credit scoring model was not used as a result of poor record keeping and lack of effective data base system in different sectors with in the country. Researcher further noted the difficulty of using modern credit risk management model due to lack of information and other financial infrastructure in under developed country.

Even though there are different methods of risk identifications, Inspection by the bank's risk manager, audits or physical inspection, financial statement analysis and risk survey were the most important risk identification methods of commercial banks in United Arab of Emirates ( Al-Tamimi & Al-Mazrooei, 2007).(Hussain & Al-Ajmi, 2012) also found similiare result in Bahrain.

The study of NBE (2009) identified and ranked three important type of risks in which credit risk was ranked firstly and then followed by operational and liquidity risk. (Al-Tamimi & Al-Mazrooei, 2007) found three important types of risk the bank faces in United Arab of Emirates and ranked in descending order as foreign exchange risk ,credit risk and operational risk while (Hussain & Al-Ajmi, 2012) ranked as credit risk, liquidity risk and operational risk were the most important risk in Bahrain. Study of (Alam & Masukujjaman, 2011) also found that credit risk, market risk and operational risk were the major risks to the banks of Bangladesh. It is possible to conclude from those finding that credit risk, operational risk, liquidity and market risk were the major types of risks for most of commercial banks. Therefore, banks should give more emphasis on such types of risks to survive in banking segment.

### **Summary and Knowledge Gap**

From the above theoretical as well as empirical review, risk identification, risk assessment and analysis risk monitoring were the most influential variables for risk management of the banking industry and identified and ranked three important types of risks. But the literature did not consider effective loan repayment critically. Establishing an appropriate credit risk environment, sound credit granting process, maintain appropriate credit administration and adequate control overall credit risk.

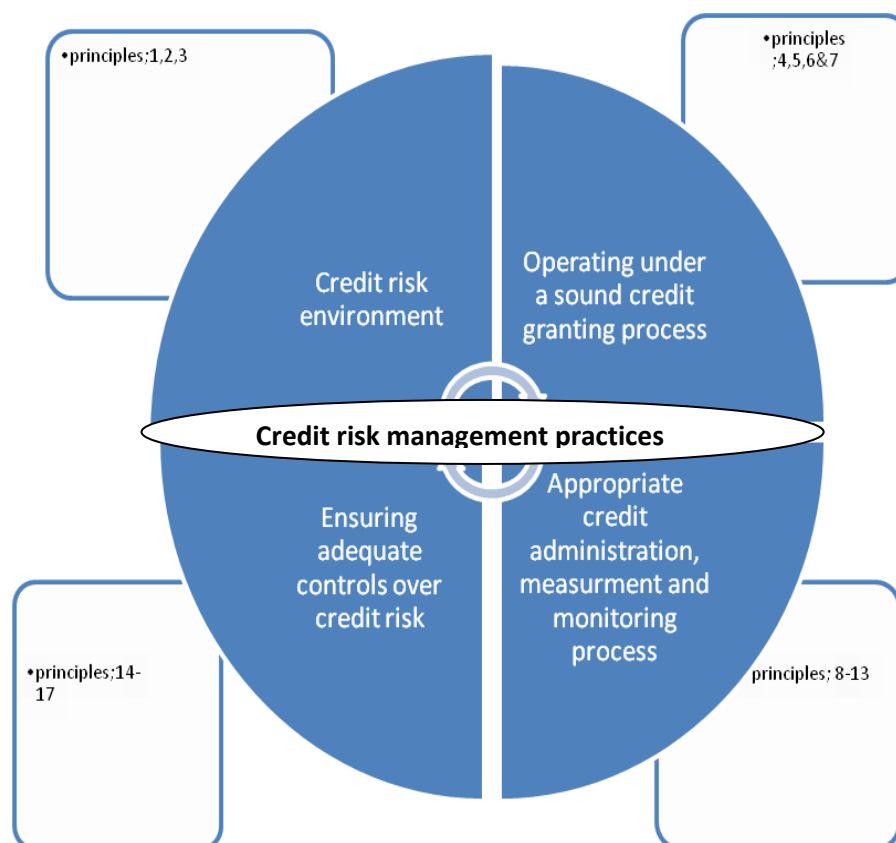
In order to address the above gaps The Basel Committee on Banking Supervision (BCBS) (1999) published document entitled "credit risk management principles was used. It

encompasses four major activities of managing credit risk: 1) establishing an appropriate credit risk environment 2) operating under sound credit granting process 3) maintain appropriate credit administration, measurement and monitoring process and 4) adequate control overall credit risk.

Well-conceived credit policy, organization of lending, establishing credit limits, credit management information system, loan pricing, loan portfolio administration, creditworthiness Analysis, problem loans recovery, loan monitoring, credit authorization and credit scoring ((rating) were basic element of credit risk management system (Baxter , Panova & Platonov, (1998, p. 107-112)) . Bagchi (2003) noted that risk identification, risk measurement, risk monitoring, risk control and risk audit as well as credit risk management policies and credit rating system were the major components of credit risk management system.

### 2.3 Conceptual Framework

One of the main purposes of this study is to examine /confirm the relationship between credit risk management practice and four aspects of NBE (2010) and Basel’s credit risk management standard (1999)(see figure: 1).



**Figure 1:** Model of credit risk management practice (Basel, 2000).

### **Establishing an Appropriate Credit Risk Environment**

Principle 1: The board of directors should have responsibility for approving and periodically (at least annually) reviewing the credit risk strategy and significant credit risk policies of the bank. The strategy should reflect the bank's tolerance for risk and the level of profitability the bank expects to achieve for incurring various credit risks (Basel, 2000).

Principle 2: Senior management should have responsibility for implementing the credit risk strategy approved by the board of directors and for developing policies and procedures for identifying, measuring, monitoring and controlling credit risk. Such policies and procedures should address credit risk in all of the bank's activities and at both the individual credit and portfolio levels (Basel, 2000).

Principle 3: Banks should identify and manage credit risk inherent in all products and activities. Banks should ensure that the risks of products and activities new to them are subject to adequate risk management procedures and controls before being introduced or undertaken, and approved in advance by the board of directors or its appropriate committee (Basel, 2000).

### **Operating under a sound Credit granting process**

Principle 4: Banks must operate within sound, well-defined credit-granting criteria. These criteria should include a clear indication of the bank's target market and a thorough understanding of the borrower or counterparty, as well as the purpose and structure of the credit, and its source of repayment (Basel, 2000).

Principle 5: Banks should establish overall credit limits at the level of individual borrowers and counterparties, and groups of connected counterparties that aggregate in a comparable and meaningful manner different types of exposures, both in the banking and trading book and on and off the balance sheet (Basel, 2000).

Principle 6: Banks should have a clearly-established process in place for approving new credits as well as the amendment, renewal and re-financing of existing credits (Basel, 2000).

Principle 7: All extensions of credit must be made on an arm's-length basis. In particular, credits to related companies and individuals must be authorized on an exception basis, monitored with particular care and other appropriate steps taken to control or mitigate the risks of non-arm's length lending (Basel, 2000).

**Maintaining an Appropriate Credit Administration, Measurement and monitoring process**

Principle 8: Banks should have in place a system for the ongoing administration of their various credit risk-bearing portfolios (Basel, 2000).

Principle 9: Banks must have in place a system for monitoring the condition of individual credits, including determining the adequacy of provisions and reserves (Basel, 2000).

Principle 10: Banks are encouraged to develop and utilize an internal risk rating system in managing credit risk. The rating system should be consistent with the nature, size and complexity of a bank's activities (Basel, 2000).

Principle 11: Banks must have information systems and analytical techniques that enable management to measure the credit risk inherent in all on- and off-balance sheet activities. The management information system should provide adequate information on the composition of the credit portfolio, including identification of any concentrations of risk (Basel, 2000).

Principle 12: Banks must have in place a system for monitoring the overall composition and quality of the credit portfolio (Basel, 2000).

Principle 13: Banks should take into consideration potential future changes in economic conditions when assessing individual credits and their credit portfolios, and should assess their credit risk exposures under stressful conditions (Basel, 2000).

**Ensuring Adequate Controls over Credit Risk**

Principle 14: Banks must establish a system of independent, ongoing assessment of the bank's credit risk management processes and the results of such reviews should be communicated directly to the board of directors and senior management (Basel, 2000).

Principle 15: Banks must ensure that the credit-granting function is being properly managed and that credit exposures are within levels consistent with prudential standards and internal limits. Banks should establish and enforce internal controls and other practices to ensure that exceptions to policies, procedures and limits are reported in a timely manner to the appropriate level of management for action (Basel, 2000).

Principle 16: Banks must have a system in place for early remedial action on deteriorating credits, managing problem credits and similar workout situations (Basel, 2000).

Principle 17: Supervisors should require that banks have an effective system in place to identify, measure, monitor and control credit risk as part of an overall approach to risk management. Supervisors should conduct an independent evaluation of a bank's strategies, policies, procedures and practices related to the granting of credit and the ongoing management of the portfolio. Supervisors should consider setting prudential limits to restrict bank exposures to single borrowers or groups of connected counterparties (Basel, 2000). Researcher tried to define credit risk management practice as the process of reviewing and updating credit risk management documents and apply consistently in actual credit granting process, credit administration and monitoring and risk controlling process with appropriate credit risk environment, understanding and identification of risk so as to minimize the adverse effect of risk taking activities.

Basel (1999) and other literature in the area of credit risk management suggested that banks should have sound and updated credit strategy, policy and procedures, sound credit granting process, proper credit administration and monitoring and credit risk controlling system that consistently applied in each credit cycle with appropriate credit risk environment in order to have effective credit risk management system and practice. Therefore, four explanatory variables (appropriate credit risk environment (ACRE), sound credit granting process (SCGP), credit administration, measurement and monitoring process (CAMMP) and adequate control over credit risk (ACOCR)) are expected to have positive effect on effectiveness of credit risk management practice (CRMP).

## **CHAPTER III**

### **METHODOLOGY OF THE STUDY**

The main objective of the study was to examine the level of credit risk management system and practice of Ethiopian commercial banks and make comparison with international standard as well as credit risk management guideline of NBE. Descriptive survey research approach was carried out in order to achieve the intended objective of the study. All risk management staffs of head office from those private Ethiopia commercial banks were selected purposively and become target population of the study.

#### **3.1 Research Design**

In order to achieve the objectives of the study, the research undertake descriptive approach using both qualitative and quantitative data. Researcher develops structured questionnaire based on the Basel's credit risk management principles/activities of 1999 and NBE's credit risk management guideline of 2009. 41 closed ended questions with five Likert scale level of agreement were developed on five aspects of credit risk management activities. This study was carried Creswell (2008) stated that the descriptive method of research is to gather information about the present existing condition. The emphasis was on describing rather than on judging or interpreting. The descriptive approach was quick and practical in terms of the financial aspect

#### **3.2 Population Size and Sampling Techniques**

There were eighteen banks in Ethiopia. Out of them only four banks data have been taken. As noted by Kothari (2004) good sample design must be viable in the context of time and funds available for the research study. Besides, purposive sampling offers the researcher to deliberately select items for the sample concerning the choice of items as supreme based on the selection criteria set by the researcher. Accordingly, this study would employ purposive sampling technique to select the required sample of banks from the above listed banks. The selection criteria set by the researcher would be first, the required banks would be only commercial banks in Ethiopia. Second, those four commercial banks, which were selected for study should operate during 2013-2018 having financial statements for consecutive five years. In this study, the researcher utilized purposive sampling technique in order to select participants of the study. The idea behind purposive sampling was to concentrate on people who were directly involved in credit processing and administering because they would better be able to assist with the relevant research data.

### **3.3 Sample Size**

Professionals working in the four commercial banks out of 18 in Ethiopian banks, related to credit and credit related operations as a whole were taken as participants of the study. These were Berhan International Bank S.C, Bunna International Bank S.C, Dehub Global Bank S.C and Enat Bank S.C.

### **3.4 Data Collection Instruments**

For the purpose of the study, both primary and secondary data were used. Primary data was collected through questionnaires distributed to respondents that involve professional working in the banks such as department managers and senior officers working on loan processing (risk management staffs of head office practical oriented response such as credit manager, credit director, credit analyst, recovery officers, credit follow up, risk and compliance managers and risk experts were the major respondents). In addition, interview was employed on banks professionals as primary data sources to supplement the questionnaire. The secondary data will be collected from financial statements, annual reports, NBE directives, and bulletins of the banks.

### **3.5 Variables and Method of Data Analysis**

The data has been analyzed using descriptive summaries, econometrics model and Cronbach's alpha with the help of Statistical Package for Social Sciences (SPSS version 21).

### **3.6 Reliability Measure**

Cronbach's alpha was employed to test the consistency of the questionnaire. CRMP, ACRE, SCGP, CAMMP and ACOCR had high reliabilities, all Cronbach's  $\alpha = 0.963$ . Yfield, (2009, P. 676) suggested that Cronbach's  $\alpha$  value of 0.7 to 0.8 was acceptable and ensure the reliability of items while Pallant, (2007, P. 292) suggested that Cronbach's  $\alpha$  value of above 0.8 was preferably to be considered reliable.

## CHAPTER IV

### DATA ANALYSIS AND INTERPRETATION

In this part the research findings and interpretations of the data gathered via questionnaires and interviews of respondents. The results of the study was as follows:

#### 4.1 Demographic Characteristics of Respondents

The demographic nature of the employee has a great contribution in the credit risk management systems of loans and advance in understanding the credit management strategies, policies and procedures as well as exercising and improving it when demanded. Thus, in this work process the demographic characteristics of respondents like gender, age, marital status, and educational level were assessed.

<b>Table 4.1: Gender of respondents</b>					
		Cumulative Frequency	Cumulative Percent	Valid %	Cumulative %
Valid	Male	20	55.6	55.6	55.6
	Female	16	44.4	44.4	100
	Total	36	100	100	

**Source:** Primary Data, 2019

The mix of gender of the employee in the loan area was, 55.6 percent dominated by the male and 44.4 percent was female as it was shown in table 4.1. This was due to the education and experiences required to work in the loan area as loan officers or analysts was almost proportionally assigned to both male and female employees. Employees with high experience and qualification were needed to work in the loan area, as they have to understand the responsibility and accountability for prudent credit risk management and minimizing credit risks to the required level. Hence, in this regard the banks should be considered gender distribution smartly.

<b>Table 4.2: Age of the respondents</b>					
		Cumulative Frequency	cumulative Percent	Valid %	Cumulative %
Valid	20-25	2	5.6	5.6	5.6
	26-35	19	52.8	52.8	58.4
	36-45	8	22.2	22.2	80.6
	>45	7	19.4	19.4	100.0
	Total	36	100.0	100.0	

**Source:** Primary Data, 2019

The age of the employee showed as indicated in table 4.2, 5.6 percent were in the range of age between 20 to 25; 52.8 percent were in the range of age between 26 to 35; 22.2 percent were in the range of age between 36 to 45 and the remaining 19.4 percent were above 45 years age. This implies the banks majorities of workforces were in their productive age and expected to work more to the best of their knowledge and experience and thereby they could make their organization efficient and effective in the credit management process.

<b>Table 4.3: Marital status of respondents</b>					
		cumulative Frequency	Cumulative Percent	Valid %	Cumulative %
Valid	Married	19	52.8	52.8	52.8
	Single	16	44.4	44.4	97.2
	Divorced	1	2.8	2.8	100.0
	Total	36	100.0	100.0	

**Source:** Primary Data, 2019

The findings depicted in table 4.3 above showed that majority of the respondents 52.8 percent were get married, 44.4 percent were single and only 2.8 percent were divorced. As far as the nature of banking industry was concerned, it was highly exposed to credit risk and this demands

employees working there to be socially responsible to enable them to concentrate and exert their maximum professional experience and qualification for the good of the bank's credit risk management practice, which leads to minimize credit risks. Therefore, the implications of the findings were in consistent with this argument, as large numbers of the employees working in credit processing area were married.

<b>Table 4.4: Educational levels of the respondent</b>					
		cumulative Frequency	Cumulative Percent	Valid %	Cumulative %
Valid	Graduate	13	36.10	36.10	36.10
	Post Graduate	15	41.7	41.7	77.80
	Diploma	8	22.20	22.20	100.0
	Total	36	100.0	100.0	

Source: Primary Data, 2019

Educational background of employee was an important factor to be considered with regard to making business decision. Education improves the skill, capacity, communication, and access to development endeavors. As it could be revealed from table 4.4, on average only 22.20% of the respondents have diploma where the majority of them at 41.70% have a post graduate qualification, as their highest qualification, and the remaining 36.10% possess a graduate. Hence, with respect to qualifications the findings implied that most of the employees working in the credit department were well qualified, this contributed a lot to the effectiveness, and efficiency in credit risk management practices of the banks.

## 4.2 Empirical Discussion and Results

### 1. Establishing Appropriate Credit Risk Environment

Establishing appropriate credit risk environment was preliminary activities of credit risk management process Basel (1999), NBE (risk management guideline (2010)). Eight items were included in the questionnaire to address the issue of establishing appropriate credit risk environment. Table: 4.5 showed the descending orders of 8 items in terms of mean value. Mean value of eight questions range from 3.61 to 4.08 which represent 'somewhat' positive response on measurement scale. The lowest mean value was 3.61 for question number 8 and followed by mean value of 3.83 for question number 7 which were also less than grand mean value of 3.9.

This indicates that creating common understanding on risk management documents and identification of credit risk need attention respectively.

Table 4.5: Survey result on BOD & Senior management oversight

Questions	Mean	Std.Dev
1. Bank's credit risk strategies, policies and procedures are regularly reviewed and updated by the board of directors.	4.08	0.604
2. Senior managements are responsible for implementing credit risk strategy approved by the board and for developing credit policies and procedures.	3.94	0.532
3. Boards of directors and senior managers closely monitor the major credit risk exposure of the bank	3.97	0.506
4. Credit risk management strategy, policies and procedures are consistently applied in all credit product and activities of the bank.	4.00	0.676
5. The banks' staffs take the necessary precaution against default risk	3.94	0.630
6. Authority and responsibility of risk management are clearly set out and understood throughout the bank.	3.83	0.609
7. There is proper identification of credit risk inherent in all products and activities of our bank	3.83	0.655
8. There is common understanding about credit risk management strategy, policy and procedures across the bank.	3.61	0.728
Average grand means value 3.90		

Understanding credit risk strategy, policy and procedures as well as identifying risks were the cornerstone for credit risk management process. Lack of common understanding on credit risk strategy, policies and procedures across the bank may cause inconsistent interpretation and application of credit policy and procedures across the bank and finally lead to lack of common code of conducting credit risk management activities among staff and staff also get difficulties to ward identifying credit risk inherent in all product and activities of bank. Generally, the grand mean value was 3.90 which represent 'somewhat' positive response on measurement scale. Hence, the majority of the participants gave 'somewhat' positive response on the establishment of appropriate credit risk environment in Ethiopian commercial banks.

Question number eight has the highest standard deviation of 0.728 which means that there was more average deviation between individual score and its mean while the second question has

lowest standard deviation of 0.655 which indicates the respondent's score was near to mean or less average deviation between observed values and the mean score.

## 2. Operating Under a Sound Credit Granting Process

Operating under a sound credit granting process was the basis for an effective credit risk management process under which feasible and creditworthy client was identified. The table 4.6 indicates the descending order of eight questions in terms of mean value. Mean value of eight questions range from 3.72 to 4.22. The lowest mean value was 3.72 of question number 8 and followed by mean value of 3.92 for question number 7, 6 and 5, which were also less than grand mean value of 3.93, represent in somewhat positive level of response on measurement scale. This indicates that commercial banks should further enhance sound credit granting process for approving new credit as well as amending, renewing and re-financing existing credit, credit limit system, level of credit diversification and obtaining sufficient and up-to-date micro and macroeconomic data relatively. Lending business without gathering the necessary information was just like putting money in fire.

Table 4.6: Survey result of Sound Credit granting process

Questions	Mean	Std.Dev
1.It is too risky to invest our bank's funds in one specific sector of the economy.	4.22	0.637
2. Adequacy, marketability and enforceability of collateral requirement is properly evaluated and measured by professional personnel or expertise.	4.00	0.535
3. The bank conducts comprehensive credit worthiness analysis properly before granting loan.	3.94	0.532
4. The bank uses well defined credit-granting criteria for assessing credibility of each loan applicants.	4.00	0.632
5. The bank critically follows sound credit granting process for approving new credits as well as amending, renewing and re-financing existing credits.	3.92	0.554
6. The bank has established comprehensive credit limit for the main categories of risk factors in all types of credit facilities.	3.92	0.604
7. The bank optimally diversifies its credit exposure to different economic sectors and geographical area.	3.72	0.741
8. The bank undertakes credit granting process based on a reliable and substantial amount of date related to macro-economic and borrower specific factors.	3.72	0.779

Average grand mean value 3.93

The mean value of the first question was 4.22 which represent strong level of positive response on measurement of scale and relatively indicates that bank's risk management staffs have high awareness and positive perception on portfolio diversification. The mean value of first, second, third and fourth questions were 4.22, 4.00, 3.94 and 4.00 which represent strong positive response on the level of measurement scale. The grand mean value was 3.93 which also represent strong positive response on measurement scale. Overall, these results indicate that Ethiopian commercial banks were operating under sound credit granting process.

### 3. Maintaining an appropriate Credit administration, Measurement and Monitoring Process

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

The table 4 .7 shows the descending order of eight questions in terms of mean score. Individual mean value ranges from 3.58 to 3.97.

Table 4.7: Survey result of Credit administration, measurement and monitoring system

Questions	Mean	Std.Dev
1. The bank strictly monitors loan terms and conditions that have been stipulated at the time of loan approval.	3.97	0.446
2. The bank regularly reviews and monitors the performance of credit quality at individual and portfolio level.	3.81	0.401
3. There is a complete, neatly organized and regularly updated credit file in our bank.	3.86	0.543
4. The bank has developed its own internal risk rating system and applying in credit risk management process effectively.	3.89	0.465
5. There is effective credit monitoring system and procedures.	3.92	0.439
6. The bank quantify its credit risk at individual and portfolio level	3.81	0.624
7. There is effective system and practice of reporting and communicating risk data/ information among relevant staffs of our bank.	3.78	0.637

8. The bank's credit risk management system and practice has been integrated with appropriate management information systems. 3.58 0.604  
Average grand mean value 3.83

The first, fifth, fourth and third statements with the high mean value of 3.97, 3.92, 3.89 and 3.86, which were also greater than grand mean value of 3.83, represent positive response on measurement of scale. Therefore, half of respondents confirmed that Ethiopian commercial banks were monitoring loan term and conditions strictly; monitoring credit quality; updating credit file and applying internal risk rating system properly.

The lowest mean score was 3.58 of question number 8 and followed by a mean value of 3.78 and 3.81 of question number 7, 6 and 2, which were also less than grand mean value of 3.83, represent somewhat positive level of response on measurement scale. Hence, establishing effective management information system, communication and reporting risk related data, reviewing and quantifying credit risk both at individual and portfolio level were some issues that require great attention of top management and regulatory bodies respectively.

Average grand mean value of eight statements was 3.83 which represent 'somewhat' positive level of response on measurement of scale. Generally, it indicates that appropriate credit administration, measurement and monitoring process were maintained somewhat in line with guideline of NBE and Basel (1999).

#### **4. Adequate Control over Credit Risk**

Eight items were included in the questionnaire to address the issue of ensuring adequate control over credit risk. Table 4.8 shows descending orders of 8 items in terms of their mean value. Mean value of eight questions range from 3.78 to 4.11. The lowest mean score is 3.78 for question number 6 and 4 and Followed by mean value of 3.86 , 3.83 and 3.81 of question number 5,8 and 7, less than grand mean value of 3.90, which represent 'somewhat' positive response on measurement scale. This indicate that early identification of default sign, conducting independent credit quality review and monitoring risk profile were some issues that need attention of top level managements. The mean value of first, third and second question was 4.11, 4.06 and 4.00 which represent positive level of response on measurement scale.

Table 4.8: survey result on adequate control over credit risk

Questions	Mean	Std.Dev
1. The bank has appropriate policy, procedures and techniques for improving loan repayment and handling troubled loan.	4.11	0.575
2. Credit loss, loan concentration, large exposure and level of NPL can be reduced if banks' credit policy, procedure and techniques are implemented properly.	4.00	0.586
3. The bank's top managements have strong commitment toward controlling default risk	4.06	0.583
4. Appropriate and timely policy measures have been taken for resolving loan recovery problem during the last five years.	3.78	0.540
5. The bank keeps its actual risk profile at or below its risk tolerance / appetite.	3.86	0.543
6. There is an appropriate level of control over credit risk the bank faces.	3.78	0.760
7. The bank carry out regular independent internal credit quality reviews accurately.	3.81	0.749
8. There is an early identification of credit default sign with immediate corrective action.	3.83	0.971
Average grand cumulative mean value 3.9		

Generally, grand mean value was 3.9 which represent positive level of response on measurement scale. This indicates that the first, third and second participants have positive perception and strong beliefs toward risk management documents and strong commitment of top level management toward controlling credit risk and implementing credit policy ,procedures and techniques properly.

### 5. Credit Risk Management Practice

The effectiveness of credit risk management process was highly dependent on proper application of sound risk management documents, staff quality, credit culture, committed top management bodies, adequate training program, suitable organizational structure, adequate level of internal control and performance of intermediation function Basel, (1999), Baxter ,Panova & Platonov, (1998, p. 107-112), (Colquitt, 2007), (Srivastava , 2008). The researcher includes nine questions to address credit risk management practice by taking those core aspects in to account.

Once the banks develop comprehensive and sound risk management document, it should not be kept always on shelf instead it should be reviewed and up dated as well as rehearsed in the mind of risk management staffs so as to serve as guideline in each activities of credit cycle. However, having sound and comprehensive risk management document merely, without its proper implementation, was not means that the bank was practicing effective Risk management system.

Table 4.9 shows nine questions in terms of their mean value. Mean value of nine items range from 3.69 to 4.06. The first, third, second , fourth and fifth statements with the high mean value of 4.06, 4.00 ,3.94 ,3.94 and 3.92 respectively, which were also greater than grand mean value of 3.9, represent positive response on measurement of scale. This indicates that Ethiopian structure, and credit risk management system/program, as well as created risk awareness in line with the directives and guideline of NBE.

Table 4.9: Respondent's answers on credit risk management practice

Questions	Mean	Std.Dev
1.Establishing and practicing effective credit risk management system is one of the main objectives of my bank.	4.06	0.532
2. Success and failure of any bank is mostly depends on the effectiveness of credit risk management system and practice.	3.94	0.532
3. The bank has well-documented credit risk management strategy, policy and procedures that guide the staffs in their daily activities of managing credit risks.	4.00	0.632
4. The bank has established sound credit risk management system in line with NBE’s risk management guideline and directives.	3.94	0.583
5. There is suitable organizational structure that enables me to undertake effective risk management system and practice.	3.92	0.554
6. This Bank has adequate and qualified risk management staffs and expertise.	3.89	0.747
7. There is adequate deposit mobilization and fund utilization in this bank.	3.78	0.485
8. The bank gives adequate and effective risk management training for staffs	3.69	0.624
9. Overall, I consider the level of credit risk management system and Practices of the Bank is to be excellent	3.75	0.554
Grand cumulative mean value	3.9	

The lowest mean values is 3.69 for question number 8 and followed by mean value 3.75,3.78 and 3.89 of question number 9, 7 and 6 respectively, which were also less than grand mean

value of 3.9, represent somewhat positive response on measurement scale. This indicates that profile of risk management staffs, efficiency of intermediation process and risk management training need attention. Generally, the grand mean value was 3.9 which represent somewhat positive response on scale. Therefore, the majority of the participants gave somewhat positive response on the level of credit risk management practice in Ethiopian commercial banks.

### Ordinal Regression

**Table 4.10: statistical result on Model Fitting Information**

Model	-2 Log Likelihood	Chi-Square	Df	Sig.
Intercept Only	54.095			
Final	.000	54.095	22	.000

The table showed the strong evidence that this model was different from initial model (without explanatory variable), p-value ( $p-v = .000$ ) it indicates highly significance.

**Table 4.11: statistical result on Goodness-of-Fit**

	Chi-Square	Df	Sig.
Pearson	14.227	36	1.000
Deviance	20.415	36	.983

The table showed Goodness-of-fit the model was adequately fit because p-value =.983 fail to the reject the model.

**Table4.12: statistical result summary on R-Square**

Cox and Snell	.777
Nagelkerke	.970
McFadden	.929

The table showed R-Square=97%, that means 97% of the model has been explained by the independent variable.

## CHAPTER V

### CONCLUSION AND RECOMMENDATION

Finally from the above study, the research has given a proper conclusion and recommendations drawn based on the research findings that has been discussed and analyzed. These were as follows:

#### **5.1 Conclusion**

Better credit risk management systems and practices results in better bank performance. Thus, it was very importance that banks practice prudent credit risk management practices and safeguarding the assets of the banks and protect the investors interests. The following conclusions were drawn:

Majority of employees of the banks working in credit department are by post graduate followed by graduated and highly experienced which might this enables the bank to accelerate its service delivery and become effective in the growing stiff competitive banking industry in Ethiopia as qualified and experienced work force enhances competence and increase in operating results.

Descriptive analysis ascertain as there was somewhat appropriate credit risk environment and maintained appropriate credit administration, measurement and monitoring process in Ethiopian commercial banks while it was operating under sound credit granting process and ensuring adequate control over credit risk.

The effectiveness of credit risk management process was highly dependent on proper application of sound risk management documents, staff quality, credit culture, committed top management bodies, adequate training program, suitable organizational structure, loan repayment strategy, policy, procedures, resolving loan recovery problems, adequate level of internal control and Performance of intermediation function.

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

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

## **5.2 Recommendations**

Based on the findings and conclusions of the study, the following recommendations were forwarded which were aimed at improving the credit risk management systems and practices of the commercial banks.

Believing on the importance, attractiveness, and convenience of flexible credit policies and procedures as it assists for loan creation and growth, the bank's top management need to revise its credit policy and procedure incorporating the sayings of the respondents.

The bank's loan processing and approving procedure was conservative for few banks. This was highly retarding the loan growth of the branches in particular and the bank in general. Hence, the bank should follow creative way of loan processing and approving direction that assists to meet the loan demand of potential loan applicants and the required level of loan growth.

Establishing a good relationship with borrowers was found to be the most favorable strategy employed by banks in the effort of reducing non -performing loans. This would be done through assisting borrowers by advising them on how to solve their problems, attend some of borrowers business meetings, deliver good services and provide reasonable charges and also go further and other social events where banks invite their borrowers. These findings suggest that innovation on new ways of dealing with borrowers was necessary for banks to be able to recover their money.

Commercial banks should further enhance credit limit system, level of credit diversification and obtaining sufficient and up-to-date data relatively.

Banks need to give attention that profile of risk management staffs, efficiency of intermediation process and risk management training.

Early identification of default sign, conducting independent credit quality review and monitoring risk profile are some issues that banks need to give attention.

Banks need to establish effective management information system, communication and reporting risk related data, reviewing and quantifying credit risk both at individual and portfolio level are some issues that require great attention of banks.

Therefore, some of the banks studied need to strengthen their loan management process especially in monitoring their borrowers . As to whether these strategies worked out positively were another issue to be studied further though results in this study suggest so. In addition, further research may be conducted to include borrowers in the sample thus enriches further the body of knowledge.

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Annex

Table 4.13: survey result summary on all questions

(S.D=Strongly Disagree, D=Disagree, N=Neutral, A=Agree, S.A=Strongly Agree)

Questions	S.D		D		N		A		S.A		TOTAL	
	F	%	F	%	F	%	F	%	F	%	F	%
ACRE-Q1					5	13.9	23	63.9	8	22.2	36	100
ACRE-Q2					6	16.7	26	72.2	4	11.1	36	100
ACRE-Q3					5	13.9	27	75	4	11.1	36	100
ACRE-Q4					8	22.2	20	55.6	8	22.2	36	100
ACRE-Q5					8	22.2	22	61.1	6	16.7	36	100
ACRE-Q6					10	27.8	22	61.1	4	11.1	36	100
ACRE-Q7					11	30.6	20	55.6	5	13.8	36	100
ACRE-Q8			3	8.3	10	27.8	21	58.3	2	5.6	36	100
SCGP-Q1					4	11.1	20	55.6	12	33.3	36	100
SCGP-Q2					5	13.9	26	72.2	5	13.9	36	100
SCGP-Q3					6	16.7	26	72.2	4	11.1	36	100
SCGP-Q4					7	19.5	22	61.1	7	19.4	36	100
SCGP-Q5					7	19.5	25	69.4	4	11.1	36	100
SCGP-Q6					8	22.2	23	63.9	5	13.9	36	100
SCGP-Q7			3	8.3	7	19.5	23	63.9	3	8.3	36	100
SCGP-Q8			2	5.6	11	30.6	18	50	5	13.8	36	100
CAMMP-Q1					4	11.1	29	80.6	3	8.3	36	100
CAMMP-Q2					7	19.4	29	80.6			36	100
CAMMP-Q3					8	22.2	25	69.5	3	8.3	36	100
CAMMP-Q4					6	16.7	28	77.7	2	5.6	36	100
CAMMP-Q5					5	13.9	29	80.5	2	5.6	36	100
CAMMP-Q6			1	2.8	8	22.2	24	66.7	3	8.3	36	100
CAMMP-Q7			1	2.8	9	25	23	63.9	3	8.3	36	100
CAMMP-Q8			2	5.6	11	30.6	23	63.8			36	100
ACOCR-Q1					4	11.1	24	66.7	8	22.2	36	100
ACOCR-Q2					6	16.7	24	66.6	6	16.7	36	100
ACOCR-Q3					5	13.9	24	66.7	7	19.4	36	100
ACOCR-Q4			1	2.8	7	19.4	27	75	1	2.8	36	100
ACOCR-Q5					8	22.2	25	69.5	3	8.3	36	100
ACOCR-Q6			2	5.6	9	25	20	55.6	5	13.8	36	100
ACOCR-Q7			2	5.6	8	22.2	21	58.3	5	13.9	36	100
ACOCR-Q8			1	2.8	11	30.6	20	55.5	4	11.1	36	100
CRMP-Q1					4	11.1	26	72.2	6	16.7	36	100
CRMP-Q2					6	16.7	26	72.2	4	11.1	36	100

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CRMP-Q3			1	2.8	4	11.1	25	69.4	6	16.7	36	100
CRMP-Q4					7	19.4	24	66.7	5	13.9	36	100
CRMP-Q5					7	19.4	25	69.5	4	11.1	36	100
CRMP-Q6			2	5.6	6	16.7	22	61	6	16.7	36	100
CRMP-Q7					9	25	26	72.2	1	2.8	36	100
CRMP-Q8			1	2.8	11	30.6	22	61	2	5.6	36	100
CRMP-Q9					11	30.6	23	63.8	2	5.6	36	100

The above table showed the respondents response on each alternative of the four banks.

**Table 4.14: statistical result summary on mean rank of Banks.**

Ranks			
	Bank_Name	N	Mean Rank
ACRE_Q1	Berhan International Bank SC	10	23.20
	Bunna International Bank SC	10	15.75
	Debub Global Bank SC	8	19.13
	Enat Bank SC	8	15.44
	Total	36	
ACRE_Q2	Berhan International Bank SC	10	21.00
	Bunna International Bank SC	10	17.80
	Debub Global Bank SC	8	17.38
	Enat Bank SC	8	17.38
	Total	36	
ACRE_Q3	Berhan International Bank SC	10	22.10
	Bunna International Bank SC	10	14.20
	Debub Global Bank SC	8	22.88
	Enat Bank SC	8	15.00
	Total	36	
ACRE_Q4	Berhan International Bank SC	10	21.30
	Bunna International Bank SC	10	17.10
	Debub Global Bank SC	8	16.75
	Enat Bank SC	8	18.50
	Total	36	
ACRE_Q5	Berhan International Bank SC	10	22.20
	Bunna International Bank SC	10	16.40
	Debub Global Bank SC	8	17.50
	Enat Bank SC	8	17.50
	Total	36	
ACRE_Q6	Berhan International Bank SC	10	18.00
	Bunna International Bank SC	10	22.50
	Debub Global Bank SC	8	11.50

*Assessment of credit risk management systems and practices*

	Enat Bank SC	8	21.13
	Total	36	
ACRE_Q7	Berhan International Bank SC	10	18.10
	Bunna International Bank SC	10	20.60
	Debub Global Bank SC	8	19.19
	Enat Bank SC	8	15.69
	Total	36	
ACRE_Q8	Berhan International Bank SC	10	19.35
	Bunna International Bank SC	10	12.75
	Debub Global Bank SC	8	19.63
	Enat Bank SC	8	23.50
	Total	36	
SCGP_Q1	Berhan International Bank SC	10	20.90
	Bunna International Bank SC	10	22.50
	Debub Global Bank SC	8	13.50
	Enat Bank SC	8	15.50
	Total	36	
SCGP_Q2	Berhan International Bank SC	10	23.15
	Bunna International Bank SC	10	13.85
	Debub Global Bank SC	8	18.50
	Enat Bank SC	8	18.50
	Total	36	
SCGP_Q3	Berhan International Bank SC	10	22.50
	Bunna International Bank SC	10	11.50
	Debub Global Bank SC	8	21.38
	Enat Bank SC	8	19.38
	Total	36	
SCGP_Q4	Berhan International Bank SC	10	25.75
	Bunna International Bank SC	10	17.05
	Debub Global Bank SC	8	13.06
	Enat Bank SC	8	16.69
	Total	36	
SCGP_Q5	Berhan International Bank SC	10	22.90
	Bunna International Bank SC	10	15.20
	Debub Global Bank SC	8	17.81
	Enat Bank SC	8	17.81
	Total	36	
SCGP_Q6	Berhan International Bank SC	10	22.80
	Bunna International Bank SC	10	19.70
	Debub Global Bank SC	8	15.94
	Enat Bank SC	8	14.19
	Total	36	
SCGP_Q7	Berhan International Bank SC	10	24.60
	Bunna International Bank SC	10	14.80
	Debub Global Bank SC	8	18.25

*Assessment of credit risk management systems and practices*

	Enat Bank SC	8	15.75
	Total	36	
SCGP_Q8	Berhan International Bank SC	10	21.90
	Bunna International Bank SC	10	12.50
	Debub Global Bank SC	8	20.31
	Enat Bank SC	8	19.94
	Total	36	
CAMMP_Q1	Berhan International Bank SC	10	20.60
	Bunna International Bank SC	10	17.35
	Debub Global Bank SC	8	20.94
	Enat Bank SC	8	14.88
	Total	36	
CAMMP_Q2	Berhan International Bank SC	10	20.20
	Bunna International Bank SC	10	18.40
	Debub Global Bank SC	8	17.50
	Enat Bank SC	8	17.50
	Total	36	
CAMMP_Q3	Berhan International Bank SC	10	23.80
	Bunna International Bank SC	10	22.40
	Debub Global Bank SC	8	12.75
	Enat Bank SC	8	12.75
	Total	36	
CAMMP_Q4	Berhan International Bank SC	10	18.80
	Bunna International Bank SC	10	20.10
	Debub Global Bank SC	8	18.38
	Enat Bank SC	8	16.25
	Total	36	
CAMMP_Q5	Berhan International Bank SC	10	23.10
	Bunna International Bank SC	10	18.30
	Debub Global Bank SC	8	15.75
	Enat Bank SC	8	15.75
	Total	36	
CAMMP_Q6	Berhan International Bank SC	10	22.85
	Bunna International Bank SC	10	15.10
	Debub Global Bank SC	8	14.94
	Enat Bank SC	8	20.88
	Total	36	
CAMMP_Q7	Berhan International Bank SC	10	24.60
	Bunna International Bank SC	10	18.50
	Debub Global Bank SC	8	15.38
	Enat Bank SC	8	14.00
	Total	36	
CAMMP_Q8	Berhan International Bank SC	10	19.90
	Bunna International Bank SC	10	18.20
	Debub Global Bank SC	8	17.81

*Assessment of credit risk management systems and practices*

	Enat Bank SC	8	17.81
	Total	36	
ACOCR_Q1	Berhan International Bank SC	10	15.10
	Bunna International Bank SC	10	27.70
	Debub Global Bank SC	8	13.00
	Enat Bank SC	8	16.75
	Total	36	
ACOCR_Q2	Berhan International Bank SC	10	23.00
	Bunna International Bank SC	10	14.00
	Debub Global Bank SC	8	22.25
	Enat Bank SC	8	14.75
	Total	36	
ACOCR_Q3	Berhan International Bank SC	10	22.15
	Bunna International Bank SC	10	13.15
	Debub Global Bank SC	8	15.81
	Enat Bank SC	8	23.31
	Total	36	
ACOCR_Q4	Berhan International Bank SC	10	18.60
	Bunna International Bank SC	10	18.60
	Debub Global Bank SC	8	21.63
	Enat Bank SC	8	15.13
	Total	36	
ACOCR_Q5	Berhan International Bank SC	10	23.80
	Bunna International Bank SC	10	19.10
	Debub Global Bank SC	8	14.81
	Enat Bank SC	8	14.81
	Total	36	
ACOCR_Q6	Berhan International Bank SC	10	22.55
	Bunna International Bank SC	10	14.25
	Debub Global Bank SC	8	20.31
	Enat Bank SC	8	16.94
	Total	36	
ACOCR_Q7	Berhan International Bank SC	10	23.45
	Bunna International Bank SC	10	16.65
	Debub Global Bank SC	8	20.63
	Enat Bank SC	8	12.50
	Total	36	
ACOCR_Q8	Berhan International Bank SC	10	26.15
	Bunna International Bank SC	10	17.45
	Debub Global Bank SC	8	14.00
	Enat Bank SC	8	14.75
	Total	36	
CRMP_Q1	Berhan International Bank SC	10	20.70
	Bunna International Bank SC	10	14.50
	Debub Global Bank SC	8	21.63

*Assessment of credit risk management systems and practices*

	Enat Bank SC	8	17.63
	Total	36	
CRMP_Q2	Berhan International Bank SC	10	22.50
	Bunna International Bank SC	10	16.20
	Debub Global Bank SC	8	19.38
	Enat Bank SC	8	15.50
	Total	36	
CRMP_Q3	Berhan International Bank SC	10	22.65
	Bunna International Bank SC	10	21.10
	Debub Global Bank SC	8	12.25
	Enat Bank SC	8	16.31
	Total	36	
CRMP_Q4	Berhan International Bank SC	10	23.85
	Bunna International Bank SC	10	17.85
	Debub Global Bank SC	8	11.75
	Enat Bank SC	8	19.38
	Total	36	
CRMP_Q5	Berhan International Bank SC	10	22.90
	Bunna International Bank SC	10	18.25
	Debub Global Bank SC	8	16.00
	Enat Bank SC	8	15.81
	Total	36	
CRMP_Q6	Berhan International Bank SC	10	19.50
	Bunna International Bank SC	10	19.10
	Debub Global Bank SC	8	21.25
	Enat Bank SC	8	13.75
	Total	36	
CRMP_Q7	Berhan International Bank SC	10	20.75
	Bunna International Bank SC	10	17.25
	Debub Global Bank SC	8	18.13
	Enat Bank SC	8	17.63
	Total	36	
CRMP_Q8	Berhan International Bank SC	10	24.25
	Bunna International Bank SC	10	17.95
	Debub Global Bank SC	8	15.25
	Enat Bank SC	8	15.25
	Total	36	
CRMP_Q9	Berhan International Bank SC	10	25.50
	Bunna International Bank SC	10	16.20
	Debub Global Bank SC	8	14.50
	Enat Bank SC	8	16.63
	Total	36	

As we show the above table the means across the banks Berhan International Bank SC has good performance of credit risk management systems and practices when we compares to other three Commercial banks (Bunna International Bank SC, Debub Global Bank SC and Enat Bank SC).

		Parameter Estimates					95% Confidence Interval	
		Estimate	Std. Error	Wald	Df	Sig.	Lower Bound	Upper Bound
Threshold	[CRMP_Q9 = 3]	87.590	383.520	.052	1	.819	-664.096	839.277
	[CRMP_Q9 = 4]	109.610	470.433	.054	1	.816	-812.423	1031.642
	[Sex=1]	1.047	5.524	.036	1	.850	-9.780	11.873
	[Sex=2]	0 <sup>a</sup>	.	.	0	.	.	.
Location	[Age_Group=1]	5.077	35.374	.021	1	.886	-64.254	74.407
	[Age_Group=2]	-4.929	28.229	.030	1	.861	-60.256	50.399
	[Age_Group=3]	-.072	.508	.020	1	.888	-1.067	.923
	[Age_Group=4]	0 <sup>a</sup>	.	.	0	.	.	.
	[Marital_Status=1]	95.871	412.049	.054	1	.816	-711.730	903.472
	[Marital_Status=2]	95.902	412.261	.054	1	.816	-712.115	903.919
	[Marital_Status=3]	0 <sup>a</sup>	.	.	0	.	.	.
	[Edu_Qual=1]	-5.091	28.951	.031	1	.860	-61.834	51.652
	[Edu_Qual=2]	-1.344	6.825	.039	1	.844	-14.720	12.032
	[Edu_Qual=3]	0 <sup>a</sup>	.	.	0	.	.	.
	[Bank_Name=1]	10.986	66.743	.027	1	.869	-119.828	141.800
	[Bank_Name=2]	-4.708	29.988	.025	1	.875	-63.483	54.066
	[Bank_Name=3]	-3.234	19.406	.028	1	.868	-41.270	34.802
	[Bank_Name=4]	0 <sup>a</sup>	.	.	0	.	.	.
	[Sex=1]	-.211	1.408	.022	1	.881	-2.972	2.549
	[Sex=2]	0 <sup>a</sup>	.	.	0	.	.	.
	[Age_Group=1]	4.611	4.323	1.138	1	.286	-3.861	13.083
	[Age_Group=2]	2.531	2.045	1.531	1	.216	-1.478	6.540
	[Age_Group=3]	.338	1.368	.061	1	.805	-2.344	3.019
	[Age_Group=4]	0 <sup>a</sup>	.	.	0	.	.	.
[Marital_Status=1]	1.154	5.948	.038	1	.846	-10.504	12.811	
[Marital_Status=2]	.607	5.646	.012	1	.914	-10.459	11.673	
[Marital_Status=3]	0 <sup>a</sup>	.	.	0	.	.	.	
[Edu_Qual=1]	-1.241	1.010	1.510	1	.219	-3.219	.738	
[Edu_Qual=2]	.003	.813	.000	1	.997	-1.590	1.595	
[Edu_Qual=3]	0 <sup>a</sup>	.	.	0	.	.	.	
[Bank_Name=1]	-.545	1.326	.169	1	.681	-3.143	2.053	
[Bank_Name=2]	-.582	1.127	.267	1	.605	-2.791	1.627	
[Bank_Name=3]	-4.055	3.887	1.088	1	.297	-11.674	3.564	
[Bank_Name=4]	0 <sup>a</sup>	.	.	0	.	.	.	
Scale	[Marital_Status=1]	1.154	5.948	.038	1	.846	-10.504	12.811
	[Marital_Status=2]	.607	5.646	.012	1	.914	-10.459	11.673
	[Marital_Status=3]	0 <sup>a</sup>	.	.	0	.	.	.
	[Edu_Qual=1]	-1.241	1.010	1.510	1	.219	-3.219	.738
[Edu_Qual=2]	.003	.813	.000	1	.997	-1.590	1.595	
[Edu_Qual=3]	0 <sup>a</sup>	.	.	0	.	.	.	
[Bank_Name=1]	-.545	1.326	.169	1	.681	-3.143	2.053	
[Bank_Name=2]	-.582	1.127	.267	1	.605	-2.791	1.627	
[Bank_Name=3]	-4.055	3.887	1.088	1	.297	-11.674	3.564	
[Bank_Name=4]	0 <sup>a</sup>	.	.	0	.	.	.	

Table 4.15 statistical result summary on Parameter Estimates

The table shows the dependent variable overall CRMP has been regressed against the independent variables and result showed that none of the independent variable have significant effect (p- value >.05)

**ADDIS ABABA UNIVERSITY**  
**COLLEGE OF BUSINESS AND ECONOMICS**  
**DEPARTMENT OF ACCOUNTING AND FINANCE, MSC PROGRAMME**

**QUESTIONNAIRE**

Dear respondents:

This is a questionnaire designed to solicit data on exploring the assessment of credit risk management practices of ----- which will be used as an input for a thesis in a partial fulfillment of Master of Accounting and Finance (ACNF). Your genuine response is solely used for academic purpose and the data will be treated utmost confidentiality. Therefore, your kindly cooperation is appreciated in advance.

Please put a tick mark (√) on the space provided or circle the choice.

For questions that need further explanations please use the space provided under each question.

**Part I. Background of the respondents**

**1. Demographic Characteristics of Respondents**

1. Gender:

- a) Male    b) Female

2. Age:

- a) 20- 25    b) 26-35    c) 36-45    d) Above 45

3. Marital Status:

- a) Single    b) Married    c) Divorced

4. Educational level:

- a) Diploma    b) Graduate    c) Post Graduate    d) othres

**Part II. Research related questions**

**1. Establishing Appropriate Credit risk environment**

Please provide your level of agreement using the following rates (where **1= strongly**

**disagree, 2= disagree,                    3=Neutral            4=Agree    and 5 = strongly agree)**

Factors	1	2	3	4	5
1. Bank's Credit risk strategies, policies and procedures are regularly reviewed and updated by the board of directors.					
2. Senior managements are responsible for implementing					

credit risk strategy approved by the board and for developing credit policies and procedures.					
3. Boards of Directors and Senior Managers closely monitor the major Credit Risk exposure of the Bank					
4. Credit Risk management strategy, Policies and Procedures are consistently applied in all Credit product and activities of the bank.					
5. The banks' staffs take the necessary precaution against default risk					
6. Authority and Responsibility of Risk Management are clearly set out and understood throughout the bank.					
7. There is proper identification of Credit Risk inherent in all products and activities of our Bank					
8. There is common understanding about Credit Risk Management Strategy, Policy and Procedures across the Bank.					

**2. Operating under a Sound Credit granting process**

Please provide your level of agreement using the following rates?

(where **1= strongly disagree, 2= disagree, 3=Neutral 4=agree 5 = strongly agree**)

Factors	1	2	3	4	5
1. It is too risky to invest our bank's funds in one specific sector of the economy.					
2. Adequacy, marketability and enforceability of collateral requirement is properly evaluated and measured by professional personnel or expertise.					
3. The Bank conducts comprehensive credit worthiness analysis before granting loan					

4. The Bank uses well defined credit-granting					
5. The bank critically follows sound credit granting process for approving new credits as well as amending, renewing and refinancing existing credits.					
6. The bank has established comprehensive Credit limit for the main categories of risk factors in all types of credit facilities.					
7. The Bank optimally diversifies its credit exposure to different economic sectors and geographical area.					
8. The Bank undertakes Credit granting process based on a reliable and substantial amount of data related to macro-economic and borrower specific factors.					

**3. Maintaining an appropriate credit administration, measurement and monitoring process**

Please provide your level of agreement using the following rates?

(where 1= strongly disagree, 2= disagree, 3=Neutral 4=agree 5 = strongly agree)

Factors	1	2	3	4	5
1. The bank strictly monitors loan terms and conditions that have been stipulated at the time of loan approval.					
2. The bank regularly reviews and monitors the performance of Credit quality at individual and portfolio level					
3. There is a complete, neatly organized and regularly updated credit file in our bank.					
4. The bank has developed its own internal risk rating system and applying in credit risk management process effectively.					
5. There is effective Credit monitoring system and procedures.					
6. The bank quantify its credit risk at individual and portfolio level					

7. There is effective system and practice of reporting and communicating risk data/ information among relevant staffs of our bank.					
8. The bank's Credit risk management system and practice has been integrated with appropriate Management Information Systems.					

**4. Adequate control over Credit risk**

Please provide your level of agreement using the following rates?

(where 1= strongly disagree, 2= disagree, 3=Neutral 4=agree 5 = strongly agree)

Factors	1	2	3	4	5
1. The bank has appropriate policy, procedures and techniques for improving loan repayment and handling troubled loan.					
2. Credit loss, Loan concentration, large exposure and level of NPL can be reduced if banks' Credit policy, Procedure and Techniques are implemented properly.					
3. The bank's top managements have strong commitment toward controlling default risk					
4. Appropriate and timely policy measures have been taken for resolving loan recovery problem during the last five years.					
5. The Bank keeps its Actual risk profile at or below its risk tolerance /appetite.					
6. There is an appropriate level of Control over Credit Risk the bank faces.					
7. The Bank carry out regular independent internal Credit quality reviews accurately.					

8. There is an early identification of Credit default sign with immediate corrective action.					
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**5. Credit risk management practice**

How can the credit risk management practices be improved?

(where 1= strongly disagree, 2= disagree, 3=Neutral 4=agree 5 = strongly agree)

Factors	1	2	3	4	5
1. Establishing and Practicing effective Credit Risk Management system is one of the main objectives of my bank.					
2. Success and failure of any bank is mostly depends on the effectiveness of Credit Risk Management System and Practice.					
3. The bank has well-documented Credit Risk Management Strategy, Policy and Procedures that guide the staffs in their daily activities of managing credit risks.					
4. The bank has established Sound Credit Risk Management System in line with NBE's risk management guideline and directives.					
5. There is suitable Organizational structure that enables me to undertake effective Risk Management System and practice.					
6. This Bank has adequate and qualified risk management staffs and expertise.					
7. There is adequate Deposit mobilization and fund utilization in this bank.					
8. The bank gives adequate and effective Risk Management training for staffs					
9. Overall, I consider the level of Credit Risk Management system and Practices of the Bank is to be excellent					

- What strategies do you propose to the Bank so as to improve the quality of loans as high as possible and enhance the overall Credit Risk Management of the Banks?

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- Please give any experience, comment or opinion about Credit Risk Management practices which is not applicable at your organization.

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**Thank you**

