ASSESSMENT OF THE CAUSES OF NON-PERFORMING LOAN AT DEVELOPMENT BANK OF ETHIOPIA (DBE)

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A THESIS SUBMITTED TO THE SCHOOL OF GRADUATE STUDIES OF ADDIS ABABA UNIVERSITY COLLEGE OF BUSINESS AND ECONOMICS IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF SCIENCE IN ACCOUNTING AND FINANCE.

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Addis Ababa, Ethiopia

Declaration

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of Dr. Sewale Abate. All sources of material used for the thesis have been dully acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institutions for the purpose of earning any degree.

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Endorsement

This thesis has been submitted to Addis Ababa University College of Business and Economics Department of Accounting and Finance for examination with my approval as a university advisor.

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Advisor Signature

Addis Ababa University, Addis Ababa, June, 2022

ADDIS ABABA UNIVERSITY COLLEGE OF BUSINESS AND ECONOMICS

MASTER SCIENCE IN OF ACCOUNTING AND FINANCE

This is to certify that this thesis is prepared by Lielt Ferede entitled: Assessment of the Causes of Non-Performing Loan at Development Bank of Ethiopia (DBE). Submitted in partial fulfillment of the requirements of degree of Masters of Accounting and Finance with the regulations of the University and meets the accepted standards with respect to originality and quality.

Signed by Examining Committee

Examiner (External) ______________________ Signature____________ Date June, 2022

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Acronyms

DBE	Development Bank of Ethiopia
GDP	Gross Domestic Product
KYC	Know Your Customer
LAT	Loan Approval Teams
NPL	Non-Performing Loans

Abstract

The main objective of this research was Assessment of the Causes of Non-Performing Loan at Development Bank of Ethiopia (DBE), this study presented by explanatory research design, and used mixed research approach: qualitative and quantitative approach mainly used qualitative approach to analyze data. This study applied semi-structured interview with the DBE's loan officer to collect the primary data and also used secondary data: reviewed the written materials, DBE's manual, policy, the directives of National Bank of Ethiopia and also retrieved materials from internet. And also ratio of bad debt to operating income calculated. The major findings classified the causes of NPL into three categories: bank side, customer side and external. The bank side contains inadequate information, lack of follow-up and decision making and over patience. The customer side: lack of equity, loan diversion, willful defaulters and management problem. And external: inflation, foreign currency, government and marketing are the causes of NPL are beyond the bank and the customers' capacity. These major causes of NPL have the negative effect on the bank's performance. As per the NBE directive, DBE shall provision for all loan. This provision for loan declines 82.97% of total operating income of the bank, the difference of the loan and the value of collateral is the bank's loss and the bank is exposed to pay unnecessary expenses due to taking over and managing the companies in NPL. According to these findings these recommendations have been presented: the bank has to apply decisions about the companies in NPL and before granting loan, the bank should implement special assessment to avoid at least to reduce NPL.

Key words: Non-performing loans (NPL), Performance, DBE

CHAPTER ONE
INTRODUCTION

1.1.Background of the Study

Every country especially developing country needs to attract investors, to attract them the country should be suitable for investment according to country peace, labor etc. but the main attractive method is providing money in the form of loan to investors. Bank gets its earnings from interest income by lending money; the main activity of bank is lending money to borrowers and collects its money with their interest. Bank provides money to these investors. Unfortunately, the bank cannot collect some of these loans and they turned to bad debts which affect the bank's earnings.

Delil Akmel, (2019) citing (Dang and Coyle), survival and soundness of the banking enterprise is exposed to different risks such as market risk, liquidity risk, operational risk and credit risk. The greatest risk of all is credit risk (Dang, 2011).

The term ''bad loans'' as described by Basu (1998), is used interchangeably with non-performing and impaired loans as identified in Fofack (2005). A bad debt is a receivable that is now irrecoverable from that person who was supposed to pay the same. The reasons for nonpayment by the debtors is that either they go bankrupt, have financial problems or collection by the creditors due to various reasons is not possible (efinancemanagement.com). Every business needs money to run its business but they may not have enough money to do this, so they borrow money from financial institution. As DBE is the financial institution it provides loan to the borrowers. However the bank cannot collect its money fully and timely. This situation brings the loan to bad debt. Bad debt affects the performance of the bank.

1.2.Organizational background

Development Bank of Ethiopia (DBE) is a specialized state owned development financial institution, which is supervised by the Public Financial Enterprises Agency in Ethiopia. The Development Bank of Ethiopia was the first development finance institution in Ethiopia and as such it was designed to: "assist in the development of industrial and agricultural production and foster the investment of private capital for productive purposes..." The goal of this bank is to promote economic development via financing commerce, industry, agriculture, and manufacturing. The bank was established in 1909, it has 110 branches, 2400 employees and its net income is Birr 373,520,416.00. The geographical distribution of projects financed by the Development Bank also indicates the uneven regional development of the country. Nearly 57 percent of the industrial projects financed by the Bank which was located in or around Addis Ababa. The larger cities in the three provinces of Shewa (excluding Addis Ababa), Harrar and Eritrea accounted for nearly 36 percent of industrial loans in number and absorbed over 50 percent of the total value of industrial loans. As regards agriculture, the three provinces of Kaffa, Illubabor, and Sidamo received slightly over 49 percent of the total value of agricultural loans and accounted for over 47 percent of the total number. These three provinces are in the coffee producing regions of Ethiopia. *(Wikipedia, the free encyclopedia)*

1.3.Problem Statement

Bank is the financial intermediary between the savers and the borrowers. the major function of bank is transferring money from surplus to the deficit party in the form of loan, this bank action has been beneficial for those engaged in various business: such as agriculture, manufacturing, mining, service and lease service. DBE helps individuals (consumers) and those businesses to develop their economy by providing loan. Even though it is beneficial for the borrowers it has also dark side when the payments default, it could be the cause of NPL. When loan turns to bad debt, the bank will not be able to do what it wants to do, even if the bank exists and profitable. Most researchers tried to study about the determinants of non-performing loans in different banks, such as: Tinsae Assefa, (2020) tried to examine the determinant factor of non-performing loans in case of Development Bank of Ethiopia (DBE), Gondar District, Delil Akmel, (2019) tried to identify the determinants of non-performing loans of state owned and private commercial banks of Ethiopia, and Francis Bawoledam Aballey B.A. (Hons.) (2009) tried to study the impact of bad loans on the financial performance of banks, Ghana.

Thus, this study tries to show how the provision for NPL eroded the DBE's profit. Due to various reasons, the bank has not been able to collect the money it has granted to borrowers; this inability of collection of the granted money could suffer the bank as well as the country. The provision for NPL has been presented on the bank's financial statement and it eroded the bank's profit (see appendix B), losing its money, the country's economy has being suffered by losing foreign currency by expelling the investors from the industry and closing factories that could generate foreign currency, and some factories are being closed/idle/. In addition to the loss of its money granted as a loan, the bank has to cover the acquired companies' expenses including the companies' employees' salary. For example; AYKA Addis Textile and investment group PLC the vertical integrated factory has been acquired by DBE since 2019, after the bank acquired the factory and fired the owners, DBE as well as the country lost foreign currency that could be gained from the factory export transactions, the bank is forced to cover the factory's expenses including more than 4300 employees' salary without generating income.

1.4.Research questions

1. What are the reasons the provided loans to borrowers are not collected timely?
2. Does the bank follow-up its borrowers properly? If not why?
3. What are the causes of NPL at DBE?
4. What are the effects of NPL on DBE's performance?

1.5.Objectives of the Study

1.5.1. General Objective

The general objective of the study is Assessment of the Causes of Non-Performing Loan at Development Bank of Ethiopia (DBE)

1.5.2. Specific Objectives

1. To assess whether the provided loans to borrowers are collected timely or not
2. To assess if the bank does follow-up the borrower properly or not
3. To assess the causes of NPL at DBE
4. To assess the effects of NPL on DBE's performance

1.6. Significance of the study

The outcome of this research helps Development Bank of Ethiopia to improve upon their operations and loan collection performance.

The findings and the recommendations of this study could be important for DBE by indicating the factors of non-performing loans on DBE's performance.

This research is also expected to fill the existing gap in literature and to use as a reference material for academic researches to be conducted in the future in the study area.

1.7. Scope of the study

This study was carried on the causes of NPL that affects loan collection performance of Development Bank of Ethiopia. Geographically, the study demarcated to the main office of Development Bank of Ethiopia in Addis Ababa. In addition to its geographical proximity and accessibility for data collection, the reason for demarcated the scope of the study only to the head office is due to the representativeness of DBE's main office data for all its branches in terms of service it delivers, type of projects it provide its loan to, type of customers it serves. The study used both primary and secondary data. The secondary data used in this study covers the last five years (2016 - 2020).

1.8. Limitation of the study

This study tried to show the cause of NPL that affects loan collection performance of Development bank of Ethiopia from the bank perspective but due to unavailability of major borrowers this study couldn't incorporate the response of the borrowers. The study faces challenges in collecting data due to the COVID-19 pandemic disease.

1.9. Organization of the study

The research paper is organized as follows: the first chapter presents the introduction, background of the study, organizational background, problem Statement, research questions, objectives of the study, significance of the study, scope of the study, limitation of the study. The second chapter deals with theoretical and empirical literature review related to the topic. The third chapter describes the methodology part of the paper. The fourth chapter deals with empirical results and discussion is presented. Finally, the last chapter discusses the summary, conclusion and recommendation part of the thesis.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1. Introduction

A country needs to grow its economy. To raise its economy there must be a business that increase the GDP of the country by produce a product or service, especially if it exports its product and substitute the imported items that could save the foreign currency.

To do these businesses the investors are needed and the country should encourage the investors to invest their investment on it. By attracting investors one country could be very beneficiary by adding its nations' capital, minimizing unemployment etc.

2.2.Theoretical review

2.1.1 Ethiopia's Economy and debt

Ethiopia is highly indebted beyond repayment capacity, this high indebtedness suffer the country's economy. So to have sufficient repayment capacity a country should increase its production and its export to get enough foreign currency (Alani, Jimmy (2020)).

Alani, Jimmy (2020) stated that, one of the greatest problems facing economic growth in many Sub–Saharan African countries, including Ethiopia, is certainly very high indebtedness, indebtedness beyond repayment capacity. The external debt problem has been becoming more acute because the size of the debt relative to the size of the economy is so huge that it causes capital flight, as well as discouraging private investment; and debt servicing payments take up a significant proportion of annual export earnings. In other words, meeting debt servicing obligations significantly drains the resources that could otherwise have been used for financing basic services needed for the welfare of the citizens (Ajayi, 1991, p.1; Maruta, 2013, p.5).

Foreign borrowing may be beneficial for low income countries in need of inducing substantial investment, and attaining rapid economic growth. However, these countries soon face difficulties in both servicing their debt obligation as scheduled, and attaining a rapid economic growth. External debt repayments drain the available resources needed for the sustenance of economic growth of a country like Ethiopia (Pattillo et al, 2004, p.5)

Ethiopia as a result of its huge debt service obligations has benefited very little from the marginal rates of return generated from any additional investments that new external loans provide. Debt servicing has drained the foreign currency reserves required for the import of capital goods and machinery for further investment and economic growth (Maruta, 2013, p.6).

The country requires huge investments to overcome the lack of development. Financing the necessary major investments through domestic resource mobilization is exceptionally difficult for the government because the country's financial system is underdeveloped and characterized by: low population to financial service coverage, only 136 bank accounts per 1000 adults in 2018, bank credit to private sector as percent of GDP (only 18% in 2018), and low branches per 100,000 people (2.93% in 2018). The country's tax system is also underdeveloped, having a low tax to GDP ratio (7.5% in 2018) and reasonable savings to GDP ratio of only 33%.

With no other source of funding, the government has had no other option apart from external borrowing to finance major investments. The result is that the country's external debt has been increasing steadily and servicing huge debts has had adverse effects on the domestic economy (World Bank, 2019).

2.1.2 Bad Debt

A bad debt is a receivable that is now irrecoverable from that person who was supposed to pay the same. The reason for nonpayment by the debtors is that either they go bankrupt, have financial problems or collection by the creditors due to various reasons is not possible. There are various definitions for the bad debts:

Some researchers noted that certain countries use quantitative criteria for example number of days overdue scheduled payments while other countries rely on qualitative norms like information about the customer's financial status and management judgment about future payments (Bloem and Gorter, 2001).

Alton and Hazen (2001) described non-performing loans (NPL) as loans that are ninety days or more past due or no longer accruing interest. Caprio and Klingebiel (1990), cited in Fofack (2005), consider NPLs as loans which for a relatively long period of time do not generate income, that is the principal and/or interest on these loans have been left unpaid for at least ninety days.

A non-performing loan may also refer to one that is not earning income and full payment of principal and interest is no longer anticipated, principal or interest is ninety days or more delinquent or the maturity date has passed and payment in full has not been made. *(Teshome Dula, 2010)*

A critical appraisal of the foregoing definitions of bad loans points to the fact that loans for which both principal and interest have not been paid for at least ninety days are considered non-performing. *(Francis Bawoledam Aballey B.A. (Hons.))*

T. K. KIYAI (2003) cited in Obiero (2002) out of the 39 banks which failed during the period 1984 and 2002, 37.8% collapsed mainly due to poor quality of lending. Though most banks pride in clear and sound lending policies, the reality is that they have been quite reckless in their lending activities.

T. K. KIYAI (2003) also cited in Kamara et al. (1997) a classic case of financial crisis precipitated by bad debts is the financial turmoil that befell East Asia in late 1990s, affecting mainly Thailand, Indonesia, Malaysia and South Korea. At that time, more than 15% of bank loans in the four countries were non-performing compared to only 1% in the United States of America. */bad debts restructuring techniques and non-performing loans of commercial banks in Kenya, T. K. Kiyai, 2003/.*

2.1.3 Reasons why loans are not collected timely / Reasons for Bad debt

These are the major and some of the reasons: When the debtors have a poor financial management, he cannot timely pay his debt, debtors' inability or unwillingness to pay, when the creditors are not able to collect the debts due to some of the other reasons and also when disputes arise regarding the price, quality, delivery, product, credit term, etc; the debts become bad. *(https://efinancemanagement.com/financial-accounting/bad-debts)*

2.1.4 Loan Management

According to Evans O., Benjamin A. A. & Emmanuel A. K. (2017) loan management explained as follows loan management refers to efficient combination of the major loan policies guidelines identifying some variables to ensure that loans granted to beneficiaries are collected promptly and at the same time sustaining customers' confidence and loyalty to the bank. Van Horne (1995) identified four major variables such as:

Quality assessment of customers' accounts – this examines the ability of the customer to repay the loan on time.

Setting up of credit period - banks are expected to set appropriate credit period giving enough time to allow the customer derive the full benefits of the credit.

Enticement to repay loan on time - banks need to entice loan beneficiaries to repay on such enticement must be motivating enough before the aim can be achieved. (Asiedu-Mante (2011))

Cost of securing the loan - this implies that the bank must not grant credit where the amount to be expended on collecting the debt will likely be greater than the debt itself.

To blend these variables into an efficient workable system requires careful planning, controlling and co-ordination of all available human and material resources. Further, Asiedu-Mante (2011) describes loan management as involving the establishment of formal legitimate policies and procedures that will ensure that the proper authorities grant credit, the loan goes to the right people without any superior influence, the loan is granted for the productive activities or for businesses which are economically and technically viable, the appropriate size of loan is granted, the loan is recoverable and there is adequate flow of management information within the organization to monitor the loan activity. Undeniably, loan goes with risk seen as the distribution of financial losses due to unexpected changes in the credit quality of counterparty in a financial agreement. He also sees it as the probability of default or any type of failure to honor a financial agreement. Kay (2002) indicated that the probability of default is estimated by specifying a model of investor uncertainty; a model of the available information and its evolution over time; and a model definition of the default event. Jensen and Payne (2006) admit that banks operate within a sound and well-defined criteria for new credits as well as the expansion of existing credits. Banks make sure that credits extend within the target markets and lending strategy of the institution.

Before allowing a credit facility, the bank must carry out an identification exercise through an assessment of risk profile of the customer/transaction. Such identification exercises include: credit assessment of the borrower's industry, and macro-economic factors, the purpose of credit and source of repayment, track record/repayment history of borrower and assess/evaluate the repayment capacity of the borrower.

Rosenberg (2006) advocated that credit customers can also be identified the proposed terms and conditions and covenants, adequacy and enforceability of collaterals and as well ensuring that loan application is accepted by the required authority.

Siaw (2013) adds that disbursement of loan should be effected only after completion of covenants, and receipt of collateral holdings having ensured that the loan application has proper approval before entering facility limits into computer systems. In case of exceptions necessary approval should be obtained from competent authorities. After the loan is approved and disbursed, the loan should be continuously watched over keeping track of borrowers' compliance with credit terms, identifying early signs of irregularity, conducting periodic valuation of collateral and monitoring timely repayments.

Any exceptions such as non-payment or late payment should be tagged and communicated to the management. Proper records and updates should also be made after receipt.

According to Appiah (2011) advises institutions to devise procedural guidelines and standards for maintenance of credit files. The credit files include all correspondence with the borrower and also contain sufficient information necessary to assess financial health of the borrower and its repayment performance. Such files must be organize information in such a way as to facilitate review by the external / internal auditors. Appiah (2011) further reiterates that institutions should ensure that all security and collateral documents are kept in a fireproof safe under dual control. Registers for documents should be maintained to keep track of their movement. Where insurance coverage supports the documents, procedures should also be established to track and review relevant insurance coverage for certain facilities/collateral. Physical checks on security documents should be conducted on a regular basis. (Evans O., Benjamin A. A. & Emmanuel A. K. (2017))

2.1.5 Accounting for Bad Debt

There are two methods to account for bad debt: direct write-off method directly expensed in the income statement when a receivable is considered not collectible, and allowance method is an estimate of the receivable made at the end of each fiscal year.

These amounts are then accumulated in a provision account. The specific receivables are reduced every year by these amounts as per the requirement.

(https://efinancemanagement.com/financial-accounting/bad-debts)

2.3. Empirical review

Since NPL is the problem of the banks, many researchers focused on the study of the determinants of NPL. This section presented the empirical review of some researchers related with NPL.

Sirak Aynalem, (2016) studied the factors affecting Non-Performing Loans: In case of Commercial Bank of Ethiopia, and he presented his findings in two set of factors as causes of NPL: the first set is individual bank-specific factors that contain loan growth rate, operational efficiency, return on equity, loan to deposit ratio, bank size, and the second set he identified is macroeconomic indicators which include gross domestic product (GDP) growth rate unemployment rate, rate of inflation.

Ermias Mekonnen, (2020), was conducted to assess the Loan Recovery Performance of DBE, he tried to show the determinants of NPL and he divided the factors into internal and external factors. From those internal factors malpractice of loan police and procedures, lack of close follow up, lack of skilled man power, and inadequate customer due diligence assessment has negative influence on the Loan recovery performance of the Bank. The external factors were discovered that; rate of inflation, Gross Domestic Product and interest rate are the major macro-economic factors that affect the loan recovery performance of the bank. This therefore lead the Bank to problem of cash flow which increased provision held. This also reduced the profitability of the Bank. Moreover, it affected the capital adequacy and liquidity which could lead to situation where the Bank would not be in a position of granting of new facility, and also increasing of non-recovery of Loans that incur other costs of the Bank that are associated with debit Recovery. And some of his recommendations are, the bank should: give continuous training for its employees, use the five C’s effectively, develop a strong credit assessment and follow up, give technical support for all financed projects, and revise its interest rate for both priority and non-priority areas in order to enhance its loan recovery performance.

Delil Akmel, (2019) studied the determinants of non-performing loan: the case of Ethiopian commercial banks, he tried to show the causes of NPLs putting the bank as well as the economy in danger: lack of credit appraisal and assessment, the weakness of the accounting disclosure and legal frame works, reduced attention to borrowers/poor monitoring and follow up, poorly negotiated credit terms, lack of knowledge and skill of lenders and borrowers, loans without collateral, borrowers credit culture are bank specific where as political interference and absence of separated Asset Management Company (AMC), less adoption of developed countries experience, lack of criteria for estimating assertive in the existing market, political instability, macroeconomic instability which could be expressed as failure of the overall economy with high inflation rate, unsound assessment of the borrower credit worthiness by lenders and weak risk consciousness and lack of strict admittance polices which is consistent with the lending policies of banks. On the other hand, that bank size and ownership type has no significant impact on the occurrence of NPLs.

Francis Bawoledam Aballey B.A. (Hons.), (2009) the study was carried out to establish the impact of bad loans on the financial performance of banks, focusing on the ADB. This study presented how the NPL hurt the bank's profit, and he reported that, ineffective monitoring of loans and poor credit appraisal are the major causes of NPL.

Endale Kiflu (2015) studied the assessment of loan recovery performance in Development Bank of Ethiopia (DBE), he argued that inefficient loan recovery performance adversely affects the overall operation of the Bank. As per his study, inadequate credit assessment, loan disbursement procedures, inefficient project follow up, absence of periodical evaluation of loan policies and procedures, unreasonable loan repayment period, inappropriate collaterals estimation, inadequate loan disbursement procedure derive the bank to inefficient loan recovery performance.

Tinsae Assefa, (2020) studied determinant of non-performing loan in the case of development bank of Ethiopia, Gondar district; he classified the major factors of NPL in to two main categories: the bank specific factors and the borrower specific factors. The bank specific factors are poor credit appraisal and project monitoring/follow up and the borrower specific factors are loan diversion, willful defaults and poor credit management.

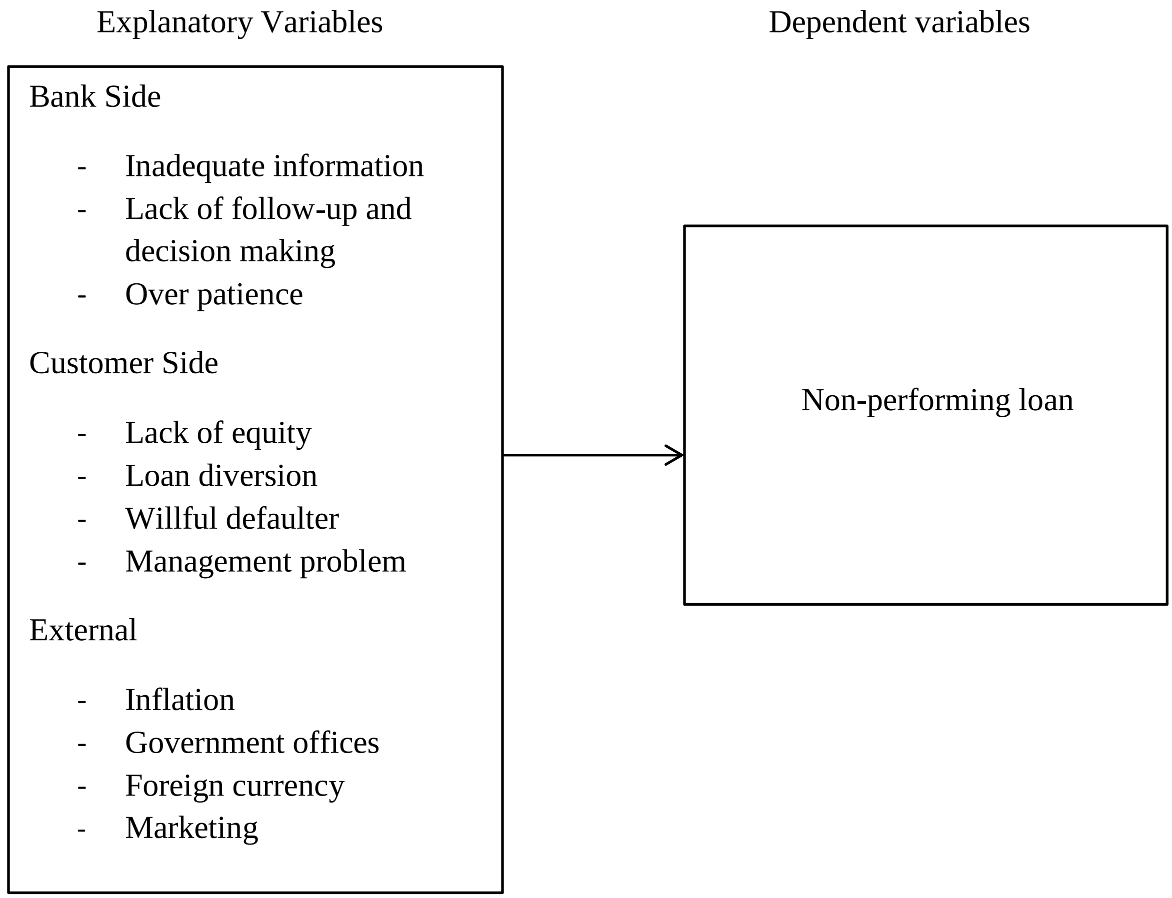
2.4. Summary and Literature Gap

Almost all literatures presented the determinants of NPL but not indicate the exact effect of NPL on the bank's performance. This paper attempts to show how the provision for NPL eroded the DBE's profit using the bank's financial statement as evidence (see appendix B). Due to various reasons, the bank has not been able to collect the money it has granted to borrowers; this inability of collection of the granted money could suffer the bank as well as the country. The provision for NPL has been presented on the bank's financial statement and it eroded the bank's profit (see appendix B), losing its money, the country's economy has being suffered by losing foreign currency by expelling the investors from the industry and closing factories that could generate foreign currency, and some factories are being closed/idle/. In addition to the loss of its money granted as a loan, the bank has to cover the acquired companies' expenses including the companies' employees' salary. For example AYKA Addis Textile and investment group PLC the vertical integrated factory has been acquired by DBE since 2019, after the bank acquired the factory and fired the owners, DBE as well as the country lost foreign currency that could be gained from the factory's export transactions, without generating income the bank is forced to cover the factory's expenses including more than 4300 employees' salary.

2.5. Conceptual Framework

Figure 2.1 shows a relationship between the independent variables, includes, inadequate information, lack of follow-up and decision making, over patience, lack of equity, loan diversion, willful defaulter, management problem, inflation, government offices, foreign currency and marketing and the dependent variable non-performing loan.

Figure 2.1 Conceptual frameworks



Source: Developed by the Researcher

CHAPTER THREE

RESEARCH METHODOLOGY

3.1.Introduction

This chapter deals with the research design, sampling design, research approach, type and source of data, data collection and ethical consideration.

3.2.Research Design

The main objective of this study was to examine the determinants of non-performing loans in Development Bank of Ethiopia Main Office. The study used explanatory research design and has adopted semi-structured interview to achieve stated objectives of study.

3.3.Sampling design

The population of this study is Development Bank of Ethiopia, especially in the case of Addis Ababa Head Office.

The sample selected for the study based on data available for consecutive five years (2016-2020).

3.4. Research Approach

The study applied mixed: qualitative and quantitative research approach to analyze and interpret data. Quantitative research approach mainly concentrate on the collection of quantitative data, which will result in a systematic report comprised of numbers constructed by researchers using measurement procedures and imposing structure (Gezahegn Deribew, 2022). The qualitative method is defined as "a method of information inquiry in which the researcher develops a complex, holistic picture, analyzes words, reports detailed informant views, and conducts the study in a natural setting." In this approach, the researcher makes knowledge claims based on constructivist perspectives. The use of this method ensures that the collected data is effectively interpreted and analyzed through the use of descriptive statements. The mixed method approach uses both quantitative and qualitative approaches concurrently to be more effective and beneficial to the study and thus goes beyond simply collecting and analyzing quantitative and qualitative data from the study

3.5.Type and source of data

The study used primary and secondary data. Primary data was collected by applying semi-structured interview with the bank loan officer of Development Bank of Ethiopia and secondary data was collected from audited financial statements of Development Bank of Ethiopia, Development bank of Ethiopia's manual, the bank's policy, the directives of National Bank of Ethiopia and also retrieved materials from internet.

3.6.Data Collection

This study used primary and secondary data. Primary data was collected by applying semi-structured interview (face-to-face) with the bank loan officer of Development Bank of Ethiopia and secondary data was collected from five consecutive years audited financial statements of Development Bank of Ethiopia, Development bank of Ethiopia's manual, the bank's policy, the directives of National Bank of Ethiopia and also retrieved materials from internet. The primary and secondary data was collected in order to complete the research objectives mentioned in chapter one of the researchers study.

3.7.Ethical Consideration

The ethical issues to be considered in the study include worthiness, consent, and confidentiality. To ensure the respondent and all those who had participated in the study have been provided with all the relevant information about the study in order to ensure that they understand the nature of the study, objectives of the research and the benefits to the researcher.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND DISCUSSION

4.1.Introduction

This chapter deals with analysis, discussion of findings and results in order to complete the research objectives mentioned in chapter one of the researchers study.

The study conducted to assess the cause of bad debt at Development Bank of Ethiopia (DBE), main office. Here the empirical work presents, which is collected through interview, review DBE's manual, DBE's audited financial report, NBE's directives.

4.2.Classification of loan

For the purpose of these directives, development finance institutions shall classify all their loans; into the following five classifications categories using the criteria described below:

Pass - Loans in this category are fully protected by the current financial and paying capacity of the borrower and are not subject to any criticism. Notwithstanding the generality of this statement, the following loans shall be classified pass:

Short term loans past due for less than 30(thirty) days, medium and long term loans past due for less than 180 (one hundred eighty) days; and any loan, or portion thereof, which is fully secured, both as to principal and interest, by cash or cash-substitutes, regardless of past due status or other adverse credit factors.

Special mention - The following loans at a minimum shall be classified special mention: Short term loans past due for 30(thirty) days or more, but less than 90(ninety) days; medium and long term loans past due 6 (six) months or more, but less than 12 (twelve) months.

Substandard - The following non-performing loans at a minimum shall be classified substandard: short term loans past due 90 (ninety) days or more, but less than 180 (one hundred eighty) days; medium and long term loans past due 12 (twelve) months or more, but less than 18 (eighteen) months.

Doubtful - The following non-performing loans at a minimum shall be classified doubtful: short term loans past due 180 (one hundred eighty) days or more, but less than 360 (three hundred sixty) days; medium and long term loans past due 18 (eighteen) months or more, but less than 3 (three) years.

Loss - The following non-performing loans at a minimum shall be classified loss: short term loans past due 360 (three hundred sixty) days or more; medium and long term loans past due 3 (three) years or more. (NBE Directives No. SBB/52/2012)

When a loan falls into these three categories: substandard, doubtful and loss it is called NPL.

4.3.The cause of bad debts

As per the respondent, the cause of NPL divided into three categories: by bank side, by customer side and external. To answer what is/are the cause of bad debts, the respondent said, "*The cause of NPL divided into three categories by bank side, by customer side and external.*

1. ***By bank side****: - to approve and release the loan first the customer shall bring well studied proposal to get the loan and the bank also appraises the project by itself.*

Inadequate information *– through the shortage of sufficient data the bank could take the customers' data, therefore the bank exaggerate the project, omit some information, and also lack of technical knowledge etc. drives the bank to apprise the project inappropriately. The bank reviews the customer's history before processing the loan. KYC (know your customer) undertakes. The bank should assess the following: what is the customer's background? Does the customer have credit history? Does the customer pay his/her credit properly? If the customer is local the bank can get information, but it is difficult to get complete information on foreigners, the bank tried to get information through their embassy but could not get full information which is why they could not pay their debts.*

Lack of follow-up and decision making *– from loan disbursement up to collection the bank undertakes full follow up: under implementation, full follow up works quarterly; where is the project? What are the problems? How can we solve them? These and the* *like questions should be answered. At operation the follow up is semi-annually and if there is something new information about the customer/the project the bank can undertakes its follow-up at any time. After these follow-ups, the problems are identified but the problems remain unsolved. This lack of decision takes the bank into the NPL.*

Over patience *– DBE tolerates and over patience to help the project to get them out from the problem by reschedule the payment, by providing additional loan and the likes. This over patience contributes the growth of NPL and decline the loan recovery performance of the bank and sometimes this bank's action drives the project to the worst condition.*

2. ***By customer side****:-*

Lack of equity *– the customer contributes 25% (either by cash or in kind) and the bank covers 75% of its total equity, the customer is supposed to block the 25% because the bank wants to see the customer's commitment and also after the loan has approved the customer is going to use the blocked amount first, unless the bank doesn't release its loan; the customer could stay for 6 months and more without contribution of the stated amount after the agreement has signed.*

Loan diversion *– it is the same with lack of follow up. As good customers available there are customers come with different goal. Some customers divert the loan to another business or use for personal issue without consent of the bank. This action leads the loan to NPL. For example: Someone takes loan for agriculture but builds a building or moves to another business.*

Willful defaulters *– sometimes some customers are operational and profitable but they are not willing to pay.*

Management problem – *management is very important for a business. Strong management takes the company to success at the same time weak management could be the cause of the company's failure. Business wants the management time, focus and effort to succeed. Lack of focus, marketing and lack of technical knowledge are some of management problems. Work segregation necessary to the business. The* *customer may have more than two business areas, and try to manage these businesses by himself. But every business needs follow-up and technical knowledge so one cannot manage all these things on its own. For example: Agriculture requires careful monitoring, spraying chemicals, and can be easily damaged if not technically controlled. In this case, the project cannot go forward or the product could not be produced as it wished, if that so, the project could not pay the debt.*

3. ***External****:- they are problems external of the bank as well as the project:*

   Inflation *– the investment cost planned at the beginning couldn't enough because of price increment/inflation, so the customer is forced to take additional loan. Additional loan has its process to grant by the bank, so the time is goes unplanned but the system already started to count the interest at the beginning of disbursement, before the business starts its operation the interest become more than the loan.*

   Government *– some government offices are not cooperative. To get trade license, investment license and other documents, the customer should wait long times, this delay increase the interest and get in to NPL and the project fail before it reaches its goal.*

   Foreign currency *– machineries and raw materials imported from abroad, but it may take 4 or 6 months maybe 1 year to release.*

   Marketing *– due to many cases the project fail to get market access and keep holds its product, the project is unable to sell its product means it may not have working capital and if there is no working capital, the project cannot rut the business and the loan will go to the NPL."*

4.4. Does the bank release the loan based on the process?

The respondent said, "*First, when the loan is assessed, what is the project? How much money is needed? And when will it be released? These should set clearly and shall do by this way. First the building shall build, then plant the machinery and finally purchase of raw materials. During construction, the basement is done first, after the basement is completed, the customer reports to the bank and then asks for the next step. In this way* *the bank evaluates the process and releases the loan based on the process. That is why the bank follow-ups it quarterly while it is in progress."*

4.5.What does the bank do to avoid bad debt?

The respondent said, "*The bank provides loan and collects the loan with its interest to sustain itself, but the bank's main goal is development, not profit. So it tries very hard to prevent the project from getting into the NPL. For example: reschedule the payment, if the problem is lack of working capital it provides working capital even they didn't pay, provides additional loan, if the problem is external, try to solve them. Sometimes some problems are beyond the control of the bank and the borrower, in which case the bank tries to identify the problems and approach the external parties, but the problems can only be solved with the cooperation of external parties.*

For example: there was an agricultural project, the drought happened and irrigation was needed, the electricity was necessary to implement and test the irrigation but it took more than two years to get electricity and the project failed and then the bank took over the project. In this case, the bank has already identified the problem but has not been able to do anything about it.

There are procedures used to list the problems, current status, the solution, what is the recommendation to solve the problems? Who can solve the problems? and then finally prepare action plan.

Because of the problems mentioned above, the bank couldn't collect its money fully and timely. There are many customers who are paying arrears, to take action, for example, before entering the NPL, the bank may close the project or force them to pay, but in order to enforce them, it must make arrangements for them. They do carry the burden such as: external burden, inflation, market problem, connected to social security, etc. Often the bank collects the money with great effort."

4.6. Periodically assessment of the customers' financial statement

For the question if the bank asses the customers' financial statement periodically, the respondent replayed, "*They have been required their financial statement to evaluate their performance and based on their performance to take action. But as per DBE it is not worthy. By concerning what might be happen if the project is closed, considering the* *situation in the country, the consequences of dispersing workers, the bank goes further and provide additional loan. Although the financial statement shows loss, no profit the bank provide additional loan to retain the project."*

4.7. Which business sectors are exposed to NPL?

The respondent answered, "*The bank is financing mainly for four business sectors: Agriculture, Manufacturing, Mining and Agro Processing. Manufacturing business sector - garment and textile sub-sectors are exposed to NPL. Because they are so numerous; there are also problems with marketing, raw materials and technical knowledge. They make up 80% share of the total NPL."*

Table 4.1: Loan by borrowing business sector '000' Birr

Sector	2020	2019	2018	2017	2016
Agriculture	10,398,513.00	8,048,752.00	7,504,406.00	6,909,535.00	5,806,251.65
Manufacturing	32,626,033.00	32,135,804.00	27,183,741.00	23,780,670.00	19,298,538.31
Mining and Energy	1,068,348.00	879,128.00	759,915.00	579,897.00	
Service	447,893.00	394,109.00	401,353.00	504,046.00	
Lease Services	3,879,065.00	4,255,718.00	1,792,375.00	357,904.00	
Micro-financing	5,442,290.00	4,196,959.00	3,326,634.00	3,048,475.00	
Working Capital	1,575,747.00	1,242,078.00			
Individual loans				14,769.00	
Consumer (Staff)	353,683.00	267,326.00	257,387.00	175,737.00	166,703.57
Other Business					4,022,461.33
Total	**55,791,572.00**	**51,419,874.00**	**41,225,811.00**	**35,371,033.00**	**29,293,954.86**

Source: Annual Audit Report, 2016 - 2020

As the table 4.1 presented above, the Manufacturing has more than half share of the total loan disbursed each year.

4.8. Does the collateral match with loan? Does the collateral sold and the debt repaid? What does the bank do for these situations?

The respondent said, *"At the beginning study of the project, the bank appraises the collateral and the feasibility of the project. The project's fixed asset excluding working* *capital should cover the bank's 100% loan. 25% the customer contributes and 75% of the total investment covers by bank. When the time passes, the fixed asset decreases its value by depreciation and other cases and loan increases and becomes more than the collateral value by interest. If so, the project cannot pay its debt and enter to NPL. If the project cannot pay the debt the bank forecloses and sells the project and if it couldn't be sold, the bank overtakes the project. The collateral may not be enough to cover its loan, so the difference of the loan and the value of collateral is the bank's loss. The bank overtakes the project's fixed assets by current market price, if it couldn't cover its debt, the bank seeks external assets registered by the company name, unless writes off the debt."*

4.9. Manage companies in bad debt

How does the bank manage the companies in non-performing loan? The respondent answered, *"The companies those are not able to pay their debt are going to acquire by bank. To manage those companies the bank applies the following mechanisms:*

Loan repayment rescheduling: *if the project has loan and interest arrears before starting operation, the bank gives them holiday period for six months. By rescheduling the payment period, they start operation and they start payment gradually.*

Provision of additional and/or working capital loans: *if provision of additional investment and/or working capital loans is considered necessary for rehabilitation of projects, the bank provides.*

Loan transfer to third party*: if the borrower believes s/he cannot manage the project and comes with third party to transfer, the bank shall be made the due diligence assessment on the new client and if the bank accepted the new comer and considered the loan is recoverable, the loan shall be transferred."*

Management intervention: management Intervention is one of sick loan rehabilitation mechanisms, whereby the Bank intervenes in the management role of a given project by way of involving in day-to-day management tasks fully/ partially aimed at intensive care and close assistance by the Bank. The purpose of management intervention is to assist the project improve its management and realize its objectives by maintaining the continuity of normal operation in such areas like farming to keep plants alive,: protect properties from thefts; continuation of the usual operations like nursery management, production and marketing activities; avoid diversion of loan/project proceeds and conflict of interest in purchases and/or sales of project proceeds. *(Project Rehabilitation, Foreclosure and Acquired Asset Management Procedural Manual (Draft), Prepared By: PRLRP, September 2012).*

Reorganization: a project could be reorganized based on the request of the borrower/s by mobilizing additional resources and shareholders as a resolution mechanism. In this case the reliability of the new comers and feasibility of the request have to be analyzed based on due diligence and reappraised to be approved by the LAT/President as appropriate. *(Project Rehabilitation, Foreclosure and Acquired Asset Management Procedural Manual (Draft), Prepared By: PRLRP, September 2012).*

Debt restructuring: DBE shall restructure debts of projects as one of the resolution mechanism of sick or troubled loans. By debt restructuring mechanism the Bank may modify or relax the terms of the loan agreement to minimize eventual losses of a borrower who is financially incapable of meeting its financial obligations by modifying the loan agreement. Debt restructuring could possibly include; reduction in the applicable interest rate; cancellation of compounded interest resulting from capitalization of interest; reduction or cancellation of suspended interest; or extension of the loan repayment period (scheduling the loan repayment). Debt restructuring should be applied to priority area projects that are in difficulty to service their loans due to reasons beyond their control such as market crises, policy changes, economic crises etc.; however, the provision for debt restructuring does not include projects that are already foreclosed and whose collateral is disposed. Management interventions and debt restructuring shall be approved by the President or through the President by the BOM. *(Project Rehabilitation, Foreclosure and Acquired Asset Management Procedural Manual (Draft), Prepared By: PRLRP, September 2012).*

Combination of Rehabilitation Mechanisms: this NPLs resolution mechanism may be applied individually or in combination with other facilities depending on the severity of the debt burden and the extent that a particular project performance is affected. If for instance one of the alternatives (rescheduling of loan repayment) does not respond to cure the sickness, additional loan might be included as package. Loan transfer could also be favored with and additional loan provided it satisfies the Bank's credit requirement and so forth. This means that there is no one way of or a formula in project rehabilitation/workout but a wide area of alternatives and opportunities to tap creatively and make the project work to the extent of considering turn around. *(Project Rehabilitation, Foreclosure and Acquired Asset Management Procedural Manual (Draft), Prepared By: PRLRP, September 2012).*

4.10. Change of NPL rate

Is the NPL rate is increase/decrease in the coming years? Why? The respondent answered, *"The NPL rate is currently declining, it was reached up to 35-36%, but it is now down to 26%. Due to reduction of lack of non-cooperation of government agencies and the problem of government intervention, the banking process has been streamlined and the bank is doing well in collecting. Therefore, the NPL rate is decreasing and decreasing well. The bank's goal is to reduce it by less than 15%."*

4.11. The effects of non-performing loan on DBE's performance

What are the effects of NPL on bank's performance? The respondent answered, "*The bank continues its life by revolving the cash from one borrower to another, the bank collects the principal with its interest and pays its loan borrowed from NBE. The source of the cash to lend to the borrowers' is from NBE. DBE by itself is a borrower from NBE. If the loans are not collected, it is hazard for the bank's life and it declines the performance of the bank. In addition to this there is provision should maintain on bank's financial statement. This provision has effect on bank's profit, because the profit is calculated after deduction of this provision. If the NPL gets to substandard the provision will be 20% , doubtful is 65% and if the NPL gets to loss the provision will be 100%, for example if the bank distributed 1million birr loan and the bank profit is 1 million, the bank's profit for that period is zero. And also the collateral may not be enough to cover its loan, so the difference of the loan and the value of collateral is going to be the bank's loss. By such case, the bank could not go as desired. And, the bank is vulnerable to pay unnecessary expenses due to taking over and managing the companies in NPL. Without* *generating income from them, paying the expenses incurred including the employees' salary.* "

As per the NBE directive, the bank shall provision for all NPLs, which means, the bank shall maintain a provisions for loan losses account which shall be created by charges to provision expense in the income statement. See table 4.2.

Table 4.2 Percentage of provision for loan

Article	Classification Category	Minimum Provision for Short, Medium and Long Term Loans
8.3.1	Pass	1%
8.3.2	Special Mention	3%
8.3.3	Substandard	20%
8.3.4	Doubtful	65%
8.3.5	Loss	100%

NBE Directives No. SBB/52/2012

The effect of NPL on operating profit – NPL has significant negative effect on profit of the bank. Table 4.3 shows the effect of NPL on operating income.

Table 4.3 Effect of NPL on operating profit '000' Birr

Year	Operating income before charge for bad debt	Charge for bad debt	Operating income after charge for Bad debt	Ratio of bad debt to operating income (%)
2016	1,813,641.63	1,042,746.88	770,894.75	57.49%
2017	2,047,072.00	1,734,461.00	312,611.00	84.73%
2018	3,531,396.00	4,412,448.00	(881,052.00)	124.95%
2019	3,584,529.00	4,187,688.00	(603,159.00)	116.83%
2020	4,369,935.00	1,355,014.00	3,014,921.00	31.01%
Total	**15,346,573.63**	**12,732,357.88**	**2,614,215.75**	**82.97%**

Source: Annual Audit Report, 2016 - 2020

As shown above, the total operating income Birr 15,346,573,630.00 was reduced by NPL of Birr 12,732,357,880.00 (82.97% of total operating income) when it can use it.

Operating income has been reduced by 57.49%, 84.73%, 124.95%, 116.83% and 31.01% for 2016, 2017, 2018, 2019 and 2020 respectively, (See Table 4.3). As the table indicated, the ratios presented in 2018 and 2019, bad debts eroded operating income of the bank by 124.95% and 116.83% respectively, depicting the greatest adverse impact of bad debts on operating income of the bank during the period. In contrast the smallest NPL ratio to operating income resulted in the highest profit during the operating period.

Analysis of the trend of NPL - This analysis is to establish the trend of non-performing loans during the period. The table below presented, represents the ratio of non-performing loans of the bank over the past years.

Table 4.4. Non-Performing Loan Ratio

Year	**Gross Non-Performing Loans Ratio**
2017	30.77%
2018	43.09%
2019	28.21%
2020	36.42%

Source: Annual Audit Report, 2016 - 2020

CHAPTER FIVE
CONCLUSIONS AND RECOMMENDATIONS

5.1. Introduction

The purpose of this chapter is to discuss the conclusions and recommendations based on the findings. Accordingly, the chapter is organized in four sections, the first section is introduction, the second section presents the conclusions of the study, and the third section presents the recommendation part and finally the future research direction.

5.2. Conclusion

The main objective of this research was to assess the cause of non-performing loan at Development bank of Ethiopia (DBE). To achieve this objective, the study presented by explanatory research design and has adopted semi-structured interview with the Development bank of Ethiopia's loan officer to collect the primary data; and used secondary data: reviewed the written materials, Development bank of Ethiopia's manual, bank's policy, the directives of National Bank of Ethiopia and also retrieved materials from internet. The study applied mixed: qualitative and quantitative research approach to analyze data. In addition, ratio of bad debt to operating income calculated. The empirical findings of this study divided the causes of NPL into three: by bank side, by customer/borrower side and external.

The bank side contains inadequate information, lack of follow-up and decision making and over patience. The customer side: lack of equity, loan diversion, willful defaulters and management problem. These are the causes of NPL that occurred on the customers. External: inflation, foreign currency, government and marketing are the causes of NPL are beyond the bank and the customers' capacity.

The three categories categorized as the cause of NPL have the negative outcome on the bank's performance. As per the NBE directive, DBE shall provision for all loan. This provision for loan is appears on the profit and loss statement and it deducts the profit. As discussed on the previous chapter, this provision smashed 82.97% of total operating income of the bank and also the collateral may not be enough to cover its loan, so the difference of the loan and the value of collateral is the bank's loss. By such case, the bank could not go as desired. And also, the bank is exposed to pay unnecessary expenses due to taking over and managing the companies in NPL. Without generating income from them, paying the expenses incurred including the employees' salary.

5.3. Recommendation

According to the study findings and conclusions stated above, these recommendations have been set out:

Due to the problems presented in conclusion section; the bank has to apply decisions accordingly. For example: if it is not worthy to manage the companies in NPL, the bank has to sell the company even the selling price doesn't match with its debt, if the company doesn't generate income, by closing the company the bank could cut off its expenses other than employees' salary or transfer the employees to active companies under its management.

To grant loan, especially additional loan, the bank should take care before release it. Especially on its foreign clients, there must special assessment on them to avoid carrying their burden.

5.4. Future Research Directions

When this study undertook, primary and secondary data was collected according to the bank, not included the borrower side. So for future research, the researcher can study from the borrowers' point of view.

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Appendixes

Appendixes A

Interview guideline

1. What is the cause of bad debts? By what criteria is a loan defaulted? How often do we say it is bad debt?
2. When the loan is released, will the feasibility study be considered? Does the collateral appraised properly? And do the customers' credit background asses properly?
3. Does the bank release the loan based on the process?
4. What does the bank do to avoid bad debt? Does it have procedures?
5. Does the bank collect its loan according to the schedule?
6. Does the bank asses their financial statement periodically?
7. Which business sectors and borrowers are foreign / local those are exposed to NPL? Why?
8. Do the collateral and loan match? Has the collateral been sold and the debt repaid? What does the bank do for those whose debts they have not been able to cover?
9. How does the bank manage companies in bad debt?
10. Is the NPL rate is expected to increase/decrease in the coming years? Why?
11. What is the effect of bad debt on the bank's performance?

Appendix B

Profit and Loss Account as at 31st December (`000)

	2020	% Change	2019	% Change	2018	% Change	2017	% Change	2016
Interest Income	6,839,977.00	18.71	5,761,780.00	23.06	4,682,203.00	69.41	2,763,900.27	(1.90)	2,817,539.09
Interest Expense	(2,657,601.00)	11.18	(2,390,326.00)	50.74	(1,585,699.00)	17.15	(1,353,586.28)	12.49	(1,203,316.29)
Net Interest Income	4,182,376.00	24.05	3,371,454.00	8.88	3,096,504.00	119.56	1,410,313.99	(12.63)	1,614,222.80
Fee and commission incor	270,563.00	(20.03)	338,343.00	21.56	278,323.00				
Other operating income	424,052.00	49.93	282,842.00	219.56	88,510.00	(55.05)	196,914.87	(1.26)	199,418.84
Total operating income	4,876,991.00	22.15	3,992,639.00	15.28	3,463,337.00	115.48	1,607,228.86	(11.38)	1,813,641.63
Loan impairment charge	(1,355,014.00)	(67.64)	(4,187,688.00)	(5.09)	(4,412,448.00)	577.88	(650,918.75)	(37.58)	(1,042,746.88)
Impairment reversal/(Loss	(507,056.00)	24.24	(408,110.00)	(699.64)	68,059.00				
Net operating income/(los	3,014,921.00	(599.86)	(603,159.00)	(31.54)	(881,052.00)	(192.13)	956,310.11	24.05	770,894.75
Operating Expense									
Personnel expenses	(685,690.00)	39.17	(492,705.00)	3.55	(475,801.00)	21.28	(392,306.14)	58.25	(247,896.83)
Bad debts written off						(100.00)	(7.41)	(98.44)	(473.59)
Depreciation of investmer	(8,819.00)	125.78	(3,906.00)	(56.58)	(8,995.00)				
Amortization of intangible	(10,426.00)	65.02	(6,318.00)	38.01	(4,578.00)				
Depreciation and impairm	(83,349.00)	14.98	(72,491.00)	(3.60)	(75,200.00)	88.45	(39,904.24)	13.71	(35,093.53)
Depreciatin of right-of-use	(23,472.00)								
Interest expense on lease	(1,596.00)								
Other operating expenses	(359,500.00)	15.12	(312,282.00)	36.02	(229,590.00)	44.24	(159,172.64)	31.24	(121,281.07)
Total operating expenses	(1,172,852.00)	32.12	(887,702.00)	11.78	(794,164.00)	34.29	(591,390.42)	46.11	(404,745.03)
Profit/(loss) before tax	1,842,069.00	(223.56)	(1,490,861.00)	(11.00)	(1,675,216.00)	(559.06)	364,919.69	(0.34)	366,149.72
Income tax Income/(exper	27,675.00	(115.27)	(181,279.00)	(10.54)	(202,629.00)	418.66	(39,068.07)	(630.05)	7,370.69
Profit/(loss) after tax	1,869,744.00	(211.82)	(1,672,140.00)	(10.95)	(1,877,845.00)	(676.29)	325,851.62	(12.76)	373,520.42
Other comprehensive income (OCI) net of income tax									
Items that will not be subsequently reclassified into profit or loss:									
remeasurement gain/loss	31,763.00	(501.45)	(7,912.00)	(35.60)	(12,285.00)				
Net charge in fair value of	11,909.00	(26.21)	16,138.00						
Deferred tax expense/ (inc	(13,101.00)	430.83	(2,468.00)	(166.96)	3,686.00				
Total other comprehensiv	30,571.00	430.93	5,758.00	(166.96)	(8,599.00)		-		-
Total comprehensive Incoi	1,900,315.00	(214.04)	(1,666,382.00)	(11.67)	(1,886,444.00)	(678.93)	325,851.62	(12.76)	373,520.42
Profit/(loss) attributable to:									
Owner of the bank	1,869,744.00	(211.82)	(1,672,140.00)	(10.95)	(1,877,845.00)	(676.29)	325,851.62	(12.76)	373,520.42
Non-controlling interest									
Profit/(loss) for the year	1,869,744.00	(211.82)	(1,672,140.00)	(10.95)	(1,877,845.00)	(676.29)	325,851.62	(12.76)	373,520.42
Total comprehensive Income/(loss) attributable to:									
Owner of the bank	1,900,315.00	(214.04)	(1,666,382.00)	(11.67)	(1,886,444.00)	(678.93)	325,851.62	(12.76)	373,520.42
Non-controlling interest									
Total comprehensive inco	**1,900,315.00**	**(214.04)**	**(1,666,382.00)**	**(11.67)**	**(1,886,444.00)**	**(678.93)**	**325,851.62**	**(12.76)**	**373,520.42**

Balance Sheet as at 31st December (`000)

	2020	% Change	2019	% Change	2018	% Change	2017	% Change	2016
Assets									
Cash on hand and bank balances with NBE	13,277,888.00	74.81	7,595,676.00	8.92	6,973,920.00	51.48	4,603,770.31	13.85	4,043,588.42
Loans and advances to customers	43,265,674.00	7.50	40,248,990.00	36.83	29,414,327.00	4.00	28,283,849.59	5.19	26,889,176.09
Investment securities									-
1. Financial assets measured at FVOCI	37,930.00	49.39	25,390.00	123.19	11,376.00				-
2. Financial assets measured at amortizd cost	32,354,893.00	4.24	31,038,403.00	(1.85)	31,624,349.00	101.95	15,659,624.21	(0.10)	15,674,571.94
Investment in subsidiary	9,999.00	-	9,999.00	-	9,999.00				
Other assets	5,852,829.00	73.65	3,370,382.00	(17.65)	4,092,917.00	10.04	3,719,516.41	42.89	2,603,101.99
Rights-of-use assets	30,397.00								
Investment property	210,264.00	(4.02)	219,082.00	1.77	215,278.00				
Intangible assets	107,889.00	39.24	77,484.00	117.41	35,639.00				
Property, plant and equipment	731,429.00	(10.16)	814,175.00	(1.10)	823,229.00	(8.54)	900,104.44	246.04	260,113.58
Deferred tax asset								(100.00)	5,394.63
Total Assets	**95,879,192.00**	14.96	**83,399,581.00**	13.93	**73,201,034.00**	37.68	**53,166,864.95**	7.46	**49,475,946.65**
Liabilities									
Deposit from customers	729,664.00	(8.87)	800,683.00	(28.06)	1,112,935.00	117.28	512,211.63	(36.11)	801,714.01
Current tax liabilities	200,458.00	88.69	106,236.00	(61.58)	276,498.00				
Other liabilities	6,691,541.00	53.37	4,363,118.00	9.24	3,994,223.00	(13.71)	4,628,680.22	53.84	3,008,723.01
Lease liabilities	15,200.00								
Debt securities issued	9,435,473.00	(3.72)	9,800,005.00	(6.63)	10,496,009.00				
Borrowings	70,963,000.00	13.88	62,315,634.00	14.25	54,541,222.00	36.05	40,089,864.00	6.09	37,788,925.59
Retirement benefit obligations	92,097.00	93.09	47,696.00	33.86	35,631.00				
Deferred tax liabilities	219,133.00	(8.71)	240,050.00	28.07	187,439.00	456.64	33,673.44		-
Total Liabilities	**88,346,566.00**	13.74	**77,673,422.00**	9.95	**70,643,957.00**	56.07	**45,264,429.29**	8.81	**41,599,362.60**
Equity									
Capital	7,500,000.00	-	7,500,000.00	-	7,500,000.00	-	7,500,000.00	-	7,500,000.00
Legal reserve	643,963.00	264.80	176,527.00	-	176,527.00	0.00	176,526.76	85.69	95,063.85
Retained earnings	(3,477,325.00)	(21.59)	(4,434,682.00)	(38.67)	(7,231,355.00)	(3,301.00)	225,908.91	(19.75)	281,520.19
Regulatory credit risk reserve	2,839,613.00	14.11	2,488,509.00	17.36	2,120,377.00				
Other reserves	26,375.00	(728.72)	(4,195.00)	(50.48)	(8,471.00)				
Total equity attributable to owner of the bank	7,532,626.00	31.55	5,726,159.00	123.93	2,557,078.00	(67.64)	7,902,435.67	0.33	7,876,584.04
Non-controlling interest							-		-
Total Equity	**7,532,626.00**	31.55	**5,726,159.00**	123.93	**2,557,078.00**	(67.64)	**7,902,435.67**	0.33	**7,876,584.04**
Total Equity and Liabilities	**95,879,192.00**	**14.96**	**83,399,581.00**	**13.93**	**73,201,035.00**	**37.68**	**53,166,864.95**	**7.46**	**49,475,946.65**