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**ASSESSMENT OF CREDIT RISK MANAGEMENT PRACTICE
IN CASE OF BUNNA BANK**

By

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DECLARATION

I, KidistDerese the undersigned hereby declare that the thesis work entitled “Assessment of credit risk management practice in case of bunna bank” is my original work. It had not been presented for a partial fulfillment for any educational qualification at this or any other university and all the resources used for this thesis had been accordingly acknowledged.

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APPROVAL

This is to approve that the thesis prepared by KidistDerese, “assessment of credit risk management practice in case of bunna bank” And submitted in partial fulfillment of the requirements for the degree of Master of Science in Accounting and Finance complies with the regulations of the university and meets the accepted standards with respect to originality and quality.

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Abstract

Credit risk management becomes major discussion issue in the financial institutions because of uncertainty related to borrowers business. The aim of this study is to assess the practice of credit risk management of bunna bank. In order to address this objective, the study targeted credit and loan department and district officers who currently work at the head office and of the bank and collected primary data. The primary data were collected through questionnaires. The study distributed 69 questionnaires from which 47 questionnaires were collect filled and returned. The collected data was analyzed using descriptive statically tools. The findings showed that there is the well-designed credit risk strategy and policy that clearly indicated and recognized areas of credit engagement and the risk inherent in these engagements. The findings also indicated that respondent employs believed there is a good level of credit appraisals and granting process at the bank that check borrower's history, financial condition and collateral requirements. Before granting loans furthermore the study showed that bunna bank was appropriate internal risk scoring system. Employee risk based scientific pricing and has an independent risk management function but results also indicated there is aroom for improvement with regarding to monitoring activities undertaken at bunna bank. In line with the findings of the study, it was suggested to the bank to enhance its monitoring process by regularly inspecting the business of clients after granting credits, develop different type of credit facilities to the borrowers as per the potential borrower preference and assess borrowers past financial history, credit worthiness.

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LISTS OF ACRONYMS AND ABBREVIATIONS

NPL; Non-performing loan

BU; Bunna Bank

BOD; Board of Director

NBE; National Bank of Ethiopia

CHAPTER ONE

1. INTRODUCTION

This chapter provides general information about the research topic in order to give some clues to the readers about study area. The chapter begins with the background of the study then followed by the statement of questions, and overall objectives, significance and scope of the study, limitation of the study and finally operational definitions of the study, and organization of paper.

1.1 Background of the Study

Credit risk is a popular type of risk that both non-financial and financial institutions must deal with. Credit risk occurs when a debtor/borrower fails to fulfill his obligations to pay back the loans to the principal/lender. In banking business, it happens when “payments can either be delayed or not made at all,” which can cause cash flow problems and affect a bank’s liquidity Greuning, V.Hennie&BratanovicB.and Sonja (2009). Hence, credit risk management in a bank basically involves its practices to manage or, to minimize the risk exposure and occurrence.

Any profit-maximizing business, including banks, needs to deal with risks, and in fact, bankers are in the business of managing risks (Hefferman, 2009). Therefore, risk and the banking business are inseparable. Although risk is the uncertainty that can cause damage for business, it is the phenomenon accompanying business activities in the market mechanism and in competition. For a commercial bank, lending activities form a critical part of its products and services.

Credit risk is the most obvious risk in the banking and possibly the most important in terms of potential losses. The default of a small number of key customers could generate very large losses and in an extreme case could lead to a bank becoming insolvent. This risk relates to the possibility that loans will not be paid or that investments will deteriorate in quality or go in to default with consequent loss to the bank. Credit risk is not only confined to the risk that borrowers are unable to pay; it also includes the risk of payments being delayed, which can also cause problems for the bank (Mac Donald and Koch, 2006).

Credit Risk Management can be treated as the heart of any Commercial Banks. It plays the vital role in the performance of a financial institution as it analyzes credit-worth-ability of borrowers. If there is any loophole in credit risk assessment, then recovery of the provided

loans and advances is challenged greatly. As a whole, profitability falls in a great uncertainty.

A bad loan often arises from different factors or combination of factors, but the most important reason is the absence of proper loan classification system. It can identify problem loans immediately and take necessary steps to minimize potential defaults and consequent losses.

Poor Credit Risk Management is the main consideration in case of Banks“ unsatisfactory performance and often the reason of bankruptcy (Md. Moeid, 2014)”.

Credit risk management is a structured approach to managing uncertainties through risk assessment, developing strategies to manage it and mitigation of risk using managerial resources. The strategies include transferring to another party, avoiding the risk, reducing the negative effects of the risk, and accepting some or all of the consequences of a particular risk (EngedaworkTadesse, 2014).

Among many factors that can lead to bank problems, poor credit risk management has always been pointed out by different writers as being the cause of bank problems and failures. This is basically banks make their profits from interest gotten after lending money to customer, a poor credit risk management during the lending process will also have negative results on the bank at the end and vice versa. Directors should be aware that, as accountants already know, non-payment is one of the most critical risks a company faces and all practical steps should be taken to mitigate this risk (Roberts and John, 2010).

The failure has a chain effect to influence payment systems and thus affect the whole economy in the long run. Despite the consequences of credit risk, it cannot be avoided because it is associated with the core activities of the bank. Banks like any other business entity makes their profits through loan granting so; a collapse is assured with the least mistake in the course of the process. The root cause of this problem has always been poor and unreliable information that lenders get from borrowers even though other factors including poor risk management can be associated.

Banks are financial institutions that are established for lending, borrowing, issuing, exchanging, taking deposits, safeguarding or handling money under the laws and guidelines of a respective country. Among their activities, credit provision is the main product, which banks provide to potential business entrepreneurs as a main source of generating income. They also provide loans, credit and payment services such as checking accounts, money orders, and cashier’s checks. Banks also may offer investment and insurance products and a

wide whole range of other financial services (Sahlemichael M, 2009).

1.2 Statement of the Problem

Risk management is very important concept and main part of any organization's activities that faces in operations. because managements help organization's activities in order to reach the objectives directly or indirectly (Tchankova, 2002).

Banks take risk they perform their role of financial intermediation in the economy. Consequently, they assume various risks, which include credit risk, interest rate risk, liquidity risk, foreign exchange risk and operational risk. Managing these risks is essential for their survival & prosperity of banks (National Bank of Ethiopia,2010).

Most importantly, Banks are exposed to credit risk since their principal profit-making activity is making loan, to their customers. Lending represents the heart of the industry. Loans are the dominant asset at banks; they generate the largest share of operating income and represent the banks greater risk exposure (Mac Donald and Koch, 2006). Because of debtor or borrower fails to fulfill his obligations to pay back the loan to the lender and also payments can either be delayed or not made at all, that causes for cash flow and liquidity problems of banks. As a result, there is problem of credit risk management practices in bank faces (Greuning&Bratanovic, 2009).

Among many factors that can lead to bank problems, poor credit risk management has always been pointed as the cause of bank problems and failures. This means if credit risk is not well managed, it can lead to failure. Thus, for any bank to succeed, its credit risk management must be handled with seriousness measurements must take. Because a loss occurs, the bank will have to "extend its hands" to get funds from other means to meet up or cover the losses it is important that before a bank gives a loan, it should try to review the borrower credit worthiness against the collateral that gives for loan request.

In today's changing financial landscape-environment of intense competitive pressure, volatile economic conditions, rising bankruptcies, and increasing levels of consumer and commercial debt; an organization's ability to effectively monitor and manage its credit risk can mean the difference between success and failure. Effective credit risk management attracts today more attention than before.

Interest income and interest expense are the main determining factors for the profitability of private banks in Ethiopia (Yigremachew, 2008).The negative relationship of credit risk to corporate profitability may be evident that the more commercial banks expos themselves to

credit risk, the more accumulation of unpaid loans, implying that these loan losses have produced lower returns to the banks. The accumulation of non-performing loans caused by lack of proper credit risk management would have substantial adverse impact on the performance of the banks in particular and the overall economy in general. In turn this affects the government by reducing its tax income and banks by imposing downward pressure on their respective profits and per share value of their stock price.

Apart from the above, significant amounts of non-performing loans emanating from lack or poor credit risk management system could hinder development and expansion of the Banks. It also leads clients to have lack of confidence and the Banks to lose their loyal and prominent customers.

Therefore, the principal concern of this paper is to ascertain to what extent Bunna bank can manage the credit risks, what tools or techniques are at their disposal and to what extent their current performance is supported by proper credit risk management policies and strategies.

1.3 Research Questions

This study attempts to answer the following research questions: -

1. What is the practice of credit risk management of Bunna Banks.co?
2. What are the major challenges influencing the credit management of Bunna Bank s.co?
3. How does credit granting process of Bunna Bank support the credit management process?

Objectives of the Study

1.4.1. General Objective

The general objective of the study was to assess the credit risk management practice of Bunna bank.

1.4.2. Specific Objectives

The specific objectives of the study include:

1. To evaluate the practice of credit risk management of Bunna bank
2. To identify the major challenges influencing the credit management of Bunna Bank s.co.
3. To examine the credit granting process of Bunna Bank support the credit management process

1.5. Significance of the Study

In general, the private and public bank will benefit from this research to understand credit risk management. It is also useful to government bodies i.e. NBE, financial policymakers that will directly be involved with a financial institution as it could provide a source of knowledge into the core business of banks specifically benefiting policymakers to understand the root cause of credit risk when they are reviewing procedures and policies. Investors who are interested to invest in financial institutions, policymakers, academicians, the bank customer, the public will benefit from this paper through the information available about the bank related to credit risk. In addition, the finding of this study will assist managers in planning appropriate decisions in day to day activity. In addition, scholars and researchers will find this study useful if they wish to use the findings as a basis for current and further research on the subject.

1.6. Scope of the Study

The research paper focuses on assessing the credit risk management practice of Bunna Bank. The study focused only bunna bank within the limit of cost and time high budgeted needed and to collect data easily.

1.7. Limitation of the study

Most of the bank's policy and procedure documents are not accessible to external party due to confidentiality. Thus, it is limited to credit performer's personal those restricted to access. Due to this, the researcher will be facing a problem of lack of willingness and carelessness of employee in giving information and evidence by some respondents

1.8. Organization of the study

The research project organized into five chapters: Chapter one has the introduction part dealing with research problems, research questions, objectives, definition of terms, significance of the study and scope. The second chapter was discussed the review of related literatures about the subject matter. Chapter three focused on the research design and methodology. Chapter four was focus on analysis of the subject matter to investigate and evaluate the problems. Finally, chapter five was covered the conclusions of the findings and forwards recommendations.

CHAPTER TWO

2. REVIEW OF RELATED LITERATURES

2.1 Theoretical and Conceptual Literature

Risk is the fundamental element that drives financial behavior. Without risk, the financial system would be vastly simplified. However, risk is being everywhere (simultaneously) in the real world. Financial Institutions, therefore, should manage the risk efficiently to survive in this highly uncertain world. The future of banking will undoubtedly rest on risk management dynamics.

Credit risks appear in banking institution because of the uncertainties plagued the financial system. The uncertainties remain a major challenge in country. Still, the major approaches applied by the banks are the continuing efforts on research and close monitoring. Banks believe that the research and monitoring are the key sources of uncertainties like data generating institutions and the treasury (Uchendu, 2009). The market structure is important in banking for it influences the competitiveness of the banking system and companies to access to funding or credit investment.

The economic growth affects the structure and development of the banking system. In addition, the vast knowledge in risk assessment and managerial approach is recognized as part of the development. Moreover, because the banks and the processes are highly regulated, it became very useful in assessing the effects or impact of the credit risk management in the banks and even in other financial sources (Gonzalez, 2009).

2.1.1. The concept of Risk management

Management in the simplest understood definition can be defined as the act of planning, directing, controlling, monitoring and testing for desired results to be obtained. Or it is simply the act, manner, or practice of managing; handling, supervision, or control (Stephen P.R. 2012). Risk on the other hand can be defined as the possibility that something unpleasant or dangerous might happen (Macmillan Dictionary, 2002). When companies spoil in business, it is obvious that they will be exposed to one type of risk or another which in most cases is an uncertainty although at times it can be certain that it will occur.

Banks are one of such businesses whose risk is very sure because they don't function in isolation given the dynamic environment in which they operate, the volatility of the Financial Markets in which they participate, diversification and the competitive environment in which

they find themselves, (Williams R., 2006). Even though it is certain that risk will occur, it is not always possible in most cases to eliminate, reduce or ameliorate it (Keith, 1992). So, the best possibility for companies is to try to manage the risk so as to reduce the possibility of occurrence or to reduce the consequences. These possibilities can range from „do nothing at all“ to attempting to nullify the effect of every identified risk (William R, 2006). But, because of the nature of the banking activity, a bank can't find itself in a position to do nothing at all or to nullify the risk. So, all it does is to live with it but look for means to manage it. Given the riskiness of its activities, a bank does not wait to introduce risk management at a certain stage of its activities but does so right from the start. This is so because its activities are so correlated in such a way that if not well handled, the effect consequences can be connected and can even lead to bankruptcy.

For this goal to be attained, decision makers need to first of all identify the risk involved, measure its intensity, assess it, monitor it and then look for measures on how to control it. This act of managing the risk is called Risk management (RM). RM is “a course of action planned to reduce the risk of an event occurring and/or to minimize or contain the consequential effects should that event occur” (Keith, 1992). This course of action linked, gives rise to a Risk Management process which involved a number of stages. Risk management is very important and forms a main part of any organization's activities because its main aim is to help all other management activities to reach the organization's aims directly and efficiently since it is a continuous process that depends directly on the changes of the internal and external environment of the organization (Tchankova, 2002).

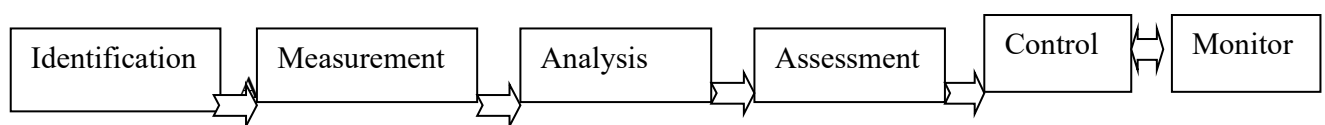


Figure 2.1 Risk Management Process (*Source: Keith, 1992 / General Literature*)

2.1.2. Risk Identification

Risk Management cannot be implemented when first of all the risk has not been identified. This means if there is no risk identified, there is thus no need for risk management. This identification is done by using different techniques depending on the company in question to ascertain all forms of threats it can be faced with both present and future. So, risk identification is the first stage of the Risk Management process which develops the basis for the next stages. If success is not attained at this stage, then the risk will be non-manageable.

This means that the company will not account for the risk and will not take any action related to it and the consequences could be much unexpected (Tchankova, 2002). This way, risks related to gains and losses must be identified.

The inability to identify the risks of one is as inappropriate as to identify the other. Risk identification thus involves a comprehensive analysis of all present and future risks in the business operations, asset management and support services (Keith, 1992).

During the process of risk identification, the bank is able to study its activities and the places where its resources are exposed to risk. This will help it especially when it has to carry out a future duty, in terms of developing and implementing new programs for risk control. Although all banks may be conscious of being faced with the same type of risks, the risk identification techniques for each of them can be different. It is always important for managers to identify all the possible risks they can be faced with because any neglected risk can have very negative consequences on the whole system.

2.1.3. Risk Analysis or Assessment

The risk assessment task is to understand what is at risk and what events could potentially cause harm or benefits. The risk is being assessed in terms of the severity of the impact, likelihood of occurring and controllability (Gray F.C & Larson W.E., 2006). When this is done, it helps the bank to know the chances that the risk might occur, and if it occurs, the impact it can have on the bank and how they can possibly control it. Risk assessment is done by prioritizing the risk either by using risk analysis or risk evaluation (Williams R., 2006).

This risk analysis is based on the likelihood and consequences. Likelihood depends on the probability that the risk will occur and how frequently it will take place. While, consequences on the other hand can be measured by looking at the effects on results or on the enablers of results (Williams R. 2006). Knowing the frequency of occurrence of the risk and the effect it will have should it occur, gives the bank the base to know how important the risk is. Risk evaluation is then carried out when a good risk analysis has been undertaken. An evaluation is done against an appropriate risk-acceptance criterion to give a ranking (Williams R. 2006).

2.1.4. Risk Control

Risk control involves using physical measures, techniques, tools and /or training staff to avoid, reduce, prevent or eliminate the perceived threat / its financial consequences and other undesirable results of risks (Keith P, 1992). Naturally, risk cannot be avoided or eliminated so the only option is to control it. Banks like other organizations have different ways of

approaching risks and the amount of risks each is ready to accept differs. Some will decide either to prevent the risk or to allow it happen and then start looking for measures to tackle it, while others will decide whether to transfer or insure it.

There may also be a wide gap between the level of control possible and the level of control practiced. Risk tolerance is another domain in which banks may vary; some may be risk averse while others will be prepared to run calculated risks. This means the amount of risk that one bank may accept to tolerate differs from that of another bank. So, it is very important that all the aforementioned points be considered when assessing risk control (Keith, 1992).

2.1.5. Risk Monitoring

A plan is always made for the activities that are used to manage risk. To be sure that the activities attain the desired goal of the business, monitoring is very important so that the results gotten are in line with the set down goals. If it is noticed that the results are going contrary, readjustment should be done immediately. Risk monitoring is very important and it goes hand in hand with risk control. Risks in banks need to be monitored just like any project in progress. The risk manager needs to constantly do assessment and make updates where there is need so as to be sure to handle any unforeseen risks at the right time before it is too late (Gray F.C & Larson W.E, 2006).

2.1.6. Credit Risk

The risk management process is important to be followed in the management of credit risk because it is an unavoidable risk of the bank based on its activities. The management of this risk is an activity which is indispensable for a bank if really it wants to meet up with competition, create value for itself and create value for the shareholders. Like any other business entity, the aim of any bank is mostly to make profits and thus create value.

To attain this goal, they cannot escape from risk whose consequences can be a barrier to this goal attainment. Credit risk is the most important of these risks because it comes about as a result of failure of the borrowers to pay their debts or dalliance to meet up with their obligations in time. Credit risk has been pointed out or identified as the key risk in terms of its influences on bank performance (Sinkey J.C., 1992).

2.1.7. Credit Risk Management in Banks

Although the effects of all risk's types can cause negative consequences to the bank, credit risk has been pinpointed or identified as the key risk associated with negative consequences

in terms of its influences on bank performance (Sinkey, J.C.1992). This means if credit risk is not well managed, it can lead to failure. Thus, for any bank to succeed, its Credit Risk Management (CRM) must be handled with a lot of seriousness.

This is because should a loss occur, the bank will have to “extend its hands” to get funds from other means to meet up or cover the losses. A clear reason why a correct management of credit risk is very important is because banks have a limited capacity to absorb loan losses and this losses can be covered only by using income generated by other profitable loans or by bank capital (Boffey R.& Robson G.N., 1995). If the income is used from these two sources to meet up for a loan that has not been paid, this action will go a long way to affect the capital adequacy of the bank, its liquidity and even its profitability.

Looking at the consequences or effects of credit risk, it is important that before a bank gives out a loan, it should try as much as possible to have a concrete view of the borrower. (Greuning,V.Hennie&Bratanovic,B.and Sonja 2003) says “Because of the potentially dire effects of credit risk, it is important to perform a comprehensive evaluation of a bank’s capacity to assess, administer, supervise, enforce and recover loans, advances, guarantees, and other credit instruments.

This monitoring is very important because with the uncertainty in the future, any potential event that can cause a borrower to default payment can be fast identified or, a mechanism can be put in place on time to reduce the frequency and /or intensity of a loss should it occur. Early identification of borrowers at risk is good because it enables servicers to adequately staff collections departments, determine the most cost-effective type of customer outreach, and initiate repayment plans before a borrower’s financial situation worsens to the point at which foreclosure is unavoidable (Focardi C.2009).

2.1.8. Credit Risk Management Policy

Banks like any other firm or corporation have formal laid down policies and principles that have been put in places by the board of directors on how to manage credits and this have to be carefully implemented by management. This restricts supervisors or managers on how to take action. They must do so by looking at the policies laid down to know if they are doing the right thing at the right time. (Maness T.&Zietlow J, 2005) specifies that a credit policy has four major components which include; credit standards, credit terms, credit limits and collection procedures.

- **Credit standards-** This is the profile of the minimally acceptable creditworthy customer
- **Credit terms-**This is the credit period stipulating how long from the invoice the customer has to pay, and the cash discount (if any).
- **Credit limit-**This is the dollar amount that cumulative credit purchases can reach for a customer if credit is extended.
- **Collection procedures-**These are detailed statements regarding when and how the company will carry out collection of past-due accounts.

2.1.9. Credit Risk Management Practice

As banks have different credit risk management policies or philosophies, same do the risk management practices differ from one financial institution to another despite the fact that they can be open to the same risk types. The practices differ according to their previously laid down policies and philosophies. Some or all of the banks may decide to use hedging strategies or insurance to influence their profits and / or to avoid the costs of variations but, the way they put it in practice or their way of going about this will be different.

Another difference can also be seen in the level of risk tolerance. Each and every bank has their individual level of risk that they can decide to let go based on how it is outlined in their risk management policy. To summarize this, it is clear that the same theory can exist for firms in the same industry, but the implementation in practice differs. Practice is not consistent with theory. In most cases because of data limitation for most industries, it is difficult to describe which firms manage more risk than others or whether firms engage in dynamic risk management strategies and more importantly it cannot be reliably tested whether a firm's risk management practices conform to existing theories (Tufano P, 1996).

2.1.10. Credit Risk Management Strategy

The Macmillan English Dictionary defines a strategy as a plan (method) for achieving something, or the skill of planning how to achieve something. A strategy thus simply means a way to go about an activity. This thus goes that as banks have different credit risk policies or philosophies and different management practices, their strategies to attain their desired goals in the same way may differ. The idea to go about a particular activity can exist to the knowledge of the bankers but the strategy of how to implement so that desired goals can be attained and / or to make a difference will be different for each bank or company.

Given the competitive environment in which banks operate, it is always good to have a strategy position of how to manage its credit risk that will make or show its difference from its competitors. A strategy positioning means performing different activities from rivals or performing similar activities in different ways- a company can outperform its rivals only if it can establish a difference that it can preserve by choosing to perform activities differently than rivals do (Michael Porter, 1996: 62).

When a bank carries out its operational activities which are the same activities carried out by other banks, they should try to make a difference from their rivals by not only trying to be more efficient but by trying to make a difference. This can be done by performing different activities from the rivals or performing the same activities in a different way. For example: although specific risk management practices may differ among banks depending on the nature or complexities of their credit activities, a bank which will want to show a difference will use a comprehensive credit risk management strategy like the others by addressing area like; establishing appropriate credit risk environment, operating under a sound credit granting process, maintaining an appropriate credit administration, measurement and monitoring process and, ensuring adequate controls over credit. But, will go ahead to apply these practices in conjunction with sound practices related to the assessment of assets quality, adequacy of provision and reserves and the disclosure of credit risk (Basel committee on bank supervision, 1999).

2.1.11. Credit Culture

A bank as an entity can be likened to a community and thus has its own culture which acts as a mirror on how it carries out its own activities. Actions or behaviors out of this culture will be going against the roles or norms of the bank. A bank's credit culture is the policies, practices, philosophy and management style that are being put in place to act as a guide for the lending manager or personnel to carry out their credit management function. This spell out the lending environment and points out the lending behavior that is acceptable to the bank.

In a study made by(Boffey R & Robson G.N.1995), Credit culture is defined as “a combination of factors that establish a lending environment that encourages certain lending behavior. It should include such things as management's communication of values and priorities, the indoctrination of lenders during training, and the bank's lending philosophy and policy.” Credit culture is thus good because it acts as a guideline for a good bank credit

management, performance and maybe failure. Even if there is a wrong move in the credit risk management resulting to losses, the manager personally cannot be blamed if the decisions were taken based on its credit culture. The blame will go to the entire management or decision makers and adjustments can then be made.

2.1.12. Credit Risk Management Process

The same way that banks have different credit culture, they also have different credit risk management processes. Credit risk management process is a set of outlined activities aimed at managing credit risk. These activities are just like the ones outlined above for the risk management process and will cover the range from credit granting to credit collection. They are risk identification, measurement, assessment, control and monitor. The first step is to identify the risk involved in the credit process. After identification, the risk is measured by evaluating the consequence if it is not well managed. After the evaluation phase, the risk is then assessed to know the impact, the likelihood of occurrence, and the possibility for it to be controlled. The control and monitoring phase then come in. These phases are not distinct like the other three. In the control phase, measures which can be used to avoid, reduce, prevent or eliminate the risk are put in place. The monitoring phase is used to make a constant check so that all processes or activities which have been put in place for the risk management process are well implemented for desired results to be gotten and in case of any distortions, corrections are then made. All this is done because credit risk is a very important and delicate risk that banks face and needs to be managed with great care / precaution because its consequences are always very detrimental to the bank. Despite the changes in the financial service sector, credit risk remains the major single cause of bank failure (Greuning V. Hennie & Bratanovic B. & Sonja, 2003).

2.2. Tools of Credit Risk Management

As (Thirupathi Kanchu and M. Manojkumar 2013) stated, the instruments and tools, through which credit risk management is carried out, are detailed below:

A). Exposure Ceilings: Prudential Limit is linked to Capital Funds – say 15% for individual borrower entity, 40% for a group with additional 10% for infrastructure projects undertaken by the group, Threshold limit is fixed at a level lower than Prudential Exposure; Substantial Exposure, which is the sum total of the exposures beyond threshold limit should not exceed 600% to 800% of the Capital Funds of the bank (i.e. six to eight times).

B). Review/Renewal: Multi-tier Credit Approving Authority, constitution wise delegation of powers, Higher delegated powers for better-rated customers; discriminatory time schedule for review/renewal, Hurdle rates and Bench marks for fresh exposures and periodicity for renewal based on risk rating, etc are formulated.

C).Risk Rating Model: Set up comprehensive risk scoring system on a six to nine-point scale. Clearly define rating thresholds and review the ratings periodically preferably at half yearly intervals. Rating migration is to be mapped to estimate the expected loss.

D).Risk based scientific pricing: Link loan pricing to expected loss. High-risk category borrowers are to be priced high. Build historical data on default losses. Allocate capital to absorb the unexpected loss. Adopt the RAROC framework.

E).Portfolio Management: The need for credit portfolio management emanates from the necessity to optimize the benefits associated with diversification and to reduce the potential adverse impact of concentration of exposures to a particular borrower, sector or industry. Stipulate quantitative ceiling on aggregate exposure on specific rating categories, distribution of borrowers in various industry, business group and conduct rapid portfolio reviews.

F).Loan Review Mechanism: this should be done independent of credit operations. It is also referred as Credit Audit covering review of sanction process, compliance status, and review of risk rating, pickup of warning signals and recommendation of corrective action with the objective of improving credit quality. It should target all loans above certain cut-off limit ensuring that at least 30% to 40% of the portfolio is subjected to LRM in a year so as to ensure that all major credit risks embedded in the balance sheet have been tracked.

2.3. What Type of Risk Considered?

Commercial banks are in the risk business. In the process of providing financial services, they assume various kinds of financial risks. Over the last decade our understanding of the place of commercial banks within the financial sector has improved substantially. Over this time, much has been written on the role of commercial banks in the financial sector, both in the academic literature and in the financial press. These arguments will be neither reviewed nor enumerated here. Market participants seek the services of these financial institutions because of their ability to provide market knowledge, transaction efficiency and funding capability. In performing these roles, they generally act as a principal in the transaction. As such, they use their own balance sheet to facilitate the transaction and to absorb the risks associated with it (Saunders A. and Cornett M.M, 2007).

2.4. The 'five C's' of Credit

Each bank has its analytical tools which it uses to minimize losses of money when giving out loans to customers. The bank always find itself in a situation where they can give a loan to a customer who will not be able to pay back or refuses to give to a customer who is good and has the potentials of meeting up with the repayment. To go about a good analysis of potential customers, the five C's of credit has been introduced as a guide for bankers of what criteria to use. This includes the gathering of both quantitative and qualitative information to assist the bankers in their screening process of bad and potential creditors. This information is gotten using the five Cs of credit as the standards tools. The five Cs include; character, capacity, capital, conditions and collateral (Dev S.K., 2009).

Capacity: Likely the most important of the five, capacity is your business' ability to repay loans. Make sure your business plan demonstrates steps to repay any loans you borrow. Specifically, lenders look at revenue, expenses, cash flow and repayment timing and will look at your business and personal credit scores.

Character:the company refers to the distinct capabilities about the company which the lenders see that inspires them with confidence that the loan will be repaid. This includes things like the business plan, cash flow, history, management, etc. The *capacity* of the company incorporates words like sufficiency, adequacy and perseverance. This means what the company as a customer has as assets and the value of those assets which shows that it can be able to repay its loans.

Capital:the company means how much adequate funds she has to make her business operate efficiently in generating cash flow and efficiently within its competitive business environment.

Condition: the company describes the economic and environmental influences on the company's financial condition and performance.

Collateral:refers to what the company is able to present to the lender which serves as the final source of repayment and protection against loan loss. The bank incorporates the five C's (character, capacity, capital, conditions and collateral) in their loan granting process of screening bad from potential creditors. When the loan officers receive the information (quantitative and qualitative) about the customer, they do their analysis not in isolation of each element but in relationship amongst the categories. The bank incorporates the, five C's (character, capacity, capital, conditions and collateral) in their loan granting process of

screening bad from potential creditors. When the loan officers receive the information (quantitative and qualitative) about the customer, they do their analysis not in isolation of each element but in relationship amongst the categories with the customer's character being the center because it is the character that determines the distinct capabilities about the customer whether they can pay the loan back or not. This is because a customer could as well show a good capacity, have enough capital, have a good economic / environmental influence on its financial condition and performance and have a good collateral but, if it has a bad character, it will not still act as an inspiration for the bank to grant the loan. On the other hand, if the character (business plan, cash flow, history, management, etc) showed by the customer in question is good, it will go ahead to assure them of the customer's repayment capability more. This will thus help the bank whether to grant the loan or not or it will determine the credit limit. This is because a customer's character shows how their previous loan transactions were handled. If after the decision has been taken, whatever may arise in the future, the bank will always recall the decisions taken in the past given the structure they used for their analysis to see if they took the right decision or not.

2.5. Framework for Credit Risk Analysis

The framework for analysis was guided by specific principles including (Basel Committee submission on Banking Supervision, 1999). The observation is that an effective credit approval process is the first step against excessive counter party credit risk which should begin with comprehensive financial and non-financial information which provides a clear picture of the counterparty's risk profile and risk management standards. In addition, the credit assessment process should identify the purpose, structure of the transaction for which approval is requested while providing a forward-looking analysis of the repayment capacity from various scenarios. Some of the processes one might follow to identify and analyse the components of credit risk include non-financial issues such as knowledge of customer, credit referencing bureau and financial factors namely awareness of the purpose for credit, identification and assessment of sources of repayment, financial gearing, security analysis and assessing the business risk of the borrower.

An issue that cannot be overemphasized is a bank's knowledge of their customers; it implies that a bank should be familiar with the counter party and be confident that it is dealing with an entity of sound repute and credit worthiness (Basel, 1999). This can be achieved in a number of ways such as asking for references from known parties, accessing credit register, evaluating legal status and becoming knowledgeable about the individual responsibility for

managing counter party. This could enhance the integrity of the banking system by reducing the likelihood of banks becoming a vehicle for money laundering and so on. Also, knowing your customer (KYC) could be facilitated by a credit referencing bureau. A credit referencing bureau, a repository of credit information is an entity that collates customer credit information by soliciting creditors such as banks, insurance company and lending institutions to contribute and share the credit information of their customers. It helps lending institutions with an easy means of carrying out their KYCs and enables banks to better manage their risk exposures.

The purpose of the credit facility is important to the lending institutions as it enables them to assess the legality of the transaction it is contracting with customers, relative to laws of the country in which they operate. Again, identification and assessment of sources of repayment is also a major tool for analyzing credit risk of customers of bank. A borrower's repayment capacity is measured by identifying the source of repayment, and carefully reviewing future cash income from that source to ensure that it is enough to meet borrower's needs and help generate enough cash flows from the core business to repay debt, pay a competitive return to shareholders or owners and replace long term operating assets.

Assessing the business risk is another way of analyzing the credit risk in banking. Business risk is the variability in operating cash flows or profit before interest (Pike S. and B. Neale, 2006). A firm's business risk depends on the underlying economic environment within which it operates. This is a factor exogenous to the bank business variability in operating cash flows can be heavily affected by the cost structure of the business and hence the operating gearing.

Financial gearing is a way banks analyses the risk of the borrower. It is the risk over and above the business risk from the use of debt capital (Pike S. and B. Neale, 2006). It seeks to assess the impact of the credit on the capital structure of the counter party. By financial analysis, lending institutions are able to assess the borrowing needs, capital structure and borrower's ability to meet their obligation as per terms of contract. Financial risk analysis gives an indication of the proportion of both external and internal funding used to finance the assets of the business. Another important factor in the process is security analysis. Because business risk is always present; most financial institutions rely heavily on the security of their portfolio as a means to offset the impact of credit risk on their loan portfolio (Ross, Westerfield, 2008). The security analysis in credit risk management involves the evaluation of the marketability of the security, security control and price stability of security being offered.

2.6. Empirical Literature Review

Credit risk is a serious threat of banks; therefore, various researchers have examined the impact of credit risk on banks in varying dimensions. Kargi (2011) evaluated the impact of credit risk on the profitability of Nigerian banks. Financial ratios as measures of bank performance and credit risk were collected from the annual reports and accounts of sampled banks from 2004-2008 and analyzed using descriptive, correlation and regression techniques. The findings revealed that credit risk management has a significant impact on the profitability of Nigerian banks. It concluded that banks' profitability is inversely influenced by the levels of loans and advances, non-performing loans and deposits thereby exposing them to great risk of illiquidity and distress. Epure and Lafuente (2012) examined bank performance in the presence of risk for Costa-Rican banking industry during 1998-2007. The results showed that performance improvements follow regulatory changes and that risk explains differences in banks and non-performing loans negatively affect efficiency and return on assets while the capital adequacy ratio has a positive impact on the net interest margin.

Felix and Claudine (2008) investigated the relationship between bank performance and credit risk management. It could be inferred from their findings that return on equity (ROE) and return on assets (ROA) both measuring profitability were inversely related to the ratio of non-performing loan to total loan of financial institutions thereby leading to a decline in profitability. Ahmad and Ariff (2007) examined the key determinants of credit risk of commercial banks on emerging economy banking systems compared with the developed economies. The study found that regulation is important for banking systems that offer multi-products and services; management quality is critical in the cases of loan-dominant banks in emerging economies. An increase in loan loss provision is also considered to be a significant determinant of potential credit risk. The study further highlighted that credit risk in emerging economy banks is higher than that in developed economies.

Ahmed, Takeda and Shawn (1998) in their study found that loan loss provision has a significant positive influence on non-performing loans. Therefore, an increase in loan loss provision indicates an increase in credit risk and deterioration in the quality of loans consequently affecting bank performance adversely.

David H., (1997) *Bank Risk Management Theory*. This paper is conducted to discuss why risk management is needed. It outlines some of the theoretical underpinnings of contemporary bank risk management, with an emphasis on market and credit risk. This paper merely focuses on theory it doesn't get in to the practical aspects of the title.

According to Basel committee (1999) on the management of credit risk, the following was observed: Many credit problems reveal basic weaknesses in the credit granting and monitoring processes. While shortcomings in underwriting and management of market-related credit exposures represent important sources of losses at banks, many credit problems would have been avoided or mitigated by a strong internal credit process. They noted too that many banks find carrying out a thorough credit assessment (or basic due diligence) a substantial challenge. For traditional bank lending, competitive pressures and the growth of loan syndication techniques create time constraints that interfere with basic due diligence. Globalization of credit markets increases the need for financial information based on sound accounting standards and timely macroeconomic and flow of funds data. When this information is not available or reliable, banks may dispense with financial and economic analysis and support credit decisions with simple indicators of credit quality, especially if they perceive a need to gain a competitive foothold in a rapidly growing foreign market. Finally, banks may need new types of information, such as risk measurements, and more frequent financial information, to assess relatively newer counterparties, such as institutional investors and highly leveraged institutions.

It was also noted from Basel's research that some credit problems arise from subjective decision making by senior management of the bank. This includes extending credits to companies they own or with which they are affiliated, to personal friends, to persons with a reputation for financial acumen or to meet a personal agenda, such as cultivating special relationships with celebrities (Nikhade 2004). Many banks that experienced asset quality problems in the 1990s lacked an effective credit review process (and indeed, many banks had no credit review function). Credit review at larger banks usually is a department made up of analysts, independent of the lending officers, who make an independent assessment of the quality of a credit or a credit relationship based on documentation such as financial statements, credit analysis provided by the account officer and collateral appraisals. The purpose of credit review is to provide appropriate checks and balances to ensure that credits are made in accordance with bank policy and to provide an independent judgment of asset quality, uninfluenced by relationships with the borrower.

Effective credit review not only helps to detect poorly underwritten credits, it also helps prevent weak credits from being granted, since credit officers are likely to be more diligent if they know their work will be subject to review. A common and very important problem

among troubled banks in the early 1990s was their failure to monitor borrowers or collateral values. Many banks neglected to obtain periodic financial information from borrowers or real estate appraisals in order to evaluate the quality of loans on their books and the adequacy of collateral. As a result, many banks failed to recognize early signs that asset quality was deteriorating and missed opportunities to work with borrowers to stem their financial deterioration and to protect the banks position. This lack of monitoring led to a costly process by senior management to determine the dimension and severity of the problem loans and resulted in large losses.

In some cases, the failure to perform adequate due diligence and financial analysis and to monitor the borrower can result in a breakdown of controls to detect credit-related challenges. For example, banks experiencing fraud-related losses have neglected to inspect collateral, such as goods in a warehouse or on a showroom floor, have not authenticated or valued financial assets presented as collateral, or have not required audited financial statements and carefully analyzed them. An effective credit review department and independent collateral appraisals are important protective measures, especially to ensure that credit officers and other insiders are not colluding with borrowers (Njoku, 1997). In addition to shortcomings in due diligence and credit analysis, bank credit problems reflect other recurring problems in credit-granting decisions. Some banks analyze credits and decide on appropriate non-price credit terms, but do not use risk-sensitive pricing. Banks that lack a sound pricing methodology and the discipline to follow consistently such a methodology will tend to attract a disproportionate share of underpriced risks. These banks will be increasingly disadvantaged relative to banks that have superior pricing skills.

According to the same report by Basel, many banks have experienced credit losses because of the failure to use sufficient caution with certain leveraged credit arrangements. As noted above, credit extended to highly leveraged borrowers is likely to have large losses in default. Similarly, leveraged structures such as some buyout or debt restructuring strategies, or structures involving customer-written options, generally introduce concentrated credit risks into the bank's credit portfolio and should only be used with financially strong customers. Often, however, such structures are most appealing to weaker borrowers because the financing enables a substantial upside gain if all goes well, while the borrower's losses are limited to its net worth.

The team also noted that many banks credit activities involve lending against real collateral. In lending against real assets, many banks have failed to make an adequate assessment of the

correlation between the financial condition of the borrower and the price changes and liquidity of the market for the collateral assets. Much asset-based business lending (i.e. commercial finance, equipment leasing, and factoring) and commercial real estate lending appear to involve a relatively high correlation between borrower creditworthiness and asset values. Since the borrower's income, the principal source of repayment, is generally tied to the assets in question, deterioration in the borrower's income stream, if due to industry or regional economic problems, is likely to be accompanied by declines in asset values for the collateral.

Some asset-based consumer lending (i.e. home equity loans, auto financing) exhibits a similar, if weaker, relationship between the financial health of consumers and the markets for consumer assets. A related problem is that many banks do not take sufficient account of business cycle effects in lending. As income prospects and asset values rise in the ascending portion of the product business cycle, credit analysis may incorporate overly optimistic assumptions. Sometimes the cycle is less related to general business conditions than the product cycle in a relatively new, rapidly growing sector, such as health care and telecommunications. Effective stress testing which takes account of business cycle effects is one approach to incorporating into credit decisions a fuller understanding of a borrower's credit risk. They concluded that, many underwriting problems reflect the absence of a thoughtful consideration of downside scenarios. In addition to the business cycle, borrowers may be vulnerable to changes in risk factors such as specific commodity prices, shifts in the competitive landscape and the uncertainty of success in business strategy or management direction. However, many lenders fail to „stress test“ or analyze the credit using sufficiently adverse assumptions and thus fail to detect vulnerabilities.

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 in 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.

The study of NBE (2009) identified and ranked three important types of risks in which Credit risk was ranked firstly and then followed by operational and liquidity risk Richard E. (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 borrowers 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.

To assure and to measure the credit risk management there must be research in each country. We cannot tell the risk level from the scratch or simple from the theory. Measuring the risk of credit management is needed, to make countries credit risk management department well aware about credit risk management towards profitability of their business. It is also very important for policy makers.

It is well known that, bunna bank in our country are profitable for the time being, however to sustain their profit in the future and even to make them more profitability than before the credit risk management must be identified

In general, the lack of sufficient research on credit risk management and the existence of knowledge gap in the area initiate this study.

Hence, the purpose of this study is to assess the credit risk management of bunna bank.

CHAPTER THREE

3. RESEARCH METHODOLOGY

In this section the researcher wants to demonstrate the methodology which is going to be used in this research work. It consists of research design, approach, target population, sampling design and size, source of data, instruments of data collection, and methods of data analysis.

3.1 Research Design

To meet the objective of the study and answer the research questions, descriptive research design used. According to Creswell (2003) descriptive study is a method that describes the characteristics of the population or phenomenon studied.

3.2 Research approach

There is no consensus about how to conceptualize the actual undertaking of research. However, there is a tendency to divide research in to three approaches that are quantitative, qualitative and mixed research approach (Creswell, 2003). In order to attain the objective of the study and answer the research questions, the researcher used both quantitative and qualitative (Mixed) research approach. The rationale of using a mixed approach is to gather data that could not be obtained by adopting a single method (Creswell, 2003). Hence, the basis of such approach helps to neutralize the limitations of applying a single approach in connection with the qualitative and quantitative nature of the research questions.

3.3. Target Populations and Method of Sampling

The target population of this study are the employees who are directly involved in credit processing and administering. This means district managers, Loan officers, Loan supervisor, and credit analysts of all branches are included in the target group. The researcher used census sampling design in order to meet the objective of the research. Census method is also called as a complete enumeration survey method wherein each and every item in the universe is selected for the data collection. One of the major advantages of census method is the accuracy as each and every unit of the population is studied before drawing any conclusions of the research. When more and more data are collected the degree of correctness of the information also increases. Also, the results based on this method are less biased.

To do so the study used all of the population that has directly related to credit in district and head office employees.

3.4. Sources of data

The study used both Primary and secondary sources of data. The primary sources of data are collected through the use of questionnaires and interview. Because questionnaires require less time consume, low cost, generates a large amount of data and gives respondents enough time to answer the questions and also the questionnaires are open and close-ended. Open-ended question offered the respondents the opportunity to freely express themselves under consideration while the close-ended questions restricted the respondents on the options provide.

The secondary source of data is collected from six consecutive annual reports of the bank and National Bank directives (NBE).

3.5. Tools of data collection

To collect the required data from respondent's semi-structured questionnaire are prepared. The primary data collected from selected respondents of Credit relationship manager (credit director), credit analysts, loan officers and the secondary data collected from different documents which is listed the above title. The questionnaire prepared into two parts. In part I the questionnaires has General information questions about the respondents. Part II contains questions about research topic related questions

3.6. Methods of data analysis

The researcher used qualitative and quantitative methods of data analysis. Most of the data were more of qualitative in nature thus; they are summarized and presented using descriptive statistical tools like percentages, frequency counts and ratios. Furthermore, tables are used to facilitate the analysis and to make it presentable for the readers. After the respondent's answers were analyzed on the respective table explanation regarding the practice of credit management at Bunna Bank s.co is given based on the respondent's answer.

3.7 Organization of the Study

The presentation of the study organized in five parts. The first chapter provides a brief introduction of including background of the study, statement of the problem, basic research questions, objectives of the study and significance and scope of the study. The second chapter deals with different literatures written on the subject matter as well as empirical results. Chapter three presents the research methodology that used to actualize the study objectives by establishing the research design, the population and sampling design, data collection method, research procedures and data analysis methods.

CHAPTER FOUR

4. DATA ANALYSIS AND DISCUSSIONS

This chapter is concerned with the presentation, analysis, and interpretation of the data gathered via primary sources both questionnaires and interviews and secondary sources collected from the bank's annual reports, manuals and data bases.

Demographic Characteristics of Respondents (PART I)

The demographic nature of the employee has a great contribution in the credit management of loans and advances in understanding the credit policies and procedures as well as exercising and improving it when demanded. Thus, in this research process the demographic characteristics of respondents like gender, age, marital status educational level, and credit related experience are assessed.

Table 4.1 Gender of the respondents

Issue Gender	Frequency	%
Male	36	77
Female	11	23
Total	47	100

Source: Researcher's Survey Result from Primary Data Sources

The mix of gender of the employee in the loan area is, 77 percent dominated by the male parts and 23 percent is female as it is shown in table 4.1.

Table 4.2 Age of respondents

Age	Freq.	%
20-30	26	55
31-40	16	34
41-50	5	11
Above 50	0	0
Total	47	100

Source: Researcher's Survey Result from Primary Data Source

Most of the age of the respondents young and adolescent as shown in table 4.2., 55 percent are in the range of age between 20 to 30, and 34 percent are also between the ranges 31 up to 40. This implies the bank has the human resource that can work energetically and competitively understanding the mission and goals of the bank in this area.

Table 4.3 Marital status of respondents

Marital status	Frequency	%
Married	29	62
Single	18	38
Total	47	100

Source: Researcher’s Survey Result from Primary Data Sources

By its nature the financial industry is very sensitive and risk exposed requiring human resources who are responsible, trust full, and accountable for the prudent management of the finance. Hence if the employee working in such risk exposed area is tied up with such social responsibilities it adds value. In the table 4.3 62 percent of the respondents are married while 38 percent are single

Table 4.4 Educational Qualifications of Respondents

Qualification	Frequency	%
Diploma	0	0
First degree	36	77
Masters	11	23
PHD	0	0
Total	47	100

Source: Researcher’s Survey Result from Primary Data Sources

Educational background of employee is an important factor to be considered with regard to making loan related decisions. As it can be reviewed from table 4.4, 77 percent of the

respondents are degree holders whereas 23 percent of respondents are Masters Holders. This denotes that the majority of the respondents working in credit area are well educated and trained and still updating themselves. This enables the Bank to perform most and become competitive.

Table 4.5 Credit Related Experience of Respondents

Duration	Frequency	%
1-5 year	19	40
6-10 year	22	47
Above 10 year	6	13
Total	47	100

Source: Researcher's Survey Result from Primary Data Sources

Credit related experience is the most important factor to credit assessment and making loan. As it can be reviewed from table 4.5, 47% respondent are above 6 year experience 40% respondents are less than 6 years and also 13 % employees above 10 year experience. This dominate 60% employees are above 6-year experience it implies respondents working in credit area are well experienced.

Part II

Table 4.6 Credit Processing/Appraisal

N o		Strongly agree		Agree		Uncertain		Disagree		Strongly disagree		Total	
		Freq	%	Freq	%	Freq	%	Freq	%	Freq	%	Freq	%
A	The bank demands a business plan from all clients to identify risk exposure	8	17	22	47	5	11	11	23	1	2	47	100
B	The bank look at relevant experience of the loan applicant	42	90	5	10	0	0	0	0	0	0	47	100
C	The bank carries out credit processing activities independent of the appraisal	5	11	24	51	7	15	11	23	0	0	47	100
D	The banks credit granting and approval process establish accountability to decision makers	22	47	19	40	6	13	0	0	0	0	47	100
E	There are times the credit granting and monitoring of applicant can be influenced by directors, senior managers or influential staff of the bank	4	9	17	36	11	23	9	19	6	13	47	100
F.	The bank look at collateral whenever granting any loan	47	100	0	0	0	0	0	0	0	0	47	100
G	The bank consider the past repayment track record of applicants	2	5	45	95	0	0	0	0	0	0	47	100

Though; Solid loan appraisal process is considered as the foremost means to control loan

quality. Following this the researcher raised some questions. As indicated in table 4.6 item (A) Respondents were asked whether the bank analyze borrowers risk exposure by inquiring business plan 17% of the respondents strongly agreed with the issue while 47% agreed in the meantime 23% of them disagree, 2% of them strongly disagree and 2% of the respondents are uncertain.

In the same table item (B) respondents were asked whether the bank look at the relevant experience of loan applicants with this regard 90% of the respondents strongly agreed and 10% of them also agree. As it can be seen on item (c) of table 4.6, 11% of respondents strongly agreed the bank carried out credit processing activities independent of the appraisal where as 51% agreed.

On table 4.6 item (d) respondents were asked whether the credit granting process establishes accountability to decision makers; 47% of the respondents strongly agree at the same time 40% of them agreed while 13% of the respondents were uncertain and none of them disagree. Regarding the question presented whether credit granting and monitoring of applicants influenced by senior bank management members and directors on table 4.6 item (e) 9% of the respondents strongly agree while 36% of them agree and 23% of the respondents were uncertain where as 19% of respondents disagree and 13% of them strongly disagree. Item (f) of table 4.6 describes that 100% of the respondents strongly agree that the bank look at collateral whenever granting a loan. It is clearly seen that 100% of the respondents witnessed that the bank look at the past repayment track record of applicants on table 4.8 item (g) being 95% of them strongly agreed and 5% of agreed. While the above table 4.6 is summarized; one can see that the credit processing and appraisal of the bank is in a good condition except matters that the credit granting and monitoring is influenced by Influential persons of the bank and the case that the bank sometimes requests business plan from prospective borrowers which might deteriorate the bank asset quality. Requesting business plan tells the customer has a clear direction as to how to operate his/her business. It is also noticed that even though the bank has it as a policy to request for a business plan most interested applicants are not able to provide because they do not have the culture of preparing one. On some occasions it was also noticed that the banks influential bodies involve in the decision making of some loan related decisions to certain customer when it is believed that the customer has a potential and the customer's relation with the bank is found to be beneficiary. The bank estimates the securities offered by its own engineers and takes the value it believes that property deserves (Property estimation guideline of the bank, 2013).

Table 4.7 Monitoring and Control Of Credits

No		Strongly Agree		Agree		Uncertain		Disagree		Strongly disagree		Total	
		Freq	%	Freq	%	Freq	%	Freq	%	Freq	%	Freq	%
		A.	Collateral estimation regularly assessed & related to applicants financial health	8	17	30	63	4	9	5	11	0	0
B.	The bank do pre audit before fund has been released to the applicant					2	5	45	95			47	100
C.	The bank periodically prepare credit quality reports for signaling loan loss in any portfolio	6	13	41	87	0	0	0	0	0	0	47	100
D.	Customers are given sufficient advice on the usage of loans.	0	0	0	0	1	2	12	26	34	72	47	100

Source: Researcher’s Survey Result from Primary Data Source

Also the Structured Questioners prepared were focusing on the monitoring and control of credits among this in the aforementioned table 4.7 item (a) respondents were asked whether the bank do collateral estimation regularly related to the borrowers financial health with this regard 63% of the respondents agree and 17% of them strongly agree where as 11% of them disagree and 9% of the respondents were uncertain. Item (b) of table 4.7 assessed whether the bank do pre-audit before disbursement has been made to the borrower 95% of the respondents strongly disagree with the statement where as 5% of them are uncertain. As it is shown on the above mentioned table 4.7 Item (c) on table 4.7 shows 13 and 87 percent of the respondents strongly agree and agreed respectively regarding, the periodical preparation of quality credit report signaling loan loss of any portfolio the bank. As it is depicted on item (d) of table 4.7 respondents were asked whether sufficient customer training on the usage of loan 26 and 72 percent of them disagree and strongly disagree respectively while 2 percent

showed that they are uncertain. Every three years securities offered for loans are re-estimated as long as the loan is active (Property estimation guideline of the bank, 2013). Hence, proper monitoring of credit has assumed greater significance in the effective management of leading yet most of the respondents have witnessed that the bank does not provide any advice on the usage of loan and no pre audit is made prior to disbursements which are critical factors. the bank advice branch manages to undertakes pre and post disbursement visits usually the pre disbursement visit is undertaken but the post disbursement is not taken seriously by branches or the bank as whole and beside this monitoring mechanism it would be advisable for the bank to provide advice to the customers on how to use the credit. Pre audit can be costly especially time wise but it can be used as one important control mechanism in credit analysis and appraisal process but it can be seen that the bank does not take in to consideration. The credit portfolio management department collects data's related to loan on a monthly and quarterly basis compile that data and report to National Bank of Ethiopia, the bank's president office and board of directors.

Table 4.8 Credit Risk Management

No		Strongly agree		Agree		Uncertain		Disagree		Strongly disagree		Total	
		Freq	%	Freq	%	Freq	%	Freq	%	Freq	%	Freq	%
A.	The loan portfolio is invested in different sectors of the economy	7	15	31	66	7	15	2	4			47	100
B.	The bank loan portfolio concentrate in particular sectors of the economy			26	55			9	19	12	26	47	100
C.	The bank quickly responds to market changes			33	70	5	11	7	15	2	4	47	100

Source: Researcher's Survey Result from Primary Data Sources

The importance of prudently managing sectoral concentration risk in banks credit portfolio is

generally well recognized On the above mentioned table 4.8 item (a) 15 and 66 percent of the respondents strongly agree and agree respectively that loan portfolios of the bank are invested in different sectors of the economy while 4% of the respondents replied their disagreements and 15 percent are uncertain about the sectoral distribution.

On the same table item (b) 55 percent of the respondents strongly agree the bank loan portfolios concentrates on particular sectors while 19 and 26percents of the respondents describe their level of disagreements and strong disagreement on the statement. Most of the bank’s loans are concentrated on certain risks most of the time mainly domestic trade, transport loan and export. This arises from the demand but also exposes the bank to concentration risk.

Table 4.8 item (c) raises question about whether the bank quickly respond to market change with this regard 70 percent of the respondents agree 11 are uncertain while 15 and 4 showed their disagreement and strong disagreement which is relatively good from the researcher point of view. This shows that the bank tries to stay competitive still protecting the market value of the bank and the shareholder’s interest. Any change in the market a good example can be the 2017 devaluation which led the bank to increase the interest rate by 2% on every loan and advance.

Table 4.9 The importance of factors considered in credit granting process in the bank.

5Cs	Most important		Important		least important		not important		Total	
	Freq	% age	freq	% age	Freq	% age	Freq	% age	freq	%
Character	33	70	12	26	1	2	1	2	47	100
Capital	21	45	25	53	1	2	-	-	47	100
Collateral	18	38	15	32	13	28	1	2	47	100
Capacity	34	73	9	19	1	2	3	6	47	100
Condition	22	47	19	40	4	9	2	4	47	100

Source: Researcher’s Survey Result from Primary Data Sources

As discussed on the literature review parts of the study different scholars point out that in order to operate on sound credit granting process the implementation of the above listed 5C

plays important role. As result on table 4.9 above shows all 5C are highly used in credit granting process of Bunna bank. Capacity to repay (73%), characteristics of the business and owner (70%), conditions of borrower (47%), capital of the borrower (45%) and collateral (38%) used respectively according to respondent. Even if the bank uses capacity or ability to pay and willingness to pay as major point the bank must also give due attention to collateral in the credit granting process as risk mitigation mechanism because Collateral is an asset that serves as security against counter party risk. Anderson & Joe veer (2014). Mark K. (2010) Find out, the extent that capacity/competition and conditions are mostly used as in screening and risk analysis before awarding credit to clients. It was further found that extent that collateral/security and character of borrower were used in screening and risk analyses before awarding credit to clients are moderate impact in financial institutions in Kenya.

Table 4.10 Time interval for processing a single loan and make decision

No	Time interval in loan process	Freq	%
A.	Less than 15 Days	5	11
B.	15 Days To 30 Days	9	19
C.	Above 30 Days	33	70
	Total	47	100

Source: Researcher’s Survey Result from Primary Data Source

Many factors contribute to the time it takes to complete one loan process like the time it takes to collect the needed documents, analysis both at the branch and the approving organ also depends on where the loan is being approved branch, liquidity status of the bank. Loan processing is one of the measurements of credit management in banks. Hence, the processing procedure, transparency, and length of time are some of the factors determining the convenience of lending facilities which contributes to loan growth and lasting client - bank relationship. Bearing this in mind the researcher raised question about the time interval for processing single loan and to pass decision 11% of the respondents says it takes less two weeks where as 19% of the respondents replied it takes between two weeks to a month while 70% of the respondents replied more than a month.

Table 4.11 Credit Creation by the bank

Credit creation	Freq.	%
By staffs approaching promoted clients	11	23
By new clients approaching with new request	36	77
Total	47	100

Source: Researcher's Survey Result from Primary Data Sources

As it is shown in the table 4.11, 77 percent of the loan is created by new applicants approaching the Bank with credit request while 23 percent is created by the employees approaching potential loan clients. These shows the Bank employees especially branch managers should further exert efforts to approach potential loan clients as it is the best way of creating quality loans as well as to win the prevailing so staff competition.

Table 4.12 Collection techniques of the bank

	Freq	%
Debiting customers account as per an undertaking letter	25	53
Cash/check payment	7	15
Transfer	13	28
All	2	4
Total	47	100

Source: Researcher's Survey Result from Primary Data Sources

The collection technique so far adopted by the Bank is cash/check payment, debiting own account per the given undertaking authorization, and transferring through the bank's branch excluding commission charge. As it is shown in table 4.12, 53 percent adopts debiting the clients account, 15 percent uses cash collection system, and 4 percent uses either cash or debiting account system of collection technique While 28 percent uses transferring when the

clients are out of the branch. Hence, the most common collection techniques used by the bank is transfer and debiting Clients account.

Table 4.13 Credit policy and procedure of the Bank

Credit policy and procedure	Freq	%
Rigid	16	34
Flexible	14	30
Average	17	36
Total	47	100

Source: Researcher’s Survey Result from Primary Data Sources

How encouraging and flexible a bank’s credit policy is another factor for customers to decide to be a customer of a bank or not in compliance to the policy of the regulating body, all banks formulate their own credit policies and procedures which assist to provide different type of credit within each credit policy to their loan customers. Therefore, knowing the outlook of loan clients for each bank is very important in reshaping its credit policy and procedures. Hence, In order to know the nature of the Bank’s credit policy, the researcher raised questions for the employees of the Bank. Consequently, as revealed in Table 4.13, 36 percent of the respondents said the credit policy and procedure of the bank is on average in its workability and 34 percent claimed as it is rigid. While, 30 percent of them said that the credit policy of the Bank is flexible. In the interview made most of the division and department managers have agreed on the importance, attractiveness and convenience of flexible credit policies and procedures as it assists for loan creation and growth. They also noted that the flexibility should come by keeping the protection and the best interest of the bank in mind.

Table 4.14 Rate of credit analysis and processing

Rate of analysis and process	Freq	%
Excellent	2	4
Very good	21	45
Good	19	40
Fair	5	11
Poor	0	0
Total	47	100

Source: Researcher's Survey Result from Primary Data Sources

In relation to credit analysis, as indicated in table 4.14, 45 percent of the bank employees have rated the credit analysis of the bank very good, 4 percent rated Excellent, 40 percent rated good while 11 percent rated fair. Hence, there is a gap needed to improve the quality of credit analysis and loan processing at both head office and district level to the status of excellent level that enables to create quality loans managing non-performing loans.

Table 4.15 Methods used to improve repayment

Measure	Freq	%
Loan rescheduling	5	11
Additional loan	2	4
Frequently insisting the client	40	85
Total	47	100

Source: Researcher's Survey Result from Primary Data Sources

Branches should start on the repayment probability of the loan since the beginning of the loan. They should consult with the customer on the frequency of the repayment based on the cash flow of the customer's business. As it is indicated in table, 4.15, 85 percent used to settle the non-performing loan through frequent follow up and insisting the loan client. Moreover,

11 percent of the bank employees have replied the bank reschedules loans when the cause of default occurs justifiable while 4% of them replied additional loan is made. From the interview with the staff of the portfolio and credit management they would go in to a great length before the loan could go in to the legal department and foreclosure could follow but the first and the most important step in done in the branch where the loan was granted.

Table 4.16 Effectiveness of forcing measures

Forcing measure effectiveness	Freq	%
Effective	33	70
Ineffective	14	30
Total	47	100

Source: Researcher’s Survey Result from Primary Data Sources

With regard to the enforcing mechanisms, the researcher raised questions and assess their effectiveness as shown in table 4.16 above, 70 percent of the respondents confirm the effectiveness while 30 percent disclosed its ineffectiveness. The main reason for the ineffectiveness is that in most cases people do not want to buy others property which is held as collateral by banks.

4.2 Secondary data analysis

In order to further analyze the credit risk management practice of the bank data on total loan and nonperforming loan was used and discussed. Thus, this part deal with the actual operation results of credit activity. The bank provides different kind of loan facility to different economic sector for both governmental and private businesses by prioritizing sectors.

4.2.1 Non-Performing Loan of the Bunna Bank

The banks Non-performing Loans (NPL) as of June 30;2016,2017,2018,2019,2020 and 2021 was 2.9%, 3.2%, 2.8%, 3.5%, 3.86% and 2.4% percent respectively which was below the 5 percent maximum regulatory requirement set by the national bank of Ethiopia (NBE).

4.3 In interview

In order to get deep understanding about the credit management of Bunna Bank s.co, interview was conducted with district managers and credit directors. All of the interviewees have had over seven year's credit experience. Accordingly the interviewee's responses to the questions are depicted briefly as follows. However, most interview responses are presented and analyzed in the questionnaire analysis part as a supportive response. Before the response is presented in a summarized way an interview guide line is given as follow.

First before I choose my interviewees profiled their position function in relation to the topic of my research.

Since they study is about credit management there is no better place than credit portfolio management department the bank to conduct the interview with since the staff in that department is solely engaged in the credit management process. The next step I took was setting a requirement and from all the staffs I choose the manager of the department who has a long year experience in credit management and loan work out. Since this is an additional way of collecting primary data I set my priority to asking about the actual credit management practice to be my priority and only limited my question to that. The summary of the questions asked with the response is shown below:-

A. Generally, Perception about Credit Management of the Bank by the interviewees

Most of the respondents have so many in common as to what they believed the credit management practice of the bank. Loan processing and lending function is the core product of all banks in general as it contributes the major shares of revenue to its profitability. In other words, loans and advances are known to be the main stay of all banks. They occupy an important part in gross earnings and net profit of the banks. The share advances in the total asset of the banks forms a lion share (almost more than 60%) and as such it is known as the back bone of banking sector. The strength and soundness of the banking system primarily depends upon health of the advances. Therefore, in order to promote the lending function to the required level the Bank should produce and follow up to date, convenient credit policies, and procedures to attract potential loan clients so as to develop a long-lasting two-way borrower and bank relationships.

B. Interviewed responses summary for factors that affect credit management of Bank.

Respondents indicated that several factors affect credit management of the bank. The fundamental aim of managing credit is to perk up the quality of business decision making at

all levels of the firm and thereby to maximize shareholder wealth. Thus Most of the respondents exposed the need of improvement prevailing procedures in accepting loan applicants by the bank, underestimation of properties offered for collateral, length of loan processing time, excessive reduction of loans requested and recommended by the branch and diversion of loan funds, over presenting of project costs by borrowers, poor projects feasibility studies from the customer sides, Bank's clients started new businesses in which they had no experience, un updated exchange of clients credit information are the major ones.

C. Summary of interviewed responses for how the bank asses credit worthiness of applicants

As per the interviewee's response once a customer requests a loan, bank officers analyze all available information to determine whether the loan meets the bank's risk-return objectives. Credit analysis is essentially default risk analysis, in which a loan officer attempts to evaluate a borrower's ability and willingness to repay. The Bank assesses the creditworthiness of a loan applicant mostly by gathering detail information depending on the type of credit exposure and the nature of the credit relationship with the borrower, the factors to be considered and documented in credit approval include:

- Interview and site visit

Interview

- ✓ Purpose of the loan
- ✓ Type of business
- ✓ Financial need of the business
- ✓ Liability of the business if there is any
- ✓ Source of repayment
- ✓ Customer and market base
- ✓ Competency of the management
- ✓ Past performance of the business

Site visit

- ✓ This is important to get a broader of the applicant's business to make a physical examination and verification of items declared on financial statement.
- ✓ To see future conditions of the business.
 - Financial viability of the applicant's business and the applicant be classified as bankable

- Knowing customer (character, capacity, capital, Collateral and condition)
- Summary of borrower and affiliated credit relationship with BIB and other banks. Are there any non-performing loans with other banks,
- Fulfillment of documentation and compliance requirements such as renewed trade license, TIN, tax clearance, memorandum and article of association, financial statements, due diligence and etc ...
- Financial ratio analysis
- Credit information enquiry responses to check whether the applicant has any loan arrear with other banks
- Collateral identification and valuation are the major ones.

D. Summary of interviewed responses towards the bank preference of collateral based lending.

As per the interview conducted the Bank prefers the business type and applicant creditworthiness as first way out and collateral is the second way out as basis for lending. In principle, loan can be provided both on clean base and on collateral base. However, the Bank prefers collateral based lending because of the following main reasons:

- The economic level of the country: the living standard of the society, poverty, etc;
- The culture of the society in lending is at its infant stage.
- The educational level of the society.
- Limited resources of the bank
- It is believed to be the safest way of lending in minimizing credit risk and others.

The other most important issue to be continually reviewed related to collaterals is period of limitation of loan and mortgage contracts and their registration.

E. Factors believed to cause occurrences of NPL by the interviewees

Respondents indicated that several factors contribute to loan default. As per the outcome of the interview the factors can be categorized as bank's internal situations and borrowers related. The factors are organized and presented under the respective subtitles.

Banks internal factors

These are factors relating to internal inefficiencies due to systems, governance, human resource issues and the related. Under theme this most of the interview participants raised the following issues:

- Bankers lack of integrity,
- relaxation in the follow up of loans,
- Credit analyst's capacity limitation,
- Banks aggressive lending to maximize profit,
- Not conducting Know your customers (KYC) principles properly before lending,
- Mistakes on estimation of collateral and evaluating the borrower's financial report
- Lack of credit information from other banks on a timely basis
- Lack of communication and consultation with the defaulter not after the loan is declared NPL but when the applicant first applies for loan.

Customer related factors

These are factors that emanate from borrowers and have strong bearing on occurrences of Loan default. Under this ground the following were raised:

- Fund being directed to unintended purpose,
- Unstable economic and political condition
- Borrowers not making competitive analysis before engaging in a particular sector,
- Excess government intervention in the applicant business/sector
- Business management problems- most of family owned businesses don't have good management and they also suffer from succession,
- Poor record keeping by businesses,
- Intentional or willful default,

G. Summary of interviewed response about portfolio management of the bank.

As per the interviewees view, the loan portfolio is typically the largest asset and the predominant source of revenue for the Bank. As such, it is also one of the major sources of risk for the Bank's safety and soundness. Accordingly, BIB employs various risk assessment mechanisms such as customer grading, portfolio limit management, credit review and provisioning to effectively manage its credit risk exposure.

CHAPTER FIVE

4 CONCLUSION AND RECOMMENDATION

5.1 CONCLUSION

In this chapter, a conclusion of the research findings that has been discussed and analyzed in detail in the previous chapters is briefly presented. In addition, general conclusions that are highly related with the research objective of this paper are offered. Furthermore, possible recommendations based on the findings are made.

As qualified, socially responsible and experienced manpower enhances competence majority of employees of the bank working in credit area are Degree holders still updating their educational status, married and highly experienced, this enables the bank to accelerate its service delivery and become competitive in the growing stiff competitive industry, to meet its vision of “To become one of the top three commercial Banks in Ethiopia by the year 2030”.

Submission of incomplete documentation and centralized credit decision mainly affects accurate and timely decision which makes loan delivery time of the bank lengthy. The majority of the respondents agreed that one loan process takes more than 30 days to be finalized.

The collection techniques so far adopted by the bank is appropriate and effective that most common collection techniques used by the bank is transfer and debiting Clients account per pre undertaking.

Most of the time loans are created by new clients approaching the bank but respondents believed that the service is not that much to the clients’ preference.

Most respondents revealed the credit analysis and appraisal of the bank is in a very good condition except matters that the credit granting and monitoring is influenced by influential persons of the bank which makes decision subjective. It was an understanding of most respondents that influential personnel’s involve mainly when they found the client having a potential for the most part.

Hence, proper monitoring of credit has assumed greater significance in the effective management of leading yet most of the respondents have witnessed that the bank does not provide any advice on the usage of loan and no pre audit is made prior to disbursements

which are critical factors. Most branches even though it is clearly stated on the credit policy of the bank do not also undertake post disbursement visit unless there is something wrong with the loan repayment.

In addition in depth interview found out that due to underdevelopment of credit orientation borrowers engaged in business that they had no depth knowledge, diverted loans and advances for unintended purpose, willful default, over presenting of project costs and poor projects feasibility studies are factors which leads to customers default.

5.2. RECOMMENDATION

Based on the findings of the study the following recommendations were forwarded

- As it is disclosed in the analysis part of the study most of the bank employees have complaints on the credit policy and guidelines regarding loan discretion, length of loan processing time, repayment schedule, and excessive requirements for analysis. These are the major factors impeding client reputation and retarding to attract potential loan clients. Hence, the bank should made remarkable changes on its credit policy and procedure guidelines regarding the above aforesaid drawbacks in order to solve the current problems and achieve the client reputation.
- The bank advisable frequently follow-up by visiting borrowers' business to create long- lasting relationship and assure future payment.
- The bank is advisable assess borrowers past financial history, credit worthiness and perform detail financial analysis before extending loans to avoid non-performing loans. Requesting financial report is not enough by itself.
- Even though credit management is the first way to avoid bad debt still there would be loans that would surpass all the work out process and become a bad debt because some branches do not apply the procedure of credit management it becomes hard to handle the case when it reaches legal measures. Branch managers should have the banks interest at heart at all times and apply the banks credit policy and procedure.

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Appendix

Questionnaire

ADDIS ABABA UNIVERSITY

DEPARTMENT OF ACCOUNTING AND FINANCE

Dear respondents,

This is a questionnaire designed to collect data on the credit management practice of Bunna bank S.C which will be used as an input for a thesis in a partial fulfillment of Masters of Degree in accounting and finance. 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.

I. GENERAL INFORMATION

(Tick the appropriate box)

1. Gender

Male Female

2. Age

20-30years 31-40years 41-50years above50

3. Marital status

Single Married

4. Educational background Diploma Degree Masters PhD & above

5. Credit related experience within the bank: 1-5 years 5-10 years

above 10years

II. RESEARCH RELATED QUESTIONS

4. Please provide your level of agreement as follows:

Strongly agree, Agree, Neutral, Disagree, strongly disagree

	I. Credit processing and appraisal	Strongly agree	Agree	Uncertain	Disagree	Strongly disagree
A.	The bank demands a business plan from all clients to identify risk exposure					
B.	The bank look at relevant experience of the loan Applicant					
C.	The bank carries out credit processing activities independent of the appraisal					
D.	The banks credit granting and approval process establish accountability to decision makers					
E.	There are times the credit granting and monitoring of applicant's can be influences by directors, senior managers or influential staff of the bank					
F.	The bank look at collateral whenever granting any loan					
G.	The bank consider the past repayment track record of applicants					

	2. Credit Risk Management	Strongly agree	Agree	Uncertain	Disagree	Strongly Disagree
A.	The loan portfolio is invested in different sectors of the economy					
B.	Does the bank loan portfolio concentrate in particular sectors of the economy					
C.	The bank quickly responds to market Changes					

	3. Monitoring and control of credit	Strongly agree	Agree	Uncertain	Disagree	Strongly disagree
A.	Collateral estimation regularly assessed & related to applicants financial health					
B.	The bank implement the condition & sanction set by different appraisal organs					
C.	The bank periodically prepare credit quality reports for signaling loan loss in any portfolio					
D.	Customers are given sufficient advice on the usage of loans.					

7. Factors in credit granting process.

	Most important	Important	Less important	Not important
Character: measures the borrower's character and integrity				
Capital: measures the difference between the borrower's assets				
Collateral: measures the collateral provided in case payment problems occur				
Capacity: measures the borrower's ability to pay				
Condition: measures the borrower's circumstances				

Details on manuals

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

- a) Rigid b) Flexible c) Average

Credit creation and procedure

9. How long it takes to process and make a decision on a single credit request?

- a) Lessthan15days b)15-30 days c) above 30days

10. Most of your current loan is created

- a) By approaching promoted clients b) By clients approached with request

11. How do you rate the credit analysis and procedure followed by the bank in Extending credit?

- b) Excellent b) Very good c) Good d) Fair e) Poor

Follow-up collection

12. Which of the following credit collection technique/s/ are mostly adopted by your Bank?

- a) Cash/check payment
- b) Debiting client account per pre undertaking
- c) Using reminder letters
- d) Transferring
- e) All

13. How often does your institution visit client's business after fund has been released?

- a. Monthly b) quarterly c) Semi-annually d) in time of default

14. What do you think is/are the major reason/s/ for default in your Branch?

- a. Lack of follow-up
- b. Lack of training
- c. Willful default
- d. Loan diversion
- e. Lack of market for clients "product
- f. Others, (specify)_____

15. What measure/s is/are taken on the side of the bank to improve the repayment situation? (Hint: Check all answers that apply)

- a. Loan rescheduling
- b. Additional loan
- c. Frequently insisting the client

d) Others,(specify) _____

16. What measures are taken by the bank to enforce repayment?

a. Foreclosure

b. Court proceedings

c. Others,(Specify) _____

17. How do you evaluate the loan enforcement mechanism?

a. Effective

b. Ineffective

18. If your answer to Q 25 is “Ineffective”, what is/are the reason/s/ behind this?

a. Buyers don't want to buy some ones property because of bank loan

b. Limited purchasing power of the society

c. High initial bid amounts

d. Others, (specify) _____

19. Would you please specify any problem/s/ of credit management that your institution faces so far apart from the above raised issues?

20. Would you please specify the major credit problems you assume? _____

21. For the problem/s/ that you mentioned above, please list out all the possible and better solution/s/ that can improve the credit management system of your bank

Thanks for your time