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ADDIS ABABA UNIVERSITY

COLLAGE OF BUSINESS AND ECONOMIC

DEPARTMENT OF ACCOUNTING AND FINANCE

THE TREND OF LOAN RECOVERY PERFORMANCE OF NIB

INTERNATIONAL BANK: A CASE STUDY OF ADDIS ABABA

BRANCHES

BY: MIKIAS NIGUSSIE

**A THESIS SUBMITTED TO ADDIS ABABA UNIVERSITY COLLEGE OF BUSINESS
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FULFILLMENT OF THE REQUIREMENTS FOR THE MASTER OF SCIENCE (MSC)
IN ACCOUNTING AND FINANCE**

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Declaration

I hereby declared that this thesis paper is my original work and has not been presented for a degree in any other university and all sources of material used for this has been duly acknowledged.

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This is to certify that this thesis is prepared by Mikias Nigussie entitled: *The trend of loan recovery performance of Nib International Bank: a case study of Addis Ababa branches* and submitted in partial fulfillment of the requirement of Master of science in accounting and finance. It complies with the regulation of the university and meets the accepted standards with respect originality and quality of the University.

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Acronyms

AMC- Asset Management Companies

AIB - Awash International Bank

DBE- Development Bank of Ethiopia

GDP - Gross Domestic Product

NBE - National Bank of Ethiopia

NPL - Non-Performing Loans

NIB - Nib International Bank

OD- Over Draft

OIB - Oromia International Bank

SBB - Supervision of Banking Business

SOB-State Owned Banks

ABSTRACT

The study examines the trend of loan recovery performance of NIB Bank; a case study of Addis Ababa Branches. This research used both descriptive and analytical designs to attain the objective. The data was gathered from both primary and secondary sources. A questionnaire was used to obtain primary data using the simple random selection method, a total of 141 respondents were selected from the bank's credit analysts, loan officers and loan follow up officials. Moreover, semi-structured and structured interviewees also used to gather information from credit officers. Secondary data was collected from NIB annual reports and supervisory reports. SPSS was used to analyze data and also using tables and a brief explanation by words were employed. The results from the questionnaire and interview revealed that the time period to pay back the loan and loan recovery process has an influence on the loan recovery performance of the NIB. In addition, loan recovery of the bank is influenced by the policy of the bank. The study suggests that the policy of the bank has to be revised in such way that by incorporating other banks experience and our country current business environment so as to improve loan recovery performance of the bank.

Key terms: NIB, loan recovery performance

Table of Contents

	Page
Acknowledgment	Error! Bookmark not defined.
Acronyms	i
ABSTRACT	iii
List of tables.....	vii
List of Figures	viii
CHAPTER ONE	1
INTRODUCTION	1
1.1. Background of the study	1
1.2. Statementoftheproblem.....	3
1.3 Research Questions.....	4
1.4. Objectives of the Study.....	5
1.4.1 General Objective	5
1.4.2Specific Objectives	5
1.5. Significance of study.....	5
1.6 Scope of the study	5
1.7 Organization of the study	6
CHAPTER TWO	7
LITERATURE REVIEW	7
2.1. Introduction	7
2.2.Definition of loan	7
2.3Factorsthat qualify borrower for a loan facilityfromlendingbanks	8
2.3.1. Capacity (RepaymentAbility).....	9
2.3.2. Character (Human/ManagementFactor)	9
2.3.3. Capital(Financialposition)	10
2.3.4. Condition (Economy).....	10
2.3.5. Collateral (Security)	10
2.4. PrinciplesofGoodLendingPolicy	10
2.5. Loan repayment.....	12
2.6 Non-Performing loan.....	13

2.6.1. Classification of nonperforming loans	14
2.6.2. Causes of Non performing loans	15
2.6.3. Loan Recovery through the courts.....	16
2.6.4. Disposal of non-performing loans	17
2.7. Non-performing loans and Banking crisis in different countries	18
2.8. Empirical Review	19
2.8.1 Empirical studies in Ethiopia.....	21
2.9 Literature gap	23
2.10 Conceptual Framework	23
CHAPTER THREE	25
RESEARCH METHODOLOGY	25
3.1 Research Design and approach	25
3.2. Study area.....	25
3.3 Source of data and data collection Instruments	26
3.4 Sample Size and Sampling Techniques	26
3.5. Data Analysis Tools	27
3.6 Ethical consideration.....	27
CHAPTER FOUR.....	29
DATA ANALYSIS, PRESENTATION AND INTERPRETATION	29
4.1. The trend of Loan Recovery Performance of Nib International Bank by sector	29
4.1.1. Loan Recovery Performance of Agriculture sector	29
4.1.2. Loan Recovery Performance of manufacturing sector	30
4.1.3 Loan Recovery Performance of Export sector.....	31
4.1.4 Loan Recovery Performance of Import sector.....	31
4.1.5 Loan Recovery Performance of Domestic Trade and Service sector	32
4.1.6 Loan Recovery Performance of Transport and Communication sector	32
4.1.7 Loan Recovery Performance of Hotel and Tourism sector	33
4.1.8 Loan Recovery performance of Building and Construction sector	34
4.1.9 Loan Recovery Mines, Power and Water sector	35
4.1.10 Loan Recovery Performance of Personal Loans	35

4.1.11 Sectorial relationships and comparisons of loan recovery performance at NIB (2017-2021).....	36
4.2 Data analysis and presentation of primary data	37
4.2.1 Demographic information	38
4.2.1.1 Education qualification.....	38
4.2.1.2 Position of the respondents.....	39
4.2.1.3 Specific Position of the respondents.....	39
4.2.1.4 Work Experience of the respondents.....	40
4.2.2. Loan recovery performance among different loan sectors	40
4.2.3. Level of efficiency of NIB in loan recovery performance	42
4.2.4 Process of loan recovery in Nib International Bank	47
4.2.5 Effect of loan recovery process on the performance of bank.....	52
4.3 Discussion on the findings	54
5.1. Summary	57
5.2 Conclusion.....	57
5.3 Recommendations	59
References.....	viii
Appendix A. Questionnaire for Nib bank employees.....	xi
Appendix B. Interview Guide for Nib bank employees	xv

List of tables

Table 1: Loan recovery performance of Agriculture sector.....	29
Table 2: Loan recovery performance of manufacturing sector	30
Table 3: Loan recovery of performance of export sector	31
Table 4: Loan recovery of performance of Import sector.....	31
Table 5: Loan recovery of performance of domestic trade and service sector.....	32
Table 6: Loan recovery of performance of transport and communication sector	33
Table 7: Loan recovery of performance of Hotel and Tourism sector	33
Table 8: Loan recovery of performance of Building and Construction sector	34
Table 9: Loan recovery performances of Mines, Power and watersector	35
Table 10: Loan recovery of performance of personal loans	35
Table 11:Recovery rate of NIB by sector (%)	36
Table 12: Average Loan recovery Rate of NIB(2017-2021)ofsectors	37
Table 13: Sex of respondents	38
Table 14: Educational attainment	38
Table 15: Position	39
Table 16: Specific position	39
Table 17: Years of experience	40
Table 18: Effect of loan sectors on loan recovery performance	40
Table 19: Loan that are more difficult to return back.....	41
Table 20: Collateral frequently used to give term loans	42
Table 21: Effect of the policy of the bank on loan recovery of the bank	42
Table 22: The five C's of credit before granting the loan.....	43
Table 23: Customers providing credit history for loan assessment	44
Table 24: Document screening and due diligence assessments	45
Table 25: Efficiency of the loan recovery performance of NIB	45
Table 26: Loan recovery of the bank	46
Table 27: Level of non-repayment rate of the loan due.....	47
Table 28: Timely repayment of loan.....	47
Table 29: Effect of loan recovery process on customers' loan repayment	48

Table 30: Ways customer recover their debt	49
Table 31: Bank approaches to cover debt of borrowers	50
Table 32: Level of collection of loan amount due	50
Table 33: Level of repayment rate of the loan due	51
Table 34: Influence of process of loan recovery on the loan recovery performance of NIB.....	52
Table 35: Effect of Loan recovery process	53
Table 36: Influence of time period on Loan recovery performance	54

List of Figures

Figure one: Conceptual framework of the study.....	24
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CHAPTER ONE

INTRODUCTION

1.1. Background of the study

Financial institutions play a critical role in the growth of a country's economy. The financial sector plays a significant role in the growth and development of the economy. Banks are often chartered to provide a sufficient supply of loans to the community at a competitively determined interest rate. Any financial realities deriving from a bank's direct or indirect advance or commitment to advance funds to a person that are conditional on the person's obligation to repay the funds on a fixed date or on demands, usually with interest, are referred to as a loan (Adriaan et al., 2002).

Although there are numerous elements that contribute to the growth of banking sectors, the rate of loan recovery performance has had a significant impact on the industry's growth. Positive economic development is aided by a well-functioning financial system. As a middleman, the financial system plays a crucial role in directing savings to investment. When savings are invested in profitable initiatives, they yield a significant return on investment. The higher the rate of economic growth, the more productive investments are made (Sonali, 2001).

Financial institutions convert financial assets obtained through the market into a different and more widely preferred sort of asset (Fabozzi and Modigliani, 1996). Depository institutions are examples of financial intermediaries (commercial banks, saving & loan associations, savings banks & credit unions, insurance companies, pension funds and finance companies). These middlemen get money by issuing financial claims against themselves to market participants and then investing the money. Financial intermediaries can make investments in the form of loans and/or securities (John, 1984).

Banks are the most important financial entities in the economy when it comes to depository institutions. Many households, most local government units, and enterprises rely on them as their primary source of credit. Banks' primary economic function is to make loans. Loans account for half or more of most banks' total assets and roughly two-thirds of their revenue (John, 1984). Commercial banks get their name from the fact that

they focus on providing credit to commercial and industrial firms. Private investors, known as stockholders or organizations known as bank holding companies own commercial banks (Sonali, 2001).

The term credit can be defined as the providing of financial assistance to a person in exchange for a promise to repay the money at a later point. Credit can be given in the form of a monetary loan or as a form of deferred payment for goods and services. Credit transactions can also be categorized based on the reason for the loan, the manner of repayment, and whether or not collateral is required. Whatever classification credit receives, its economic function remains the same: it allows a person to spend more than his current or actual receipts, as well as to facilitate the immediate pleasure of products and services that are otherwise beyond his means (Bonin and Huang, 2001). Credit exploitation and banking, according to Shekhar (1993), go hand in hand. In their early phases of development, banks are always linked to credit. It's nearly impossible to imagine one without the other.

Repayment performance is a fundamental quality of credit, according to Pischke (1991), because persistently poor repayment performance leads to financial failure in any lending institution. In a nutshell, financial failure is defined as an institution's inability to cover costs with interest and fees, or as a failure to attract sufficient funds to keep the institution afloat. If the repayment performance is poor for an extended length of time, the lending institution's financial position is jeopardized. It also erodes public trust in the official banking system, causing savers to withdraw their funds. Furthermore, it raises personnel turnover as a result of doubts about the institution's capacity. If a bank fails to do so, or if the recovery procedure takes too long, the consequences could be catastrophic. The bank could wind up with a huge loan portfolio in default, affecting the bank's capital ratios.

In such cases, the bank may be forced to provide higher-than-average deposit rates in order to attract more capital. These higher rates will invariably be reflected in the bank's lending rate. Higher lending rates may have a negative impact on future lending quality, driving the bank to lend to high-risk clients. If the bank wants to lend to more creditworthy borrowers, it may have to reduce margins to levels that aren't enough to make profit (Brown, 1998).

The first stage in a successful loan recovery is to assign a monetary value to the debt that will stand up to scrutiny in court. The goal of liquidating a real estate secured loan by foreclosure or mutual consent, for example, is to convert a mortgage into a loan recovery. In accounting terminology, a receivable is a collection of lender documents such as a promissory note, real estate security, environmental indemnification, stand-by letter of credit, and perhaps other agreements. eventually replace the mortgage on the lender's balance sheet, such as title to real estate (the collateral), cash, and other receivables such as a judgment for damages against recourse parties or a new promise to pay from take-out parties (Stallman, 2003).

1.2. Statement of the problem

Different researches have been conducted in Ethiopia regarding loan recovery performance. For example, Feyisa(2009) under the topic “ the trend of loan recovery performance of banking industry: a case study of AIB” revealed that the bank’s credit procedural manual is not adequate enough for credit assessment since it lacks annual revision, appropriate detail; and lacks objective reality on loan collection. In addition lack of willingness from borrowers is crucial for credit risk analysis. According to Girma (2011), Possible Causes of Loan Defaults, include fund diversion, sickness or inability to work, job loss, business failure, and over committing to high-interest debts. On the other hand, Abay (2015) conducted a study on "evaluation of loan recovery performance in construction and business banks." His findings showed that internal factors namely ridged credit police, no clear credit approval procedure and proper as well as week follow on the loan given to the customers by the bank has negative influence on the loan recovery performance of the bank. In addition to this, Genet (2018) had conducted her studies on “trend of loan recovery performance in banking industry a case study in OIB”. The researcher revealed that in addition to internal factors; external factors also affect the loan recovery performance of the bank. Internal factors that increase the occurrence of NPL were poor customer requirement, poor analysis, poor follow up, poor monitoring and poor recovering and also too much reliance on collaterals are some. Major external factors that increase the occurrence of NPL were social instability, market problem, environmental factors and macro problems especially regarding international market. On

the other hand, Ermias (2020) investigated “assessment of loan recovery performance of DBE”. His findings revealed that internal factors such as malpractice of loan police and procedures, lack of close follow up, lack of skilled man power, and in adequate customer due diligence assessment has negative influence on the Loan recovery performance of the Bank. And also rate of inflation, GDP and interest rate are the major macro-economic factors that affect the loan recovery performance of the bank.

Even though the above researchers have been done, there is gap in their study. Most researchers focus on the internal and external factors for the loan recovery performance of banks. Among the internal factors they stated can be grouped into pre and post loan approval factors. Pre-approval was studied by most of them. But post approval factors that have influence on the recovery performance of the banks were not studied. For example, the processes of the loan recovery did not get enough attention by these researchers and was not deeply studied. In addition, the effects of loan recovery process on recovery performance were not examined.

As a result, this study filled the gap by studying the effect of loan recovery process on loan recovery performance and also assessing the loan recovery process of NIB. In addition, to the best of researcher’s knowledge, no recent research has been conducted on NIB.

1.3 Research Questions

This study tried to answer the following major research questions:

1. What are the loan recovery performances among different loan sectors from 2017 to 2021?
2. What is the level of efficiency of Nib International Bank in loan recovery performance?
3. What are the processes of loan recovery?
4. What is the effect of loan recovery process on the loan recovery performance of the bank?

1.4. Objectives of the Study

1.4.1 General Objective

The main objective of the study is to examine the loan recovery performance of Nib International Bank.

1.4.2 Specific Objective

1. To examine loan recovery performance among different loan sectors in yearly basis
2. To examine the level of efficiency of Nib international Bank in loan recovery performance.
3. To investigate the process of loan recovery in Nib International bank
4. To assess the effect of loan recovery process in its performance.

1.5. Significance of study

It is expected that this paper will clearly reflect the majority of the challenges encountered or the primary variables affecting the Bank's loan recovery performance as well as alternatives solutions for how to handle loan effectively and take appropriate action when a problem arises. It is also intended that this paper will provide guidance to concerned bank management on how to properly address the major elements that primarily affect loan recovery. In addition, it can be used as a reference by other researchers.

1.6 Scope of the study

The study looks into a variety of difficulties surrounding this bank loan recovery performance. For practical concerns, the study has used Nib International Bank. It has been determined that considering all banks in Ethiopia in depth is too impossible due to budget and time restrictions. In addition, majority of NIB loan are found in Addis Ababa. As a result, the study's scope is confined to discussing Nib International Bank in Addis Ababa branches.

1.7 Organization of the study

The paper is divided into five chapters. The background of the study, statement of the problem, research questions, objective of the study, significance of the study and scope of the study are all covered in the first chapter. The associated theoretical and empirical literature review is presented in the second chapter. The research design and approach, sample and sampling methodologies, data collection instrument, data analysis tools, and research methodology are all covered in the third chapter. The study's data presentation, analysis and interpretation are covered in the fourth chapter. Finally, conclusion and recommendation of the study are presented in the fifth chapter.

CHAPTER TWO

LITERATURE REVIEW

2.1. Introduction

This chapter reviews loan recovery performance of banking industry covers discussion on non-performing loan, and also provide empirical review along with literature gap.

The loan (credit) payback is the amount borrowed by clients during the reporting period. The loan will be repaid in two parts: principal and interest. It will be influenced by the terms of the agreement between the bank and the client. Banks encourage customers to pay their bills on promptly. To this purpose, it is necessary to inform the borrower of the benefits of paying the loan on or before the due date. It's crucial to have a good relationship between the borrower and the lender. The greater the distance between the lender and the borrower, the less control the lender has over the credit payback (Shekhar, 1993).

The technique used to determine the period's loan recovery performance is to calculate the proportion of loan recovery rate. This is calculated by dividing recovery against demand by total demand and multiplying by one hundred. Total demand is the amount of past-due loans that the bank expects to recover at a given time, including both principle and interest (it is the summation of beginning arrears and current demand). Loan recovery against demand refers to the percentage of a loan recovery that occurred within the time period under consideration, while overdue refers to the amount of a loan payback term that has passed but has not been realized. The percentage of a loan that is collected prior to payment is known as advance collection (Gita, 1993).

2.2. Definition of loan

A loan is an agreement to advance a quantity of money with interest for a pre-determined length of time sometimes for a specific purpose. The main characteristics of a bank loan are that the bank sanctions a sum of money as a loan for (a) a pre-determined period and (b) at an agreed rate of interest, a separate loan account is opened in the borrower's name with the amount of the loan sanctioned, the loan sanctioned must be taken in full and not partially as the full amount is transferred to the debit side of the account and begins bearing interest from the date of entry in the debit side, Relaxation, on the other hand, is contingent on the bank's discretion (Gorter and Bloem, 2002).

A banking company's principal business is to accept deposits and lend money. Receiving a deposit carries no risk because the banker is obligated to reimburse the deposit whenever it is requested. On the other hand, because there is no guarantee of repayment, lending always carries a high level of risk. A banker, on the other hand, makes the majority of his money via lending. Because he does not lend from his own capital, a banker should be extremely cautious while lending. The public deposits account for a significant share of the money lent. The majority of these deposits are repayable on demand(Stallman, 2003).

A loan is a financial transaction in which one person, organization, or entity lends money to another person, organization, or entity. A loan is a debt provided by an entity (company or individual) to another entity at an interest rate, and proven by a note that states the principal amount of money borrowed, the interest rate charged by the lender, and the date of repayment, among other things. A loan involves the lender and the borrower reallocating the subject asset(s) for a period of time(Flesig, 1995).

A loan is usually offered at a cost, known as interest on the debt, which gives the lender an incentive to participate in the loan. Each of these obligations and limits is enforced by a contract in a legal loan, which can also impose extra restrictions known as loan covenants on the borrower (Flesig, 1995).

2.3 Factors that qualify borrower for a loan facility from lending banks

Some of the elements that influence a borrower's ability to repay a loan are difficult to assess, but they must be taken into account as accurately as possible when generating financial projections. This entailed looking into the borrower's prior history as well as engaging in cost-effective forecasting. Furthermore, they claim that certain factors influence a lending officer's belief in a debtor's ability and willingness to repay the debt in line with the loan agreement's conditions. Some authors, such as Shekhar (1993), divided the components into five categories.

2.3.1. Capacity (Repayment Ability)

A borrower's capacity must be appraised in two ways. First and foremost, the borrower must be legally capable of borrowing. Banks, for example, will not lend to minors. An evaluation of a borrower's "financial capacity" is important in determining a borrower's repayment ability (Sonali,2001). Banks are concerned not only in the borrower's ability to repay, but also in his or her legal competence to borrow, according to Reed and Gill (1985). When a loan is issued to a minor, banks provide limited loans since they can disaffirm the loan at any time unless the proceeds are used for vital purposes. The message is frequently cosigned by a parent, guardian, or another person of legal age.

2.3.2. Character (Human/Management Factor)

In the credit evaluation process, a borrower's personality plays a crucial part. To establish a borrower's character, a lending bank will look at his past record, banking activities, integrity, and reputation (Sonali, 2001). According to Reed & Gill (1985), character definition pertains to credit transactions, which includes not only a strong desire to repay debt but also a strong desire to satisfy all obligations within the contract's terms. Character traits such as honesty, integrity, and morality are common among people, yet evaluating character is challenging. It is completely possible for someone to lack all of these characteristics but still wishing to repay financial obligations. The degree to which a person's character deserves of praise is largely determined by his or her honesty and integrity. "The banker should have complete faith in the integrity and ability of the customer to use the money to his or her advantage and to repay it within a reasonable term," according to Clemens (1989).

It is preferable to decline to lend in the lack of such confidence, regardless of the amount of security offered. Every banker must have a clear image of the ideal customer in his head. This is especially true if the manager has known the consumer for a long time and has dealt with him personally. Joseph(1996) also mentioned the importance of addressing factors such as management goals, objectives, and motivations. Before making a decision on a business loan, suitable financial, technical, and business management skills must be rigorously assessed (Joseph, 1996).

2.3.3. Capital(Financial position)

Capital is the amount of money put in a business by a borrower to sustain both fixed and current assets, often known as 'net worth support' (Flesig, 1995). Banks should ensure that each borrower has enough equity to allow creditors to recover funds by selling assets other than the collateral offered as security for the loan.

2.3.4. Condition (Economy)

According to Barrow (1981), economic conditions have an impact on borrowers' ability to repay financial obligations, but they are beyond the control of both the borrower and the lender. Furthermore, Barrow(1981)emphasizes that economic conditions shape the environment in which business units and individuals function; therefore the loan officer must become an economic forecaster. The commercial operations of a potential borrower are influenced by market conditions, as well as social and economic situations. It is possible that a borrower will meet all of the other criteria for credit approval, but if the potential borrower is involved in a firm with a volatile market, lenders will be hesitant to provide funds. Before granting a loan, a cautious lender will carefully examine the current state of affairs in the county (Sonali, 2001).

2.3.5. Collateral (Security)

Collateral is not required in order to secure a loan. Lenders, on the other hand, will prioritize availability if they believe there is a question about a borrower's ability to repay the loan. The amount of collateral required must reflect that uncertainty (Sonali, 2001).Collateral refers to the firm's specific assets that bondholders obtain if the company fails on the bond/loan (Barrow, 1981). Most loans are secured by the borrowers' assets; for example, most cars are acquired on credit, and the car serves as collateral for the loan. In most cases, security is used to shore up a flaw discovered in one or more of the credit determinants, such as the ability to generate income (Clemens, 1989).

2.4. Principles of Good Lending Policy

Bankers can make two sorts of errors while reviewing loan requests, according to Bedi & Hardikar(1993). The first is giving credit to a customer who will eventually default, and the second is turning down a loan request from a customer who will eventually be able to repay the debt. Banks lose a customer and profits in both scenarios. There are a few broad

rules of sound lending that should be remembered while reviewing an advances proposal to reduce such errors and prevent loan difficulties before they develop. These factors include security, liquidity, and the intended use of loan funds, as well as profitability and diversification.

2.4.1 Safety: means that borrowers should be able to pay back the loan and interest on time and at the agreed upon intervals without defaulting. Essentially, borrowers' ability to repay loans depends on their ability to create sufficient funds through business entities as well as the character of such borrowers. Furthermore, other factors like the borrowers' financial condition and the nature of collateral securities pledged for the loan can also affect the repayment. In addition to the aforementioned consideration, the banks assess the credit worthiness of the borrower which is determined by the character, capacity to repay, and financial standing of such borrowers (Joshua,2021).

2.4.2 Liquidity: may simply be described as a bank's ability to convert a significant number of assets into cash quickly and at a favorable price to meet both normal and abnormally high withdrawal demand of its operation at any time. A bank is said to be liquid if it has instant access to cash at a reasonable cost and at the exact time the funds are required. It is vital to check the liquidity of the loan to be provided in order to assure the bank's liquidity. As a result, it is not sufficient that the money be returned; it must also be recovered on demand or in line with agreed-upon repayment terms. After a demand for repayment is made, the borrower must be able to repay within a reasonable time. This is only possible if the money is used for a short-term need rather than being invested in fixed assets or plans that take a long time to pay back. The repayment source should be specified. The reason why bankers value liquidity as much as the safety of their funds is that, the vast majority of their deposits are repayable on demand or at short notice (Bedi & Hardikar, 1993).

2.4.3. Purpose of the loan proceeds: Another principle of good lending is purpose of the loan proceeds. There is no limit to the kind of company loans that can be obtained. Firms may require funds for operational purposes such as paying late suppliers, paying taxes, or paying employees' salaries. They may also require capital to repay debt commitments or purchase new fixed assets. Business operations reasons, such as seasonal

and permanent working capital needs, are frequently recognized by a firm for the purchase of depreciable assets, physical plant development, acquisition of other enterprises, and extraordinary operating expenses (Bedi & Hardikar, 1993).

2.4.4. Profitability: equally important is the principle of profitability in bank advance like other commercial institutions, banks, must make a profit. Firstly, they have to pay interest on the deposit received by them. They have to incur expenses on establishment, rent, stationery, etc. They have to make provision for depreciation of their fixed assets. and also for any possible bad or doubtful debts. After meeting all these items of expenditure which enter the running cost of banks, a reasonable profit must be made; otherwise it will not be possible carry anything to the reserve or pay dividend to the shareholders (Gaurav, 2010).

2.5. Loan repayment

Loan repayment: It is an arrangement of in which a lender gives money or property to a borrower and borrower agree to return the property and repay the money, usually along with interest at some future time. Usually there is predetermined time for repaying a loan and generally the lender has to bear the risk that borrower may not repay a loan, generally it is a time that a borrower or debtor to repay his debt or loan at the right time. Borrowers who satisfy the entire loan contract conditions and repay their loan without any problem (Gaurav, 2010).

A sound credit risk analysis/appraisal and assessment of borrowers' creditworthiness are used to make lending decisions. However, historical records of satisfactory performance and integrity do not guarantee future results, even if they can be used as a pointer to project performance trends. A loan granted on the basis of solid analysis could go bad if the borrower fails to meet his or her obligations under the loan contract's terms and conditions. As a result, proper follow-up and monitoring are critical (Shekhar, 1993).

There are three different types of loan follow-up methods. Physical, financial, and legal follow-up are the three types of follow-up (NBE Directives, 2010). The following sections go over each one:

A. Follow-up on the physical level

Physical follow-up assists in ensuring the existence and operation of the business, the status of collateral properties, the accuracy of declared financial data, the quality of goods, the conformity of financial data with other records (such as taxes, register books), the availability of raw materials, the labor situation, observed marketing difficulties, undue turnover of key operating personnel, and changes in management structure, among other things (NBE Directives, 2010).

B. Follow-up on finances

Financial monitoring is required to ensure that the assumptions that were used to make lending choices are still valid; both in terms of the borrowers' operations and the environment, and that the loan is being used for the intended purpose (NBE Directives, 2010).

C. Follow-up with the legal department

The goal of legal follow-up is to guarantee that the Bank's legal recourse remains active at all times. It entails obtaining and maintaining proper papers, as well as registration and proper insurance follow-up. Specific issues relating to legal follow up include determining whether contracts are properly executed by appropriate persons and documents are complete in all aspects, obtaining revival letters in a timely manner (revival letters refer to renewal letters for registration of security contracts that have passed the statutory period as laid down by law), ensuring loan/mortgage contracts are updated timely, and reviewing regulatory directives, laws, and third party agreements (NBE Directives, 2010).

2.6 Non-Performing loan

The principal source of income for banks is loans and advances. A bank, like any other business, wants to maximize its profits. A bank is prepared to lend as much of its capital as possible because loans and advances are more profitable than any other assets. However, banks must be cautious regarding the security of such advances. Nonperforming loans are loans or advances whose credit quality has deteriorated to the point where full collection of principal and/or interest in line with the loan or advance's contractual repayment terms is in doubt(NBE Directive, 2008).

Non-performing loans (NPLS) are defined by NBE directive No.SBB/43/2008 as loans or advances with a pre-established repayment scheme in which principle and/or interest is due and uncollected for 90 days or more beyond the scheduled repayment date.

In addition, this directive also states that OD and Loans or advances that do not have pre-established repayment program shall be non-performing when; the debt remaining outstanding for 90 days or more beyond the scheduled repayment date or maturity, the debt exceeds the borrower approved limit for 90 consecutive days more, and Interest is due and uncollected for 90 consecutive days or more. Whereas, for overdraft accounts shall be NPL when the OD account has been inactive for 90 consecutive days, deposits are insufficient to cover the interest capitalized during 90 consecutive days, and the account fails to show 5% or less debit balances of the approved limit once in a year (NBE Directive, 2008).

2.6.1. Classification of nonperforming loans

The extent to which governments have been involved in defining standards to distinguish between "good" and "bad" loans varies significantly between countries. Some countries depend solely on qualitative rules (such as a variety of information about the clients' financial condition, management judgment about future payments), while others utilize quantitative criteria (such as the number of days of overdue Scheduled payments). When principal and/or interest is due and uncollected for 90 (ninety) days or more beyond the scheduled payment or maturity date, the loan is considered non-performing (NBE Directive, 2008).

In our country, the National Bank of Ethiopia issued directive number SBB/43/2008 in accordance with the authority conferred on it by article 41 of the Monetary and Banking proclamation number 83/1994, as well as articles 15 (1) and 36 of the Licensing and Supervision of Banking Business proclamation number 84/1994.

According to this instruction, banks must classify non-performing loans into one of five categories based on the criteria listed below, whether or not the loans have a pre-determined repayment schedule.

- a) Pass -. This category includes any loan or advance, or portion thereof, that is fully secured, both in terms of principal and interest, by cash or cash substitutes, regardless of past due status or other adverse credit criteria (NBE Directive, 2008).
- b) Special Mention – loans or advances with pre-established payback programs that are past due 30(thirty) days or more but less than 90(ninety) days, as well as overdrafts and loans/advances without a pre-established repayment program, will be categorized in this category (NBE Directive, 2008).
- c) Substandard - loans or advances with pre-established repayment programs that are 90 days or more past due but less than 180 days, as well as overdrafts and loans/advances that do not have a pre-established payback program, will be placed in this category (NBE Directive, 2008).
- d) Doubtful – loans or advances with pre-established repayment programs that are past due 180 (one hundred eighty) days or more but less than 360 (three hundred sixty) days, as well as overdrafts and loans/advances without a pre-established repayment program, will be classified as doubtful at the very least (NBE Directive, 2008).
- e) Loss — Non-performing loans or advances with pre-established repayment programs that are past due 360 days or more, as well as overdrafts and loans/advances that do not have a pre-established payback program, are classed as losses (NBE Directive, 2008).

2.6.2. Causes of Non-performing loans

A more or less predictable level of nonperforming loans, albeit it varies slightly from year to year, is produced by an unavoidable number of bad economic decisions made by individuals, as well as bad luck (inclement weather, unexpected price changes for certain products, etc) In such cases, loan holders can make preparations for a typical share of nonperformance in the form of bad loan provisions, or they can spread the risk by purchasing insurance. Businesses may be able to pass on a significant percentage of these expenses to customers in the form of increased prices. For example, financial institutions' interest margins will contain a premium for the risk of nonperformance on authorized loans. The number of nonperforming loans may increase significantly as a result of less foreseeable events, such as changes in fuel prices, important export product prices, foreign

exchange rates, or interest rates. A abrupt failure of a significant corporation in an overly optimistic financial market might have a similar effect. If the resulting loss of confidence snowballs into a crisis, at least three effects tend to exacerbate the situation: fall in the prices of loan collaterals may cause more loan to become classified as doubtful (Adriaan et al., 2002).

Defective bank management, poor supervision, and overoptimistic creditworthiness assessments during boom economics, as well as moral hazard resulting from generous government guarantees or the expectation of guaranteed bailouts, are all thought to increase the risk of the financial sector collapsing. Having a lot of exposure to overseas financial markets might make things a lot more complicated (Adriaan et al., 2002).

2.6.3. Loan Recovery through the courts

A bank can file a regular debt collection lawsuit by submitting a written document to a court of competent jurisdiction. The court will then issue summons to the defendant, requiring him to appear before it on a specific day to answer the claim brought against him. If the defendant refuses to acknowledge service of the summons, it may be served by affixing a copy of it to his front door Sonali,(2001). Both the plaintiff and the defendant must appear in court on the date specified in the summons, either in person or through their respective attorneys, and the defendant must file a written statement of his defense in court. Following that, the court will set a trial date. The court may order the matter to be heard if the defendant fails to attend and it is proven that a summons was properly served and that his absence was deliberate Bonin and Yip ing Huang, (2001). Issues will be framed throughout the trial, oral and documentary evidence will be documented, and both sides' arguments will be presented. The court will issue its decision in open court, either that day or at a later date, when the case has been completely heard. A decree is issued after the judgment has been rendered. If a plaintiff is dissatisfied with the judgment, he may file an appeal to the court of appeals on a matter of law or mixed fact and law, and ultimately to the Supreme Court. After obtaining a court order to recover the outstanding debt from the judgment debtor, the lender must carry out the order (Gita, 1993).

If a lender needs to go to court to enforce its security, Sonali (2001) claims that it will only benefit at the execution stage. The property is basically taken off the market until the

litigation process is completed, which can take years. When the legal process for collecting past-due debts becomes unduly lengthy, it may encourage dishonest borrowers to take advantage of flaws in the system. These borrowers may seek loans with the express goal of evading payment or, when loans have already been obtained, stop repaying the loan due to the well-known delays in the legal system.

It's also likely that such a borrower would have used the credit in an injudicious manner. It is evident that the challenges that lenders face cannot be remedied solely by passing appropriate legislation. The need for appropriate training for judges who deal with commercial cases is critical. In addition, administrative staff in the courts and the fiscal department must be informed of the new procedure and required to follow it in accordance with the new debt collection laws. It is also critical to encourage members of the legal profession to act in accordance with the reforms that have been enacted (Sonali, 2001).

2.6.4. Disposal of non-performing loans

When a loan becomes non-performing, the bank official makes every effort to collect the outstanding balance. The first step is to communicate with the borrower on how to repay the loan using various methods. If the collateral is foreclosed, the only option is to buy it as a last resort. The expense of acquiring collateral property as a means of debt repayment is not insignificant. The collateral property is difficult to sell on the open market. As previously stated, the bank must incur maintenance and administrative costs. As a result, selling non-performing loans for the value of their collateral is difficult (Agresti et al., 2008).

Proclamation no. 90/97 in Ethiopia provided banks complete authority to foreclose and sell collateral property after providing 45 days of legal notice to the debtors. This, however, does not help the banks, who continue to hold a substantial amount of collateral property that should have been sold.

According to Agresti et al. (2008), when a customer's payment is past due, a company normally goes through the following sequence of procedures. The first one is the company sends out delinquency letter information to the customer of the past-due status of the account. Then it makes a telephone call to the customer. Following that the company employs collection agency and finally it takes legal action against the customer.

2.7. Non-performing loans and Banking crisis in different countries

Almost all studies on the causes of bank failures find that failing banks have high ratios of non-performing loans prior to failure, and that asset quality is statistically significant predictors of insolvency (Berger and Humphrey, 1992).

"The impact of non-performing loans is not restricted to financial institutions; loan losses have an impact on employment rates as well." Berger and Humphrey (1992) found that bank losses have an impact on the unemployment rate in a qualitative analysis based on panel data. According to the findings, the structural shift in the bank's loan loss ratio in Japan in the late 1990s accounted for around 20% of the entire shift in unemployment."

According to a January 2001 Working Paper by John P. Bonin and Yip ing Huang, Chinese banks are financially vulnerable, as seen by large non-performing loan proportions and poor capital-adequacy ratios. The establishment of four asset management companies (AMCs) to deal with bad loans is a crucial measure announced lately by the Chinese government to reduce financial risks.

The Chinese government has made a number of steps to strengthen the banking system, including recapitalizing state-owned banks (SOBs) and adopting the international standard accounting method for bad debt management. The focus of a discussion of China's banking concerns is on nonperforming loans (NPLs), however exact measurement is challenging. For concerns of national security, the Chinese government does not release official data. Prior to 1998, Chinese banks utilized a loan classification system based on actual loan performance that classified NPLs into three categories: past due, questionable, and bad. Because it did not include very hazardous loans that were still paying interest and were not yet past late, this approach understated NPLs (Bonin and Huang 2001).

In a study of bank loan losses in the United States, Brown (1998) concluded that character has always been a primary determinant of credit and lending decisions. According to the findings, bankers should assess potential and current borrowers and guarantors' personalities, morale, and profile reasonably accurately.

In Japanese banks, Hu et al. (2006) investigated the relationship between nonperforming loans and macroeconomic factors. They discovered that real estate collateral considerations account for a considerable portion of the increase in Japanese banks' loan loss ratio from the early 1990s.

2.8. Empirical Review

This section evaluated empirical studies on loan recovery performance and likely causes of loan default. Studies on loan recovery performance and possible sources of default risk were examined at global and national level.

Ahmed,(2010)points out Causes for Poor Recovery and Reasons for loan becoming NPL. Low recovery and a growth in the size of commercial banks' nonperforming loans are due to a number of issues. According to Ahmed (2010): inadequate supervision, taking risks in order to meet budgetary goals, there is a lack of genuine business culture, Legal provisions for foreclosure and bankruptcy are insufficient, changes in macroeconomic policies and the environment, poor auditing practices and a non-transparent accounting policy and banks and their consumers don't communicate well are some of the common reasons for loans becoming non performing.

Ahmed (2010) likewise thinks that a number of reasons are to blame for the banks' poor recovery and rising NPL volume. Poor credit appraisal system, lack of foresight when approving credit limits, lack of proper monitoring, reckless advances to meet budgetary targets, lack of sincere corporate culture, insufficient legal provisions on foreclosure and bankruptcy, macroeconomic changes, non-transparent accounting policy, poor auditing practices, and lack of coordination between banks and their customers are among them.

Lack of willingness to pay loans along with borrowers' diversion of funds, willful incompetence, and inaccurate evaluation by Credit Officers are some of the major factors that lead to loan defaults, according to Ahmad (1997).

According to Gorter and Bloem (2002), the fundamental underlying cause of NPLs is totally our fault of ineffective risk management. This occurs when bank credit officers fail to adequately assess the suitability of extending credit to their consumers. They do not

follow sound lending practices. Insider lending; poor loan account monitoring; under-qualified staff; little or no cash flow appraisal of loan requests; continuous monitoring of customer conditions; and proper follow-up on how the loan has been used, as there is a risk that the loan will not be used for the intended purpose, resulting in project failure.

According to Kiayai (2003), inadequate fiscal policy has resulted in high inflation rates, which could be one of the causes of NPLs. The interest rate includes a factor called inflationary expectation. If investors assume that the government will bring inflation in the future by increasing the amount of money in circulation through extended credit from the central bank, interest rates will remain high.

Agresti et al. (2008), the need of paying close attention to the borrower cannot be overstated in order to ensure loan performance. Borrowers have a tendency to pay more attention to their debts when they believe they are getting more attention. Some of the loan failures can be attributed to a lack of attention paid to borrowers. It is recommended that banks repay their loans on promptly. Effective credit monitoring, clearly, entails investigating a company's numerous operations, including loan operations, determining whether the company is properly managed, and determining whether the environment in which the company conducts business is satisfactory.

Hu et al. (2006) conducted regression analysis to examine the association between NPLs and commercial bank ownership structure in Taiwan using a panel dataset spanning the years 1996-1999. According to the study, banks with more government ownership had fewer non-performing loans. The study's findings revealed that bank size has a negative relationship with NPLs, but diversification may not be a factor.

According to Berger and DeYoung (1995), one of the biggest problems that Indian banks face is loan recovery and delayed payments. The reasons for this may differ amongst financial organizations, as it is dependent on the nature of the loans. Here, an attempt is made to identify some of the causes of loan default, which are causing financial institutions to have loan late concerns. These factors may be beneficial to banks in the future in terms of loan recovery. Following a survey of various banks, the following were identified as the

main causes of industrial loan default: improper entrepreneur selection, inadequate project viability analysis, inadequacy of collateral security/equitable mortgage against loans, unrealistic terms and repayment schedules, lack of follow-up measures, and default due to natural calamities.

Daniel and Wandera (2013) investigated the effects of credit information exchange on commercial bank nonperforming loans in Kenya. The study's goals were to examine the impact of credit information sharing on nonperforming loans, identify the variables that cause bad loans, and identify the economic sector with the most bad loans and the steps made to decrease risk in that area. Between 2007 and 2012, data was gathered from both primary and secondary sources. The study's variables included information asymmetry; interest/lending rates, loan management and regulatory framework, and credit criteria. The study discovered that lending rates had a considerable positive effect on NPLs.

The type of time disbursement, oversight, and profitability of firms that benefited from the small holder loan scheme in Ondo State, Nigeria, according to Okorie (1986), led to repayment capabilities and as a result, significant default rates. The type of loan, the period of the loan, and the interest rate on the loan, poor credit history, the borrower's income, and the transaction cost of the loans are all important factors in loan delinquencies.

2.8.1 Empirical studies in Ethiopia

Girma (2011) investigated "credit risk management and its impact on performance in Ethiopian Commercial Banks." His findings revealed that credit risk management has a significant impact on bank profitability, and he concluded that banks with good or sound credit risk management policies have lower loan default rates (bad debt loans) and higher interest income (profitability). Possible Causes of Loan Defaults, according to Girma (2011), include fund diversion, sickness or inability to work, job loss, business failure, and over committing to high-interest debts.

Abay(2015) who conducted a study on "evaluation of loan recovery performance in Construction and Business Bank." His findings showed that internal factors namely ridged credit police, no clear credit approval procedure and proper as well as week follow on the

loan given to the customers by the bank has negative influence on the loan recovery performance of the bank.

Genet (2018) had conducted her studies on trend of loan recovery performance in banking industry a case study in OIB. The researcher revealed that in addition to internal factors; external factors also affect the loan recovery performance of the bank. Internal factors that increase the occurrence of NPL were poor customer requirement, poor analysis, poor follow up, poor monitoring and poor recovering, too much reliance on collaterals are some. On the other hand, major external factors that increase the occurrence of NPL were social instability, market problem, environmental factors and macro problems especially regarding international market.

Feyisa(2009) on the other hand, revealed that the bank's credit procedural manual is not adequate enough for credit assessment since it lacks annual revision, appropriate detail; and lacks objective reality on loan collection. In addition lack of willingness from borrowers is crucial for credit risk analysis.

Ermias (2020) investigated "assessment of loan recovery performance of DBE". His findings revealed that internal factors such as malpractice of loan police and procedures, lack of close follow up, lack of skilled man power, and in adequate customer due diligence assessment has negative influence on the Loan recovery performance of the Bank. And rate of inflation, GDP and interest rate are the major macro-economic factors that affect the loan recovery performance of the bank.

In general, Girma(2011) found that include fund diversion, sickness or inability to work, job loss, business failure, and over committing to high-interest debts are the major causes of loan defaults. Abay(2015) in his study concluded that internal factors namely ridged credit police, no clear credit approval procedure and proper as well as week follow on the loan given to the customers by the bank has negative influence on the loan recovery performance of the bank. In addition, Genet(2018) showed on her study that external factors namely social instability, market problem, environmental factors and so on has influence on the loan recovery performance of the bank. Feyisa (2009) and Ermias (2020) shared the same idea by indicating credit policies and procedures along with other internal factors affected the loan recovery performance of the bank.

2.9 Literature gap

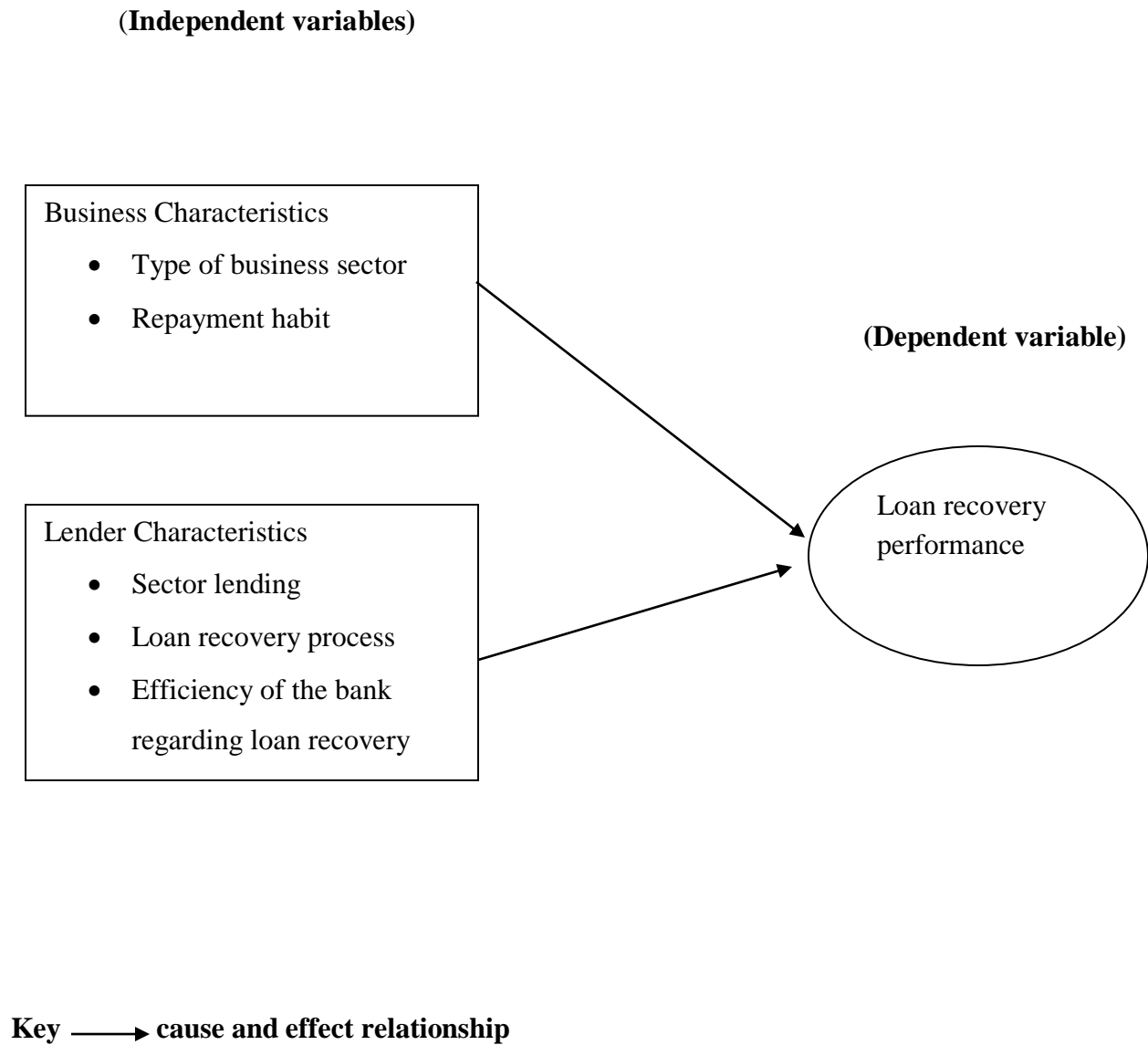
Most of the reviewed studies made in Ethiopia including the above were focused on credit risk management. For instance, Girma (2011) found out that sound credit risk management policies have lower loan default rates (bad debt loans) and higher interest income (profitability). On the other hand, the other researcher Abay in 2015 assessed internal factors and external factors that have an effect on recovery performance of banks. Moreover, Ermias(2020) and Genet (2018) as well Feyisa (2009) are among the researchers conducting internal factors and external factors that have an influence on recovery performance of banks.

Even though most of the empirical studies reviewed and discussed in the above paragraphs were made in Ethiopia, studies in our countries done in commercial banking sector are scant. In addition to this, process of loan recovery and its effect on recovery performance of the bank were not discussed by other researchers. Moreover, the level of efficiency of banks in loan recovery performance were not studied. Apart from that, NIB is among the private banks that have long history in the banking industry. Along with its long-time history, loans classification has been increased and also loan history of the bank has passed above two decades. Therefore, this study is expected to fill the gap by focusing on NIB and addressing these issues.

2.10 Conceptual framework

A conceptual framework is analytical tool with several variations and contexts. It is used to illustrate what a researcher expects to find through a research, including how the variables the researcher are considering might related to each other(Brains, et al,2011). The conceptual framework for the current study is presented below.

Figure one: Conceptual framework of the study



Source: Own source

CHAPTER THREE

RESEARCH METHODOLOGY

Under this section, research design, sources of data, sample size and sampling techniques, and data analyses are discussed.

3.1 Research Design and approach

In order to answer the basic research question raised, the researcher used descriptive type of research design. Just because most of the research questions need detailed explanation, descriptive research design was used. In addition, in order to triangulate the data and test the reliability of the finding generated with one method, mixed approach was used. Thus, both qualitative and quantitative approaches were used for the current study.

3.2. Description of the study area

Nib International Bank (IB S.C) was established on May 26, 1999 under license no. LBB/007/99 in accordance with the Commercial Code of Ethiopia and the Proclamation for Licensing and Supervision of Banking Business Proclamation no. 84/1994 with the paid-up Capital of birr 27.6 million and authorized capital of Birr 150 million by 717 Shareholders. The bank commenced its operation in October 28, 1999 by 27 employees.

Objectives and corporate mission

1. To be an icon of service excellence and a leading commercial bank in Ethiopia.
2. To expand and diversify commercial banking services in response to the growing demands of customers
3. To contribute towards the economic and social development of the country
4. To operate profitably in a sustainable manner.

Major activities

- a) To mobilize all types of deposits (savings, demand and time) and pay interest on interest bearing accounts.
- b) To provide loans and advances to its customers, including long-term investment/project financing
- c) To render domestic and international money transfer services

- d) To provide international banking services such as: import operations and export operations
- e) Handles foreign currency transactions namely: buying and selling travelers' cheques and buying and selling foreign currency notes
- f) Maintaining and operating non-resident accounts
- g) To provide deposit services in foreign currency for Ethiopian nationals and foreign national of Ethiopian origin provides advice on banking, finance and investment to its customers.

NIB is among the private banks that have long history in the banking industry. Along with its long time history, loans classification has been increased. In addition, loan history of the bank has passed above two decades. Thus the study was conducted in NIB specifically in Addis Ababa. The researcher collected data from all branches of Nib bank. Just because employees related to loan are few to be sampled. The researcher didn't select some branches. Rather, take all the branches and select samples from the whole branches of NIB at Addis Ababa.

3.3 Source of data and data collection Instruments

The data sources used in this study is both primary and secondary data sources. In order to collect primary data, self-administered questionnaire was distributed to selected staffs of NIB. Moreover, in order to identify the major factors that affects loan recovery performance both also unstructured and semi structured questions were implemented. In terms of secondary data, Nib bank's working documents, annual reports, manuals, directives and procedures were reviewed.

3.4 Sample Size and Sampling Techniques

The sampling technique implemented in this study is simple random sampling technique which is a subset of a statistical population in which each number of the subset has an equal probability of being chosen. A simple random sample is meant to be unbiased representation of a group. The technique is considered a fair way to select a sample from a larger population since every member of the population has an equal chance of getting selected (Adam, 2021).

Employees of Nib bank from all branches in Addis Ababa at various level of position (loan officers, credit analyst, branch managers and loan workout officers and division managers) were the target population in this study. First, the researcher listed all the branches and employees related to loan. Then, after setting the total sample size, the researcher selected the respondents using simple random sampling. The total numbers of employees in the selected position are 221. The sample size (n) is calculated according to the formula: $n = [z^2 * p * (1-p) / e^2] / [1 + (z^2 * p * (1-p) / (e^2 * N))]$

Where: $z = 1.96$ for a confidence level

(α) 95%,

p = proportion (expressed as a decimal)

N = population size, e = margin of error

$z = 1.96$, $p = 0.5$ $N = 221$ $e = 0.05$

$n = [1.962 * 0.5 * (1-0.5) / 0.052] / [1 + (1.962 * 0.5 * (1 - 0.5) / (0.052 * 221))]$

$n = 384.16 / 2.7383 = 140.292$

$n = 141$

3.5. Data Analysis Method

Both qualitative and quantitative analyses methods were used to investigate and describe the factors affecting loan recovery performance. The analyses were performed using IBM SPSS Statistics Version 20.0. Besides, frequency and percentage were used to analyze the data gathered through the questionnaire. In addition, notes were taken during the interview and the information obtained from secondary data was used to carry out findings of the informants and written materials. Furthermore, the data analysis is presented by compiling the information gathered from both the interviews and questionnaire. Interviews were conducted with different loan officers, loan follow up officers and managers.

3.6 Ethical considerations

The primary data collection started after obtaining willingness from each participant from NIB bank. All participants of the study were provided with clear explanation about the purpose of the study and why they have been chosen for this particular research. In

order to build rapport between the researcher and the study participants, the researcher clearly defined about confidentiality and anonymity of the data. Besides, the researcher informed participants that factious name will be used for the report. As a result, participants were not identified by their names.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND INTERPRETATION

This chapter will contain presentation and interpretation of data collection on the credit recovery performance of NIB. The first section tries to show the secondary data and the next section is about primary data.

4.1. The trend of Loan Recovery Performance of Nib International Bank by sector

NIB Bank categorizes loan and advances in to eleven sectors. They are Agriculture, Manufacturing Industries, Domestic Trade and Services, Import, Export, Building and Construction, Hotel and Tourism, Transport, Financial Institutions, Mines, Power and Water sector and Personal loans (NIB Credit Procedures, 2017).

In order to understand the loan recovery performance of the NIB, it is essential to examine its loan recovery by sector. One of the sectors i.e. Financial Institutions has not been given by the bank. Hence the remaining sectors will be discussed by considering the time period from the year 2017 to 2021. In order to increase the reliability of the finding, the researcher opted to rely on recent information. In addition, since the banking sector is very dynamic, data from the recent time is more reliable. Thus, to show updated information on the bank's status, the year from 2017 to 2021 is selected.

4.1.1. Loan Recovery Performance of Agriculture sector

Among the sectors the bank lends, Agriculture is the one. This sector is extended to customers involved in Agricultural activities. The recovery performance of the sector is shown below.

Table 1: Loan recovery performance of Agriculture sector

Amount in 000' of birr & rate in %

Description	2017	2018	2019	2020	2021	Total
Total Demand(P+I)	96,029.3	92,164.3	133,514.7	128,131.2	186,435.5	636,275
Recovery against Demand	29,975.3	37,334	34,268.6	37,663.6	31,875	171,116.5
Recovery Rate	0.31	0.40	0.26	0.30	0.17	0.27

Source: Secondary data and own calculation

The overall demand for the time under consideration was birr 636 million, of which only birr 171 million was collected, as shown in the table above. The total demand for agricultural loans has been showing a rise and fall during the years between 2017 and 2020. But in 2021 it has risen with significant amount. Similarly, the recovery rate has also shown up and fall trend during the period under consideration. The total recovery rate as is only 27%. This shows that the bank's loan recovery performance in the agricultural sector is deteriorating or that there has been no improvement in loan repayment. This is might be due to the fact that an agricultural loan is a sort of loan with a high risk of return that is highly dependent on weather conditions (rain feed agriculture).

4.1.2. Loan Recovery Performance of manufacturing sector

Nib International Bank provides loan for the establishment and expansion of the individual business, joint ventures, share companies and others types of business. The recovery performance of the manufacturing sector within NIB is shown in the table below.

Table 2: Loan recovery performance of manufacturing sector

Amount in000'of birr & rate in %

Description	2017	2018	2019	2020	2021	Total
Total Demand(P+I)	2,287,666.3	3,191,052.4	3,810,829.9	5,168,778.4	5,910,676.5	20,369,003.5
Recovery against Demand	658,787.3	698,387.3	874,637.3	900,394	944,801.6	4,077,007.5
Recovery Rate	0.29	0.22	0.23	0.17	0.16	0.20

Source: Secondary data and own calculation (2017-2021)

According to the table above, the overall demand for the manufacturing sector was Birr 20 billion, however only Birr 4 billion (or 20% of the total demand) was recovered during the year under consideration. The demand indicates an increasing trend. On the other hand, recovery rate in the sector has showed a decreasing trend. This indicates the manufacturing sector bears high risk as the recovery rate is declining in comparison to the base year. The reason for the low recovery in the manufacturing sector might be the increasing value of raw materials and also the instability of the country.

4.1.3 Loan Recovery Performance of Export sector

Export loans are extended to exporters for the purchase of exportable commodities and related activities. The recovery performance of the sector is shown below.

Table 3: Loan recovery of performance of export sector

Amount in000'of birr& rate in %

Description	2017	2018	2019	2020	2021	Total
Total Demand(P+I)	1,644,138.5	2,058,793.8	2,781,756.9	4,131,659.2	6,149,168.8	16,765,517.2
Recovery against Demand	1,593,534.7	961,837	876,873.3	1,482,845.8	2,330,906.5	7,245,997.3
Recovery Rate	0.97	0.47	0.31	0.36	0.37	0.43

Source: Secondary data and own calculation (2017-2021)

As can be seen in the table above, total demand for the export sector has shown an increasing trend. This increment might be because of the government's foreign policy, which favors private sector engagement in the export sector, there has been a growth in total credit demand in the export sector. On the other hand, the export sector's recovery rate has shown a decreasing trend from the year 2017 to 2019 except the year 2020 to which has increase from 36% to 37%. In general, this sector's recovery performance may be described as good, with an average loan recovery rate of 43% throughout the time period under examination.

4.1.4 Loan Recovery Performance of Import sector

Import loan and advance facilities are assisted to finance working capital for import business. The recovery performance of the import sector within NIB is shown in the table below.

Table 4: Loan recovery of performance of Import sector

Amount in 000'of birr & rate in %

Description	2017	2018	2019	2020	2021	Total
Total Demand	1,548,556.8	1,901,830.9	2,590,608.7	3,230,183.4	3,908,062.1	13,179,241.9
Recovery against Demand	515,425.5	560,615.9	628,627.2	815,658.4	893,337.3	3,413,664.3
Recovery Rate	0.33	0.30	0.24	0.25	0.23	0.26

Source: Secondary data and own calculation (2017-2021)

As seen in the table above, total demand for the import sector increased during the time period under consideration, out of total demand of 13 billion birr, 3 billion was recovered i.e. 26%. In addition, the recovery rate of has shown a decreasing trend except for 2020. Even though the recovery rate is low, most importers import consumer goods which are widely consumed in the domestic economy. Borrowers in this loan sector might be in a better position to pay back their debts.

4.1.5 Loan Recovery Performance of Domestic Trade and Service sector

Domestic trade and service is a generic name given for those economic activities engaged in distribution of agricultural products, locally manufactured and imported goods as well as services to end user.(NIB Credit Procedures, 2017). The recovery performance of the sector is shown below

Table 5: Loan recovery of performance of domestic trade and service sector

Amount in 000' of birr & rate in %

Description	2017	2018	2019	2020	2021	Total
Total Demand(P+I)	2,098,139.4	2,426,406.7	3,854,823.1	4,786,813.4	6,063,920.4	19,230,103
Recovery against Demand	873,244.1	932,734.5	1,195,366.9	1,447,908.2	1,711,831	6,161,084.7
Recovery Rate	0.42	0.38	0.31	0.30	0.28	0.32

Source: Secondary data and own calculation (2017-2021)

As can be observed from the above table, domestic trade and service sector recovered 42%, 38%, 31%, 30% and 28% for the years under consideration. For the period under review (2017-2021), the entire demand for domestic trade and services was around Birr 19.billion, of which only birr 6 billion was recovered from the sector (32%). The sector's total demand has been increasing over time but the recovery rate has been decreasing over the years. From this, it is possible to infer that there is a weak recovery trend.

4.1.6 Loan Recovery Performance of Transport and Communication sector

Transport and communication sector include those loans that are extended for business such public transport, Dry freight cargo, marine transport and other related transport business. The recovery performance of the sector is shown below.

Table 6: Loan recovery of performance of transport and communication sector

Amount in 000' of birr & rate in %

Description	2017	2018	2019	2020	2021	Total
Total Demand(P+I)	196,252.2	203,690.8	270,702.4	374,899.2	767,597.1	1,813,141.7
Recovery against Demand	69,734.3	78,570	116,796	116,557	158,796.4	540,453.7
Recovery Rate	0.35	0.38	0.43	0.31	0.21	0.30

Source: Secondary data and own calculation (2017-2021)

Total demand for the transportation sector has increased from year to year, as seen in the table above. Year after year, the amount recovered against demand increased except for the year 2020. This yearly increase in the amount of loan recovered from this sector might be due to the fact that the economy is increasing, resulting in a high demand for transportation (passengers and cargo) and, as a result a large profit margin. This, in turn has a favorable impact on the borrowers' ability to repay their loans. As a result, the bank's loan recovery performance in this sector has improved. Out of the total demand 30% of the entire loan demand was recovered, indicating the sector's low recovery performance.

4.1.7 Loan Recovery Performance of Hotel and Tourism sector

This sector is provided to promote the hotel and tourism sector and other directly or indirectly related sectors with tourism. (NIB Credit Procedures, 2017). The recovery performance of the sector is presented below.

Table 7: Loan recovery of performance of Hotel and Tourism sector

Amount in 000' of birr & rate in %

Description	2017	2018	2019	2020	2021	Total
Total Demand(P+I)		1,337,211.	2,327,672.	2,915,644.	4,221,909.5	11,970,010.
Recovery against Demand	250,117.5	240,268.5	414,360.7	508,610.5	584,455.1	1,997,812.3
Recovery Rate	0.21	0.18	0.18	0.17	0.14	0.17

Source: Secondary data and own calculation (2017-2021)

As can be indicated in the above table, the overall demand for the time under consideration was birr 11.9 billion, of which only birr 1 billion was collected. The total

demand for hotel and tourism loans has been steadily increasing throughout the years. However, the recovery rate has been declining in year under consideration and from the total demand only 17. This shows that the bank’s loan recovery performance in the Hotel and Tourism sector is deteriorating or that there has been no improvement in loan repayment. This decrease in recent years might be attributed to the Covid 19 pandemic on the global economy in general and national economy in particular specifically in hotel and tourism sector.

4.1.8 Loan Recovery performance of Building and Construction sector

The building and construction loans are extended to customers engaged in the construction, maintenance and renovation of residential, commercial buildings or industrial, road, dam and other constructions. (NIB Credit Procedures,2017). The recovery performance of the sector is shown below.

Table 8: Loan recovery of performance of Building and Construction sector

Amount in 000’ of birr & rate in %

Description	2017	2018	2019	2020	2021	Total
Total Demand(P+I)	1,681,034.1	1,859,575.	3,316,982.	3,961,650.	6,540,628.	17,359,872.2
Recovery against Demand	591,521.9	405,811.6	624,862	738,556.6	1,046,507.	3,407,259.5
Recovery Rate	0.35	0.22	0.19	0.19	0.16	0.20

Source: Secondary data and own calculation (2017-2021)

As seen in the table above, total loan demand of the sector is increasing. In addition, recovery against demand except for the year 2018 has shown an increasing trend. However, the rate of recovery has been declining over the years. The increasing demand in the sector might be an indication of increasing demand for both residential and commercial building and related projects across the country. Furthermore, the cause for an increasing trend of loan recovery against demand could be individuals’ income levels have improved, which has boosted their ability to repay the loan. Even though the amount recovered has increased, it doesn’t mean that the sector is performing well since recovery rate of this sector is very small to total demand.

4.1.9 Loan Recovery Mines, Power and Water sector

This sector emphasize on loans extended for exploration of minerals, power generation and water development businesses (NIB Credit Procedures, 2017). The recovery performance of the sector is shown below.

Table 9: Loan recovery performances of Mines, Power and water sector

Amount in 000' of birr & rate in %

Description	2017	2018	2019	2020	2021	Total
Total Demand(P+I)	31,292.2	43,392.9	110,657.8	159,754.7	211,923.5	557,021.1
Recovery against Demand	11,610.5	16,338.4	21,691.3	23,323.6	45,143.7	118,107.5
Recovery Rate	0.37	0.38	0.20	0.14	0.21	0.21

Source: Secondary data and own calculation (2017-2021)

As seen in the table above, total loan demand in the mining, power and water sector is increasing. Similarly recovery against demand is also increasing. But the recovery rate has been declining during the period under consideration. Out of the total demand of birr 557 million, 118 million has been recovered which is 21%. This is an indication that the sector might be not be feasible to pay up its debt and also due attention might not be given by the respective body.

4.1.10 Loan Recovery Performance of Personal Loans

Table 10: Loan recovery of performance of personal loans

Amount in 000'of birr & rate in %

Description	2017	2018	2019	2020	2021	Total
Total Demand(P+I)	137,730.9	589,846.1	242,842.5	258,384.6	520,343.9	1,749,148
Recovery against Demand	59,818.8	64,668.9	207,938.8	115,829.1	207,597.4	655,853
Recovery Rate	0.43	0.11	0.86	0.45	0.40	0.37

Source: Secondary data and own calculation(2017-2021)

As indicate in the above table, the total loan demand for personal loans has been increasing except for the year 2019. This might be due to an increase in household spending on essential commodities such as housing, furniture, and automobiles as a

result of the rising population, as well as to offset the effect of inflation on their income level. On the other hand, for the time period under consideration, the recovery against demand has been showing an increasing trend except for the year 2020. This might be attributed to the debtors' reduced repayment ability as a result of Covid 19 Pandemic.

4.1.11 Sectorial relationships and comparisons of loan recovery performance at NIB (2017-2021)

Table 11: Recovery rate of NIB by sector (%)

Description	2016/17	2017/18	2018/19	2019/20	2020/21
Agriculture	0.31	0.40	0.26	0.30	0.17
Manufacturing	0.29	0.22	0.23	0.17	0.16
Export	0.97	0.47	0.31	0.36	0.37
Import	0.33	0.30	0.24	0.25	0.23
Domestic trade & service	0.42	0.38	0.31	0.30	0.28
Transportation & communication	0.35	0.38	0.43	0.31	0.21
Hotel and Tourism	0.35	0.22	0.19	0.19	0.16
Building and Construction	0.35	0.22	0.19	0.19	0.16
Mines, Power and Water	0.37	0.38	0.20	0.14	0.21
Personal loan	0.43	0.11	0.86	0.45	0.40

Source: Secondary data and own calculation

In general, the demand for NIB loans in all sectors has shown an increasing trend from the year under consideration. But demand for agriculture sector has been fluctuating over the years. In addition, personal loans sector except for the year 2018 has been increasing.

Loan recovery against demand for sectors such as manufacturing, building and construction, import, export, domestic trade and service, transport and communication, hotel and tourism, mines, power and water exhibited an increasing trend while agriculture and personal loans sectors has shown fluctuations under the period under consideration.

Furthermore, the rate of recovery in the transport and communication sector has shown an increasing trend except the years 2020 and 2021. In contrast, recovery rate of building and construction, hotel and tourism, domestic trade and service, import and manufacturing sectors had a decreasing trend. In addition, recovery rate of export sector had shown a decline from the year 2017 to 2019 but increased from 2019 to 2021. Meanwhile, agriculture, mines, power and water and personal loan sectors had been fluctuating for the period under consideration..

Finally, in a broader sense, the sector’s recovery performance can be summarized as follows:

Table 12: Average Loan recovery Rate of NIB(2017-2021)of sectors

Sectors	Percentage recovered
Agriculture	27
Manufacturing	20
Export	43
Import	26
Domestic trade &service	32
Transportation &communication	30
Hotel and Tourism	17
Building and Construction	20
Mines, Power and Water	21
Personal loan	37

In summary, the loan recovery performance of the NIB sectors can be ranked as follows: export, personal loan, domestic trade and service, transport and communication, agriculture, import, mines, power and water, building and construction, manufacturing and Hotel and tourism sector, depending on recovery performance.

4.2Data analysis and presentation of primary data

In addition to secondary data, this research work used a structured questionnaire and interview to evaluate the performance of loan recovery of Nib International Bank

Branch managers, loan officers, credit analysts and loan workout officers are among the respondents.

4.2.1 Demographic information

Table 13: Sex of respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	96	68	68	68
	Female	45	32	32	100.0
	Total	141	100.0	100.0	

Source: primary data (2022)

According to the above table, 68% of the respondents were male. While the remaining 32 % are female which indicates the majority of the respondents are male.

4.2.1.1 Education qualification

Table 14: Educational attainment

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Bachelor's degree	70	49.6	49.6	49.6
	Master's degree	71	50.4	50.4	100.0
	Total	141	100.0	100.0	

Source: Primary data (2022)

Result from the table indicates most of the respondents are highly educated. This is shown by the data presented above. As indicated above 50.4 % has post graduate degrees. And the remaining of the respondents i.e. 49.6% are degree holders. The study may assume that because of their education structures, they are aware of the organizations performance and the barriers to effective performances. This demonstrates that the most of the respondents were graduates, and the responses provided are pertinent.

4.2.1.2 Position of the respondents

Table 15: Position

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Managerial	28	20	20	20
	Non-Managerial	113	80	80	100.0
	Total	141	100.0	100.0	

Source: Primary data

According to the above table, 20 % of the respondents are in managerial position. While 80% are officers and credit analysts. This shows that, the majority of the respondents during the data collection were officers and analysts from non-managerial positions.

4.2.1.3 Specific Position of the respondents

Table 16: Specific position

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Managers	32	22.7	22.7	22.7
	Credit Analyst	9	6.4	6.4	29.1
	Loan workout officers	10	7.1	7.1	36.2
	Loan officers	90	63.8	63.8	100.0
	Total	141	100.0	100.0	

Source: Primary data

According to the above, respondents included are 63.8% loan officers, 22.7 % managers, 7.1% workout officer and 6.4 % Credit analyst.

4.2.1.4 Work Experience of the respondents

Table 17: Years of experience

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	5-7 years	71	50	50	50
	8-10 years	42	30	30	80
	above 10 years, please specify	28	20	20	100.0
	Total	141	100	100.0	

Source: Primary data

The above table shows that 50 % of the respondents have an experience between 5 up to 7 years. In addition, 30% of the respondents served from 8 to 10 years. The remaining 20 % served the bank above 10 years; this is an indication that most of the respondents have more experience in credit area.

In order to get deep understanding about the trend of loan recovery performance of the bank, in depth interview was made with senior bank officials. All of the interviewee has about 10 years of experience in the credit area apart from their banking experience. As a result, the study could obtain pertinent information for correct conclusion.

4.2.2. Loan recovery performance among different loan sectors

Table 18: Effect of loan sectors on loan recovery performance

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	15	10.6	10.6	10.6
	Agree	42	29.7	29.7	40.3
	Neutral	56	39.7	39.7	80
	Disagree	28	20	20	100.0
	Total	142	100.0	100.0	

Source: Primary data

The respondents were asked whether loan recovery performance were affected by the loan sectors granted by the bank to the customers or not. According the above table, 39.7% of the respondents were neutral regarding the effect of loan sector on loan recovery performance. Moreover, 29.7% of the respondent agreed that loan recovery performance is not affected by the loan sectors that the bank avails to its borrowers. However, 20 % of the respondents disagreed that loan recovery is not affected by loan sector. In addition, 10.6 % of the respondents strongly agreed that loan recovery performance is not affected by loan sectors. This shows that loan recovery performance is not be affected by the different loan sectors that the bank availed to its customers.

In order to assess the loan recovery performance among different sectors, the respondents were also asked which loans are difficult to return back. The respondent’s replies are given below.

Table 19: Loan that are more difficult to return back

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agriculture	56	39.7	39.7	39.7
	Domestic Trade and services	14	9.9	9.9	49.6
	Export trade	14	9.9	9.9	59.5
	Building and construction	29	20.5	20.5	80
	Transport service	28	20	20	100.0
	Total	141	100.0	100.0	

Source: Primary data

From the above table, 39.7% of the respondents reply that agriculture sector is more difficult to return back. Moreover, 20.5% of the respondents replied loan availed to Building and construction sector is difficult to return back. In addition, 20% replied that Transport service is difficult to return back and also 9.9% of the respondents replied that domestic trade service are difficult to return back. Similarly export trade shows the same percentage. This shows that the Agriculture

sector is difficult than the other sector to return back. This might be due to the reason that the sector is highly dependent on weather conditions (rain feed agriculture).

In addition to that, question related to collateral frequently used to give term loans were asked. The finding is presented as follows:

Table 20: Collateral frequently used to give term loans

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Missing	1	.7	.7	.7
	Buildings	140	99.3	99.3	100.0
	Total	141	100.0	100.0	

Source: Primary data

According to the above table, 99.3% of the respondents reply that Building is frequently used as collateral to give term loans. This indicates that most of the term loans that the bank lends are pledged by building. The reason attributed could be to minimize the risk of default since building collateral in the case default is capable to be sold and recover the loan. In addition, compared to other collaterals, they are easily traced.

4.2.3. Level of efficiency of NIB in loan recovery performance

Table 21: Effect of the policy of the bank on loan recovery of the bank

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	29	20.6	20.6	20.6
	Agree	70	49.6	49.6	70.2
	Neutral	42	29.8	29.8	100.0
	Total	142	100.0	100.0	

Source: Primary data

As shown in the above table, 49.6% of the respondents agreed that the policy of the bank has an effect on efficient recover of the bank. 20.6% of the respondents reply that they strongly agreed that the policy of the bank has an effect on efficient loan recovery of the bank. The remaining 29.8% of the respondents are neutral. From the data we can confirm that majority of the respondents reply that the policy of the bank has an effect on efficient loan recovery of the bank. The reason attributed might be, if the policy of the bank have current situation about the business environment and has strict rules regarding pre approval and post approval of the loan, then recovery performance of the bank will be good. The reverse is also true.

To examine the level of efficiency of NIB in loan recovery, respondents were asked if the bank implement the five C's of credit before granting loans to customers. The table below shows the response of the respondents

Table 22: The five C's of credit before granting the loan

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	29	20.5	20.5	20.5
	Agree	84	59.5	59.5	80
	Neutral	28	20	20	100.0
	Total	141	100.0	100.0	

Source: Primary data

According to the above table, 59.5% of the respondents agreed that bank implement the five C's before granting loan.20.5% of the respondents strongly agreed the bank implement the five C's before granting the loan. The remaining 20% of the respondents are neutral regarding the issue discussed. This is a confirmation that most of the respondents agreed that the bank implement the five C's of credit namely character, capacity, capital, condition and collateral before granting the loan.

In addition to that, questions related to whether or not customers provide actual information about their background credit history for loan assessment were asked. The finding is presented as follows.

Table 23: Customers providing credit history for loan assessment

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agreed	15	10.6	10.6	10.6
	Agreed	70	49.6	49.6	60.2
	Neutral	28	19.9	19.9	80.1
	Disagreed	28	19.9	19.9	100.0
	Total	142	100.0	100.0	

Source: Primary data

According to the above table, 49.6% of the respondents agreed that the customers provide actual information about their credit history and background honestly for loan assessment. However, 19.9% of the respondents disagreed on the issue. 19.9% of the respondents are neutral. The remaining 10.6% of the respondents strongly agreed that the customer provide factual information about their credit history and background honestly for loan assessment. Thus, most of the respondents agreed that credit history and background honestly of the customer are provided for the bank for loan assessment.

Moreover, respondents were asked whether document screening and due diligence assessments have been done with required quality. The respondent's replies are given below.

Table 24: Document screening and due diligence assessments

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agreed	43	30.6	30.6	30.6
	Agreed	42	29.7	29.7	60.3
	Neutral	42	29.7	29.7	90
	Disagreed	14	10	10	100.0
	Total	141	100.0	100.0	

Source: Primary data

According to the above table, 30.6% of the respondents strongly agreed that the document screening and due diligence assessments have been done with require quality. In addition, 29.7% of the respondents also agreed with quality of the document screening and due diligence assessment the bank has been doing. On the other hand, 29.7% of the respondents are neutral regarding the matter. The remaining 10% of the respondents disagreed on the issue. Thus, most of the respondents agreed that document screening and due diligence assessments have been done with the required quality.

Plus to that, the respondents were asked regarding the efficiency of the loan recovery performance of NIB. Their replies are given below.

Table 25: Efficiency of the loan recovery performance of NIB

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agreed	15	10.6	10.6	10.6
	Agreed	70	49.7	49.7	60.3
	Neutral	56	39.7	39.7	100.0
	Total	141	100.0	100.0	

Source: Primary data

According to the above table, 49.7% of the respondents agreed that the loan recovery performance of NIB is efficient. 39.7% of the respondents are neutral. While 10.6% of the respondents strongly agreed that loan recovery performance of NIB is efficient. This shows that most of the respondents agreed that the bank has efficient loan recovery performance.

In addition, the respondents were asked whether the loan recovery of the bank is strong or not. The result is depicted below.

Table 26: Loan recovery of the bank

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agreed	14	9.9	9.9	9.9
	Agreed	29	20.6	20.6	30.5
	Neutral	42	29.7	29.7	60.2
	Disagreed	56	39.8	39.8	100.0
	Total	142	100.0	100.0	

Source: Primary data

From the above table, 39.8% and 29.7% of the respondents disagreed and are neutral respectively whether or not the loan recovery of the bank is not strong enough. In addition, 20.6% of the respondents agreed that the loan recovery of the bank is not strong enough. Plus to that, 9.9% of the respondents strongly agreed that loan recovery of the bank is not strong enough

The other question that the respondents were asked is that whether level of non-repayment rate of loan due is high or not. Their response is shown below.

Table 27: Level of non-repayment rate of the loan due

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Very high	28	19.9	19.9	19.9
	Neutral	14	9.9	9.9	29.8
	Low	85	60.3	60.3	90.1
	Very low	14	9.9	9.9	100.0
	Total	141	100.0	100.0	

Source: Primary data

From the above table, 60.3% of the respondents reply that level of non-repayment rate of the loan due is low. 19.9% of the respondents reply level of non-repayment rate of the loan due is very high. 9.9% of the respondents are neutral regarding the issue. The remaining 9.9% of the respondents reply level of non-repayment rate of loan due is very low. Thus, most of the respondents reply that level of nonpayment rate of loan is low. This might be due to strict follow up of loans after disbursement.

4.2.4 Process of loan recovery in Nib International Bank

Table 28: Timely repayment of loan

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agreed	99	70.2	70.2	70.2
	Disagreed	42	29.8	29.8	100.0
	Total	141	100.0	100.0	

Source: Primary data

According to the above table, 70.2% of the respondents agreed that many customers pay their debt on time. On the other hand, 29.8% of the respondents disagreed on the issue. This portrays that most of the respondents believe many

customer pay their debt on time. Apart from this, one of the interviewee shares another point.

.....we cannot say all customers are willing to pay on time. Because there are customers who would like to delay their loan repayment. But it is difficult to such customers in percentage for the time being.

In order to investigate the process of loan recovery in NIB, respondents were asked whether the process of loan recovery affects customer’s loan repayment habit. The finding is presented as follows.

Table 29: Effect of loan recovery process on customers’ loan repayment

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agreed	14	9.9	9.9	9.9
	Agreed	85	60.3	60.3	70.2
	Neutral	14	9.9	9.9	80.1
	Disagreed	28	19.9	19.9	100.0
	Total	141	100.0	100.0	

Source: Primary data

According to the above table, 60.3% of the respondents agreed that the process of loan recovery affects customers’ loan repayment habit. However, 19.9% of the respondents disagreed that that the process of loan recovery affects customers’ loan repayment habit. Plus to that, 9.9% of the respondents strongly agreed that the process of loan recovery affects customers’ loan repayment habit. The remaining of the respondents i.e. 9.9% are neutral regarding the matter. Thus most of the respondents believe that the process of loan recovery affects customers’ loan repayment habit. The reasons might be the approaches that the bank used to recover loans. If the process of loan recovery approaches used by the bank understand customers’ problem in paying their debt, their repayment habit will be improved.

Moreover, respondents were asked whether customers are forced to sell their properties to repay their debt. The respondent's replies are given below.

Table 30: Ways customer recover their debt

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agreed	56	39.7	39.7	39.7
	Disagreed	71	50.4	50.4	90.1
	Strongly disagreed	14	9.9	9.9	100.0
	Total	141	100.0	100.0	

Source: Primary data

From the above table, 50.4% of the respondent's disagreed that many customer are forced to sell their properties to repay their debt. On the other hand, 39.7% of the respondents agreed that many customers are forced to sell their properties to repay their debt. The remaining 9.9% of the respondents strongly disagreed on the matter. This is a confirmation that, most of the respondents disagreed that many customers are forced to sell their properties to repay their debt. However, one of the interviewees implies the following.

In fact, as of December 31, 2021 there was loan balance of Birr 600 million which was outstanding and whose cases were transferred to the legal department. This is 1.7% of the Bank's entire loan exposure. However, it should be noted here that all of these Birr 600 million loans will be recovered through sale collateral property. I can say at least half of these customers will pay their arrears before the final date of collateral sale is approached.

In addition, the respondents were asked whether or not the bank sells customers' properties to cover their debt. The finding is presented below.

Table 31: Bank approaches to cover debt of borrowers

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agreed	29	20.6	20.6	20.6
	Agreed	28	19.9	19.9	40.5
	Neutral	14	9.9	9.9	50.4
	Disagreed	56	39.7	39.7	90.1
	Strongly disagreed	14	9.9	9.9	100.0
	Total	141	100.0	100.0	

Source: Primary data

According to the above table, 39.7% of the respondents disagreed that NIB mostly sell customers' properties to cover their debt. 20.6% and 19.9% of the respondents strongly agreed and agreed that the bank mostly sell customers' properties to cover their debt respectively. 9.9% of the respondents strongly disagreed that the bank mostly sells customers' properties to cover their debt. The remaining 9.9% of the respondents are neutral regarding the question. Thus, most of the respondents disagreed on the point that the bank mostly sells customers' properties to cover the debt. The reasons might be either the bank strictly monitors loan collection or sell only the collateral pledged for the loan.

Plus to that, the respondents were asked regarding the level of collection of amount due. Their replies are given below.

Table 32: Level of collection of loan amount due

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Very high	14	9.9	9.9	9.9
	High	63	44.7	44.7	54.6
	Neutral	35	24.8	24.8	79.4
	Low	29	20.6	20.6	100.0
	Total	141	100.0	100.0	

Source: Primary data

From the above table, 44.7% of the respondents reply that level of collection of loan amount due is high and 24.8% of the respondents are neutral. On the other hand, 20.6% of the respondent reply that the level of collection of loan amount due is low. The remaining 9.9% of the respondents reply that level of collection of loan amount due is very high. Thus, most of the respondents reply that level of collection of loan amount due is high. This might be an indication of timely follow up on the loan due by the concerned bodies.

The other question that the respondents asked was regarding the level of repayment rate of loan due. Their response is shown below.

Table 33: Level of repayment rate of the loan due

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Very high	28	19.9	19.9	19.9
	High	56	39.7	39.7	59.6
	Neutral	28	19.9	19.9	79.5
	Low	29	20.5	20.5	100.0
	Total	141	100.0	100.0	

Source: Primary data

According to the above table, 39.7% of the respondents reply that level of repayment rate of the loan due is high. 20.5% of the respondents reply level of repayment rate of the loan due is low. 19.9% of the respondents are neutral regarding the issue. The remaining 19.9% of the respondents reply level of repayment rate of loan due is very high. Thus, most of the respondents reply that level of repayment rate of loan due is high. This might be an indication of timely follow up on the loan due by the concerned bodies.

4.2.5 Effect of loan recovery process on the performance of bank

Table 34: Influence of process of loan recovery on the loan recovery performance of NIB

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agreed	29	20.6	20.6	20.6
	Agreed	84	59.6	59.6	80.2
	Neutral	14	9.9	9.9	90.1
	Disagreed	14	9.9	9.9	100.0
	Total	141	100.0	100.0	

Source: Primary data

According to the above table, 59.6% of the respondents agreed that loan recovery performance of NIB is influenced by its loan recovery process of the bank. 20.6% of the respondents strongly agreed on the matter. However, 9.9% of the respondents disagreed that loan recovery process largely influence loan recovery performance of NIB. The remaining 9.9% of the respondents are neutral. This shows that most of the respondents agreed that loan recovery performance of NIB is largely influenced by the process of loan recovery. In addition to this one of the interviewee said

The loan recovery process supports the loan collection efforts of the Bank. However, the loan recovery process is usually a coercive way of recovering the loan.

Plus to that, one of the interviewee described the loan recovery process as follows

The least costly way of collecting loans from customers is urging the customer to pay as per the agreed loan contract. However, in case the customer fails to pay as per the agreed loan contract, the Bank will be forced to give consecutive reminding letters following the frequent phone calls made as an oral reminder to agitate the customer pay the loan. If the frequent phone calls and written reminding letters don't materialize the required response, the Bank will transfer the loan file to the legal department for any possible legal actions. If the legal action is opted by the Bank, 30-day warning letter will be served to the customer or guarantor of the collateral property in case the collateral provider is a third party. If the 30-day legal notice doesn't bring the required change, the property will be floated on newspaper for foreclosure action.

Thus, from the above findings majority of the respondents and the interviewee share the idea that loan recovery performance is largely influenced by loan recovery process.

In order to assess the effect of loan recovery process on the performance of the banks, the respondents were also asked whether loan recovery process has positive effect on loan recovery performance. The respondents replies are given below.

Table 35: Effect of Loan recovery process

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agreed	29	20.6	20.6	20.6
	Agreed	56	39.8	39.8	60.4
	Neutral	42	29.7	29.7	90.1
	Disagreed	14	9.9	9.9	100.0
	Total	141	100.0	100.0	

Source: Primary data

According to the above table, 39.8% of the respondents agreed that loan recovery process has positive effect on recovery performance. 29.7% of the respondents are neutral on the issue. 20.6% of the respondents strongly agreed loan recovery process has positive effect on loan recovery performance. However, the remaining 9.9% of the respondents disagreed on the matter discussed. This shows that most of the respondents agreed that loan recovery process has positive effect on loan recovery performance of the bank. In addition to this, one of the interviewee also believes that loan recovery process has positive impact on the loan collection effort of the bank.

Moreover, respondents were asked whether or not the time period to repay back the loan has an influence on loan recovery performance of NIB .The finding is presented below.

Table 36: Influence of time period on Loan recovery performance

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	28	19.9	19.9	19.9
	Agree	99	70.2	70.2	90.1
	Neutral	14	9.9	9.9	100.0
	Total	141	100.0	100.0	

Source: Primary data

According to the above table, 70.2 % of the respondents agreed that the time given by the bank to repay the loan has an influence on loan recovery performance of NIB. While 19.9% of the respondents strongly agreed loan recovery is influenced by time period to repay the loan. The rest of the respondents i.e. 9.9% are neutral regarding the influence. This is a confirmation that most of the respondents believe that time period to pay the loan has an influence on the loan recovery performance of the NIB. The reason to this might be if the bank gives short period of time to repay the debt. Then customers' capacity to pay back their debt will incur a problem. This causes the customers loan to be turned to NPL. Consequently, the bank loan recovery performance will be in question.

4.3 Discussion on the findings

From the above analysis, the study found that loan recovery rate of agriculture sector was fluctuating during the period under consideration. And for the manufacturing sector, the loan recovery rate was decreasing except for the year 2019. On the other hand, for export and import sectors their recovery rate was decreasing except for the year 2020. Genet (2018) on the contrary found that the loan recovery of import and export sectors has an increasing trend. In addition to that, she found the loan recovery of industry sector shows fluctuation for the period under consideration (2015-2017). However, the loan recovery sector of agriculture is similar to the current study. Feyisa(2009) on his finding revealed that the loan recovery rate of import and export sectors were increasing. With regard to

industrial sector, his study showed that the loan recovery rate of the sector was increasing for the period under consideration (2004-2008). But his finding on loan recovery of agriculture sector shows a decline. Hence the difference of other researchers finding with the current study might be the period under consideration has accepted government change. Though this government change in 2018 has positive impact in the country economy, after a few years later, the country becomes instable in different areas. This instability affects different types of borrowers' repayment capacity which in turns has an influence the recovery performance of the bank.

The current study also find that for domestic trade and service, hotel and tourism and building and construction sectors, the loan recovery rate showed a decline during the period under consideration. But the recovery rate of transport and communication sector had shown an increase from the period from 2017 to 2019 but showed a decline on the year 2020. The recovery rate personal loan and mines, power and water sectors had shown a fluctuation for the period under consideration. On the contrary, Genet (2018) found that hotel and tourism, transport, personal and domestic trade and service sectors loan recovery rate has shown an increasing trend during the period under consideration. Feyisa (2009) finding also shows that the loan recovery of domestic trade and service is increasing. However, his finding on the loan recovery rate of building and construction and personal loan shows fluctuation during the period under consideration in which with regard to personal loan his finding is similar to the current study. In addition, Feyisa(2009) reveled that transportation sector recovery rate is different with the current study in that it showed an decrease from the period 2004-2006 but showed an increasing trend for the following years(2007 and 2008). The departure of the current study form other findings might be due to inflation on some raw materials during the period under consideration which in turn affects recovery rate of the sectors.

Apart from that, the current study showed that the time period to pay back the loan, loan recovery process and policy of the bank has an influence on the loan recovery performance of NIB. And also the customer loan repayment habit is also influenced by the process of the loan recovery that the bank implements. On the contrary, Ermias(2020) find that internal factors such as malpractice of loan police and procedures, lack of close

follow up, lack of skilled man power, and in adequate customer due diligence assessment has negative influence on the loan recovery performance of the bank. Abay(2015) on his study stated that internal factors namely ridged credit police, no clear credit approval procedure and proper as well as week follow on the loan given to the customers by the bank has negative influence on the loan recovery performance of the bank. The current study is similar with Abay(2015) with one factor that has an influence on the loan recovery performance of the bank i.e. policy of the bank.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1. Summary

The study was conducted to investigate the trend of loan recovery performance of banking industry in general and NIB in particular. In the course of dealing with this very issue, various loan recoveries among sectors were thoroughly examined.

For the agricultural sector the loan recovery rate was fluctuating during the years and out of the total loan demand during the period only 27% was recovered showing a poor loan recovery performance.

For building and construction, hotel and tourism, domestic trade and service, import and manufacturing sectors, the loan recovery rate were decreasing and out of the total loan demand of these sectors 20%, 17%, 32%, 26 & 20% respectively were recovered during the period under consideration. Nevertheless, for the mentioned sectors the credit recovery rates were not satisfactory. This indicates poor loan recovery performance but good loan recovery performance for export sector showing the biggest loan recovery rate in comparison with other sectors (43%).

And for agriculture, mines, power and water and personal loan sectors the loan recovery rates showed fluctuation and out of the total loan demand of these sectors 27%, 21% and 37% respectively were recovered during the period under consideration. In addition, 30% out of the total demand for transport and communication sector was recovered.

In general, out of ten sectors of NIB under study, all of the sectors recovery rates are less than 50%. This implies there is a low recovery performance in all sectors.

5.2 Conclusion

Based on the analysis of the primary and secondary data, the researcher has reached the following conclusion.

The result of the study found that loan recovery rate of agriculture sector was fluctuating during the period under consideration. Only 27% of was recovered from the total demand

showing a poor loan recovery performance. This might be due to the unpredictable weather condition.

And for the manufacturing sector, the loan recovery rate was decreasing except for the year 2019 and out of the total demand 20% was recovered showing low performance of loan collection for the sector.

On the other hand, for export and import sectors their recovery rate was decreasing except for the year 2020. Out of the total demand during the period under consideration 46% and 26% was recovered respectively. This indicates compared to other sectors export sector recovery performance is good but poor for import sector.

For domestic trade and service, and hotel and tourism sectors the loan recovery rate showed a decline during the period under consideration and out of the total demand 32% and 17 % was recovered respectively. This indicates low level of recovery performance was observed for the sectors during the study period. And also the loan recovery rate of building and construction sector has shown a decline from the period under study. Out of the total loan demand of the sector 20% was recovered.

Furthermore, the recovery rate of transport and communication sector had shown an increase from the period from 2017 to 2019 but showed a decline on the following year. Out of the total demand, 30% is recovered from the sector. The recovery rate for remaining sectors namely, personal loan and mines, power and water sectors had shown a fluctuation for the period under consideration and out of the total demand, 37% and 21% was recovered respectively.

The study concludes that the time period to pay back the loan and loan recovery process has an influence on the loan recovery performance of the NIB. And also the customer loan repayment habit is also influenced by the process of the loan recovery that the bank implements.

The study also shows that the bank implement the five C's of credit before approving loan. Similarly, survey data shows that due diligence assessment are implemented in approving the loan

The study also indicates that the policy of the bank has an influence on the loan recovery performance of the bank.

The current loan recovery process of the bank includes after frequent phone calls made to customer, the bank will serve three reminding letter to customer. Then if the letters don't materialize the required response, the bank will transfer the loan files to legal department for legal action. If the legal action is opted by bank a 30 day warning letter will be served to customer or guarantor of the collateral. If the 30 day legal notice doesn't bring the required change, the property will be floated on newspaper for foreclosure action.

Though the primary data shows the level efficiency of loan recovery performance is high, the secondary data revealed that there is low level of loan recovery performance in the bank.

Form the study, the researcher concluded that agriculture sector compared to other sectors is difficult to return back. This showed the loan recovery performance of the bank is somehow affected by this sector.

5.3 Recommendations

After analyzing result obtained for responses to questioners and interview gathered from the Bank employees; from the secondary data collected and comparing with the theoretical framework in various literatures and sound international practices, the following recommendations are made to improve the Loan Recovery performance of NIB.

- The bank has to give due attention on the process of loan recovery and increase the timely follow up of repayment after approval of the loan. This can be done by conducting surprise visit and checking whether or not the borrower business is capable of paying its loan.
- The bank should also assess the drawback for due date for the loan that were approved before so as to correct the future mistake arising from short term loans which makes the recovery of the bank to be poor. This can be done by either stopping short term loans or increasing the medium and long term loans.
- For the agricultural sector, before granting the loan the bank shall select areas in which bad weather might happen and reduce such loan demand in such areas. And

also the bank shall provide an adviser for the borrowers which can assist them in the modern ways of irrigation.

- The bank has to design strict loan procedures such as restricting or decreasing the amount of loan availed for some sub sectors on manufacturing, domestic trade and service, import, export, and building and construction, hotel and tourism sectors to increase their loan recovery performance. Besides the bank should also decrease the demand for those sectors and shift it other sectors which are better in recovering their debt.
- The policy of the bank has to be revised in such way that by incorporating other banks experience and our country current business environment so as to improve loan recovery performance of the bank.
- Even though the process of the bank is favorable for the bank, it is not benefiting the customer. It has negative impact on loan recovery of the bank. Therefore, the recovery process shall be mutual.
- All concerned bodies such as loan officers, branch managers, and credit analysts, loan follow up officers; loan and work out division managers, district managers and other beside their daily task should exert maximum effort on loan collection of the bank.
- Since this study is done in NIB, it only focuses on the recovery performance of NIB. Hence other researchers can study on other banks.
- This study focuses by taking the sample of Addis Ababa branches. It is better if other researchers study on outlying branches in the country.
- The study tried to examine mostly post loan approval factors for the poor loan recovery performance of the bank. Other researchers can expand their study by assessing pre loan approval factors and also external factors that affect loan recovery performance of the bank.

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Appendix A. Questionnaire for Nib bank employees

Addis Ababa University School of Graduate Department of Accounting and Finance

This questionnaire is prepared to gather data for the study under the topic **“The trend of Loan Recovery Performance in Nib International Bank: A case study of Addis Ababa Branches.”**

I kindly request you to spare some minutes of your time and respond to the questions below either by ticking, circling or filling your answers and also, I assure you that the data will not be used for other purposes and treated with utmost confidentiality.

I thank you in advance for kind cooperation.

Section One: General and Demographic questions (please circle your choice)

1. Sex of respondent
A. Male B. Female
2. Educational attainment
A. Diploma B. Bachelor’s degree C. Master’s degree D. PhD
E. Others _____
3. Position
A. managerial B. Non-Managerial
4. Specific position _____
5. Years of experience
A. 0-1 year B. 2-4 years C. 5-7 years D. 8-10 years E. above 10 years,
Please specify _____

Section Two: Questions related to factors affecting loan recovery performance of the bank

For each of the following statement, please tick (✓) where applicable the extent to which you agree using the Likert scale. **5** = Strongly Agree (SA) **4** = Agree (A) **3** = neutral (N) **2** = Disagree (DA) **1** = Strongly Disagree (SD)

	Statement	SA (5)	A (4)	N (3)	D (2)	SD (1)
1	Loan recovery performance is not affected by the different loan sectors that the bank availed to its customers					
2	The time period to repay back the loan has an influence on loan recovery performance of NIB International bank					
3	The policy of the bank has an effect on efficient loan recovery of the bank					
4	The process of loan recovery has a larger influence on the loan recovery performance of NIB International bank					
5	Loan recovery process has positive effect on loan recovery performance					

Section 2.1 :Questions related to customer repayment habit

	Statement	SA (5)	A (4)	N (3)	D (2)	SD (1)
1	Many customers pay their debt on time					
2	The process of loan recovery affects customers' loan repayment habit					
3	Many customers are forced to sell their properties to repay their debt					

Section 2.2: Questions related to pre-approval of loan

	Statement	SA (5)	A (4)	N (3)	D (2)	SD (1)
1	The bank implement credit analysis elements such as character, capacity, capital, and condition, collateral carefully assessed before granting the loan.					
2	All customers provide factual information about their credit history and background honestly for loan assessment.					
3	Document screening and due diligence assessments have been done with the required quality					

Section 2.3: Questions related to loan recovery performance of the bank

	Statement	SA (5)	A (4)	N (3)	D (2)	SD (1)
1	The loan recovery performance of Nib International Bank is efficient					
2	Loan recovery of the bank is not strong enough					
3	The bank mostly sell customers' properties to cover their debt					

Section 2.4: Questions related to rate of loan due

For each of the following statement, please tick (✓) where applicable the extent to which you agree. **5** = Very high (VH) **4** = High (H) **3** = neutral (N) **2** = Low (L) **1** = Very Low (VL)

	Statement	SA (5)	A (4)	N (3)	D (2)	SD (1)
1	Level of collection of loan amount due is					
2	Level of repayment rate of the loan due is					
3	Level of non-repayment rate of the loan due is					

Section 2.3: Questions related to collateral and loan sector

1. Among the different sectors that NIB bank lends, which ones are more difficult to return back?(**please tick (✓) in the box and you can select more than one**)

- a. Agriculture
- b. Manufacturing
- c. Domestic Trade and services
- d. Import trade
- e. Export trade
- f. Building and construction
- g. Hotels and tourism
- h. Transport service
- i. Financial Institution
- j. Mines , Power and Water
- k. Personal loans

2. Which types of collaterals frequently used to give term Loans? **(Please use the space provided)**

Appendix B. Interview Guide for Nib bank employees

Addis Ababa University School of Graduate Department of Accounting and Finance

This questionnaire is prepared to gather data for the study under the topic **“The trend o f Loan Recovery Performance in Nib International Bank: A case study of Addis Ababa Branches.”**

I kindly request you to spare some minutes of your time and respond to the questions I will ask you one by one. I assure you that the data will not be used for other purposes and treated with utmost confidentiality.

I thank you in advance for kind cooperation.

Interview Questions

1. Sex of respondent
2. Educational attainment
3. Work position
4. Total years of experience?
5. Total years of experience in loan department?
6. How do you see Customers' loan repayment habit?
7. Do you think Customers pay their debt on time? (Can you tell me in percentage? How many of them pay on time? What do you think is the reason for not paying on time?)
8. Can you tell me the loan collection process?
9. Do you think the loan collection affects the loan recovery? (In what ways?)

10. How many of your customers lose their property for the sake of covering their loans?

11. How do you see the effect of loan recovery process on loan recovery performance?