ST. MARY'S UNIVERSITY COLLEGE
BUSINESS FACULTY
DEPARTMENT OF MANAGEMENT

AN ASSESSEMENT OF CREDIT RISK MANAGEMENT IN NIB INTERNATIONAL BANK S.C.

BY
FREWEINI ALEMAYEHU

JUNE 2010
SMUC
ADDIS ABABA

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A SENIOR ESSAY SUBMITTED TO THE DEPARTMENT OF MANAGEMENT BUSINESS FACULTY ST. MARY'S UNIVERSITY COLLEGE

IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE DEGREE OF BACHELOR OF ARTS IN MANAGEMENT

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APPROVED BY THE COMMITTEE OF EXMINERS

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Examiner	Signature

ACKNOWLEDGEMENTS

Above all, praise and thanks are due to the almighty GOD, Next, I would like to thank Ato Ephrem Admasu, my senior essay advisor; this paper wouldn't have been what it is now, without his committed and tireless guidance and meticulous editorial work at each stage of my writing, I owe his a lot of tanks.

Friends who have extended this psychological support and editorial inputs, and all staffs including customers.

Finally, the greatest gratitude goes to my family; they have been there for me in all that I needed throughout my study years.

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CHAPTER ONE

INTRODUCTION

1.1. BACKGROUND OF THE STUDY

The word "Bank" is used in the sense of commercial bank. It is of Germanic Origin though some persons trace its origin to the French Word "Banqui" and the Italian word "Banca" it referred to a bench for keeping, lending and exchanging of money or coins in the market place by money lenders and money-changers. There was no such a word as established in Venice, Italy in 1157. But modern banking begun with the English Goldsmith, money after 1640 (Jhingan, 1997).

Commercial banks render a number of services such as provision of different facilities, mobilization saving, fixed time, and demand deposits, local and foreign money transfers, transaction of currency, and other related activities. The principal business line of commercial banks is extending credit to customers.

Banks make money by providing service that their customer wants and granting a credit facility. In doing so there are some risks with this services provided and the most critical risk is credit risk.

Credit risk is simply defined as the potential that a bank borrower or counter party will fail to meet its obligation in accordance with agreed terms and conditions where as credit risk management is a process which begins with identifying the target markets and proceeds through a series of stages to loan repayment with the objective of maximizing a bank’s risk adjusted rate of return by maintaining credit risk exposure within acceptable parameter (Basel, 1999).

It is known that specific credit risk management practices may differ among banks depending upon the nature and complexity of their credit activities; however, the focus of this study was on the following important areas of credit risk management

- Credit Risk Environment
- Credit Granting
- Credit Monitoring
- Internal Control Over Credit Risk

It is clear that Banks should develop a credit risk strategy or plan that guides the bank's credit granting, reviewing and controlling activities and adopt the necessary policies and procedure for conducting such activities. As per Iron (2002), a well-developed Credit Policy is an essential part of a sound and effective credit risk management in a bank.

A well-defined credit granting process is essential to approving credit in a safe and sound manner. The credit granting process should set credit request and decision flows, type of credit available, who is eligible for each type of credit, and what are the terms and conditions for credit granting.

Credit monitoring refers to the day-to-day and/or periodic checking, analysis and reporting of the proper implementation of credit decisions as well as the Credit Policy and procedure to ensure that the credit function of the Bank is executed as planned and structured. Credit monitoring is a critical element in maintaining the asset quality of the bank. It includes proper documentation, disbursement and identification of warning signals.

The credit risk management system will not achieve the intended target if it lacks an efficient and effective review and reporting mechanism. Banks must also have a system in place for early remedial action on deteriorating credits, for managing of non-performing loan and workout situations.

1.2. BACKGROUND OF THE ORGANIZATION

The first indigenous bank, which functions as both a commercial bank and central bank was established in 1942, under the name of State Bank of Ethiopia. In 1963 the two functional were separated, and the Commercial Bank of Ethiopia was incorporated as Share Company, to take over the commercial activities of the former state Bank, Consequently, the present day Commercial Bank of Ethiopia (CBE) was merged with the Addis Bank in 1980, to from the then sole Commercial Bank in the Country (Belay Giday, 1994).

The Ethiopian Banking Sector currently comprises of Central Bank (NBE), Twelve Commercial Banks, including the State owned commercial Bank of Ethiopia (CBE) and eleven private commercial banks, as well as two special banks the Development Bank of Ethiopia (DBE) and the Construction and Business Bank (CBB).

NIB International Bank is one of the Eleven Privately owned Commercial Banks that was established on May 26, 1999 under license LBB/007/99 in accordance with the commercial code of Ethiopia and proclamation for licensing and supervision of Banking No 84/1994 with a paid up capital of Birr 27.6 million and authorized capital of Birr 150 million by 717 share holders. Currently, the Bank has managed to raise its authorized and paid up Capital to Birr 500 million and 412 million respectively.

The word "Credit" (which is also called "loan") is derived from the Latin word "creditum" which means to belive or trust in economics, the term " Credit" refers to a promise by one party to pay another for money borrowed or goods/services received. It is a medium of exchange to receive money or good/service on demand at same future date (Jhingan, 1997).

It gives different types of loans for different sectors like traders, farmers and industrialists. It lends certain percentage of cash lying in deposits on a higher interest than it pays on such deposits. This is how it earns profit and carries on its business. The Bank advances loans such as a short-term loan, medium term loan and long-term loan.

This study attempted to evaluate the practice of credit risk management system and policies in NIB International Bank S.C and found the lacuna therein in order to understand why the pace of improvement in the Credit risk Management scenario has been so slow.

1.3. STATEMENT OF THE PROBLEM

It is known that business is full of risk and risk taking is a critical issue in banking business. Banks are successful when the risks they take are reasonable, identified, controlled within their financial resource and credit competence. In developing markets Bank faces stiff challenges in managing credit risks. A well-developed Credit Policy is an essential part of a sound and effective credit risk management in a bank. Failure in setting up proper credit risk management system and failure in developing a credit risk strategy or plan that guides the bank's credit granting, reviewing and controlling activities will result in deteriorating credits, hike in non-performing loans, reduce earning and capital, increase in administration cost and induce liquidity problems affecting the cash flow of banks.

In NIB International Bank S.C. the Student researcher sees unwilling customers to repay the credit they borrowed, fail in analysis of customers financial statement periodically and significant number of None Performing Loans.

1.4. BASIC RESEARCH QUESTIONS

The research addressed the following questions

1. *What are the descriptions of Credit Risk environments of the banks in relation with Risk Management?*
2. *What are the steps in Credit granting and approval of the bank for Risk Management?*
3. *What are the processes involved in credit monitoring while identifying warning signals?*
4. *What are the internal controls made to protect the bank from risk?*

1.5. OBJECTIVES OF THE STUDY

The general objective of this study was to evaluate the practice of credit risk management system in NIB International Bank S.C. The specific objectives of this study were;

- To asses the credit risk environment of the Bank
- To evaluate credit granting process of the Bank
- To investigate the credit monitoring processes of the Bank, which include proper documentation, disbursement and identification of warning signals?
- To evaluate the internal control system over credit risk which should be in place for early remedial action on deteriorating credits, for managing of non-performing loan and workout situations and finally

1.6. SIGNIFICANCE OF THE STUDY

The primary significance of the paper is to serve as a partial requirement for a B.A. (Bachelor of Arts) degree in management. In addition, the researcher believes that the paper has some how brought in to the picture some general and specific situation of the issue of Credit Risk Management of the Bank.

1.7. DELIMITATION/ SCOPE OF THE STUDY

This study concentrated only on NIB international Bank S.C to assess the practice of Credit Risk Management in the Bank and finally conclusions and recommendations were drawn from the study.

Poor credit quality is not only the outcome of poor credit risk management. There are other factors that can contribute for the deterioration of credit quality. However, the scopes were only limited to the practice and processes of credit risk management in the Bank in the selected branches Main and Tana branch selected by there credit portfolio. And this research covers the credit Risk Management of the Bank since 2007 G.C. to get recent data for analysis.

1.8. RESEARCH DESIGN AND METHODOLOGY

1.8.1. RESEARCH DESIGN

The research design was Descriptive type of study means the research were answered the questions that were involved in credit risk management activities of the organization or the bank and tried to get the true picture of the credit risk management of the Bank.

1.8.2. POPULATION AND SAMPLING TECHNIQUE

Nib international Bank S.C. has 42 branches including International Banking Department and 27 of the branches are located in Addis Ababa and remaining found in regional cities and towns.

The Primary data were collected from Addis Ababa Branches only because of time and cost and because of all braches use the same manual and policy for loan processing. The Units purposefully selected for the research are Main Branch and Tana Branch.

The Main Branch found around Bole is largest branch in credit portfolio as compared to other branches, Tana Branch located around Merkato at Tana Building and the second largest branch.

For general information for all branches the study used Credit Department of the Bank.

From main Branch: 5 loan officers and branch manager.
From Tana Branch: 2 loan officers and branch manager.
From credit department 2 credit analyst and 1 Credit Department section Head.
To select sample from customers stratified sampling were used and from strata select customers by using availability (comprehensive) sampling.

Branch	Types of loan	No of loan after 2007	Sample in percentages	Sample size
Main Branch	Agricultural	12	20%	3
	Automobile	46	20%	9
	Domestic Trade service (DTS)	28	20%	6
	Manufacturing	26	20%	5
	Import	12	20%	2
	Export	11	20%	2
	Merchandise	6	20%	1
	Building construction	16	20%	3
	Hotel and turism	5	20%	1
Tana Branch	Agricultural	6	20%	1
	Automobile	3	20%	1
	Domestic Trade service (DTS)	20	20%	4
	Manufacturing	30	20%	6
	Import	9	20%	2
	Export	5	20%	1
	Merchandise	2	20%	1
	Building construction	12	20%	2
	Hotel and tourism	-	20%	
Total				**50**

The above data collected from monthly return of the branches.

1.8.3. TYPES OF DATA USED

Both primary and secondary data were gathered for this study.

1.8.4. METHODS OF DATA COLLECTION

The Primary data were collected from the bank employee who have the knowledge in credit activities of the bank Using questionnaires and interview to address the study in question and from two bank loan customers data were collected using questionnaire method and they were selected based on their personal data and type of loan taken. The secondary data were collected from the NIB's credit policy manual and procedures, annual reports, NBE's Annual reports, NBE's quarterly bulletins, Newsletters, and journals, Books, Newspapers and Magazines.

1.8.5. METHODS OF DATA ANALYSIS

After the relevant data were collected, Microsoft office- Excel or other appropriate study tools were used to analyze the data. The study was analyzed 3 years financial statements of the Bank. For all data interpretations tables and percentage analysis were used.

1.9. ORGANIZATION OF THE STUDY

The present study work titled as "**Credit Risk Management Practice: the Case of Nib International Bank S.C**". It is divided in to four chapters.

The first chapter gives a bird's eye view of the meaning and definition of Credit risk and Credit risk Management, NBE's regulation to the quality of credit products, reasons for selecting the topic and review of previous related works done by others. The chapter includes a brief description about the statement of the problem, objectives of the study, scope and limitations of the study, research design and methodology and finally, organization of the study.

The second chapter deals with review of literatures related to the topic at hand. In this chapter Credit Risk Environment, Credit Granting, Credit Monitoring, Internal Control over Credit Risk of will be included.

The third chapter includes data analysis and interpretation part of the study. Both primary and secondary data explains and analyzes to achieve the objective of the study. The forth chapter will be allocate for summary of findings and suggestions for the practice of credit risk Management in the Bank.

1.10. Budget for the research

1.10.1 Time table/Research time schedule

Stage	Description	Week/s
1	Proposal Preparation	Dec 7 -12
II	Literature Review	Jan 15-Feb 7
III	Questionnaires Distribution	Feb 8-12
IV	Data Collection	Feb 14-Mar 3
V	Data Processing	March 4-30
VI	Data Analysis & Presentation	April 2- May 2
VII	Preparation of first draft	May 5- 25
VIII	Submission of final research Paper	June 8

1.10.2. Cost Budget

The following is estimated cost of the research

Sr. No.	Description	Quantity	Unit Cost	Total Cost
1.	Transportation			100.00
	Sub Total			100.00
2	Stationery Costs			
	Computer paper	1 ream	80.00	80.00
	Pen	5 pcs	1.50	7.50
	Pencil	1 pcs	2.50	2.50
	Flash disk	1 pcs	200	200.00
	Printing costs			400.00
	Photocopy costs			100.00
	Binding costs			25.00
	Miscellaneous			300.00
	Sub total			**1,115.00**
	Grand Total			**1,215.00**

CHAPTER TWO

REVIEW OF RELATED LITRATURE

In this chapter, previous works that are related and relevant to the proposed study were reviewed.

Banks make money by providing service that their customer wants and granting they credit facility. In doing so there are some risks with this services provided and the most critical risk is credit risk.

2.1 Definition of risk

Risk can be defined as the possibility of suffering a loss or some form of misfortune. Risk in essence means that the actual result of a decision may differ from the expected result.

2.1.1. Risk and uncertainty - although risk and uncertainty are often seen as being the same thing, there is substantial difference.

2.1.2. Uncertainty: implies that all possible results or outcomes of an event cannot be identified or foreseen.

Risk on the other hand implies that it is possible to determine the probability that some expected result or outcome can materials. (Credit Analysis and Processing Training Manual).

2.2. Risk and return

- Whenever a financial decision is made, it will always involve the weighing up of expected risk against expected return.
- The higher the risk involved, the higher the return the investor requires. In other hand lower risk means lower returns.

2.3. Definition Credit and credit risk

2.3.1. Definition of Credit

In general terms credit can be defined as the facility to obtain goods /service now against the promise to pay in the future. This implies a relationship of trust between the two parties involved.

From a bank's perspective, this would mean that credit implies any transaction entered into with a person or organization/business concern which results in funds being lent. Whenever credit is granted, it always implies that there is risk involved.

2.3.2. Definition of Credit Risk

Credit risk from a banking perspective can be defined as the possibility that a person or business concern to whom funds are lent may or may not honor the contractual commitments entered into with the bank lending the funds and that the bank itself did not make adequate provision for potential loss control. (Credit Analysis and Processing Training Manual).

Basel (1999) defines Credit risk as the potential that a bank borrower or counter party will fail to meet its obligation in accordance with agreed terms and conditions. According to Paul (1991) credit risk is the risk of loss due to the financial weakness of the bank's customer. Generally the customer will not be able provide funds to settle its transaction, usually due to bankruptcy or some anther liquidity problem. **So Credit Risk Means risk of failing to repay the credit according to the agreed terms due to different reasons like financial weakness etc.**

2.4. Definition of Credit Risk Management

Credit risk management is a process which begins with identifying the target markets and proceeds through a series of stages to loan repayment with the objective of maximizing a bank's risk adjusted rate of return by maintaining credit risk exposure within acceptable parameter (Basel, 1999, P. 3).

As Per (Credit Analysis and Processing Training Manual): Effective management need to have.-

- Well developed credit policy and procedure
- Strong portfolio management
- Effective controlling system
- And above all the most critical is a well trained staffs that are capable of implementing the system

2.5. The Need of Credit Risk Management

The goal of credit risk management should always be to maximize bank's adjusted rate of return by maintaining credit risk exposure with in the entire portfolio as well as the risk in individuals credit or transactions.

For most banks, loans are the largest and most obvious source of credit risk; however, other sources of credit risk exist throughout the activities of a bank, including in the banking book and in the trading book, and both on and off the balance sheet. Banks are increasingly facing credit risk (or counter party risk) in various financial instruments other than loans, including acceptances, inter bank transactions, trade financing, foreign exchange transactions, financial futures, equities, options, and in the extension of commitments and guarantees, and the settlement of transactions. So that bank should consider the relation between the credit risk and other risks.

The effective management of credit risk is critical component of a comprehensive approach to credit risk management and essential to the long term success of any banking organization However, to be consistence with the research objective the focus here is on credit risk, which is the risk of repayment. i.e. the possibility that an obligatory will fail to perform as agreed or will not be able to fulfill the commitment agreed.

Since exposure to credit risk continues to be the leading source of problems in banks worldwide, banks and their supervisors should be able to draw useful lessons from past experiences. Banks should now have a keen awareness of the need to identify, measure, monitor and control credit risk as well as to determine that they hold adequate capital against these risks and that they are adequately compensated for risks incurred.

The taking of credit risk is the principal function of banks. How a bank approaches credit risk represents one of its important polices. The willingness to take credit risk has provided major service to market economies throughout the banking history. The heart of the banking business is assessing credit risk not necessarily taking risks, but evaluating them (Jemes Henery, 2003 P: 135).

The distinction is important because ability to Asses is a skill where as whether credit risk is taken or not taken is management decision. The level of risk is determined by the particular arrangement for settlement such as the time of the exchange of the value of payment or settlement.
(NIB Credit Manual, 2009) Classifies Credit Risk As follows:

2.6 Types of Credit Risk

The loan officer or the branch Manager should see potential risk areas of the business and state the expected impact and materiality. The Major areas of risk to be considered are:

1. Management Risk

This is the risk of incapacity of the management team in effective planning, directing coordinating and evaluating the overall activities of the business. It includes the risk of educational qualification, business knowledge, experience and talent, behavior, leadership risk and inability to cope with changing business environment.

2. Ownership Risk

Ownership risk is the amount of equity contribution made by the owners of the business in proportion to the external (creditors) financing and the risk of lack of belongingness of the owners due to insignificant contribution to the business.

3. Business Risk

This is threat of business failure due to different factors such as high competition, Market failure, price Movement, Product substitution and other business related risks.

4. Financial Risk

The risk of poor financial structure of the business such as poor current ratio, acid-test ratio, debt to equity ratio, debt to asset ratio, etc.

5. Collateral Risk

This is the risk of inadequacy and non-marketability of the collateral to recover of the loan. It refers to the nature, type and marketability of the assets offered as collateral. The risk involved is the instability of the realizable vale of the security to fully cover the outstanding amount of the loan (as determined by the market condition).

2.7. Principles of Credit Risk Management

The goal of credit risk management should always be to maximize bank's risk adjusted rate of return. The credit risk management is the most critical issue in banking business success.

It is known that specific credit risk management practices may differ among banks depending on the complexity of their credit activities; however this study is on the following important areas of credit risk management.

- Establishing appropriate credit risk environment
- Operating under sound credit granting process
- Maintaining an appropriate credit administration,

- Measurement and monitoring process
- Ensuring the right internal control over credit risk
- The role of supervisors in credit risk management

Basel (1999, P.7-9) outlines basic principles while addressing the above areas of credit risk management and presented in the following paragraphs.

2.7.1. Establishing an Appropriate Credit Risk Environment

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

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

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

2.7.2. Operating under a sound credit granting process

Principle 4: Banks must operate under sound, well-defined credit-granting criteria. These criteria should include a thorough understanding of the borrower or counter party, as well as the purpose and structure of the credit, and its source of repayment.

Principle 6: Banks should have a clearly established process in place for approving new credits as well as the extension of existing credits.

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

2.7.3. Maintaining an appropriate credit administration, measurement and monitoring process

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

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

Principle 10: Banks should develop and utilize internal risk rating systems in managing credit risk. The rating system should be consistent with the nature, size and complexity of a bank's activities.

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

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

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

2.7.4. Ensuring Adequate Controls over Credit Risk

Principle 14: Banks should establish a system of independent, ongoing credit review and the results of such reviews should be communicated directly to the board of directors and senior management.

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

Principle 16: Banks must have a system in place for managing problem credits and various other workout situations.

2.7.5. The role of supervisors

Principle 17: Supervisors should require that banks have an effective system in place to identify, measure, monitor and control credit risk as part of an overall approach to risk management.

Supervisors should conduct an independent evaluation of a bank's strategies, policies, practices and procedures related to the granting of credit and the ongoing management of the portfolio. Supervisors should consider setting prudential limits to restrict bank exposures to single borrowers or groups of connected counter parties as per (Credit Analysis and Processing Training Manual).

Main credit principles

All credits facilities should comply with

- The laws & regulations of the government
- Directives of NBE
- The strategy, credit, policy & procedure of the bank
- Know your customer, the business and security

- Make sure the amount, purpose &timing
- Depend on credit quality the first way to ensure repayment and collateral a second way out.

As per the above principles credit risk Management should contain those elements, which are mentioned by the above writers

2.8. Factors that influence credit risk Management

The environment within which the bank will grant credit has a real impact on the risk involved. This environment can be divided into the internal and external environment.

2.8.1. The internal environment

The internal environment of the bank refers to those factors or variables that can affect the credit risk, but may be influenced indirectly or directly by the management of the bank.

The credit policy of the bank –it is a document that gives the necessary guidelines and principles to be applied when granting a loan.(i.e., what credit may be granted , the credit terms required, acceptable security and qualified principles and criteria) it is developed by senior levels of management and be approved by the top management. It should be constantly updated and streamlined (improve) with current issues on credit risk faced by the bank. All credit staffs must be well trained in the content and implication of the credit policy at all times.

Employees of the bank-an employee need to be knowledgeable and competent if they are not the banks will exposited to credit risk. Credit training programs are used to give staff the necessary skills and knowledge.

Products and markets- it is essential to the bank to do through research as to the type of products it wants to sell to the specified target market. High level of competition can also put pressure on banks to become more lenient in granting credit, especially if it is a newly entered target market.

Credit management and control system- it includes client information, monitoring of clients conduct in terms of their contracts, record keeping, credit reports etc.

2.8.2. The external environment

The external environment of the bank refers to those factors or variables that can have an affect the credit risk, but cannot be really be influenced indirectly or directly by the management of the bank.

The external environment can be classified under the following eight categories:

The marketing environment (competition, clients and risk. i.e., inability to repay debt (insolvency and illiquidity), unwillingness or due to fraud an illegal conduct.

The economic environment -(1.cyclical economic movement –when the economy is upswing higher consumer expenditure higher demand for credit and when the economy downswing consumer will spend less and the demand for credit will decrease.2 role of inflation-it is a continuous increase in the general price level as measured by CPI (consumer price index) and the PPI (producer price index) and 3 .the role of interest rate.

The international environment- fluctuations in the exchange rate, e country risk i.e., the degree to which a govt. can interfere in the normal business by means of rules, regulations, control system, nationalization, confiscation, political instability also is part of country risk.

The physical environment –it refers climate, availability of good infrastructure and the impact of environmental protection and conservation.

Legislative and the institutional environment - the social environment influence of fiscal policy (govt. spending and taxation). Influence of monetary policy--

tax policy- restriction of bank lending, interest rate control, exchange control regulation and moral suasion-in other wards requesting the bank to act/not to act in a particular way.

The social environment – it refers to culture, language, religion and customs and population.

The technical l environment –the fast pace of change of technology (MIS)

The political environment- the influence that the political parties that manifest in the govt. ideological standpoint, policies and expectation on matters such as education, free market economy, privatization, stability of the government itself and influence of international politics.

2.9. Credit Risk Management Approach

According to **Herrick (1990)** banks manage their credit risk through three approaches. They are;

- Minimizing risk
- Price risk and
- The diversity of risk approaches

All approaches require an ability to assess credit risks. The difference between the three approaches is the way assessments of risk are used banks.

2.9.1. Minimal Risk Approach

The minimal risk approach to credit risk management attempts to separate loans securities and other asset in two groups,

1. It includes credit in which there is no reasonable doubt that the asset will be redeemed at face value, or in the case of equity investment, no reasonable doubt that the investment will provide significant rate of return over period of years.
2. It includes all assessments of credit risk where it appears that a credit might not be redeemed or an equity investment might not provide a good return. Money young bankers of the time told themselves that they would do what ever was needed to prevent the experience from happening again.

One preventive measure was to look carefully at quality of the loan application; little could be done about past loans. Many of them were either on a workout basis of the type of business over which a banker had some discretion. Bankers did not feel confident about drawing fine lines of various degrees of risk and credit worthies. Loans, which were not likely to be repaid, beyond reasonable doubt, simply were made.

The minimal risk approach relies on the classic three “C” of credit.

- Character
- Capacity and
- Capital

The minimal risk approach to credit risk requires that bankers act as a helpful friend, consultant and adviser who use firm's persuasion when necessary. This informal relationship adds a understanding, but strong pressure to the management of any organization to keep its affairs in good shape. Moreover, if a banker approaches credit risk from the minimal risk approach, his efferent is directed to prevent any losses risk from occurring. There is no place in this thinking for losses and he makes extra ordinary afferent’s to fulfill this out look.

To a banker with this credit risk approach and with dedication to his customers, there is often a feeling of person’s failure if loss occurs. This psychological incentive to prevent losses provides an important part of attitude of bankers with a strategy that strives to minimize risk. This approaches tenders to keep bank activities restricted to areas that are already well known to a bank, new areas of banking activities involves greater uncertainties than the areas that are part of daily activities.

Even though the minimal risk approach has this important limitation, many banks have been very successful for may years by following this approach of credit risk.

2.9.2. Price for Risk Approach

Risk pricing recently has developed as an alternative approach to credit risk. In recent years this approaches also has related on the basics methods analysis noted with the minimal risk approach, but carriers the conclusions much farther.

The risk pricing approaches looks at all degrees of risk as normal parts of the banking business. In effect, it views the assets of the bank loans, securities, and investment in various shades of white and gray and accepts all of them as legitimate, worth. While assets of greater credit risk involves greater risk of loss, but these assets are expected to price to earn more return or interest income to offset their credit risk for a profit to the bank.

Assets of little credit risk involve low risk of loss. These assets expected to earn lower interest rate and also earn low profit for a bank. If risk pricing is done properly asset of all types of credit risk should show approximately the same profit to the bank.

The risk pricing approach reflects to trends in banking during the past decade.
First has been growing assurance among many banks that they possess the technical capabilities of assessing risk to a greater extent than did an earlier generation of bankers. New techniques have been applied to banking that did not exist a generation ago. Computers have enabled banks to handle much greater quantities of information operation research and system research have opened new ways of analyzing information.

A new generation of thinking has risen which believes that it can make more accurate conclusions based on factual experience than on the rule of thumb guides and the personal judgment of credit officers, loan officers and securities traders. Many banks emboldened by these greater technical resources in much the same way and at about the same time that many economists developed their confidence in being able to “fine tune” the economy and many psychologists developed their confidence about motivating people. All of these approaches to knowledge rest on supreme confidence that there are highly refined ways of conducting operations that will superior results.

The second trend underlies the growth of risk pricing is the recent emphasis for banks to show strong earning gains. Risk pricing opens the door to a major expansion in banking. Business a large proportion of business that would be tuned down on the bases of minimal risk approaches becomes choice bankable business. To work successfully over a long period, the risk pricing approaches requires three conditions;

1. Need for a large number of assets in the banks assets portfolio. The basis of risk pricing is that a banker does not know which loan, security or investment will require emergency efforts, reduced terms or fail, but he should have good idea of the likelihood that these difficulties could occur in large portfolio.

2. The bank needs a staff with considerable analytical skill. The process of assessing various degrees of risks is not a task that a one or two main credit department can easily handle. The development of risk pricing format for bank involves a major statistical operation. Moreover the risk-pricing format for one bank would not necessarily be appropriate to another bank. A risk pricing format provides specific guidelines showing the way a particular bank will price Loan, security, or investment and reflected the franchise of particular bank, its personnel and its ongoing business relation ship with customer.

3. The bank needs to possess an outstanding forecasting capability. Risk pricing is concerned about the future and must make much complete and accurate assumption concerning the future condition of credit market, business activities and attitudes of debtors.

2.9.3. Diversity of Risk Approaches

Credit risk management often diversifies a portfolio of loan, securities and investment at a simple effective way of keeping problems of credit risk under control. How ever, the approach is some times mistakenly used to justify taking grated individual credit risk or slimmer risk price premiums than other wise would be justified, which is mistaken.

In fact, diversity can only partially control risk and it is not approach to credit risk that can stand independently of other approaches.

The major practical problem in diversifying credit risk is determining what constitutes diversity. There are literally thousands of ways of classifying assets, and a case could be made that many of the categories represent diversity on logical grounds. Yet to be effective, risk diversity requires relevant categories and the determination of relevant categories is not an easy matter. **(Herrik,1990:p 135).**

2.10. Credit Risk Management Cost:

The starting point for efficient credit control is recognition of cost of credit and is potential effects on profit and liquidity. Techniques for managing operating credit risk build on the broad principles of risk management that are already deeply ingrained in banking practices. There are three basic ways to manage credit risk and carry costs to consider. They are

1. **Exposure reduction methods**; this credit exposure could be eliminated by requiring the customer to provide collateral or guarantees. Banks have their own specialist lenders and credit risk assessors who have the skills and experience to assess risk reduction. Although exposure reduction techniques are generally not expensive for banks to implement, they often result in higher customer costs.

2. **Risk control:** programs to control risk on the other hand can involve a change in operation and are often expensive to implement. This is designed to mentor the actual level of risk as it changes and to refer to transactions to the proper credit authority for approval before the exposure is created.

3. **Loss funding:** provisions must also be made for any losses that do occur. Although banks insure loans losses by deducting a provision from earnings to create are sere, must do not uses this mechanism to insure against losses from

operating services. Ideally, reserves should be built and capital allocated to operating services in proportion the risk they incur.

The determine the level of credit risk to be funded, the following have to be considered: How much risk remains after implementation exposure reduction and risk control procedures, the operation dependability of the efforts and an analysis of the likelihood of loss from the remaining exposure (Paul F, 1991:132).

Credit risk management is divided in to two faces according to Churchill and Dancoster (2001)

1. Prior to issuing a loan, a lender reduces credit risk through controls that reduce the potential for delinquency or loss commonly known as preventive steps before issuing a loan and it includes: loan terms, loan amounts reflecting the clients repayment capacity, legibility criteria for a loan request, repayment frequencies, collateral ability and willingness of borrowers to repay a loan and check credit history with suppliers and other credit organizations.

2. Once the loan is issues a lender’s risk management expends controls that reduce actual loss, commonly know as controls after extending loans. It includes the following
    - Periodically analyzing the portfolio quality with intent to modify procedures and policies before the loan quality deteriorates.
    - Field staff and clients must understand that late payments are not acceptable and client should be penalized for late payments or rewards to early payments.
    - There should be effective follow up procedures.
    - The consequence of loan default must be sufficiently unappealing to clients.

All credit departments should have credit management manual in order to standardize procedures. The manual should be regularly updated to account for changes in procedures and circumstances. The manual contains; statement of credit policy, methods of payment for various of account, specimen of management information forms and reports and the time table for completion and procedures for account collection, credit sanction, legal action, disputes, bad debits, credit limits etc.

2.11. Credit risk management functions

According to Bass (1998) credit risk management is the core to achieve the desired objectives.

It has three basic functions. These are:

- Credit analysis and appraisal,
- Credit monitoring and review and
- Work out procedures

2.11.1. Credit Analysis And Appraisal;

Credit Procedure manual of NIB describes Credit analysis as a critical assessment/evaluation of the borrower's business strength and the security (collateral) presented by the applicant. Credit requests shall be analyzed and appraised by the lending officer in line with the Bank's Credit Procedure and Guideline Manual before any recommendation is forwarded for decision.

The purpose of credit analysis is to assess the likelihood that the customer will repay the loan in accordance with stipulated terms. Each of these describes an area of person's credit worthiness.

1. **Character**; assesses the customer willingness and assessing capacity involves determining ability to repay.

   The character of the debtor evaluated by seeing past credit experience, there credit reference and accuracy of application.

2. **Capacity**: It is the ability to repay debts as scheduled. For salaried individual the analysis is concerned with job stability.

   Consumer capacity is reflection of safety margin between income and committed outflows and the stability of each business capacity is depend upon sales income ,monthly out flow and inflow ,stability of income source, stability of customer ,liquidity.

3. **Capital:** involves analysis of the customer's net worth, is important in establishing the customer ability to repay the loan by falling bank on other assets that could be used to generate cash to repay the loan.

4. **Collateral**: is used to secure the loan .if the loan is secured by collateral and customer fails to repay the loan as promised, the bank has the right to the assets to secure the loan. To provide an alternative source of repayment the collateral must be marketable and the value of the collateral must exceed the balance of the loan at the time of default.

   The collateral should serve only as an alternative source of repayment and in most cases should not be major consideration in granting credit. It serves to limit loss of the bank is finally forced to resolve the loan through repossession.

5. **Condition**: whether the current economic condition indicates any potential problems in customer ability to repay the loan.

2.11.2. Work out procedure

Once problems loans are identified, it requires special attention and thus transferred to Workout Loan Division for further analysis. Workout Loans Division is an organ, which is established under Credit Analysis and Appraisal Department to find out the prospect of recovery of the problem loan. On receipt of the problem loan, the workout officer analyzes the reason for default, business and security strength of the borrower's business, determine the extent of risk exposure and recommend the appropriate workout strategy (extension of repayment period, injection of additional loan, changing the form of the loan, requesting additional collateral, foreclosure of collateral etc.). Based on the analysis of the workout officer, the Credit Committees shall pass appropriate decision on workout loan.

2.11.3. Loan monitoring and review

Credit monitoring refers to the day-to-day and/or periodic checking, analysis and reporting of the proper implementation of credit decisions as well as the Credit Policy and procedure to ensure that the credit function of the Bank is executed as planned and structured. Credit monitoring is a critical element in maintaining the asset quality of the bank. It includes proper documentation, disbursement and identification of warning signals.

2.11.3.1 Documentation

Proper loan documentation provides risk protection by enabling the Bank to take legal action when a borrower fails to honor covenants or repayment schedule. Based on this the lending branch on receiving credit decision from the credit committee shall prepare Loan contract, Mortgage/pledge contract, Letter of undertaking/guarantee and power of attorney as appropriate. After the contracts are carefully examined and signed, the collateral must be registered with the appropriate government organ and the insurable securities must be insured.

2.11.3.2. Disbursement

Prior to effecting any disbursement, the lending branch checks the specific documents in the credit file of the credit applicant against the established documentation checklist to ensure conformity, completeness in documentation and registration formalities. Disbursement is made in accordance with the disbursement terms and conditions specified in the credit decision of the credit committee concerned. The lending branch is also required to maintain proper file for each borrower.

2.11.3.3 Post Disbursement Follow-up

Once a loan is disbursed, it must be reviewed and managed actively to ensure that it is repaid. Credit approval committees are responsible for reviewing the status of the loans and advances extended through them, to ascertain timely collection and initiate all the necessary action to secure all due from borrowers, however, the prime responsibility of ensuring loan repayment fails on the lending branches.

The Loan review and Risk Management Department is also responsible for the overall reviewing, monitoring and follow up of loan repayment. Credit review refers to the re-examination of a customer loan file at an established interval in order to discover the existence of any favorable or unfavorable changes in the creditworthiness of the customer (change in the risk level of the customer). A credit review is to be considered as an integral part of credit monitoring. It also refers to the investigation and review of loan approvals by various credit committees, so as to ensure its adherence to the Credit Policy and Procedure of the Bank. The bank exercises the following three forms of credit monitoring:

a) Lending Authorities Decision Review
b) Case-by-Case (name-by name) Review
c) Portfolio Review

a) Lending Authorities Decision Review

It is a form of credit monitoring used to evaluate from time to time the volume of loss inflicted on the Bank as a result of poor credit decision and thereby attaches the concept of accountability. The result of such review could be cancellation of decision authority, change of the composition of the approving committee, or decrease of the authority limit, as the case may be.

b) Case-by-Case (name-by name) Review

A case-by-case credit review is exercised to ensure that the repayment of the loan is according to the approved repayment structure, that the conditions attached to the loan are properly fulfilled as agreed, that the performance meets the account plan and that the credit risk-rating has improved or has at least maintained its previous status. Case by case credit review is exercised focusing on the borrower's business, management, ownership, financial, collateral and documentation risks.

c) **Portfolio Review Portfolio review is a form of credit** monitoring used to examine the status of credit portfolio with respect to various economic sectors, customers, products, geography, etc.

2.12. Credit Policy and Procedure

Policy Means a program of action adopted by a person, a group, or government or set of principles on which they are based In simple term, policies are way of doing things, Policies are core stone of sound credit man and polices is agreement.

Credit policies

- Ensure operational consistency
- Adhere [stick] uniform and sound practice
- Guide – lending activities
- Define- acceptable and non-acceptable risks
- Policies establish common credit language through out the institution, delegate lending authority and responsibility

Objective 0f credit policy

- Provide guidance and standardize credit decision
- Avoid exposing excessive credit risk
- Proper evaluation of business opportunities
- Ensure operational consistency

Procedure

Procedure is Established Method-Correct method of doing things

In credit, it indicates correct way of processing, disbursing, collecting, reviewing loan. That is Interviewing, Document, visit, credit information, Credit analysis, Negotiation, recommendation, approval, [appeal] disbursement-Contract-registration- stamp duty, file maintenance –file prune, follow up, report ---- Loan categorization, provisioning---- Legal action, foreclosure, rescheduling, write off etc.

CHAPTER THREE

DATA ANALYSIS AND INTERPRETATION

This portion of the paper emphasize on presentation, analysis and interpretation of data and information collected through primary data, which was collected using questioner and interview to address the basic research questions. The questionnaires having 55 sets of loan and credit risk management practices related questions were prepared for loan officers and customers to conduct the study. Besides, an interview was conducted with credit section heads, branch manager & credit analysts.

The secondary data was collected from the Nib International Bank annual report, NBE'S quarterly bulletins, Nib's credit policy and procedures manual etc.
After the relevant data was collected, Microsoft office excels & other appropriate study tools were used to analyze the data.

A 3 years financial statement of the bank was also analyzed. For all data interpretation, tread and ratio analysis tables used to support discussions related to the analysis.

3.1. Secondary Data Analysis of NIB International Bank S.C.

3.1.1. Position of loan and Advances in NIB International Bank S.C.

As we all know loan and advance constitutes the largest part of total asset in banking industry the same is true in Nib International Bank. The percentage of total loans and advance to the Aggregate asset of NIB lie between 67.3%-85.6% over the last three years as per the following table (3.1.) that implies the bank faces high risk relation to credit as compared to other assets.

Table (3.1.) selected balance sheet items (In Million of Birr)

Descriptions	Years		
	2009	2008	2007
Total assets	4,806	3,650	2,606
Total loan and advances	2,220	2,113	1,817
Loans as % of total assets	46%	57%	70%
Provision for doubtful loans	65	45	61
Provision as % of total loans & adv.	3%	2%	4%
Capital Reserve	728	598	425

Source: Annual report of NIB S.C (2009)

From the above table (3.1) we can observe that the total capital of the bank increased to 728 million at the end of June 30, 2009 implies that the bank holds adequate capital against these risks and that they are adequately compensated for risks incurred.

Table (3.2.) Outstanding Loans and Advances by economic sector (in million)

Categories of Loans & Advances	Years		
	2009	2008	2007
Domestic Trade & Services	359	369	286
Import	238	352	263
Building & construction	551	351	277
Manufacturing	540	589	595
Transportation	84	106	119
Hotel and Tourism	76	36	19
Agriculture	140	114	60
Export	217	184	189
Personal	105	8	5
Advance on import & Export	-	-	-

Bills			
Total	**2,220**	**2,113**	**1,817**

Source: Annual Reports of NIB S.C (2009)

As can be seen from table (3.2.) outstanding loans and advances shows that there has been significant increase over three years. The total out standing loan has increased from Birr 1,817 in June 2007 to –Birr 2,220 in year 2009. The table explains simply the position of out standing loans and advance of NIB through three years It also shows from the total loans manufacturing Loan stands the highest share followed by domestic trade & service and import.

It implies that the bank didn't give attention for diversified because the goal of credit risk management should always be to maximize bank’s adjusted rate of return by maintaining credit risk exposure with in the entire portfolio as well as the risk in individuals credit or transactions.

3.1.2. Positions of Deposit in NIB International Bank.

Table (3.3) Breakdown of deposits of NIB (in ‘000 of Birr)

Item	Year		
	2009	**2008**	**2007**
Demand Deposit	1,031,726	670,979	422,953
Saving Deposits	1,995,516	1,436,580	1,084,627
Time Deposit	269,146	362,370	371,354
Total	**3,296,389**	**2,469,931**	**1,878,934**

Source: Annual report of NIB S.C

The aggregate deposit mobilized by the bank stood at Birr 3,296,389 in the Year 2009. This shows an increment of 33% from the preceding Year. The increase in deposit was partly a reflection of the confidence of public in the bank. And this increases the credit ability of the bank.

3.1.3. Total Income as compared to loan interest In NIB International Bank.

Table (3.4) composition of income (in '000 Birr).

Item	Years					
	2009		2008		2007	
	Amount	%	Amount	%	Amount	%
Interest income from Loan & Adv.	251,445	59.0%	201,821	63.7%	139,982	67.4%
Gain On Foreign currency Transaction & translation	77,259.6	18.1%	55,076.1	17.4	29,608	14.3%
Commission & Service charges	90,192.6	21.2%	48,275.6	15.3%	26,956	13%
Interest Income from surplus fund	2,144.8	0.5%	8,117.1	2.6%	7,309	3.5 %
Other Income	4,973.8	1.2%	3,232.3	1.0%	3,646	1.8%
Total	**426,016.5**	**100%**	**316,582.1**	**100%**	**207,501**	**100%**

Source: Annual report of NIB S.C

As per the above table (3.4) the bank generates income at increasing rate, the interest income from loans and advance accounted the highest position. But from the balance sheet of the bank the provision for doubtful debts is increasing from year to year this is signal for risk loan is increasing even though the income from loan and advance is increasing implies that from the assets the bank earn more return or interest income to offset their credit risk for a profit to the bank.

3.2. Background Characteristics of respondents (Loan Officers)

Table (3.5) Background of the respondent (Loan Officers)

No.	Item	Responses	Number of Respondents	Percentage (%)
1	Sex			
		- Male	5	71.43
		- Female	2	28.57
Total			**7**	**100**
2	Age			
		- 21 – 30	4	57.14
		- 31 – 40	2	42.86
		- 41 – 50	-	
Total			**7**	**100**

No	Item	Responses	Number of respondents	Percentage (%)
3	Qualification			
		- Diploma		
		- Degree	7	100
		- Others	-	-
Total			**7**	**100**
4	Work experience in NIB Bank			
		- Less than one year	1	14.29
		- 1 - 3 years	1	14.29
		- 3 – 5 years	4	57.13
		- More than 5 years	1	
Total			**7**	**100**
5	Current working position of respondents			
		- Credit Section Head	-	-
		- Credit Analyst	-	-
		- Loan Officers	7	100
		- Manager		-
Total			**7**	**100**

As can see from table (3.5.) 5 respondents are male and 2 are female. of the total respondents 57.14% are young between 21 – 30 years of age. All of the staff respondents (loan officers) are BA Degree holders this shows that they are well educated and professional. 71.42% them have B.A. Degree and More than 3 Years of credit related experience.

3.3. Credit Risk Management Practices Of Nib International Bank S.C.

3.3.1 Credit Policy and Procedure

The credit policy of the bank is a document that gives the necessary guidelines and principles to be applied when granting a loan.(i.e., what credit may be granted , the credit terms required, acceptable security and qualified principles and criteria) it is developed by senior levels of management and be approved by the top management. It should be constantly updated and streamlined (improve) with current issues on credit risk faced by the bank. All credit staffs must be well trained in the content and implication of the credit policy at all times.

Employees of the bank need to be knowledgeable and competent if they are not the banks will exposited to credit risk. Credit training programs are used to give staff the necessary skills and knowledge.

Table (3.6.) Knowledge of the staffs about policy and Procedures related to credit

No.	Item	Responses	Number of respondents	Percentage (%)
1	Does the bank have credit policy and procedure manual?			
		- Yes	7	100
		- No	-	-
Total			**7**	**100**
2	If your answer "Yes" for the above question, does you think the manual is up to date and help full to you in processing credit request?			
		- Yes	2	28.57
		- No	5	71.43
Total			**7**	**100**
3	Do you have enough knowledge about the policy and procedures of credit in NIB Bank?			
		- Yes	6	85.71
		- No	1	14.29
Total			**7**	**100**
4	If your response is “Yes” in the above question, How get this enough knowledge.			
		- By reading loan procedure manual	5	71.42
		- By taking training	1	14.29
		- By asking immediate supervisor	1	14.29
		- Others	-	-
Total			**7**	**100**

As shown in the above table (3.6.) 85.71% of the officers have enough knowledge of the policy and lending procedure of the bank this shows that they are capable to handle loan process. And 71.42% of respondents reported that they attain enough knowledge about lending procedure through reading the procedure manual of the bank and around. it implies that the credit policy of the bank is fairly up to date.

Table (3.7.):- The need for Credit policy review.

No.	Item	Responses	Number of Respondents	Percentage (%)
1	Do you think that the credit policy of Nib International bank S.C needs review?			
		- Yes	7	100
		- No	-	-
Total			**7**	**100**
2	If Your answer is "Yes" for the above question by what?			
		- Amount they asked	4	57.14
		- The Type of loan they selected	3	42.86
		- Other, if any	-	-
Total			**7**	**100**

As per the above table (3.7.) all of the respondents responded that the Credit policy needs to be revised by the amount they asker or by the type of loan they selected and it implies that the policy of the bank need to be revised with the changing condition to decrease the risk exposure.

According to the interview conducted the respondent tell that Nib international bank modify the policies regularly based on information gathered by formal and informal sources in order to assess the credit worthiness and the risk of the potential customer.

3.3.2. Training and Skill up grading

Table (3.8.) Training Background of respondents

No	Item	Responses	Number of Respondents	Percentage (%)

1	Have you attend any credit related skill up grading training recently?			
		- Yes	6	85.71
		- No	1	14.29
Total			**7**	**100**
2	Is the training is adequate for your current working condition?			
		- Yes	5	83.33
		- No	1	16.67
Total			**6**	**100**

As per the above table (3.8.) 85.71% of the respondents reported that they took training in credit related area. It implies that the training given to staffs was not satisfactory enough especially the frequency they get skill up grading training and it can affect the credit risk assessment capacity of the staffs.

3.3.3 Loan Approval And Disbursement

All extensions of credit must be made on an arm's-length basis. In particular, credits to related companies and individuals must be monitored with particular care and other appropriate steps taken to control or mitigate the risks of connected lending.

Table (3.9.):- Loan Approval and Disbursement.

No	Item	Responses	Number of Respondents	Percentage (%)
1	What do you think about the time taken for a loan applicant to get loan service in Nib International Bank S.C?			
		- Less than two weeks	1	14.29
		- More than 2 weeks but less than one month	5	71.42
		- More than one month	1	14.29
Total			**7**	**100**

As per the above table (3.9) 71.42% of respondents responded that the loan deliver takes more than two weeks but less than one month, but some say it depends on the type of the project it shows that the bank takes in to consideration of the customers time and measure it risk at the same time.

Table (3.10.):- The loan requested by borrowers and Approval

No.	Item	Responses	Number of Respondents	Percentage (%)
1	Do you know why all requested loan by the borrowers are not approved?			
		- Credit policy of the bank	2	28.57
		- Repayment capacity of the borrower	1	14.29
		- Lack of adequate collateral	4	57.14
		- Others	-	-
Total			**7**	**100**

As per the Above table (3.10.) about 57.14% of the respondent response that borrowers have not taken the requested loan from the bank, most of the time the bank didn't lend for new applicants due to lack of insufficient collateral offered by the borrowers compared to their request price of the collateral this shows that lack of proper collateral is a strong limiting factor. it shows that poor credit assessment in determining the viability of a business due to lack of information and this forced the bank to follow collateral based lending process.

3.3.4. Collateral Evaluation and Estimation

Collateral is used to secure the loan if the loan is secured by collateral and customer fails to repay the loan as promised, the bank has the right to the assets to secure the loan. To provide an alternative source of repayment the collateral must be marketable and the value of the collateral must exceed the balance of the loan at the time of default.

The collateral should serve only as an alternative source of repayment and in most cases should not be major consideration in granting credit. It serves to limit loss of the bank is finally forced to resolve the loan through repossession.

Table (3.11):- The collateral valuation and estimation of Nib International Bank S.C

No.	Item	Responses	Number of Respondents	Percentage (%)
1	Do you think that NIB's collateral valuation and estimation is appropriate?			
		- Yes	3	42.86
		- No	4	57.14
Total			**7**	**100.00**

As can see from the above table (3.11) about 57.14% of the respondents reported that the collateral valuation and estimation of the bank is not appropriate. but it is clear that collateral evaluation is one main variable that affects credit risk management, which might be an explanation that most of the respondent clients took loans less than two times.

3.3.5. Financial Analysis in NIB International Bank S.C.

The risk of poor financial structure of the business such as poor current ratio, acid-test ratio, debt to equity ratio, debt to asset ratio and etc

Table (3.12):- Financial analysis of the bank.

No.	Items	Responses	Number of Respondents	Percentage (%)
1	How often does the bank make financial analysis?			
		- Always	1	14.29
		- Sometimes	6	85.71
		- Not at all	-	-
Total			**7**	**100**

As per the above table (3.12) about 85.71% of the respondents reported that the bank make financial analysis sometimes. This also indicates lack of timely scheduled financial analysis makes the bank not in apposition to determine the financial soundness of the applicant and to assess the repayment capacity it shows that the exposure to financial risk.

3.4 Credit follow up in Nib International Bank S.C.

Once a loan is disbursed, it must be reviewed and managed actively to ensure that it is repaid. Credit approval committees are responsible for reviewing the status of the loans and advances extended through them, to ascertain timely collection and initiate all the necessary action to secure all due from borrowers, however, the prime responsibility of ensuring loan repayment fails on the lending branches. The Loan review and Risk Management Department is also responsible for the overall reviewing, monitoring and follow up of loan repayment. Credit review refers to the re-examination of a customer loan file at an established interval in order to discover the existence of any favorable or unfavorable changes in the creditworthiness of the customer (change in the risk level of the customer). A credit review is to be considered as an integral part of credit monitoring. It also refers to the investigation and review of loan approvals by various credit committees.

Table (3.13):- Proper collection and follow-up of loans.

No.	Item	Responses	Number of Respondents	Percentage (%)
1	Is there proper and timely collection and follow-up of loans?			
		- Yes	1	14.29
		- No	6	85.71
Total			**7**	**100**
2	If your answer is “No” for question no 15, why?			
		-Lack of experience professionally?	-	-
		- Lack of time	4	66.67
		- Lack of staff	2	33.33
Total			**6**	**100**

As can see from the above table (3.13) about 85.71% of the Officers respond that there is no proper collection and follow up of loan this shows that Officers don’t follow the loan appropriately. From 6 respondents that reported there is no proper collection and follow up of loan about 66.67% of respondents reported that this is due to lack of time and there is work overloaded and it is creating problems over their work quality. And it shows that the poor follow up increases the riskness of the credit granted.

As per the interview conducted the respondent says that once the loan is approved and disbursed it needs proper loan follow-up at head office level & at branch level. Therefore the loan officers must prepare schedule which contain the repayment date and telephone address of the debtors in order to make follow up easer.

3.5. Credit Risk Environment of NIB International Bank S.C.

Table (3.14):- Credit committee members and organs involved in day-to-day credit operation

No.	Items	Responses	Number of Respondents	Percentage (%)
1	Do all credit committee members and organs involved in day-to-day credit operations strictly?			
		- Absolutely	5	71.42
		- Partially	2	28.57
		- Not at all	-	-
		- In some instance	-	
		-Another Brief reasons ---------------------------------		
Total			**7**	**100**

As can see from the above table (3.14) about 71.42% of the respondents reported that absolutely the bank loan Officers or Branch Manager are not approve any amount of loan independently this shows that the Managers or Officers have not any right to approve the requested loan rather the Head office Management Committee. it shows that all committees or organs have their own responsibility to assess the risk.

3.6 Major Causes of Credit risk and reducing mechanism in NIB International Bank.

Table (3.15.) major causes of credit risk at Bank level

Elements	Very High	Percentage	High	Percentage	Moderate	Percentage	Low	Percentage	Very Low	Percentage
Lack of continuous follow up and proper risk assessment	5	71.42	2	28.58			-	-	-	-
Lack of consultation and communication with the defaulter	3	42.85	2	28.58	2					
Lack of information from other commercial banks	2	28.58	2	28.58	1	14.28	1	14.28	1	14.28
Mistake on estimation of collateral and evaluating the borrowers financial reports	6	85.72	1	14.28	-		-		-	
Problem associated with loan eligibility criteria	4	57.14	2	28.58	1	14.28				

The above table (3.15) summarizes the cause of risk at bank level the main cause with the highest percentage 85.72% which was mistakes on estimation of collateral evaluation and borrowers financial report. Even if NIB has its own engineering department for this purpose estimation of collateral shows the highest percentage. 71.42 % holds for lack of continuous follow-up. Problems associated with loan eligibility criteria set by NIB decision maker of the third causes, which is 57.14% the cause lack of consultation and communication with the defaulter takes 42.85% sometimes borrowers fail to pay back just because of lack of knowledge to solve the problems they faced. Lack of credit information from other commercial bank take the last percentage 28.58%. This is because of the new-implemented system of sharing credit information among banks by National Bank of Ethiopia.

From open question respondents most of the respondents respond the current centralized credit information system of National Bank of Ethiopia is better than the former decentralized system but its accuracy is very law and the information is not up to date.

According to the interview conducted respondents told me that regarding the consumers previous bank credit exposure the National Bank of Ethiopia credit information data center provides the required information and The Bank request National Bank of Ethiopia to provide credit information of the customers to get credit information about his potential borrowers, In addition to this the bank gates information about it's potential borrower through evaluation the organization financial statement and assessing the background of the customers. More over to internal factors there are external factors, which should be considered and evaluated to assess the credit riskness of potential borrowers, which include factors such as social, economic, political and technological factors

Table (3.16.) methodology to reduce Credit Risk

Elements	Very Efficient	Percentage	Efficient	Percentage	Less Efficient	Percentage
Proper analysis of borrower's request and documents	6	85.71	1	14.29	-	-
Properly collect the required information from other Banks	5	71.42	2	28.58	-	-
Give Sufficient Credit Awareness for borrower	5	71.42	1	14.28	1	14.28
Efficient and proper follow up and risk assessment	4	57.15	3	42.85		
Give relevant training for loan officers and related staffs	2	28.57	5	71.43		
Well attention and treatment for sick loans	3	42.86	3	42.86	1	14.28

As can see from the above table (3.16) responses, which is 85.71% of the total responses state. Proper analyzing of borrower's request and document is more efficient it implies that to reduce the risk up to the target level or more than proper analysis of borrowers request and documents include analyzing the borrowers intention to the fund on analyzing the purpose of the fund. Checking the validity of all submitted documents and checks the accuracy of submitted financial reports. and 14.29 % respond only efficient.;

As per the above table (3.16) 71.42% of the response states that properly collecting this information is more efficient and the rest say it is only Efficient the above but in recent the National Bank of Ethiopia is starting compiling all bank borrowers credit information from all banks and providing it whenever requested by banks;

NIB International Banks policy stated that give sufficient credit awareness for borrowers includes advising the borrowers how to invest the fund to purpose intended, how to handle the loan and its repayment and how he/she will compare the cost of the loan interest and benefit (the return from loan fund);

As per the above table 71.42% of the response state more sufficient credit awareness for borrowers more efficient and the remaining 14.28% and 14.28% say it is efficient and less efficient;

From the total responses 57.15% responses say proper follow up and risk assessment is more efficient mechanism to reduce the risk and remains say it is just only efficient unlike this 42.85%;

From the total respondents 28.57% of the response say giving relevant training for staffs that are engaged in loan related activity is more efficient the rest 71.42% state it is efficient only.

As per the above table (3.16) giving better attention for loans already get in NPL loan category and treat them well is said more efficient and only efficient by equal number of respondents that is 3 members of responses the remaining 14.28% state once the loan is spoiled trading it well or giving well attention for it is not efficient to reduce the balance of NPL to target level.

In general from the opinions gathered through the questionnaire, proper analyzing of the borrowers request and documents is pointed out as the most efficient to reduce the risk.

Giving relevant training for loan officers and relevant staffs take the last efficiency out of the methodologies summarizing in the above table.

As per the interview conducted the respondents say that Credit risk management needs excessive focus to minimize uncollectable loan & holding none performing loans because the bank with high level of NPLs would be forced to incur Caring cost on none-income yielding assets. In addition to this other consequences would be reduction in interest income, high level of provision, thereby reducing competitiveness.

3.7. Objectives of Credit Risk Management of the Bank

Regarding the interview conducted to different staff of credit risk management section of the bank & branch manager.

Credit risk management is mandatory to the bank future existence to ensure sustainability of the bank, which is largely depending on the quality of its assets. In general the objectives of credit risk management are assurance of healthy loan portfolio, which is important for the growth and expansion of the bank.

3.8. Major Problems And Challenges Of Credit Risk Management Of The Bank.

As per the interview conducted the major problem and challenges are;

a) Volatility in business environment
b) Lack of credit information about the customer and the business environment.
c) Lack of collateral to backup the loan to be approved.

3.9. Credit Risk Preventive Techniques

According to the interview conducted with the credit follow-up manager of Bank. Credit risk problems face due to the fact that some of loans Advance granted to various customer turned to be bad loans. The preventive techniques to overcome a loan and advance to be bad loans.

3.9.1 Pre disbursement preventive techniques

3.9.2.Post disbursement preventive techniques

3.9.1 Pre disbursement preventive techniques: Through credit analysis and assessment of borrowers before approval and disbursement of loans. It includes proper analysis, proper documentation, proper design and implementation of loan and appropriate loan disbursement procedure.

A. Credit Analysis in Nib International Bank: - Credit Procedure manual of NIB describes Credit analysis as a critical assessment/evaluation of the borrower's business strength and the security (collateral) presented by the applicant. Credit requests shall be analyzed and appraised by the lending officer in line with the Bank's Credit Procedure and Guideline Manual before any recommendation is forwarded for decision.

The purpose of credit analysis is to assess the likelihood that the customer will repay the loan in accordance with stipulated terms. Each of these describes an area of person's credit worthiness. According to the bank manuals the 5c's techniques is used for analysis.

B. loan eligibility criteria:- generally in order to qualify for a bank loan, project should be capable of earning a profit, which is high enough to provide the entrepreneur with adequate returns while meeting its obligation with in the reasonable time period. In the case of investment projects, financial & economic rates of returns could be set and tested against national parameter for their acceptability. In the absence of such parameter, however rule of thumb could be used.

C. Credit disbursement procedures in NIB:-

1. All properties pledged to be covered by insurances against relevant risk. Police should be endorsed in the name of the bank. No approved loan should be disbursed before obtaining the endorsed insurance policy.
2. Conditions stated by the appropriate loan committee on the life be strictly compiled with.

3. For controlling end user, proceeds of the loan should be paid as far as possible directly to the seller of supplier on the written consent of the borrower. If the loan is for working capital, proceed should be credited to the account of the borrower. In the case of loan and advance should be made progressively.
4. Secure authorization to debit customer's account for periodic loan repayment.

3.9.2 Post disbursement preventive techniques: continues follow-up of loan and advances after approval and disbursement of loan and advance.

After the loan is granted it must be managed properly to ensure repayment of the loan or full settlement.

3.10 Identification of Warning signals

As per the interview conducted the credit risk management considers the following early warning signs of debt deterioration

The following table shows the early signals and the student researcher gets from interview conducted and presents in terms of table;

Financial

Balance Sheet	Income Statement
Failure to get financial statements in a timely fashion	Declining Sales
Slowdown in receivables collection period	Rapidly expanding Sales
Deterioration in customers cash position	Major gap between gross and net profit
Sharp increase in the amount or percentage of accounts receivable	Rising cost percentage / narrowing margins
Sharp increase in the amount or percentage of inventory	Rising sales and falling profits
Slowdown of inventory turnover	Rising level of Bad Debts losses
Decline in current assets as percentage of total assets	Disproportionate increase in overheads relative to sales
Deterioration in the liquidity / working capital position	Rising levels of total assets relative to sales / profits
Market changes in mix of trading assets	Operating Losses
Rapidly changing concentrations in fixed assets	
Large increase in reserves	Receivables Aging
Concentrations in non current assets, other than fixed assets	Extended average age of receivables
High concentration of assets in intangibles	Change in Credit Policies
Disproportionate increases in current debt	Extended terms
Substantial increase in long term debt	
Low equity, relative to debt	Concentrations of sales
Significant changes in balance sheet structure	Concentrations of seriously past due accounts
Qualified Audit	Receivables from affiliated companies
Change of accountants.	

MANAGEMENT	OPERATION
Changes in behavior / personal habits of key people	Changes in the nature of the company's business
Marital problems	Poor financial records and operating controls
Changes in attitudes towards bank or banker, especially a seeming lack of co-operation	Inefficient lay out of plant and equipment
Failure to perform personal obligations	Poor use of people
Changes in management, ownership or key personnel	Loss of key product lines, franchises or sources of supply
Illness or death of key personnel	Loss of one or more financially sound customers
Inability to meet commitments on schedule	Substantial jumps in size of single orders or contracts that would strain existing productive capacity.
Recurrence of problems presumed to have been solved	Poor maintenance of plant and equipment
Inability to plan	Deferred replacement of plant and equipment
Poor financial reporting and controls	
Fragmented functions	
Venturing into acquisitions, new business, new geographic area or new product line	
Takes business gambles and undue risk	
Unrealistic pricing of goods / services	
Neglect / discontinuance of profitable lines	
Delay to reacting to declining market / economic conditions	
Lack of visible management succession	
Change in business, economy or industry.	

BANKING

Declining Bank balances
Excessive extensions or deferral of payments
Poor financial for fixed asset requirements or working capital requirement
Heavy reliance on short term debt
Marked changes in the timing of seasonal loan requests
Loans where more than a single source of repayment cannot be easily or realistically identified
Sharp jump in the size / frequency of loan requests
Loans where the purpose is 'working capital'
Calls from existing suppliers requesting credit reports on client
Calls from new suppliers requesting credit reports on client to enable new credit lines to be opened
Evidence of cheques written against uncollected funds
The appearance of other lenders in the financial picture, especially collateral lenders

Early detection of warning signals is very important to make corrective action and to minimize the potential losses.

3.11 Background characteristics of respondents (Borrowers)

Accordingly, a total of 50 questionnaires were administered to the bank's borrowers selected from two branches of Nib International Bank S.C, i.e Main and Tana Branches. However; 2 questionnaires were not returned. Hence; in this section the responses of 48 borrowers which is (96%) are presented.

Table (3.17) : Background characteristics of respondents (Borrowers) .

No.	Item	Responses	Number of respondents	Percentage (%)
1.	Sex			
		- Male	38	79.17
		- Female	10	20.83
Total			**48**	**100**
2	Age			
		- 20 – 30	6	12.5
		- 31 – 40	8	16.67
		- 41 – 50	30	62.5
		- Above 50	4	8.33
Total			48	100

From the above table (3.17) about 38 (79.17%) out of 48 respondents are male and 62.5% of the respondents are between 40 and 50 years of age .

3.12: Customers Credit Relation with NIB International Bank

3.12.1 Credit Exposure of Customers.

Table (3.18):- customers trade type, duration of their relation, loan services and frequency of the loan.

No.	Items	Responses	Number of respondents	Percentage (%)
1	Type of trade Engaged			
		- Domestic	35	72.92
		- Foreign trade	7	14.58
		- Both	6	12.5
Total			**48**	**100**

No.	Items	Responses	Number of respondents	Percentage (%)
2	Duration of relationship with NIB Bank			
		- 1 – 3 Years	38	79.17
		- 3 – 5 Years	7	14.58
		- More than 5 years	3	6.25
Total			**48**	**100**
3	Types of Loan service borrowers entertain			
		- Term loan	33	68.75
		- Building and construction loan	5	10.42
		- Consumer loan	-	-
		- Truck loan	10	20.83
		- Others	-	-
Total			**48**	**100**
4	Frequency of loan granted			
		- One time	11	22.91
		- Two time	26	54.17
		- Three time	5	10.42
		- More than three time	6	12.5
Total			**48**	**100**
5	Amount Granted from requested			
		- All	17	35.42
		- Half	20	41.67
		- One third	11	22.91
Total			48	100

From the above table (3.18) we can see that 72.92% borrowers are engaged in domestic trade. This implies that most of the granted loan operates within in the country.

The majority of the respondents (79.17%) have established their relationship with NIB International Bank S.C recently (less than three years), the service may be highly dedicated for those with high capital investment. About 68.75% of the respondents are enjoyed with term loan from this we can say that the bank doesn't facilitate other types of loan other than term loan for the borrowers what they want.

About 41.67% of the respondents reported that from the requested amount of loan most of the time half of the loan has been approved from this we conclude that this might be a reason for most customers taking loan not more than two times. When the bank concentrates only on risk management the customers will be affected when the bank did not lend the credit they requested.

3.12.2. Customers awareness about credit policy and Procedure of NIB International Bank S.C.

Table (3.19):- Customers awareness level about Nib bank's lending procedure.

No.	Item	Responses	Number of respondents	Percentage (%)
1	The awareness level of borrowers about NIB bank's lending procedure			
		- High	6	12.50
		- Medium	15	31.25
		- Low	27	56.25
Total			**48**	**100**
2	If your response is "high" in the above question, how did you learn about the bank's lending procedure?			
		- From the bank's staff	2	33.33
		- By reading the bank's manuals	-	
		- From friends & relatives	4	60
Total			**6**	**100**

No.	Item	Responses	Number of respondents	Percentage (%)
3	Have you ever sought the help of the bank's loan officers?			
		- Yes	15	31.25
		- No	33	68.75
Total			**48**	**100**
4	If your response is "No" in the above question, why was that?			
		- It was not relevant	8	24.24
		- Unwillingness of the bank's officers	5	15.15
		- I don't think to ask	20	60.01
Total			**33**	**100**

As per the above table (3.19) about 56.25% of the respondents respond that they lack awareness about the banks lending procedure. This is an indicator that most of the borrowers didn't have enough knowledge about the bank's policy as well as its lending procedures in detail. From this it can be taken as a lesson that the bank has to formulate a mechanism, so that as many clients as possible should be well aware of its lending procedure.

Most borrowers (about 68.75%) didn't seek the help of Loan Officers before they fill the loan application form, this could be an explanation for the borrowers not getting the amount of loan they requested, for the fact that the customers potential to return loan, proper utilization of the loan and other variables may not well assessed.

Twenty (20) (60.01 %) out of 33 respondents who didn't seek help from Loan Officers didn't think of asking help while they are requesting a loan. This shows that most borrowers aren't supported by Loan Officers to know the bank's loan policy as well as lending procedures. In addition customers lack proper knowledge that the Loan Officers are very crucial in due the course of the loan.

3.12.3 Customers opinion about banks credit service, their ability to repay and follow up

Table (3.20):- Customers opinion on NIB bank's loan providing service.

No	Items	Responses	Number of Respondents	Percentages (%)
1.	Criteria to describe the bank's loan providing service to the standard			
		- When there is a continuous assessment by the bank itself	7	14.58
		- When the bank follows the granted loan used for the intended purpose	22	45.84
		- When the bank gets assurance from its borrowers	12	25.00
		- All could be possible	7	14.58
Total			**48**	**100**
2	Have you been satisfied with the bank's loan providing service?			
		- Highly	18	37.5
		- Moderate	25	52.08
		- Not satisfied	5	10.42
Total			**48**	**100**
3	If your response for the above question is "Not satisfied" what do you think the reason be?			
		- Discrimination from customer to customer	3	60
		- Weakness and negligence of the bank officer	2	40
		- Strictness of the bank's credit policy	-	-
Total			**5**	**100**

No	Items	Responses	Number of Respondents	Percentages (%)
4	Have you ever tried to report your complain to the concerned Official (To Branch Manager)			
		- Yes	18	37.5
		- No	30	62.5
Total			**48**	**100**
5	Have you got any problem for the question that you asked for loan staffs?			
		- Yes	15	31.25
		- No	33	68.75
Total			**48**	**100**

In this regard nearly 45.84% of the borrowers responded that, regarding to the bank's loan providing service as to the standard, the banks lending service meets to the standard, when the bank follows the granted loan is used for the intended purpose. From this we conclude that proper follow-up of loans that are used for the intended purpose should be included as a criterion to make the loan services standardized.

Even though 89.58% of clients were satisfied by the banks loan providing service, this is not an indicator of the banks best loan lending performance since most of them were not taking more than two times since its establishment Hence, the bank has to work more to increase the lending frequency depending on the clients' requirement.

Table (3.21):- Time Term Loan disbursement and ability to repay the lending loan.

No	Items	Responses	Number of respondents	Percentage (%)
1	How do you describe the time taken to secure loan granting from date of application to date disbursement?			
		- Very long time (more than 2 months)	26	54.17
		- Medium (One Month)	9	18.75
		- Short (15 days)	13	27.08
Total			**48**	**100**
2	Have you ever got difficulty in repayment of your debt?			
		- Yes	22	45.83
		- No	26	54.17
Total			**48**	**100**
3	If your answer is "Yes" in the above question, what could be the possible reason?			
		- Increase of interest rate	7	31.82
		- High amount of grantee loan (beyond my own repayment capacity)	-	
		- Unexpected market fluctuation	15	68.18
Total			**22**	**100**

As per the above table (3.21) about 54.17% of respondents reported that there is a very long time gap from loan application to loan disbursement, this implies that the bank's lending procedure cycle needs to be revised timely as well as Loan Officers should facilitate the loan as fast as possible so that customers can take more loans for more business activities.

The majority of the respondents (54.17%) have not faced any difficulty in repaying of their debts. Still significant percentage of clients (45.83%) had difficulties in repaying back their loan. From this one can say that proper follow-up of customers regarding the problems and difficulties they faced and helping them should be an essential component in the loan providing service. This will allow strengthening partnership.

CHAPTER FOUR

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Banks make money by providing service that their customer wants and granting they credit facility. In doing so there are some risks with this services provided and the most critical risk is credit risk.

The research paper is intended to identify the real caused of deteriorated loans on the overall loan management of NIB international Bank the administration of loan from request to collection, in selected branches Main and Tana branch.

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As a basic research questions, Credit risk environment of the bank, steps in credit granting, Credit monitoring and internal control issues were examined.

In the First Chapter brief explanation of the study, problems and approaches of the study are dealt with. Related literatures extracted from different sources were included in the second chapter. The research was analyzed and incorporated in the third chapter and last chapter bring and end to the study by highlighting major findings and recommendation.

The study researcher believes the study highlights sensitive issues and recommendation useful for management of finance in line of credit hereby minimize risk in course of handling loan and advances.

4.1 SUMMERY OF FINDINGS

With the help of the analysis the researcher has observed the following findings. The findings are summarizes as follows.

- The total asset of NIB grew by more one point eight percent from 2008.

- Total loan and advances is the highest us compared to the other assets.

- Total deposit mobilized increased from year to year.
- The income generated by loan and advance increasing over the last three years.
- The volume of provisions for doubtful loan grew to Sixty five percent at 2009 from forty five percent as at end of Year 2008 as per the balance sheet.
- Educational and work experience composition of staffs who are working in the credit area is recommendable. Despite lack of sufficient training program.
- It is observed that the credit police of the bank need review and not up-to-date.
- Poor credit assessment in determining the viability of a business due to lack of information and this forced the bank to follow collateral based lending process.
- It is observed that most credit facility is concentrated on specific sector.
- It is observed that there is lack of scheduled financial analysis in the bank.
- Collection and dissemination of credit information on borrowers among banks is inefficient. Moreover, the central credit information data base system at NBE is not up to date and it usually disseminates incorrect information to the requesting banks.
- It us observed that the bank follows sartorial portfolio allocation in managing credit risk.
- There is lack of proper credit monitoring and follow up policy and procedures.
- The credit risk department of the bank is not an independent unit, so that lack of concentration on flow up of credit risk and reporting independently to the board of directors of the bank.

- Most of the customers are male and at the middle.

- Most of the customers work on Domestic business and relation with the bank less than three years

- Most of the customers enjoy term loan and the frequency granted was less than three times

- Customers of NIB International Bank have low awareness about the credit policy of the bank.

- Most of the customers argued that the time taken to disburse the loan they requested must be minimized.

4.2. CONCLUSIONS

It is obvious that credit risk is inherent in banking, but the risks they take are reasonable, identified, controlled within their financial resource and credit competence. Even in the best run banking system the optimal rate of bank failure is not zero. How ever by taking well-prepared risk reduction mechanize the bank should minimizes the chance of disruption.

Nib international bank has both strong and week sides.

- Have hierarchy of credit assessment unit both at branch level and head office level.

- Detail credit analysis with respect to financial position of customer, credit repayment history and track record are assessed. This information help to forecast the future enable the bank to identify the capacity of borrowers and to process loan in the safety condition. More over there is no independent credit risk management unit.

- It has also weak side there is huge concentration on one or two sectors. That antagonizes decreasing risk by diversification and there is no timely training of staffs and timely financial analysis of customer's financial report after disbursement.

- The bank Credit policy is not based on the current situation of the banking industry, at least partly, and this leads to every decision to be made by higher management body.

- The lending policy of the bank is more or less stagnant, i.e the lending policy is a tight one, which lacks alternative options to perform major duties related to credit approval.

- Due to this and other, clients are not getting their requirements to undertake their tasks and to become loyal to the bank.

- The loan facility is only granted for merchants who are owners of fixed asset collateral (registered assets) instead of having visible business idea and professionals.

4.3. RECOMMENDATION.

Based on the results found out in the previous chapter, summery findings, and the conclusion made, the following recommendations are suggested to improve credit risk management of Nib International Bank;

- It is strongly advisable that the bank should have an independent credit risk management unit that will concentrate on through follow-up of credit risk and report independently to the board of directors of the bank.

- Credit analysis & appraisal helps to know the credit worthiness of the borrowers and hence it is advisable if properly implement and integrate the credit analysis & appraisal in to its credit risk management system.

- NIB should diversify their credit portfolios by avoiding huge credit concentration on one or two sector.

- The bank should up date its credit policy and manuals and credit risk system over time.

- Proper and continues training to the staff and straightening the follow up division to follow the proper usage of the credit facility for the intended purpose.

- The bank should implement cost effective credit risk evaluation system, in order to minimize the risk management cost.

- As credit information is crucial element of credit risk management system, therefore bank make maximum caution in dissemination of credit information on defaulters.

- To reduce the time taken in processing of loan, reengineering of all the necessary steps to make them efficient and active in a way that long bureaucracies will be shortened together with applying the necessary technology.

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APPENDICES

APPENDECES

Appendix A.	Questioner of staff respondents
Appendix B.	Interview of staff respondents
Appendix C.	በተበዳሪዎች የሚሞላ መጠይቅ

St Mary's University College

Department of Management

The purpose of this questionnaire is to conduct a study "Credit Risk Management practice in Nib International Bank S.C. "in partial fulfillment of to the requirement of BA degree in Management. The study tries to evaluate The credit risk management practice of Nib International Bank S.C. and making suggestions to over come the problems of credit risk.

It is known that business is full of risk and risk taking is a critical issue in banking business. Banks are successful when the risks they take are reasonable, identified, controlled within their financial resource and credit competence. In developing markets Bank faces stiff challenges in managing credit risks. Therefore to over come this problem of credit risk in Nib International bank should be identified analyzed and possible solution be suggested for solving the important problem.

Thus your response is highly valued for assessment of these factors and in providing solution based on the findings.

In filling the questionnaire:

1. You need not to write your name.
2. For close-ended questions, mark (X) in the box provided corresponding your answer.
3. For those statement factors with which you agree/disagree, mark (X) under the corresponding level of agreement /Disagreement for each factors listed.
4. For open ended questions, write the answers on the space provided or you may additional paper if the space provided is not adequate

Finally, I would like to thank you in advance for your valuable cooperation for successful completion of the study.

I. Background information:

1. sex: Male ☐ Female ☐
2. Age: 20 and below ☐ 21-30 ☐ 31-40 ☐ 41-50 ☐
   51 and above ☐
3. Qualification: Diploma ☐ BA (BSC) Degree ☐
   MA(MSC) Degree ☐ PHD ☐ Other ☐

4. Your position in the bank. ____________________

5. Current department/Division/ Branch___________________

6. Work experience in the bank (in Year):

Less than one Year ☐ 1 - 3 Year ☐ 3 - 5 Year ☐ More than 5 Year ☐

II Questions Related to Credit Risk Management

7. Does the bank has credit policy and procedure manual?

Yes ☐ No ☐

8. If your answer "Yes" for Q No 7, do you think the manual is up to date and help full to you in processing credit request?

Yes ☐ No ☐

9. If your answer is "No" for Q No 7, what do you think the main problems related to it.

____

____

______

10. Is the bank's credit operation manual properly implemented if "No" state the reason behind

____

____

____

11. Have you ever noticed major issues that are not properly addressed in the Banks credit operation manual please state?

____

____

____

12. Do you have enough knowledge about the Policy and Procedures of Credit in Nib International Bank S.C?

Yes ☐ No ☐

13. If your answer is 'Yes' for Q. No. 12, what is your basic reason for having enough knowledge?

a) By reading Loan Procedure Manual ☐

b) By Taking Training ☐

c) By Asking Immediate Supervisors ☐

d) Others ☐ --

14. Have you attended any credit related skill up grading training recently?

Yes ☐ No ☐

15. It your answer "Yes" for Q No 14. How often you attended the training program in the last three years? Do you think the program helped you to upgrade your credit risk management skill?

Yes ☐ No ☐

16. How long it will take on average to process any credit request (loan delivery time) after full documentation?

A. Less than two weeks ☐

B. More than 2 weeks but less than one month ☐

C. More than one month. ☐

17. What do you think about the reason that all loans requested by borrowers are not approved?

Credit Policy of the Bank ☐

Repayment capacity of the Borrower ☐

Lack of Adequate Collateral ☐

Others ☐ ---

18. Do you think the credit policy of Nib International Bank S.C needs review?

Yes ☐ No ☐

19. If your answer is 'Yes' for Q. No. 18 by what?

Amount they asked ☐

The type of loan they selected ☐

Others, if any, please specify

____

20. Do you think that Nib International Bank's S.C collateral valuation and estimation is appropriate?

Yes ☐ No ☐

21. Is there proper collection and follow up of loans?

Yes ☐ No ☐

22. If your answer is 'No' for Q. No. 21 why?

Lack of experienced professional ☐

Lack of time ☐

Lack of Loan Staffs ☐

23. Does the bank make financial analysis properly?

Done always ☐

Done sometimes ☐

Not done ☐

24. Do all credit committee members and organs involved in day to day credit operations strictly adhere to the procedures stipulated in the bank's manual and to all provisions and regulatory requirement of credit and risk management issues by National Bank of Ethiopia?

Absolutely ☐

Partially. ☐

Not at al ☐

In some instance ☐

Another Explanation if any --

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25. Is there any policy requirement to monitor and follow up the progress and status of approved loans?

Yes ☐ NO ☐

26. Do you think that the bank follows adequate mechanism to reduce credit risk?

Yes ☐ NO ☐

27. If your answer is "No" to Q No. 26 What do you think the main problems related to it.

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28. Explain what type of credit risk redaction mechanism implement in the bank to reduce the credit risk exposure of the bank?

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29. Do you think National Bank of Ethiopia's current practice of centralized credit information system has helped the bank in obtaining accurate and up to date credit information system regarding to credit risk management system of the bank?

Yes ☐ No ☐

30. If "No" for Q No 29 what are the main problem?

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31. Indicate the major causes of Risk at Bank Level

You can indicate the significance of the causes by ranking from Very High to Very Low

Elements	Very High	High	Moderate	Low	Very Low
Lack of continuous follow up and proper risk assessment					
Lack of consultation and communication with the defaulter					
Lack of information from other commercial banks					
Mistake on estimation of collateral and evaluating the borrowers financial reports					

32. What do you think about the efficiency of the following methodology to reduce Credit Risk?

Elements	Very Efficent	Efficent	Less Efficient
Proper analysis of borrower’s request and documents			
Properly collect the required information from other Banks			
Give Sufficient Credit Awareness for borrower			
Efficient and proper follow up and risk assessment			
Give relevant training for loan officers and related staffs			
Well attention and treatment for sick loans			

33. Finally, please state and describe any comments and suggestion that would help the bank to improve its credit risk management system?

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Thank you very much

INTERVIEW QUESTIONS

1. What are the requirements of the bank for lending money for customers?
2. What are the core elements of credit policy of the bank
3. How often do you modify the credit risk management system being in practice by Nib International bank?
4. What information does the bank uses in assessing the credit risk of the potential debtor?
5. How do you assess the credit riskiness of potential borrower?
6. What are the preventive techniques used to reduce credit risk?
7. Do you use the practice of sartorial portfolio allocation in managing credit risk?
8. What are the major problems and challenges of credit risk management Practice of the bank?
9. What are your suggestions to improve the credit risk management practice of the bank?

pÉeƒ T`ÁU ¿’›y`e+ ¢K?Ï

u:´’e óŸ‹K:+

T’¡Ï S”ƒ Ç:I û`ƒS”ƒ

uv”¡ Å”u™‹ ¾T›VL SÖÃp

¾²=I SÖÃp ª“ ›LT Å”u™‹ v”Ÿ‹ eKT›cÖ¨‹ ›ÖnLÃ ¾wÉ` ›ÑMÓKAƒ ÁL†¨‹” ›e}Á¾ƒ' Hdw“ ØqT Scwcw'Ÿv”Ÿ‹ ¾wÉ` ›c×Ø ThhÁ“ Hdx‹” ŸSÖqU ባሻገር የትምህርት ክፍሉ በክፍሉ ያለውን የሰው ኃይል ስልጠና –aÓ^U ¾T›ÁÓ´ S[Í ’¨‹::

መጠይቁን በመሙላት ለሚያደርጉልኝ ትብብር እና እርዳታ በቅድሚያ እያመሰገንኩኝ መጠይቁን uØV“ uT”uw ƒ¡¡K– የሆነ ሃሳብዎን እንዲሰጡኝ ስጠይቅ የሚሰጧቸውን መልሶች KØ“~ ¾¨‹Ö?ƒ SW[ƒ SJ“†¨‹” uSÓKê ’¨‹::

G/ ¾›e}Á¾ƒ cÜ ¨‹” eU Séõ ›ÁeðMÓU

ለ/ ለእያንዳንዱ ጥያቄ ከተሰጡት አማራጭ መልሶች መርጠው በመክበብ መልስ ይስጡ

ሐ/አማራጭ ካልተሰጠዎት እንደ ይያቄው ሁኔታ አጭርና ግልጽ የሆነ መልስዎን በባዶ ቦታ LÃ Áeõ\ በተጨማሪም እርስዎን የሚመለከት ጥያቄ ብቻ ይመልሱ::

1. *ፆታ*

G/ c?ƒ K/¨”É

2. °ÉT¡

G/ Ÿ20 - 30 K/ Ÿ31 - 40

N/ Ÿ41 - 50 S/ Ÿ51 uLÃ

3. ¾}cT\uƒ ¾”ÓÉ Y^ ²`õ;

G/ ¾›Ñ` ¨‹eØ ”ÓÉ Y^

K/ ¾¨‹ß ”ÓÉ Y^

N/G‹K~”U

4. **ከንብ ኢንተርናሽናል ባንክ ኢ.ማ. ለምን ያህል ጊዜ የብድር አገልግሎት ተጠቃሚ ነዎት?**

G/ 1 - 3 ¯Sƒ

K/ 4 - 5 ¯Sƒ

N/ Ÿ5 ¯Sƒ uLÃ

5. uv”Ÿ‹ ¾T›ÖkS‹` wÉ` U”¯Ã’ƒ wÉ` ’¨‹;

G/ u}¨c’ Ñ›²? ¾T›ŸðM wÉ`

K/ K”ÓÉ ¾T›¨‹M u?ƒ/Q”í Se]Á wÉ`

ሐ/ለቤት ዕቃና ለእያንዳንዱ ፍጆታዎች የሚውል ብድር

S/K”ÓÉ SŸ:“ SÓ¹ ¾T›¨‹M wÉ`

6. uv”Ÿ‹ KU” ÁIM Ñ¦²? ¾wÉ` ›ÑMÓKAƒ ¨eÅªM;

G/ ›”É Ñ›²?

K/ G‹Kƒ Ñ›²?

N/feƒ Ñ›²?

S/ Ÿfeƒ Ñ›²? uLÃ

7. ከጠየቁት ብድር ውስጥ ምን ያህል ተፈቅዶልዎታል;

G/G‹K‹U

K/ŸòK‹/ÓTg‹

N/›”É fe}—¨‹

8. በተራ ቁጥር 7 **ላይ መልስዎ** "K" ¨ÃU "N" **ከሆነ የጠየቁት ብድር በሙሉ ያልተፈቀደልዎ ለምን ይመስልዎታል**;

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9. ስለባንኩ ብድር አሰጣጥ ስርዓት ምን ያህል ግንዛቤ አለዎት?

G/ um °¨‹kƒ ›K˜

K/ uSÖ’‹ ›¨‹nKG‹

ሐ/ በቂ እውቀት የለኝም

10. በተራ ቁጥር 9 ጥያቄ ላይ መልስዎ "G" **ከሆነ እንዴት ሊያውቁ ቻሉ?**

ሀ/ በባንኩ ሠራተኞች እገዛ

K/¾v”Ÿ‹” ¾wÉ` þK=c= uS[Çƒ

N/ ŸK?L ¨Ñ” uSÖ¾p

11. eK v”Ÿ‹ ¾wÉ` ›ÑMÓKAƒ ¾v”Ÿ‹” W^ }™‹ ›T¡[¨‹ Á¨‹nK‹;

ሀ/ አዎ

K/ ›L¨‹pU

12. በተራ ቁጥር 11 ጥያቄ ላይ መልስዎ "K" ŸJ’ KU”;

G/ ›eðLÑ› J• eLLÑ–G‹ƒ

K/ eKTÃ’Ó\”

N/›eu?¨‹ ›L¨‹pU

መ/ ሌላ መልስ ካለዎት ይግለፁልን ____________________

13. v”Ÿ‹ ›G‹” ÁK¨‹” ¾wÉ` ›ÑMÓKAƒ KThhM ¨Ã”U KTeóóƒ U” TÉ[Ó ›Kuƒ wK¨‹ ÁevK‹

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14. እርስዎ ጥራት ያለው የብድር አገልግሎት ብለው ¾T›Ö\ƒ uU” Seð`ƒ ’¨<;

G/ v”Ÿ< ¾T›cÖ¨< ¾wÉ` ›ÑMÓKA ƒ u¾Ñ›²?¨< ¾T›ÑSÓU c=J”

K/ v”Ÿ< ¾cÖ¨<” wÉ` Å”u**ኞቹ በትክክል ለተሰጠው ስራ መዋሉን መከታተል ሲችል**

ሐ/ ከደንበኞች አበረታች መልሶችን ሲያገኝ

S/ G<K<U

15. Ÿv”Ÿ< ¾wÉ` ›ÑMÓKAƒ KTÓ–**ት በሚመጡበት ጊዜ ባንኩ እየሰጠ ባለው አገልግሎት**

[¡}ªM;

G/ u×U [¡‰KG< K/ uSÖ’< [¡‰KG< N/›M["G<U

16. በተራ ቁጥር 15 በተሰጠው ጥያቄ መልስዎ "N" **ከሆነ ድክመቱ ምን ይመስለዎታል?**

G/ **በሰራተኞች በኩል እንደሌሎች ደንበኞች በእኩል አይን አለመታየት**

K/ uc^}™‹ ÓÉ¾Ki’ƒ“ É¡Sƒ

N/ uv”Ÿ< ¾wÉ` ¾þK=c= É¡Sƒ

S/ K?L "K ÃØkc<

17. ለጠየቁት ጥያቄ መልስ መፍትሄ እና ማሻሻያ እርምጃ አግኝተው ያውቃሉ?

ሀ/ አዎ K/ ›L¨<pU

N/ K?L "K ÃØkc< __________

18. ¾T›ðMÑ<ƒ” Ñ<ÇÃ Kv”Ÿ< c^}™‹ ÖÃk¨< Tw^]Á KTÓ–ƒ }†Ó[¨< Á¨<nK<;

ሀ/ አዎ K/›L¨<pU

19. በተራ ቁጥር 20 መልስዎ "G" ŸJ’ ‹Ó\ **ምን ይመስለዎትል?**

G/ c^}™‹ KÅ”u™‰†¨< vL†¨< ´p}– ÓUƒ

K/ c^}™‹ um ULi ¾SeÖƒ °¨<kƒ eKK?L†¨<

N/ uc^}™‹ ¾T›SKe ØÁo vKSJ’<

S/ K?L "K ÃØkc< ______________

20. v”Ÿ<” wÉ` ŸÖ¾luƒ Ñ›²? ›”e„ wÉ\ **እስከሚፈቀድበት ድረስ ያለውን ጊዜ እንዴት ያዩታል?**

G/ [ÏU ’¨<

K/ S"ŸK– ’¨<

N/ ›ß` ’¨<

21. ¾}uÅ\ƒ” wÉ` u¨p~ S¡ðM dÃ‹K< Á¨<nK<

ሀ/ አዎ K/ ›L¨<pU

22. ለጥያቄ 23 መልስዎ "G" **ከሆነ የወሰዱትን ብድር ለምን በጊዜው መክፈል አልዎሉም?**

G/ ¨KÉ uSÚ S\

K/ ÁK ›pT¦ uSuÅ_

N/¾ÑuÁ ‹Ó` uS•\

23. uS Ú [hU v”Ÿ‹ uT›cÖ¨‹ ›ÖnLÃ ¾wÉ` **አገልግሎት ዙሪያ ያለዎትን አጠቃላይ ሃሳብ፣ ቅሬታ፣ አስተያየትና ድክመት እንዲሁም ሌሎች አሉ የሚሉት ዝርዝር ሃሳብ** u› ß \ u፡ÑMì‹M”

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› S cÓ“KG‹::

DECLARATION

I, the undersigned, declare that this senior essay is my original work, prepared under the guidance of Ato Ephrem Admasu. All sources of materials used for the manuscript have been duly acknowledged

Name: ___________________________

Signature: ________________________

Place of Submission: ________________

Date of Submission: _________________

SUBMISSION APPROVAL SHEET

This senior research paper has been submitted to the department of management in partial fulfillment for requirements of BA degree in management with my approval as an advisor

Name ___________________________

Signature_________________________

Date of Submission _________________