# ST. MARY UNIVERSTY

# SCHOOL OF GRADUATE STUDIES

ASSESSMENT OF CREDIT RISK MANAGEMENT PRACTICE

IN COMMERCIAL BANK OF ETHIOPIA

BY

TIRU DAGNE

JUNE, 2017

ADDIS ABABA, ETHIOPIA

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A THESIS SUBMITTED TO ST.MARY'S UNIVERSITY, SCHOOL OF GRADUATE STUDIES IN PARTIAL FULFILLMNT OF THE REQUIREMENT FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION (PROJECT MANAGEMENT CONCENTRATION)

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APPROVED BY BOARD OF EXAMINERS

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# Endorsement

This thesis has been submitted to St. Mary's University, School of Graduated Studies for examination with my approval as university advisor.

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Advisor Signature

St. Mary's University, Addis Ababa June, 2017

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My warm and deepest gratitude also goes to my family for their unreserved pray to the almighty GOD for my success.

## List of Abbreviations & Acronyms

CBE: Commercial Bank of Ethiopia

NBE: National Bank of Ethiopia

N: Number of Respondents

## Declaration

I, undersigned, declare that this thesis is my original work, prepared under the guidance of Teklegiorgis Assefa (Asst. Prof.). All resources of materials used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree.

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Name Signature

St. Mary's University, Addis Ababa June, 2017

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## *Abstract*

*The paper is about "Assessment of credit risk management practice of Commercial Bank of Ethiopia". The number of respondents was fifty five. While collecting the requisite data five points Likert Scale, open ended and closed ended questioner and interview has been used. The objective of the study was to critically asses the strategic attention and consideration given for credit risk management practice in CBE, review the credit risk management process and techniques of CBE and explore the considerations given to human resource skill Variety in order to successfully manage credit risk. Simple descriptive statics was applied to analyze respondent's information. From the analysis it was found that board of directors and management of Commercial Bank of Ethiopia exercise their power properly to oversight credit risk management, update with the current credit risk management trend, applied combination of different risk management techniques and has competent employees. In addition the result shows Commercial Bank Ethiopia identifies assesse and analyzes monitor and evaluate credit risk throughout the processes. As a conclusion the researcher recommends that Commercial Bank of Ethiopia should assess credit risk as appropriate, monitor and evaluate its credit risk management practice to have lesson learned and communicate as appropriate for a sound decision ultimately to minimize credit risk possibilities.*

**Key words:** *Commercial Bank of Ethiopia, Credit Risk Management, and Credit Risk Management Practices*

# CHAPTER ONE

# INTRODUCTION

This chapter introduces the background of the study briefly. It highlights the meaning of risk and credit risk in financial institutions. The chapter also explains the problem statement, objectives of the study, the research questions, significance, scope, and the methodology of the study.

## 1.1 Background of the Study

Banks are financial institutions that provide financial services for profit and have an important role in the economy and the society at large by allocating surplus deposits for different investment purpose (Gestel, &Baesens, 2009).

Commercial Bank of Ethiopia is government owned bank, established in 1942 and now a days the bank become the leading bank in Ethiopia by introducing modern banking practices, branch number, number of employees, capital base and so on as compared to other banks in Ethiopia. Commercial bank of Ethiopia plays catalytic role in economic progress and development of the country by providing different financial services most importantly financing different development projects. To be the leading, the bank provides different banking products and services to its customers. Those various banking activities today is quite complex than ever and the future will undoubtedly rest on risk management dynamics that banks exercise (CBE, 2016).

Risk in banking is commonly defined as the possibility that outcome of an action being taken/not taken or an event that could bring an adverse impact on the bank's capital, earnings or viability and survival. It is true that the banking services and operations involve various kinds of risk; for example, market risk, credit risk, liquidity risk, operational risk, legal and regulatory risk, business risk, strategic risk, and reputation risk are some of them. Unfortunately taking risks is an integral and unavoidable part of the banking business, indeed, embedded with reward for taking it. This shows that there exists relationship between risk and reward/return, which in turn leads to the implication that the higher the rate of return is the greater the risk and risk tolerance one must take. Conversely, it tells that organizations especially banks should know how to cope with or control risks profitably and strategically in sustainable way aligned with their goals (Crouhy, Galai, &Mark, 1976). For this reason, risk management has become an important function of business these days unlike those periods where the significance of risk management was ignored. One can understand risk management's primary goals are to bring benefits to the companies, risk management practice is the heart of firm's strategy and it also covers all areas of business process. Moreover, failing to risk management practice in banking will lead to banking inefficiency ranging from not knowing what to take next if the first action went wrong, creating uncertainties and value deteriorations, unwise investment and costly decision on scare resources and lack of accountability and responsibility at the end of the day, to high loss and finally speedy failure of institutions. However, risk management is not guarantee for success, it has been evidenced that for most, it is only those banks that have efficient risk management system will survive in the market and achieve their objectives in the long run.

Consequently it is clear that credit being among the products that banks provide for customers to generate income, involves risk. Credit risk is defined as the risk of default or it is the case that a borrower fails to service its debt as agreed terms and conditions, (Duffie, and Singleton, 2003). Supportive statement to the above fact is that according to Broll, Pausch and Welezel(2002), credit risk is one of the oldest and biggest risks that face banks by virtue of its very nature of business inherent. As a result for banking institution having strategic vision, objectives and goals it is very likely to have risk management strategy and practice. Commonly, credit risk management is part of risk management process in banks. It is the process that requires establishment of a frame work that defines corporate priorities, loan approval process, credit risk rating system, risk-adjusted pricing system, loan-review mechanism and comprehensive internal controls. As credit constitutes the largest single income – earning asset in the portfolio of most banks, it is reasonable for banks to commit efforts on the management of credit quality and credit risks. Therefore, in this paper, the aim is to assess CBE's overall credit risk management practice.

## 1.2 Background of the Organization

The agreement that was reached in 1905 between Emperor Minilik II and Mr.MaGillivray, representative of the British owned National Bank of Egypt marked the introduction of modern banking in Ethiopia. Following the agreement, the first bank called Bank of Abyssinia was inaugurated in February 16, 1906 by the Emperor. The bank was totally managed by the Egyptian National Bank operate until its liquidation in 1931.

Thus by 1931 Bank of Abyssinia was legally replaced by the Bank of Ethiopia shortly after Emperor Haile Selassie came to power. The new Bank, Bank of Ethiopia, was a purely Ethiopian institution and was the first indigenous Bank in Africa and established by an official decree on August 29, 1931with capital of EUR750,000. Bank of Ethiopia took over the commercial activities of the Bank of Abyssinia and was authorized to issue notes and coins. During the invasion, the Italians established branches of their main Banks namely Bancad'Italia, Banco di Roma, Banco di Napoli and BancaNazionale del lavoro and started operation in the main town of Ethiopia. However, they all ceased operation soon after liberation except Banco di Roma and Banco di Napoli which remained in Asmera. In 1941 another foreign bank, Barclays Bank, came to Ethiopia with the British troops and organized Banking services in Addis Ababa until its withdrawal in 1943. In April 1943, the state Bank of Ethiopia commenced full operation and acted as central Bank of Ethiopia and had a power to issue Bank notes and coins as the agent of the Ministry of finance. The bank also functioned as the principal commercial bank in the country and engaged in all commercial banking activities.

The Ethiopian Monetary and banking law that came in to force in 1963 separated the function of commercial and central banking creating National Bank of Ethiopia and a birth to Commercial Bank of Ethiopia. Moreover it allowed foreign banks to operate in Ethiopia limiting their maximum ownership to be 49 percent while the remaining balance should be owned by Ethiopians.

The National Bank of Ethiopia with more power and duties started its operation in January 1964.Following the incorporation as a hare company on December 16, 1963 as per proclamation no.207/1995 of October 1963, Commercial bank of Ethiopia took over the commercial banking activities of the former state bank of Ethiopia. It started operation January 1, 1964 with a capital of Eth. Birr 20 million. In the new commercial Bank of Ethiopia, in contrast with former state Bank of Ethiopia, all employees were Ethiopians.

The first privately owned bank, Addis Ababa Bank share Company, was established on Ethiopian initiatives and started operation in 1964 with a capital of 2 million. There were two other banks in operation namely Banco di Roma S.C and Banco di Napoli S.C. that later replied for license according to the new proclamation each having a paid - up capital of Ethiopian Birr of 2 million.

Following the declaration of socialism the government extended its control over the whole economy and nationalized all large corporations. Organizational setups were taken in order to create stronger institutions by merging those that perform similar functions. Accordingly, the three private owned banks, Addis Ababa Bank, Banco di Roma and Banco di Naploi merged in 1976 to form the second largest Bank in Ethiopia called Addis Bank. Consequently Addis Bank and Commercial Bank of Ethiopia S.C. were merged by proclamation No.184 of August 2,1980 to form the sole commercial bank in the country till the establishment of private commercial banks in 1994.

There were other financial institutions operating in the country like the Imperial saving and Home ownership public association (ISHOPA) specialized in providing loans for the construction of residential houses and to individual under the guarantee of their savings. There ‘was the saving and mortgage corporation of Ethiopia whose aims and duties were to accept savings and trust deposits account and provide loans for the construction, repair and improvement of residential houses, commercial and industrial buildings and carry out all activities related to the mortgage operations, until its changed to its current name, Construction and business Bank. On the other hand, there was a bank called Agricultural Bank that provides loan for the agricultural and other relevant projects established in 1945 and operated until it was replaced by its successor Ethiopian Agriculture and commerce bank in 1950.

In 1979, Ethiopian Agriculture and commerce bank was replaced by Agriculture and industry development bank, which was then renamed to the present, Development Bank of Ethiopia with the new objectives enacted as per proclamation number 25/1991 and council of ministries regulation no. 83/2oo2.

Subsequent to the dismiss of the Dergue regime in 1991, EPRDF declared a liberal economy system. In line with this, Monetary and Banking proclamation of 1994 laid down the legal basis for investment in the banking sector. Consequently, the first private bank, Awash International bank was established in 1994. On December 31, 2013, there were 16 private and 3 governments– owned banks operating in Ethiopia.

### 1.2.1 CBE’s profile

- It has more than 1,160 branches stretched across the country as of May 2017
- A bank with asset of birr 384.6 billion as of June 30, 2016.
- Plays a catalytic role in the economic progress & development of the country.

- The first bank in Ethiopia to introduce ATM service for local users.
- CBE has more than 13.3 million Account holders as at September 30, 2016.
- It has strong correspondent relationship with more than 50 renowned foreign banks and a SWIFT bilateral arrangement with financial institution.
- CBE combines a wide human capital base with more than 30,000 skilled and committed employees.
- Pioneer to work with Western Union Money Transfer Service in Ethiopia.

### 1.2.2 Vision

To become a world class commercial bank by the year 2025.

### 1.2.3 Mission

We are committed to best realize stakeholders' needs through enhanced financial intermediation globally and supporting national development priorities, by deploying highly motivated, skilled and disciplined employees as well as state-of the art technology. We strongly believe that winning the public confidence is the base of our success.

## 1.3 Statement of the Problem

Commercial Bank of Ethiopia, which has an objective of benefiting the wider society rather than simply profit making, through active participation financing economic development programs and long term projects of the country, will inevitably require proactive risk management strategy particularly in credit risk as project financing needs for long term commitment of loans. This means that the banks risk management exposure is likely to increase due to, the uncertainty involved in long time to get back its loans, the volume of loans and advance that developmental projects require by their nature and the associated requirement for the bank to keep substantial amount of capital or reserve to protect its solvency and to maintain its economic stability. Thus credit, apart from its risk may result in risk of liquidity problem of the bank if loans are not repaid as per the agreed period. Therefore CBE in order to minimize such risk must perform a lot on its credit management both before and after credit disbursement. For this to happen in addition to other requirement it has to work on its human resource skill Varity and level who study and follow-up long term loans (CBE, 2008).

Persons who involved in credit risk analysis needs to know the whole processes, procedures, tools and techniques of risk planning, identifying, monitoring and controlling and enough to have social and interpersonal skill to cross sell and know the customer/borrower. These will help in becoming open minded commitment in case of credit analysis, to be clearly briefed on exactly what decisions remain to be taken and expectations that the organization holds for credit risk analysis. Positive attitude towards having more complete and realistic view of the credit risk in the future provides the opportunity for learning about the credit risk in order to achieve a maturity of judgment in the subsequent credit risk analysis decision (Rafter, 1994).

As per Commercial Bank of Ethiopia (CBE) annual report 2013/14 from the total loans and advance disbursed amount of Birr 79,024,000,000.00 Birr 537,756,765.00 or 0.68% is under the category of NPL. Even-if the NPL ratio is below the required level of international standard it is increasing in the past five consecutive years from 444,163,929.00 birr in year 2009/2010 to537, 756,765.00 birr in year 2013/14. There are a number of studies on credit risk management in Ethiopia:

Tefera (2011) in his paper examined the impact level of credit risk management towards the profitability of selected commercial banks in Ethiopia in general. He argues that credit risk management has significant impact on profitability of banks of our country.
H.michael (2015) in his study of practice and challenges of credit risk Management in selected Ethiopian private banks attempt to indicate the credit risk exposure and techniques to manage credit risk exposure and challenges facing while practicing credit risk management. As a summery, he finds that banks under the study are more exposed to credit risks as the size of loanable funds injected to the market grows. Banks are not yet developed the desired level of credit risk management practice due to failure to address the whole spectrum of credit risk management.

Tesfaye (2016) assesses credit risk management practice in commercial bank of Ethiopia towards its vision. The main purpose of the study is to evaluate the existing credit risk monitoring and controlling techniques of commercial Bank of Ethiopia in relation to international and local rules and its impact towards the vision of the company.

As mentioned above most of the researches are conducted on the relationship between profit with credit management, challenges of credit risk management and evaluation different risk management practices in relation to international standards and National Bank of Ethiopia directives. But this paper assesses the extent and level of strategic attention and consideration given for credit risk management from the scratch in order to identify, measure, monitor, evaluate and control credit risk. In addition to the above points this paper assesse steps in risk management process(identification, measurement, treatment, implementation monitoring and evaluation of the whole process in general), the specific considerations to the human aspects in the involvement of credit related works and tools and techniques employed in order to mitigate credit risk. This gap and the above mentioned problem of NPL motivates the researcher to assess the credit risk management practice of Commercial Bank of Ethiopia.

## 1.4 Research Questions

As explained in the statement of the problem above, this paper tried to address issues related to credit risk management practice in CBE especially:

- What strategic attention and consideration given for credit risk management practice in CBE?
- How does the bank identify, measure, monitor, evaluate and control credit risk?
- What specific techniques and tools are employed by CBE in order to manage credit risk?
- What considerations are given to human resource skill Variety in order to successfully manage credit risk?

## 1.5 Objective of the Study

### 1.5.1 General Objective

The main objective of the study is to have a bigger picture of how CBE manages its credit risk.

### 1.5.2 Specific Objective

It aims to:

- To review the credit risk management process and techniques of CBE.
- To describe the strategic attention and consideration given for credit risk management practice in CBE.
- To explore the considerations given to human resource skill Variety in order to successfully manage credit risk.

## 1.6 Significance of the Study

The study contributes to existing knowledge and literature on the credit risk management practice especially in Commercial Bank of Ethiopia. Moreover, the study also serves as a reference material to other researchers. In fact, it is hoped that the study have paramount importance in providing information related to problems associated with credit risk management so that remedial action, especially in the area of providing information for enhancing policies and procedures on credit risk management at the banks. Moreover it also gives an insight to management in how to systematically approach risks associated with credit management.

## 1.7 Scope of the Study

The scope of the study deigned to address the objective of the paper that is credit risk management practice of commercial bank of Ethiopia. Therefore, it has dealt with the credit assessment, measurement and management practice, culture of credit risk management in CBE, policies and procedures that are being employed by the bank to manage such credit risk at head office level. To gather the necessary data structured questioner, interview for 55 employees analyzed by simple descriptive statics and secondary data was used.

## 1.8 Organization of the Study

This part guides the readers on the systematic organization of this research study. Every parts and sub-parts of this thesis circles around and supports one single central theme. The central theme of the thesis lies in assessment of credit risk management practices in Commercial Bank of Ethiopia. The first chapter is dedicated to background information on the research problem, the motivations behind it, and the study objectives. Chapter 2 follows with an emphasis on the theories supporting this thesis, including risks and banking risks, risk management in bank. The 3rd chapter deals with the research methods employed in the study. Chapter Four gives the audience answers to the research questions mentioned at a practical level of commercial banks of Ethiopia. It contains the research findings of Commercial Banks of Ethiopia risk management practices and a very important analysis of the findings. Finally, the implications for the bank and recommendations was concluded the thesis in the fifth chapter.

# CHAPTER TWO

# REVIEW OF RELATED LETRATURE

In this chapter the researcher will review different books, journals and others related to the concept of credit risk, credit risk management processes, techniques and human skill variety requirements to manage credit risk.

## 2.1 THEORETICAL REVIEW OF RELATED LITERATURE

### 2.1.1 Concepts of Credit Risk

According to Encarta (2009), credit is defined as an arrangement to receive goods from a shop or money from a bank and pay for it later. Colquitt (2007) defines credit as the use or possession of goods or services without immediate payment that helps the borrower to bridge the gap between production and sales of the goods and facilitates the exchange in the economy.

While risk is the possibility something unpleasant or dangerous might happen. Credit risk on the other the same way Basel (2000) defined credit risk simply as a potential that a bank borrower or counterparty fails to meet its obligations in accordance with agreed terms

### 2.1.2 Types of Bank Risk

The core business of Banking Industry is to mobilize deposit for reselling or investment purpose. Banks need to take to maintain their margin and fulfill their role in the economy. But taking excessive risk is likely to run in to difficulty and eventually fail to fulfill its obligations and becomes insolvent (Gustel and Baesen, 2009).

According to Crouhy, Galai and Mark (2009) in the global banking industry there are three broad risk types as presented below.

Credit Risk: - Credit risk is the biggest risk in the financial market following a change in the factors that drive the credit quality of an asset. Some of these are; adverse effects arising from credit grade migration, the dynamics of recovery rate and default.

Market Risk: - these are risk losses arising from changes in market factors like interest rates, foreign exchange rates, or equity and commodity price factors.

Operational Risk: - refers to financial risk as a result of lots of potential operational breakdowns in terms of people risk, process risks and technology risks. For instance frauds, inadequate computer systems, control failures, operation failures, or natural disasters etc.

### 2.1.3 The Essential of Risk Management

According to Crouhy, Galai and Mark (2006), the future is uncertain and no one has ever been successful in forecasting the stock market, interest rate, exchange rate or credit consistently. So that having the ability identify risk, to measure it, to appreciate its consequences, and then to take action accordingly, such as transferring or mitigating the risk is mandatory in this complex and uncertain situation.

The goal of credit risk management is to maximize a bank's risk adjusted rate of return by maintaining credit risk exposure within acceptable parameters. Banks need to manage credit risk inherent in the entire portfolio as well as the risk in individual credits or transactions for a long term success (Basel, 2000).

### 2.1.4 Strategic Attentions in Credit Risk

Strategic management is a set of managerial decisions and actions that determines the long run performance of the organization. It includes activities like internal and external environment scanning, strategy formulation, strategy implementation, evaluation and control. Organizations that want survive, prosper, and do good and important work must respond to the challenges the world present (Bryson, 2011). Banks must have awareness of how to identify measure, monitor and control credit risk as well to determine that they hold adequate capital against risks and those they are adequately compensated for risks incurred.

#### 2.1.4.1 Principles for the Assessment of Banks' Management of Credit Risk by Basel committee

##### 2.1.4.1.1 Establishing an Appropriate Credit Risk Environment

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

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 risk management procedures and controls before being introduced or undertaken, and approved in advance by the board of directors or its appropriate committee.

#### 2.1.4.1.2 Operating Under a Sound Credit Granting Process

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

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

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

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

#### 2.1.4.1.3 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 are encouraged to develop and utilize an internal risk rating system in managing credit risk. The rating system should be consistent with the nature, size and complexity of a bank's activities.

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.

##### 2.1.4.1.4 Ensuring Adequate Controls over Credit Risk

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

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

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

##### 2.1.4.1.5 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, procedures and practices related to the granting of credit and the ongoing management of the portfolio. Supervisors should consider setting prudential limits to restrict bank exposures to single borrowers or groups of connected counter parties.

### 2.1.5 Risk Management Processes

Credit risk management includes the processes of conducting risk management planning, identification, analysis, response planning, and controlling the risk. Following these processes increases the likelihood and impact of positive events and decreases the likelihood and impact of negative events (Diego, 2013).

According to Gestel and Baesens (2009), steps in risk management process in conceptual framework figure 2.1 below is presented as follows:

#### 2.1.5.1 Risk Identification

Insufficient competency in identifying credit risk is the main risk in financial organizations. Risk identification is the management processes of identifying all possible risks with in a defined perimeter and scope. The processes may start from the root causes and goes on its effect as the as problem tree analysis will be done.

In addition to these writers Diego(2013). defines risk identification as a process of determining which risk may affect the objective of the loan and documenting their characteristics in order to help the performers to anticipate events and handle before its occurrences and bad consequences.

#### 2.1.5.2 Risk Measurement

Risk measurement comes in after the identification phase to give an understanding of the nature and level/extent of the risk so that it can be managed in an appropriate manner. This is because without risk measurement the intensity of effect or consequences which can result from the identified risk if neglected cannot really be analyzed. A good risk measurement will determine the risk management techniques that have to be put in place to manage the said risk. This will go along to bring out the extent and cost associated with the risk should it occur and the company in question then uses the known results to see how much value is at stake or cost is associated.

A good risk measurement and understanding is thus vital for the bank so that it will not only settle on the risk considerably but will also improve on the performance drastically so as to improve safely and profitably. This will also help to determine how much effort has to be put in place or the degree of seriousness on how to manage the risk. For competitive and regulatory reasons, it is necessary for all banks to have a sound risk measurement framework. Risk measurement simply put, is the evaluation of the outcome of risk using a set of risk factors which can be observed and measured. A risk factor is something that is likely to increase the chances that a particular event will occur. To measure the different types of risks, different techniques ranging from traditional simple to sophisticated ones are being used. Some include, Value at Risk duration analysis, sensitivity analysis, stress testing and scenario analysis. Even though all banks may be faced with the same type of risk each may use different risk measurement techniques depending on their individual choices.

#### 2.1.5.3 Risk Treatment

Once the risk is identified and measured about its cost, benefit and multiple impacts, it can be treated in the following ways

##### 2.1.5.3.1 Risk Avoidance

Avoiding a risk means deliberately taking another course of action so that it cannot arise in the circumstance for that credit facility. The ultimate form of credit risk avoidance is not to precede the credit facility at all. This means that it is not advisable to invest in products that are too risky without understanding all the risks and its consequences.

Risk avoidance as a credit risk treatment doesn't mean avoiding all risk; rather it is about strategically selecting the good complements and not to invest in counterparts with too high default, loss or exposure risk. Therefore it is important to come up with in a decision to invest only small proportions in corresponding facilities and limits on risky investment.

##### 2.1.5.3.2 Risk reduction

For anyone involved credit processing with professional interest in risk management; reducing risk in some way is probably the most important concern. Examining the credit risk from all perspectives may reduce the probability of occurrence, the impact consequences and the duration of credit risk exposure. For instance, one may require collateral or guarantee that can be sold and claimed in case of default respectively so that the bank risk may reduce.

##### 2.1.5.3.3 Risk Acceptance

Banks may accept credit risk by developing appropriate strategy if its impact on its wellbeing to be sustainable and profitable is not affected. It is advisable to accept risks when it is well diversified investment are made in various sectors and cost or opportunity cost of ignoring is greater than accepting.

##### 2.1.5.3.4 Risk Transfer

It is about transferring the risk of the due to giving loan to other stakeholder. It may be a third party risk transfer to the situation, thereby involving another stakeholder the credit facility processes. The transfer may be another bank, insurance or any other company as stipulated in the credit processing policy and directive of the governing bank.

Finally using a combination of the above as appropriate is also possible.

#### 2.1.5.4 Implementation/Credit Risk Response

Once risk is identified, measured and treatment options are selected the next step is to implement all these risk management strategy as appropriate. People, statistical models and IT infrastructure evaluate the risk of existing and new credit facilities. Guidelines for the risk treatment define in which counterparts one invests and in which one does not; which exposure limits are used for the most risky products; whether collateral for specific loans is mandatory or whether one buys protection from a financial guarantor. The risks of the bank are continuously reported and monitored. The implementation is supervised by senior management

#### 2.1.5.5 Evaluation

The effectiveness of the risk management strategy is evaluated frequently. One verifies whether the resulting risk taking remains in line with the strategy and applies corrections where necessary. This involves evaluation of the relevant risk drivers; the measurement process is evaluated, back testing procedures, the result of the risk treatment plans and the actual implementation

### 2.1.6 Credit Risk management Tools and Techniques

#### 2.1.6.1 Credit Rating System and its Role

Credit rating systems are at the heart of credit risk management in that they provide a road map to the entire credit process. Depending on the type of credit risk architecture that a lender has, the credit rating system can be used in the enterprise risk management process whereby it is incorporated into technology platforms that capture a mass of data across various business and operating departments. In order to optimize the credit quality, credit rating system is the basis from which risk measurement analytics are used to consistently evaluate transactions across all asset classes by having standardized credit information (Colquitt, 2007).

#### 2.1.6.2 Expert Judgment

Once a bank collect mass of credit information across all of the business and operating department ,the credit risk architecture act as the engine room for all of the conceptual methodologies that are required to evaluate credit risk. This rating are arrived at by gathering the borrower's financial and non-financial information an allocating a grad equivalent to the banks rating standard and criteria, which are subsequently weighted to derive financial grade. Therefore, rather than simply making a decision by having such information credit specialists will weigh all of short and long term factors that may influence borrowers credit quality trough out the duration of the credit facility. This is because default cannot be determined by solely relying on corresponding model weights rather it require independent judgment and knowledge (Colquitt, 2007).

#### 2.1.6.3 Rating with Models

Credit rating model is about using a combination of numeric inputs relative to varying borrower factors and characteristics. Some of the common types of statistical credit risk models that are used to assess risk are scoring model, regression models, logit, or discriminant models as well as structural and economic models. These models are configured according to the variables and assumptions that credit specialists perceive as likelihood of default to which they apply mathematical equations that define default risk (Colquitt, 2007).

#### 2.1.6.4 The "five C's'' of credit

Each bank has its analytical tools which it uses to minimize losses of money when giving out loans to customers. The bank always find itself in a situation where they can give a loan to customer who will not be able to pay back or refuse to give to a customer who is good and has the potential of meeting up with the repayment. To go about a good analysis of potential creditors, the five Cs of a credit have been introduced as a guide for bankers of what criteria to use. This includes the gathering of both quantitative and qualitative information to assist the bankers in their screening process of bad and potential creditors. This information is gotten using the five Cs of credit as the standards tools. The five Cs include; character, capacity, capital, Conditions and collateral (strischek, 2009). The character of a company refers to the distinct capabilities about the company which the lenders see that inspires them with confidence that the loan will be repaid. This includes things like business plan, Cash flow, history management, etc.

The capacity of the company incorporated words like sufficiency, adequacy and perseverance. This means what the company as a customer has as assets and the value of those assets which shows that it can be able to repay its loans. Capital of the company means how much adequate funds she has to make her business operate efficiently in generating cash flow and efficiently within its competitive business environment. The condition of the company describes the economic and environmental influences on the company's financial condition and performance.

Lastly, collateral refers to what the company is able to present to the lender which serve as the final source of repayment and protection against loan loss.

### 2.1.7 Contribution of Human Resources towards Credit Management

From credit risk management point of view, it is believed that retaining highly qualified, competent and experienced employees in the credit would benefit in managing credit risk. Interpretation of information or analytical results is influenced, among other things, by professional experience, the quality of our judgment, our knowledge of subjective information—which may not have been included in the analysis—and our attitude to the problem under consideration(Rafter,1994)

#### 2.1.7.1 Competence of staff/skill variety

Credit officers without the necessary expertise in the activities they are responsible for, be it credits, investment, management of problem assets or new products, can lead to poor lending practice, ineffective administration, and eventually, loss to financial institutions.

#### 2.1.7.2 The importance of training

For any activity to achieve success, human resource is always at the heart because activities are exercised by the human. Employees at the organization would be considered as important factors for healthy credit risk management. In addition to this job related training (credit related training) given to employees determines whether or not credit risk is going healthy or bad.

#### 2.1.7.3 Changing Risk Appetite

Risk appetite is not constant. It will change and evolve over time as the environment in which the organization operates changes. The impact of the current appetite on business Performance should be measured regularly and any tensions arising from the current level set should be monitored and investigated so that the level can be reset as needed.

## 2.2 EMPIRICAL LITERATURE

This section provides a summary of some of the published work on the management of risks by Banks in developed and developing economies.

Kessey (2015) conducted a research on credit risk management practice in the banking industry of Ghana. The result indicates that, although banks in Ghana have a good credit risk management policies that comply with international standards, they face a problem of implementation and results to worsening quality of the loan portfolio.

Sabeza, Shukla and Bajpai (2015) examine credit risk management practices and performance of commercial banks in Rwanda. The result reveal as follows: (1) Banks in Rwanda has a credit policy which was set to manage and mitigate credit risk while it is not convenient basing on the Rwandan environment and seems to ignore some facts of Rwanda Economy. (2) Rwandan banks profitability is negatively correlated to proper credit risk management. This means that if credit risk is efficiently and effectively managed, bad debit will decreases and the decrease of bad debt will automatically reduce banks' bad debt provisions which defiantly increase the net profit of the bank.(3) The risk department faces many problems in doing credit risk management due to insufficient skills of some credit risk managers in managing credit risk, continuous market factor changes and inability of borrowers to manage and operate their business effectively in order to pay back the loan given by commercial banks. Lang and Jagtiani (2010) in their research title of the mortgage and financial crises: the role of credit risk management and corporate governance suggests that the fundamental failure of the risk control system at large is due to lack of transparency and accountability. Some of the solution they come up with is firms need to generate better incentive compensation structure to encourage business line managers to consider risk in their decisions and to ensure greater firm wide transparency and senior managers and boards must be held to greater accountability when they fail to carry out their responsibility.

## 2.3 CONCEPTUAL FRAMWORK

As shown in figure 2.1 below the researcher tried to assess how Commercial Bank of Ethiopia identify, measure, monitor, control and evaluate credit risk starting from the beginning up to its settlement. In the identification phase credit request is full of uncertainty so risk should be identified from different perspectives, in measurement phase all possible credit risks should be measured, once possible credit risk was identified and measured response and action plans must be made then after every performers acct accordingly to assure credit risk under control and timely decision. Through ought the process monitoring and evaluation of each phase and finally lesson learned must be drawn and documented as a reference. In doing so board of directors should design appropriate strategies, tools and techniques. CBE should also have committed and experienced employees to manage credit risk before its bad consequences with full heart.

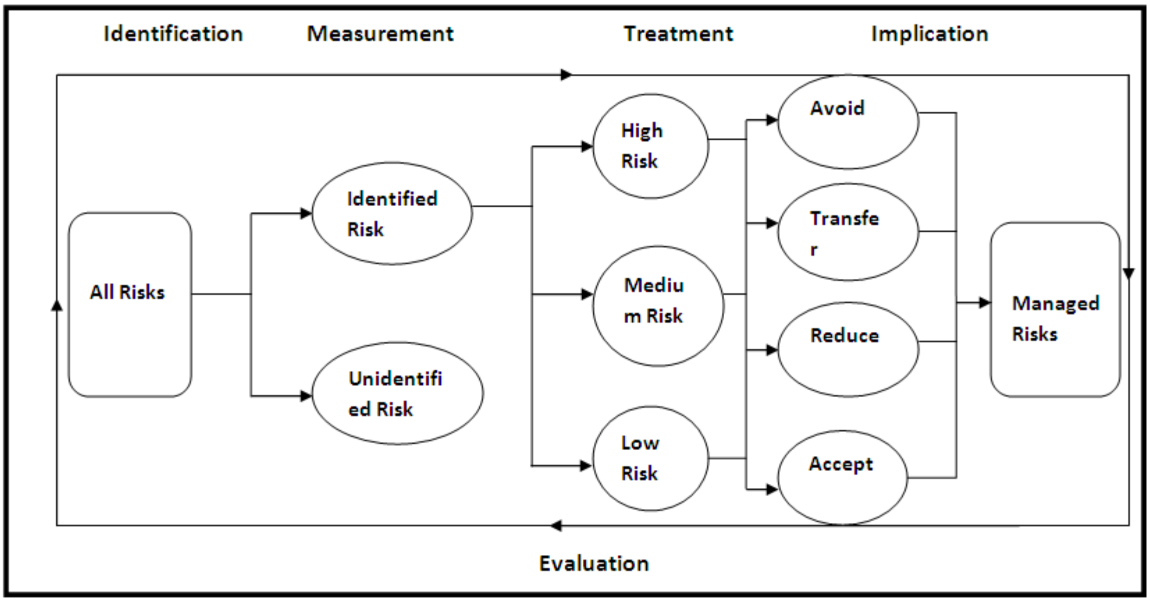


**Figure 2.1: Steps in Risk Management Process**

Source: Ir. Tony Van Gestel and Bart Baesens, 2009

# CHAPTER THREE

# RESEARCH DESIGN AND METHODOLOGY

## 3.1 Research design

The study approach is an exploratory as it seeks to explore the practice of credit risk management process, considerations given to human skill varieties, as well as the methods employed by CBE in handling credit risk management. The objective to use exploratory approach is to generate more information about the situation of credit risk management practice, to define clearly the research question in the form of investigative questions and for an in-depth contextual analysis as the study focus on credit risk management practice.

## 3.2 Sample and Sampling Techniques

To explore credit risk management practice of CBE, it is rationale to consider credit process employees in head office particularly credit analysts, Experts, Managers and Directors in the same process. Because many of the credit request of CBE are now being processed in central head office. So in this central office there are closer to 90 employees of which all of them were taken as samples for this study.

Since Credit risk management by its nature needs detailed knowledge and skill , it is necessary for the researcher to deal with those people who are convenient and are subjected to Credit risk management so as to get the necessary information for the study.

The sampling method used to determine sample size and sample units is non-random sample technique called convenience sampling technique, because the researcher believe that it is very important to distribute questionnaires through walk in around, than randomly so as to get filed each questionnaire properly and collect on time. In addition to this convenience sampling is used in order to generate the data from the employees that are directly engaged in the operation of the credit risk management business of the bank. Hence a very reliable source of information was gathered.

## 3.3 Source and Tools/Instruments of Data Collection

In this study the researcher uses primary source of data supplemented with secondary source of data. The primary data collected through questionnaire and interview while secondary data was collected from different books, journals, unpublished thesis, websites, and annual reports, polices, and procedures of the bank.

The structured questionnaire was constructed in four categories in order to describe the background information, strategic attention and consideration given for credit risk management practice in CBE, review the credit risk management process and techniques of CBE and to explore the considerations given to human resource skill Variety in order to successfully manage credit risk. The questionnaire is open and close-ended. The open-ended question offers the respondents the opportunity to freely express themselves on the issues under consideration while the close-ended questions restrict the respondents on the options provided. The researcher developed the questionnaire some part by own and customizing previously used by Nigussie, (2016) and Tesfaye, (2016). Meanwhile the interview part consists set of questions on the role of Board and senior management to oversight credit risk management.

## 3.4 Procedures of Data Collection

To collect the primary data from the organization the researcher requested the credit management of the organizations for permission. The researcher discussed with the organization's respective higher officials by briefing the purpose and benefit of the study. To collect the required data from respondents structured questionnaire and interview was employed. The primary data was collected from credit process employees in head office particularly credit analysts, Experts, Managers and Directors in the same process using questionnaire and interview on the other hand secondary data was collected from different documents.

## 3.5 Methods of Data Analysis

The data collected in this research analyzed by using simple descriptive statics. The main reason behind the use of descriptive method of analysis is to describe the characteristics of the study related to credit risk management practice. Accordingly, percentages, tables, diagrams and charts were used to elaborate the results in detail. Furthermore, data collected through interview has been discussed in detail.

## 3.6 Reliability and Validity of the Data Gathering Instrument

Content validity of the structured questionnaire was checked and incorporated comments by providing the instrument to professionals who are working in the corporation and the research advisor. In the process, the questionnaire was modified by the advisor and by the professionals. In addition, the content validity was checked by ensuring that the by designing data collection instruments very carefully to include all the necessary questions related to answer the problem statement.

The Cronbach’s alpha coefficient test conducted to measure the internal consistency reliability. Before distributing the questionnaire to the selected respondents, a pilot-test exercise was conducted. It also tasted using Cronbach’s Alpha test and done upon 10 individuals who was selected at random in order to check the internal reliability of the questionnaire. Accordingly, the reliability of the instrument was measured using Cronbach`s alpha and calculated by using statistical software SPSS version 20. In theory, reliability can range from 0 to 1.00, but the reliability of measures of human traits and behaviors never quite reaches 1.00. Some very good achievement tests may reach .98, but probably not any higher than that. In this regard, the result of Cronbach`s coefficients alpha was highly reliable which is 0.93 as shown in table below.

**Table 1: Reliability Test**

| Cronbach's Alpha | N of Questions |
|---|---|
| .930 | 38 |

Source: Own survey, 2017

## 3.7 Ethical issues

In doing any research, there is an ethical responsibility to do the work honestly and with integrity. The basic principle of ethical research is to preserve and protect the human dignity and rights of all subjects involved in a research project. In this regard, the researcher assured that the respondents’ information are confidential and used only for the study purpose. The researcher also committed to report the research findings in a complete and honest manner, without confusing others about the nature of the results.

# CHAPTER FOUR
# DATA ANALYSIS, RESULTS AND DISCUSSION

## 4.1 Introduction

In this chapter, statistical analysis has been made by the researcher to present information of respondents and results obtained. A survey has been carried out using the attached questionnaire with the goal of assessing credit risk management practice in Commercial Bank of Ethiopia. Questionnaires were distributed to credit process employees in head office particularly credit analysts, Experts, Managers and Directors. Among them, sixty one and eleven percent (61.11%) have responded. These questionnaires are related to risk management practice in Commercial Bank of Ethiopia.

The first part covers the analysis of the respondent's general information. The second part discusses results of questions designed to assess the strategic attention and consideration given for credit risk management practice in Commercial Bank of Ethiopia. To investigate this research question, the researcher designed four research questions. The questions were based on a five point Likert scale ratings. The respondents were asked to tick on a scale stated from "Strongly Disagree" up to "Strongly Agree" the extent to which they agree with statements given, indicating the degree of their understanding and the extent to which they are aware of the risks that are associated with their actions.

The third part covers results of questions designed to assess the credit risk management process and techniques of CBE. The researcher designed closed ended and open ended qualitative questions to obtain more details from the employees about the techniques used by Commercial Bank Of Ethiopia and five scale likert scale grading's were used to assess the credit risk management process.

The forth part covers results of questions designed to assess the considerations given to human resource skill Variety in order to successfully manage credit risk. Like the other three parts five scale Likert scale, open ended and closed ended questions were used.

## 4.2 Background Information of the Respondents

Following, descriptive analysis of background information data of the credit process department staffs collected using the questionnaire is conducted.

**Table 4.1: Educational Level of Respondents**

| Educational level of respondents | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | First Degree | 38 | 69.1 | 69.1 | 69.1 |
| | Second Degree | 17 | 30.9 | 30.9 | 100.0 |
| | Total | 55 | 100.0 | 100.0 | |

Source: Own survey, 2017

The analysis shows out of the total respondents 69.10% have first degree and the remaining 30.9% have second degree. It is clear that having a professional staff helps the bank to provide credit products beneficial to both parties. Because it is through education one can develop critical thinking in a complex situation to make sound decision. It is possible to say that, the bank have good enough educated staffs.

**Table 4.2: Over all Banking Service Experience in CBE**

| Over all banking service experience in CBE | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | 1-5 Years | 16 | 29.1 | 29.1 | 29.1 |
| | 5-10 Years | 5 | 9.1 | 9.1 | 38.2 |
| | Over 10 Years | 34 | 61.8 | 61.8 | 100.0 |
| | Total | 55 | 100.0 | 100.0 | |

Source: Own survey, 2017

As it is indicated above, one can understand that most of the employees have over 10 years of working experience in the bank. It implies that most of the staffs had acquired enough experience in the banking industry that helps to perform risk management activities.

**Table 2.3: Experience of Respondents in Credit Department**

| Experience of respondents in credit department | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Under 1 Year | 1 | 1.8 | 1.8 | 1.8 |
| | 1-5 Years | 26 | 47.3 | 47.3 | 49.1 |
| | 5-10 Years | 28 | 50.9 | 50.9 | 100.0 |
| | Total | 55 | 100.0 | 100.0 | |

Source: Own survey, 2017

As clearly shown above, out of the total respondents 26 of them has credit experience of 1-5 Years sharing 47.3% and 28 of them has credit experience of 5-10 sharing 50.9% of the total respondent. From this figure it is possible to say that the bank has experienced staffs which can minimize credit risk due to the reason that having enough experience is important in every aspects of doing to the optimum level by minimizing cost, time and credit risk for this discussion case resulting in healthy credit products.

## 4.3 Respondents Result on Strategic Attention and Consideration Given for Credit Risk Management Practice in CBE

**Table 4.4: Results on Strategic Attention and Consideration Given For Credit Risk Management**

| Board of directors and management are exercising their power properly to oversight the credit risk management practice of CBE | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Disagree | 5 | 9.1 | 9.1 | 9.1 |
| | Undecided | 14 | 25.5 | 25.5 | 34.5 |
| | Agree | 28 | 50.9 | 50.9 | 85.5 |
| | Strongly Agree | 8 | 14.5 | 14.5 | 100 |
| | Total | 55 | 100 | 100 | |
| Accountability and responsibility of risk management is clearly set out and well understood | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Disagree | 2 | 3.6 | 3.6 | 3.6 |
| | Undecided | 2 | 3.6 | 3.6 | 7.3 |

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| | Agree | 42 | 76.4 | 76.4 | 83.6 |
| | Strongly Agree | 9 | 16.4 | 16.4 | 100 |
| | Total | 55 | 100 | 100 | |
| It is important to continuously review and update risk management techniques | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Agree | 22 | 40 | 40 | 40 |
| | Strongly Agree | 33 | 60 | 60 | 100 |
| | Total | 55 | 100 | 100 | |
| Your bank takes significant stapes to keep up to date with current risk management trends | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Disagree | 3 | 5.5 | 5.5 | 5.5 |
| | Undecided | 6 | 10.9 | 10.9 | 16.4 |
| | Agree | 36 | 65.5 | 65.5 | 81.8 |
| | Strongly Agree | 10 | 18.2 | 18.2 | 100 |
| | Total | 55 | 100 | 100 | |

Source: Own survey, 2017

From the above analysis 50.9% and 14.5% of the respondent's choses option "agree" and "strongly agree" respectively for question that states board of directors and management are exercising their power properly to oversight the credit risk management practice of CBE which is 65.4% of the respondents. On the contrary 25.5% of the respondents chose undecided and 9.1% disagree about the given question. From this figure one can understand that more than half of the respondents are well informed about board of directors and the management exercise their power properly to oversight the credit risk management practices. Banks must have awareness of how to identify measure, monitor and control credit risk as well to determine that they hold adequate capital against risks and those they are adequately compensated for risks incurred so that it indicates that board of directors and management did actions that determines the long run performance of the organization by scanning the environment internally and externally, formulating strategy in order to implement, evaluate and control. All this activities makes the Organization to survive, prosper, and respond to the challenges.

The second question related to the strategic attention says “accountability and responsibility of risk management is clearly set out and well understood”. For this question 76.4% of the total respondents selected option “agree” and 16.4% of them selected strongly agree. This indicates 92.8% of the total respondents accepted the question under investigation. The remaining 3.6% selected undecided and 3.6% of them selected disagree from the given alternative. From this analysis, the researcher can say that senior management had understood their responsibility for implementing the credit risk management strategy approved by the board of directors and for developing policies and procedures for identifying, measuring, monitoring and controlling credit risk in order to address credit risk in the bank’s activities and at both the individual credit and portfolio levels.

Thirdly the researcher tried to investigate the statement “it is important to continuously review and update risk management techniques”. Surprisingly 60% of the respondents said “strongly agree” and the remaining 40% said “agree”. This show that in order to establish an appropriate credit risk management environment, continuously reviewing and updating risk management techniques is mandatory.

In connection to the third question the researcher tried to investigate “your bank takes significant stapes to keep up to date with current risk management trends”. For this statement 65% of the respondents selected the option “agree” and 18.2% of the total respondents selected “strongly agree”. This shows 83.7% of the total respondents agreed to the questions under investigation and the remaining 16.4% (10.9% “undecided”, 5.5% “disagree”) of the respondents didn’t. From this analysis the researcher can say Commercial Bank of Ethiopia achieves in significant steps by creating credit risk management environment up to date.

## 4.4 Respondents Result on Credit Risk Management Process and Techniques of CBE

### 4.4.1 Which Techniques/Instrument Does CBE Use For Credit Risk Management In The Bank?

**Table 4.5: Techniques Used by CBE**

| Which techniques dose CBE use for credit risk management in the bank? | | Responses | | Percent of Cases |
|---|---|---|---|---|
| | | N | Percent | |
| Techniques | Combination of the above | 14 | 19.4% | 25.5% |
| | Expert judgment | 13 | 18.1% | 23.6% |
| | Rating with model | 12 | 16.7% | 21.8% |
| | Risk pricing | 2 | 2.8% | 3.6% |
| | Risk rating or grading | 31 | 43.1% | 56.4% |
| Total | | 72 | 100.0% | 130.9% |

Dichotomy group tabulated at value 1.

Source: Own survey, 2017

From table 4.5 the researcher understands Commercial Bank of Ethiopia uses the following techniques per respondents data analysis, first rank is Risk rating or grading, second Combination of the listed techniques, third Expert judgment, fourth Rating with model, fifth Risk pricing. The result shows even if Risk rating or grading is mostly used, Commercial Bank of Ethiopia uses different techniques in combination. The implication of this finding is that in order to optimize the credit quality, the use of different technique is the basis from which credit risk measurement analytics are used to consistently evaluate transactions across all asset classes by having accurate credit information.

### 4.4.2 Risk Identification

**Table 4.6: Risk Identification**

| Your bank identifies and prioritizes its main credit risk | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Disagree | 2 | 3.6 | 3.6 | 3.6 |
| | Undecided | 4 | 7.3 | 7.3 | 10.9 |
| | Agree | 39 | 70.9 | 70.9 | 81.8 |
| | Strongly Agree | 10 | 18.2 | 18.2 | 100 |
| | Total | 55 | 100 | 100 | |
| Your bank registers the identified risk for further assessment | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Disagree | 2 | 3.6 | 3.6 | 3.6 |
| | Undecided | 2 | 3.6 | 3.6 | 7.3 |
| | Agree | 42 | 76.4 | 76.4 | 83.6 |
| | Strongly Agree | 9 | 16.4 | 16.4 | 100 |
| | Total | 55 | 100 | 100 | |
| Your bank gives due consideration to formal brainstorming credit risk identification | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Disagree | 8 | 14.5 | 14.5 | 14.5 |
| | Undecided | 6 | 10.9 | 10.9 | 25.5 |
| | Agree | 35 | 63.6 | 63.6 | 89.1 |
| | Strongly Agree | 6 | 10.9 | 10.9 | 100 |
| | Total | 55 | 100 | 100 | |
| Your bank gives due attention to the quality of documents submitted by borrowers with respect to the business. | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Undecided | 4 | 7.3 | 7.3 | 7.3 |
| | Agree | 41 | 74.5 | 74.5 | 81.8 |
| | Strongly Agree | 10 | 18.2 | 18.2 | 100 |
| | Total | 55 | 100 | 100 | |

Source: Own survey, 2017

From the above table the researcher tried to assess the risk identification practice through five questions under investigation. The first query is “Your bank identifies and prioritizes its main credit risk”. For this statement out of the total respondents 70.9% selected option “agree” and 18.2% selected “strongly agree” which is equivalent to sum of 89.1%. Second query is “Your bank registers the identified risk for further assessment”. For this statement also out of the total respondents 76.4% selected option “agree” and 16.4% selected “strongly agree” which is equivalent to sum of 92.8%.

The third query is “Your bank gives due consideration to formal brainstorming credit risk identification” For this statement out of the total respondents 63.6% selected option “agree” and 10.9% selected “strongly agree” which is equivalent to sum of 74.5%. On the other hand 10.9% of the respondents selected option “undecided” 14, 5% selected “disagree” which equivalent to 25.5% showing lowest percentage as compared to respondents accepted. The last request is “Your bank gives due attention to the quality of documents submitted by borrowers with respect to the business” For this statement out of the total respondents 74.5% selected option “agree” and 18.2% selected “strongly agree” which is equivalent to sum of 92.7%. For this statement there is no disagreement and only 7.3% of the total respondents selected option ‘undecided”.

Basing from those figures analyzed above, the researcher understands Commercial bank of Ethiopia identifies possible risks in order to grant credit products with defined parameters and scope. In doing so the bank participate professionals and brainstorming on possible risks. In addition the identified risk were registered for further analysis and also helps the performers to anticipate events and handle before its occurrences and bad consequences. This step will help Commercial Bank of Ethiopia to achieve the objective of the loan and financial performance of the bank at large.

### 4.4.3 Risk Assessment and Analysis

**Table 4.7: Risk Assessment and Analysis**

| Your bank uses numerical methods to assess credit risks | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Agree | 42 | 76.4 | 76.4 | 76.4 |
| | Strongly Agree | 13 | 23.6 | 23.6 | 100 |
| | Total | 55 | 100 | 100 | |
| Your bank uses qualitative methods to assess credit risks | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Undecided | 5 | 9.1 | 9.1 | 9.1 |
| | Agree | 37 | 67.3 | 67.3 | 76.4 |
| | Strongly Agree | 13 | 23.6 | 23.6 | 100 |
| | Total | 55 | 100 | 100 | |
| Your bank effectively assesses the likelihood of different risks occurring | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Disagree | 4 | 7.3 | 7.3 | 7.3 |
| | Undecided | 8 | 14.5 | 14.5 | 21.8 |
| | Agree | 33 | 60 | 60 | 81.8 |
| | Strongly Agree | 10 | 18.2 | 18.2 | 100 |
| | Total | 55 | 100 | 100 | |
| Your bank develops action plans for implementing decisions and management plans for identified risks | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Disagree | 2 | 3.6 | 3.6 | 3.6 |
| | Undecided | 7 | 12.7 | 12.7 | 16.4 |
| | Agree | 37 | 67.3 | 67.3 | 83.6 |
| | Strongly Agree | 9 | 16.4 | 16.4 | 100 |
| | Total | 55 | 100 | 100 | |
| Your bank's risk management processes are well documented and provide guidance to staff about the management of risk | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Disagree | 5 | 9.1 | 9.1 | 9.1 |
| | Undecided | 10 | 18.2 | 18.2 | 27.3 |
| | Agree | 34 | 61.8 | 61.8 | 89.1 |
| | Strongly Agree | 6 | 10.9 | 10.9 | 100 |
| | Total | 55 | 100 | 100 | |

Source: Own survey, 2017

Risk assessment and analysis comes in after the identification of possible credit risks to give an understanding of the nature and level/extent of the risk so that it can be managed in an appropriate manner. This is because without risk measurement the intensity of effect or consequences which can result from the identified risk if neglected cannot really be analyzed. To assess risk measurement practice of Commercial Bank of Ethiopia the researcher places five questions and summarized as follow.

The first question is “Your bank uses numerical methods to assess credit risks”. For this statement 76.4% of the total respondent agrees and the remaining 23.6% respondent strongly agrees for the given statement. These figure shows Commercial Bank of Ethiopia uses different quantitative method of measurements such as sensitivity analysis, stress testing and scenario analysis and others to come up with effective decision.

The second statement is “Your bank uses qualitative methods to assess credit risks”. For this statement 67.3% of respondents were agreed and 23.6% of them agreed strongly. Only 9.1% of the respondents didn’t decide. This shows Commercial bank of Ethiopia uses qualitative methods may be including traditional method of measurements which is significant also. In connection with the above two questions the third statement is “Your bank effectively assesses the likelihood of different risks occurring”. For this statement also 60 % of the respondents were agreed and 18.2% strongly agreed. The sum of the respondents agreed was 78.2% while the remaining 14.5% didn’t decide and 7.3% disagreed. Generally speaking Commercial Bank of Ethiopia has been assessing the possible occurrences credit risks by using qualitative and quantitate methods.

The fourth statement is “Your bank develops action plans for implementing decisions and management plans for identified risks”.

For this statement also 67.3% of the respondent’s agreed and 16.4% strongly agreed. The sum of the respondents agreed was 83.7% while the remaining 12.7% didn’t decide and 3.6% disagreed. From these figures after assessment of the possible occurrences credit risks by using qualitative and quantitate methods, Commercial Bank of Ethiopia develops action plans in order to implement and manage credit risk if it happens. This is an important quality of the bank to have competitive advantages or achieve strategies of being the leading.

In connection to the above four question the last statement is “Your bank’s risk management processes are well documented and provide guidance to staff about the management of risk”. For this statement 61.8% of respondents were agreed and 10.9% of them agreed strongly. The remaining 18.2% of the respondents didn’t decide and 9.1% of the respondents are disagreed.

As a conclusion good risk measurement determines the risk management techniques that have to be put in place to manage the possible risks. This will go along to bring out the extent and cost associated with the risk should it occur and the company in question then uses the known results to see how much value is at stake or cost is associated, then appropriate decisions will be made and documented as reference document throughout its implementation or decision making process of credit performers.

### 4.4.4 Risk Monitoring

**Table 4.8: Risk Monitoring**

| Your Bank's response to risk includes action plans in implementing decisions about identified risk | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Disagree | 4 | 7.3 | 7.3 | 7.3 |
| | Undecided | 2 | 3.6 | 3.6 | 10.9 |
| | Agree | 43 | 78.2 | 78.2 | 89.1 |
| | Strongly Agree | 6 | 10.9 | 10.9 | 100 |
| | Total | 55 | 100 | 100 | |
| Your bank do strict follow up about repayment of the loan | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Agree | 31 | 56.4 | 56.4 | 56.4 |
| | Strongly Agree | 24 | 43.6 | 43.6 | 100 |
| | Total | 55 | 100 | 100 | |
| Your bank monitors the allocation of the loan to the intended purpose and its progress | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Undecided | 5 | 9.1 | 9.1 | 9.1 |
| | Agree | 36 | 65.5 | 65.5 | 74.5 |
| | Strongly Agree | 14 | 25.5 | 25.5 | 100 |

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| | Total | 55 | 100 | 100 | |
| Monitoring results communicated to credit performers for further actions | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Disagree | 4 | 7.3 | 7.3 | 7.3 |
| | Undecided | 7 | 12.7 | 12.7 | 20 |
| | Agree | 29 | 52.7 | 52.7 | 72.7 |
| | Strongly Agree | 15 | 27.3 | 27.3 | 100 |
| | Total | 55 | 100 | 100 | |
| Monitoring the effectiveness of risk management is an integral part of routine management reporting | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Disagree | 1 | 1.8 | 1.8 | 1.8 |
| | Agree | 40 | 72.7 | 72.7 | 74.5 |
| | Strongly Agree | 14 | 25.5 | 25.5 | 100 |
| | Total | 55 | 100 | 100 | |

Source: Own survey, 2017

In any situation of doing any project monitoring the status of doing has very important functions. Monitoring helps performers to conform the implementation of the approved plans, for this research case policies and procedures, NBE directives. To assess the Monitoring practice of CBE the researcher developed five questions and the results presented below.

The first statement was “Your Bank's response to risk includes action plans in implementing decisions about identified risk”. For this tribute 78.2% of the respondents were agreed, 10.9% strongly agreed accounting for sum of 89.1% the remaining 3.6% said undecided and 7.3% disagree.

The second statement says “Your bank does strict follow up about repayment of the loan”.56.4% agreed, 43.6% strongly agreed. Here 100% of the respondents confirmed the strict follow up existed in CBE. The third statement was “Your bank monitors the allocation of the loan to the intended purpose and its progress”. For this query also 65.5% said agreed and 25.5% said strongly agreed commanded to 91% of the respondents CBE monitors the allocation of loan for targeted objective through different steps or durations.

To assess the communication of monitored results the researcher requested the respondents by the fourth statement “Monitoring results communicated to credit performers for further actions”. For this request 52.7% of the respondents were agreed and 27.3% strongly agreed. This figure shows 80%of respondents were agreed the existence of monitoring results credit performers’ while the remaining 12.7% undecided and 7.3% disagreed. Communication of results has absolute important to come up with proactive decision especially in preventing credit risks before its bad consequence. Therefore CBE should give due consideration for communication throughout in the process of granting credit products up to settlement.

The last general statement says “Monitoring the effectiveness of risk management is an integral part of routine management reporting”. Majority of the respondents by 98.2 %( 72.7% agreed, 25.5% strongly agreed) confirmed monitoring as integral part credit risk management process few of them (1.8%) were disagreed.

From all of this analysis monitoring activities as integral part of credit process in monitoring the existence of response plan and implementation in case of credit risk probabilities, follow up of the loan status and communicating results in time for appropriate decision should help CBE not only minimize credit risk but also to sustain in the banking industry and achieve its vision in general.

### 4.4.5 At What Interval the Credit Risk Assessment and Monitoring is Done in the Bank?

**Table 4.9: Credit Risk Assessment Monitoring Interval Used By CBE**

| At what interval the credit risk assessment and monitoring is done in the bank? | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Monthly | 5 | 9.1 | 9.1 | 9.1 |
| | Quarterly | 27 | 49.1 | 49.1 | 58.2 |
| | Bi-annually | 10 | 18.2 | 18.2 | 76.4 |
| | Annually | 11 | 20.0 | 20.0 | 96.4 |
| | More than yearly | 2 | 3.6 | 3.6 | 100.0 |
| | Total | 55 | 100.0 | 100.0 | |

Source: Own survey, 2017

In addition to the discussion in 4.4.4 above the researcher has been interested to know (“At what interval the credit risk assessment and monitoring is done in the bank?”). For this question 49.1% of respondents were indicated the interval of risk assessment and monitoring is done quarterly, 20% annually, 18.2% bi- annually, 9.1% monthly and 3.6% more than yearly. This shows CBE's should make frequent credit risk assessment and monitoring as needed so as to manage credit risk to make a proactively. For clear observation of the respondents view in pie chart it looks like the figure below.

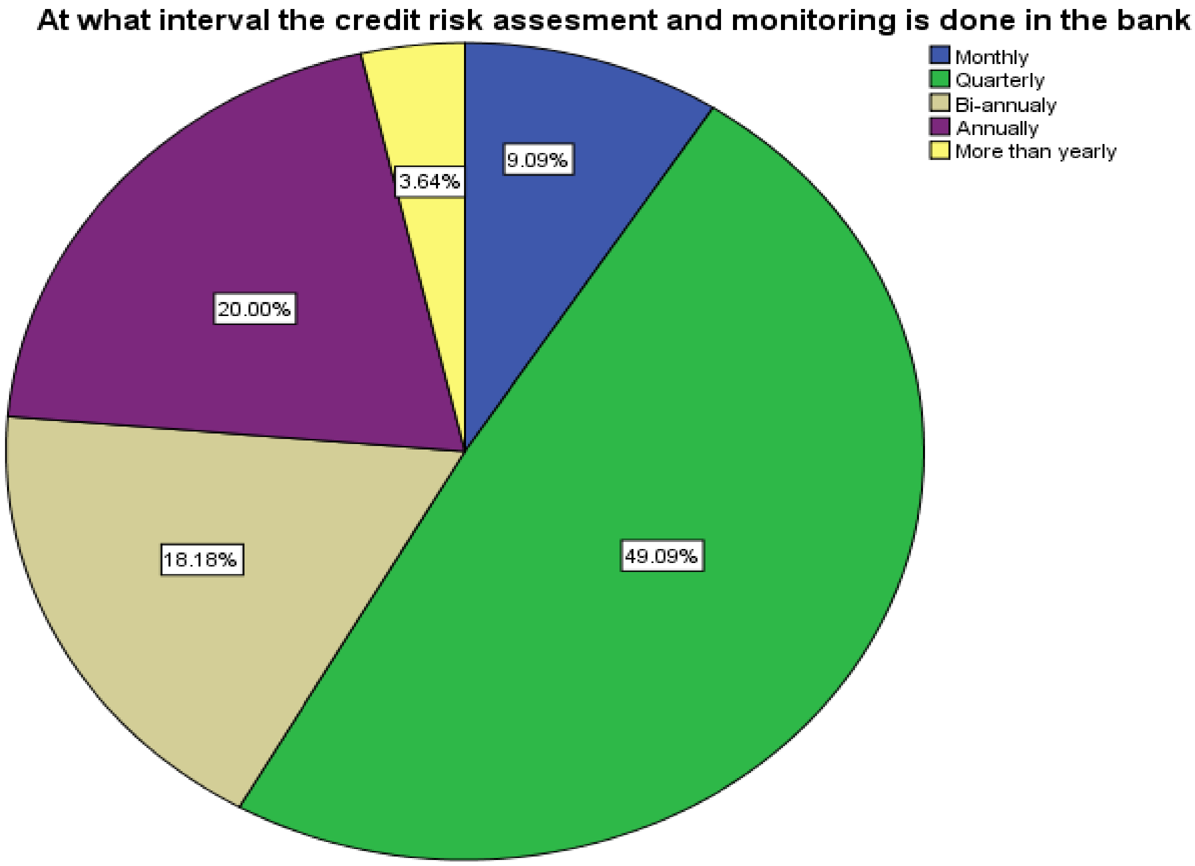


**Figure 4.1: Monitoring and Assessment Interval**

Source: Own survey, 2017

### 4.4.6 Risk Evaluation

**Table 4.10: Risk Evaluation**

| Your bank emphasize on continuous review and evaluation of the techniques used in risk management | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Disagree | 7 | 12.7 | 12.7 | 12.7 |
| | Undecided | 4 | 7.3 | 7.3 | 20 |
| | Agree | 32 | 58.2 | 58.2 | 78.2 |
| | Strongly Agree | 12 | 21.8 | 21.8 | 100 |
| | Total | 55 | 100 | 100 | |
| Your bank is able to accurately evaluate the costs and benefits of taking risks | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Disagree | 6 | 10.9 | 10.9 | 10.9 |
| | Undecided | 14 | 25.5 | 25.5 | 36.4 |
| | Agree | 21 | 38.2 | 38.2 | 74.5 |
| | Strongly Agree | 14 | 25.5 | 25.5 | 100 |
| | Total | 55 | 100 | 100 | |
| Your bank is able to accurately evaluate and prioritize different risk treatments | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Disagree | 7 | 12.7 | 12.7 | 12.7 |
| | Undecided | 11 | 20 | 20 | 32.7 |
| | Agree | 25 | 45.5 | 45.5 | 78.2 |
| | Strongly Agree | 12 | 21.8 | 21.8 | 100 |
| | Total | 55 | 100 | 100 | |
| Your Bank's response to risk includes an evaluation of the effectiveness of the existing controls and risk management responses | | Frequency | Percent | Valid Percent | Cumulative Percent |

| | | | | | |
|---|---|---|---|---|---|
| | Disagree | 5 | 9.1 | 9.1 | 9.1 |
| | Undecided | 11 | 20 | 20 | 29.1 |
| Valid | Agree | 26 | 47.3 | 47.3 | 76.4 |
| | Strongly Agree | 13 | 23.6 | 23.6 | 100 |
| | Total | 55 | 100 | 100 | |

Source: Own survey, 2017

Evaluation the work done or on processes is also important in credit risk management process to have lesson to improve or change strategy of credit risk management practice for effectiveness. Like the other processes the researcher puts four statements to exploit respondent's idea and has been analyzed as follows. The first statement was "Your bank emphasize on continuous review and evaluation of the techniques used in risk management". For this statement 58.25% of respondents were agreed and 21.8% of them agreed strongly. The remaining 7.3%% of the respondents didn't decide and 12.7% of the respondents are disagreed.

The second statement is "Your bank is able to accurately evaluate the costs and benefits of taking risks". For this statement 38.2% of respondents were agreed and 25.5% of them agreed strongly. The remaining 25.5% of the respondents didn't decide and 10.9% of the respondents are disagreed.

The third statement is "Your bank is able to accurately evaluate and prioritize different risk treatments". For this statement 45.5% of respondents were agreed and 21.8% of them agreed strongly. The remaining 20% of the respondents didn't decide and 12.7% of the respondents are disagreed.

The last statement is "Your Bank's response to risk includes an evaluation of the effectiveness of the existing controls and risk management responses". For this statement 47.3% of respondents were agreed and 23.6% of them agreed strongly. The remaining 20% of the respondents didn't decide and 9.1% of the respondents are disagreed.

From these figures obtained in the above four statements the researcher observed that although those respondents who selected agree and strongly agree is the major in summation, those respondents selected option undecided and disagree also significant as compared to the other processes from identification up to monitoring . Here the researcher recommends CBE to inculcate and improve evaluation as a basic process in its credit risk management process, the effectiveness of the risk management strategy should be evaluated frequently, verify whether the resulting risk taking remains in line with the strategy and apply corrections where necessary. This also involves evaluation of the relevant risk drivers; the measurement process, back testing procedures, the result of the risk treatment plans and the actual implementation as reviewed in the literature part.

## 4.5 Respondents Result on Considerations Given to Human Resource Skill Variety In Order to Successfully Manage Credit Risk

**Table 4.11: Human Resource Skill Varity**

| Additional training and specializations are required to perform new credit forms like project financing. | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Disagree | 7 | 12.7 | 12.7 | 12.7 |
| | Undecided | 1 | 1.8 | 1.8 | 14.5 |
| | Agree | 32 | 58.2 | 58.2 | 72.7 |
| | Strongly Agree | 15 | 27.3 | 27.3 | 100 |
| | Total | 55 | 100 | 100 | |
| Some people says in the bank credit should be worked with those who have been there for long in order to have effective credit risk management practice. What is your opinion with the above statements? | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Disagree | 9 | 16.4 | 16.4 | 16.4 |
| | Undecided | 11 | 20 | 20 | 36.4 |
| | Agree | 28 | 50.9 | 50.9 | 87.3 |
| | Strongly Agree | 7 | 12.7 | 12.7 | 100 |
| | Total | 55 | 100 | 100 | |
| The attitude, perceptions, behaviors, styles, practices, and believes of CBE's employees in managing the credit risk is good | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Disagree | 2 | 3.6 | 3.6 | 3.6 |

| | | | | | |
|---|---|---|---|---|---|
| | Undecided | 8 | 14.5 | 14.5 | 18.2 |
| | Agree | 34 | 61.8 | 61.8 | 80 |
| | Strongly Agree | 11 | 20 | 20 | 100 |
| | Total | 55 | 100 | 100 | |
| The existing work force composition in skill variety and level in credit appraisal is competent enough with the banks credit risk exposure. | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Disagree | 4 | 7.3 | 7.3 | 7.3 |
| | Undecided | 9 | 16.4 | 16.4 | 23.6 |
| | Agree | 36 | 65.5 | 65.5 | 89.1 |
| | Strongly Agree | 6 | 10.9 | 10.9 | 100 |
| | Total | 55 | 100 | 100 | |
| Overall, the credit risk management practice of each and every performer in CBE' is good | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Undecided | 12 | 21.8 | 21.8 | 21.8 |
| | Agree | 32 | 58.2 | 58.2 | 80 |
| | Strongly Agree | 11 | 20 | 20 | 100 |
| | Total | 55 | 100 | 100 | |

Source: Own survey, 2017

In any organization having qualified employees is unquestionable in every aspect. This is because competent human resource is the creator and developer of anything that makes the organization to exist. Here the researcher was interested to know the consideration given to human skill variety and the efforts made by credit performers towards credit risk management. For this investigation the researcher provided four questions under investigation.

The first statement is “Additional training and specializations are required to perform new credit forms like project financing”. For this statement 58.25% of respondents were agreed and 27.3% of them agreed strongly. The remaining 1.8%% of the respondents didn’t decide and 12.7% of the respondents are disagreed. From this analysis 85.55% of the respondents agreed additional training and specialization helps them to minimize credit risk. For any activity to achieve success, human resource is always at the heart because activities are exercised by the human. Employees at the organization would be considered as important factors for healthy credit risk management. To this effect job related training (credit related training) should be given to employees for healthy credit products.

**Table 4.12: Participation in Credit Related Staff Training**

| How long participated in credit related staff training? | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Never at all | 3 | 5.5 | 5.5 | 5.5 |
| | Under three months | 23 | 41.8 | 41.8 | 47.3 |
| | 3-6 months | 13 | 23.6 | 23.6 | 70.9 |
| | 6 Months- 1Year | 5 | 9.1 | 9.1 | 80.0 |
| | Over 1 Year | 11 | 20.0 | 20.0 | 100.0 |
| | Total | 55 | 100.0 | 100.0 | |

Source: Own survey, 2017

From table 4.12 above also 41.8% of the respondents participated in credit related training under three years, 23.6% before 3-6 months, 20% over one year, 9.1% six months-1 year and 5.5% never at all. From this figure the researcher recommends the bank should update credit performers with different techniques, share experience among themselves for the above stated reason.

The second statement is “Some people says in the bank credit should be worked with those who have been there for long in order to have effective credit risk management practice. What is your opinion with the above statements?” For this question 50.9% of respondents were agreed and 12.7% of them agreed strongly. The remaining 20% of the respondents didn’t decide and 16.4% of the respondents are disagreed. Here although majority of the respondents (63.60%) accepted the opinion, 36.40% of respondents are not convinced. The researcher understands working for long years doesn’t matter efficiency for all employees rather the commitment of each employee towards work matters but from credit risk management point of view, it is believed that retaining highly qualified, competent and experienced employees in the credit would benefit in managing credit risk.

The third statement is “The attitude, perceptions, behaviors, styles, practices, and believes of CBE’s employees in managing the credit risk is good”. For this statement 61.8% of respondents were agreed and 20% of them agreed strongly. The remaining14.5% of the respondents didn't decide and 3.6% of the respondents are disagreed. The figure shows 81.8% of the respondents observed credit performers did their work in good faith to minimize credit risk.

In this case this figure supports interpretation of information or analytical results is influenced, among other things, by professional experience, the quality of judgment, knowledge of subjective information which may not have been included in the analysis and our attitude to the problem under consideration.

The fourth statement is "The existing work force composition in skill variety and level in credit appraisal is competent enough with the banks credit risk exposure". For this statement 65.5% of respondents were agreed and 10.9% of them agreed strongly. The remaining16.4% of the respondents didn't decide and 7.3% of the respondents are disagreed. 76.4% of the respondents decided that there is enough composition in skill to appraise credit while 23.7% of the respondents think in the contrary. Because credit process done through team work Commercial Bank of Ethiopia should consider the composition of credit performer's skill, experience and profession that helps to see different credit risk possibilities.

The last statement is "Overall, the credit risk management practice of each and every performer in CBE' is good". For this statement 58.2% of respondents were agreed and 20% of them agreed strongly. The remaining 21.8% of the respondents didn't decide.

For any activity to achieve success, human resource is always at the heart because activities are exercised by the human and the risk appetite is not constant for all credit performers. It will change and evolve over time as the case in which the organization operates changes. Credit performer's appetite towards processing credit by putting their own effort has also crucial impact on quality of credit products. In this regard the researcher proposed open ended question to be field by the respondents and interview were also made to gather sufficient information.

According to their comment even though credit performers do for possible good faith towards quality credit products the existing procedures and policies has updated tools and techniques to manage credit risk so that it is better to implement it. In addition to this they said that Commercial Bank of Ethiopia should update the credit performance to the procedures and policies through training to make them competent enough more than this.

In that case it also helps the bank to manage credit risk and the researcher also shares their idea. In this regard it is the organization that makes credit performers to do beyond the policies and procedures that was existed depending on the case at hand. Because in my opinion though the techniques, rules and steps were there in the procedure and policies of the bank, there may be exceptional cases to be happening in actual situation. In these cases it is the credit performers to do their best to their maximum expertise concerned in order made the credit from the start up to settlement healthy.

# CHAPRTER FIVE

# SUMMARY, CONCLUSION AND RECOMMENDATION

In this chapter the researcher summarizes the major findings with regard to the research objectives, recommends as per the data analysis result and secondary data gathered.

## 5.1 SUMMARY OF MAJIOR FINDINGS

- According to respondents response Senior management had understood their 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 in order to address credit risk in the bank's activities and at both the individual credit and portfolio levels
- The result shows Commercial Bank of Ethiopia achieves significant stapes to keep up to date with current risk management trends by creating credit risk management environment up to date.
- According to respondents response Commercial Bank of Ethiopia identifies possible risks in order to grant credit products with defined parameters and scope. In doing so the bank participate professionals and brainstorming on possible risks. In addition the identified risk were registered for further analysis and also helps the performers to anticipate events and handle before its occurrences and bad consequences. This step will help Commercial Bank of Ethiopia to achieve the objective of the loan and financial performance of the bank at large
- The finding shows Commercial Bank of Ethiopia uses different quantitative and qualitative method of measurements to assess the possible occurrences credit risks. After assessment of the possible occurrences credit risks by using qualitative and quantitate methods Commercial Bank of Ethiopia develops action plans in order to implement and manage credit risk if it happens. Finally risk management processes are well documented and provide guidance to staff about the management of risk.

- From the analysis CBE makes monitoring activities as integral part of credit process in monitoring the existence of response plan and implementation in case of credit risk probabilities, follow up of the loan status and communicating results in time for appropriate decision should help CBE not only minimize credit risk but also to sustain in the banking industry and achieve its vision in general.

- The analysis result shows attitude, perceptions, behaviors, styles, practices, and believes of CBE’s employee in managing the credit risk is good that helps the bank for the quality of judgment, knowledge of subjective information to critically solve problems under consideration.
- The result shows the existing work force composition in skill variety and level in credit appraisal is also competent enough with banks credit risk exposure that helps to see different credit risk possibilities
- According to respondents result the participation of credit performers in credit related staff training is not frequent.
- Respondents result evident that the interval of assessment about credit risk was not made frequently.
- The finding shows Commercial Bank of Ethiopia didn’t give consideration for evaluation like the other credit risk management processes.
- According to respondents result the interval of credit risk management is not frequent as needed.

## 5.2 CONCLUSION

Commercial Bank of Ethiopia as a government owned bank has so many roles in financing different infrastructures and the economy of the country at large. To do this the bank mobilizes finance in different ways from the citizens across the country and counter finances different projects, businesses and infrastructures that plays a catalyst role in the development of the country at a reasonable price. Therefore commercial bank should manage the allocation of mobilized money to repay back to the citizens for further circulation and sustainability. In doing so the researcher tried to investigate the healthiness of credit risk management practice of Commercial Bank of Ethiopia in view of its strategic management development and implementation of its strategy by developing the right techniques and processes by deploying trained and experienced human resources that has a sense of organizational citizenship to manage risk with full heart by using the art of technology.

In general from the study in Commercial Bank of Ethiopia;

- Board of directors and management did actions that determine the long run performance of the organization.
- Senior management had understood their responsibility for implementing the credit risk management strategy approved by the board of directors.
- Commercial Bank of Ethiopia achieves significant stapes to keep up to date with current risk management trends by creating credit risk management environment up to date.
- Commercial bank of Ethiopia identifies possible risks in order to grant credit products with defined parameters and scope.
- Different combination of technique is used to consistently identify credit risk.
- Identified risk was registered for further analysis to anticipate events and handle before its occurrences and bad consequences.
- Commercial Bank of Ethiopia uses different quantitative and qualitative methods to measure and assess the possible occurrences of credit risks.
- Monitoring activities was an integral part of credit risk management.
- Attitude, perceptions, behaviors, styles, practices, and believes of CBE’s employee in managing the credit risk is good.
- The existing work force composition in skill variety and level in credit appraisal is also competent enough with banks credit risk exposure.

## 5.3 RECOMMENDATION

Based on the findings the researcher would recommend following points:

- So as to manage credit risk proactively Commercial Bank of Ethiopia should make frequent credit risk assessment and monitoring as needed.
- Commercial Bank of Ethiopia should inculcate and improve evaluation as a basic process in its credit risk management process, the effectiveness of the risk management strategy should be evaluated frequently, verify whether the resulting risk taking remains in line with the strategy and apply corrections where necessary.
- Communication of results to the concerned credit performers is important to come up with proactive decision especially in preventing credit risks before its bad consequence. Therefore CBE should give due consideration for communication throughout the process of granting credit products up to settlement
- For any activity to achieve success, human resource is always at the heart because activities are exercised by the human and the risk appetite is not constant for all credit performers. It will change and evolve over time as the case in which the organization operates changes. For this reason CBE should consider all credit processing staffs as important factors for healthy credit risk management by giving job related training or other alternatives to empower them for their credit risk management in general by giving discretion

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# RESEARCH QUESTINNAIRE

ST. MARY'S UNIVERSITY SCHOOL OF GRADUATE STUDIES

Questionnaires Objectives: This questionnaire is designed to gather valuable information regarding the Credit Risk management practice of CBE's for partial fulfillment of the requirements for Masters Degree in Business Administration - Project Management. The data collected is used only for study purpose. Thus, your ideas and comments are highly honored and kept confidential. Writing your name is not required and please put your choice as per the instruction. You are also kindly requested to write your opinion on the space provided for the questions that demands your additional view.

**Part One: Background Information**

1. Educational level

☐ Diploma ☐ First Degree (B.A Part one. General back ground information.

,BSc)

☐ Second Degree (MA, MSC, MED) ☐ other, please specify__________________

2. over all banking service years in the CBE

☐ Under 1 year ☐1 – 5 years ☐ Over 5 – 10 years □Over 10 years

3. Your experience in credit field is:

☐ Under 1 year ☐ 1 – 5 years ☐ Over 5 – 10 years ☐ Over 10 years

**Part Two: statements designed to assess the strategic attention and consideration given for credit risk management practice in CBE.**

Please rank the extent to which you agree with the following statements:

| Question | Strongly Disagree | Disagree | Undecided | Agree | Strongly Agree |
|---|---|---|---|---|---|
| 1. Board of directors and management are exercising their power properly to oversight the credit risk management practice of CBE | | | | | |
| 2. Accountability and responsibility of risk management is clearly set out and well understood | | | | | |
| 3. It is important to continuously review and update risk management techniques | | | | | |
| 4. Your bank takes significant steps to keep up to date with current risk management trends | | | | | |

**Part Three: statements designed to assess the credit risk management process and techniques of CBE.**

4 Which techniques/instrument, does CBE use for Credit risk Management in the bank?

☐ Expert judgment ☐ Risk Ratings/grading's

☐ Risk Pricing ☐ Rating with Models

☐ Combination of the above ☐ Any other, please specify ______________________

5 At what interval the Credit Risk assessment and monitoring is done in the bank?

☐ Monthly ☐ Quarterly.

☐ Bi – annually ☐ Annually ☐ More than yearly.

Please rank the extent to which you agree with the following statements:

| Question | Strongly Disagree | Disagree | undecided | Agree | Strongly Agree |
|---|---|---|---|---|---|
| **Risk Identification** | | | | | |
| Your bank identifies and prioritizes its main credit risks | | | | | |
| Your bank registers the identified risk for further assessment | | | | | |
| Your bank involves different professionals to identify credit risk | | | | | |
| Your bank gives due consideration to formal brainstorming credit risk identification | | | | | |
| Your bank gives due attention to the quality of documents submitted by borrowers with respect to the business. | | | | | |
| **Risk Assessment and Analysis** | | | | | |
| Your bank uses numerical methods to assess credit risks | | | | | |
| Your bank uses qualitative methods to assess credit risks | | | | | |
| Your bank effectively assesses the likelihood of different risks occurring | | | | | |
| Your bank develops action plans for implementing decisions and management plans for identified risks | | | | | |
| Your bank's risk management processes are well documented and provide guidance to staff about the management of risk | | | | | |

| Question | Strongly Disagree | Disagree | undecided | Agree | Strongly Agree |
|---|---|---|---|---|---|
| **Risk Monitoring** | | | | | |
| Your Bank's response to risk includes action plans in implementing decisions about identified risk | | | | | |
| Monitoring the effectiveness of risk management is an integral part of routine management reporting | | | | | |
| Your bank do strict follow up about repayment of the loan | | | | | |
| Your bank monitors the allocation of the loan to the intended purpose and its progress | | | | | |
| Monitoring results communicated to credit performers for further actions | | | | | |
| **Risk Evaluation** | | | | | |
| Your bank emphasize on continuous review and evaluation of the techniques used in risk management | | | | | |
| Your bank is able to accurately evaluate the costs and benefits of taking risks | | | | | |
| Your bank is able to accurately evaluate and prioritize different risk treatments | | | | | |
| Your Bank's response to risk includes an evaluation of the effectiveness of the existing controls and risk management responses | | | | | |

6 Any comment on credit risk identification, measurement, monitoring and controlling techniques of, if any, please? ___________________________________________________

**Part Four: Statements to explore the considerations given to human resource skill Variety in order to successfully manage credit risk.**

Please rank the extent to which you agree with the following statements:

| Question | Strongly Disagree | Disagree | Undecided | Agree | Strongly Agree |
|---|---|---|---|---|---|
| 1. Additional training and specializations are required to perform new credit forms like project financing. | | | | | |
| 2. Some people says in the bank credit should be worked with those who have been there for long in order to have effective credit risk management practice. What is your opinion with the above statements? | | | | | |
| 3. The attitude, perceptions, behaviors, styles, practices, and believes of CBE's employees in managing the credit risk is good | | | | | |
| 4. The existing work force composition in skill variety and level in credit appraisal is competent enough with the banks credit risk exposure. | | | | | |
| 5. Overall, the credit risk management practice of each and every performer in CBE' is good | | | | | |

1. How long have you participated in credit- related staff training?

☐ Never at all ☐ under 3 months ☐ Over 3- 6 months ☐ 6 months -1year ☐ over 1 year

2. Any comment on employees training and development in managing credit risk, if any, please specify? _________________________________________________________________
3. What is your opinion on the commitment of credit performers to go beyond the procedure in order to assure the credit facility starting from identification up to settlement?

______________________________________________________________________________

Part V: Interview questions to explore the considerations the research objectives.

1. Dose board of directors considers credit risk management in developing the strategies of the bank & follow up its implementation?
2. Do you believe CBE use different risk management techniques to manage credit risk?
3. Do you believe that CBE follow the path of credit risk management (Identification, measure, develop action plan for treatment, implement, monitor & control throughout the process) and document for lesson drawn to correct problems?
4. Do you believe CBE has efficient communication system as the case happens on time for proactive decision in managing credit risk?
5. Dose CBE has competent work force composition in skill variety and experiences to critically appraise credit requests in accordance with banks procedure and personal effort for its effectiveness?
6. Dose CBE update its credit risk management techniques and processes with changing environment and update the same its employees for its effective credit risk management on time?