St. Marry University

School of Graduate Studies General MBA Program

Practices of Credit Eligibility Assessment and its Perceived Relationship with Operational Efficiency: The Case of Dashen Bank S.C

By

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Declaration

I, Deresse Habtamu hereby declare that this thesis is my original work, prepared under the guidance of Maru Eshete (PhD and Associate Professor). All sources 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 learning institution for the purpose of earning any degree.

________________________ ________________________

Name Signature

Acknowledgment

Praise God, the almighty for successful completion of my research. I am particularly profoundly grateful to my advisor Maru Eshete (PhD and Associate Professor) for his useful and constructive comments, without his committed and unreserved support this work would have not been completed successfully; I am greatly indebted for his constant professional assistances.

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Last but not least, I express my gratitude to my beloved family especially to my beautiful wife Rahel Wondemagegn and my adorable daughters Grace and Edna for your special support, understanding and pray for the completion of this paper.

God Bless You All

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Abstract

Maintaining proudest credit lending process is a prerequisite for any financial institutions so as to effectively process the given loan. Time oriented loan processing has its own remarkable impact in terms of increasing operational efficiency and customer's satisfaction. This research paper is intended to assess the practice of credit eligibility assessment and its perceived relationship with operational efficiency in the case of Dashen Bank particularly its contribution in terms of increasing service quality and customer satisfaction, to see how the bank is using the evaluation criteria during loan processing and challenges faced by the bank on its credit lending process due to application of eligibility criteria. For the purpose of the study both primary and secondary data were collected and used. The primary data were collected using structured questionnaire and interview. The secondary data were also collected from the bank's policy, procedure, different reports, training materials, directives which are issued by National Bank of Ethiopia. Based on the nature of the study, the research design is descriptive with quantitative and qualitative research method. Descriptive statistical tools are used to analyze the data collected. Hence, the nature of the Study is descriptive, the researcher found that the credit lending process of the bank is not fully supported by system, knowledge gaps also observed in understanding and using the credit analysis and appraisal procedure of the bank. The researcher also found relationship between risk grading and creditworthiness, loan processing time, service quality and customer satisfaction. Finally, based on the data analysis recommendations were given. These include, the bank has to arrange training and development session in relation to the credit lending process to fill created knowledge gap, exhaustively see the variables included in the eligibility criteria so as to mitigate the level of customer dissatisfaction and refine the criteria considering the changing situations, design room of providing work around solution for dissatisfied customer bank level in order to decrease migration of customers to other banks, systematize the credit lending process using prudent loan origination modules in order to optimize the operational efficiency and the bank has to pay due attention to partially use relationship based financing other than highly sticking on the analysis based financing.

CHAPTER ONE
INTRODUCTION

1.1 Background of the Study

In today's competitive market, the survival of any organization is highly dependent on the strategy they develop and implement. Besides, it is known that effective and efficient utilization of resources has paramount importance for any organization to improve its productivity and earn remarkable profit. Currently, many businesses are engaged in different sectors by deploying huge amount of investment. Part of their huge investment is financed by creditors mostly in the form of loans from domestic banks found in the country. With this respect, the domestic banks are playing major roles in supporting the development of the county's economy. Extending good loans and advances contributes a lot for the growth of commercial banks and it has an effect in the economy at large. Hence banks have to be highly concerned about the quality of their credit manual and procedure (Dashen Bank, 2005).

Banks are highly concerned to increase their operational efficiency by providing quality loans and develop their own loan evaluation criteria to clearly see the eligibility of their customers for the requested loan. Since the loan they are providing is mobilized from the public in the form of deposit, banks have to make sure that they are extending the right credit to the right customer. In this respect, developing standards for evaluation of eligibility of customers will help them to process and approve loans uniformly. Loans are the most important assets held by banks and cover the major portion of their income. It is equally true that bank loans, as they are profitable, are equally risky unless banks able to manage them. Loans become risky unless the necessary due attention is paid. These risks may happen during loan processing and after loan processing.

Risks that arise during loan processing are due to lack of strong evaluation criterion. This may lead to wrong determination of the customer's eligibility and credit worthiness. Lack of strong evaluation criteria and knowledge gap of credit performers in analyzing the case will have an impact on the amount of loan on which bank's are expected to provide (Teferi, 2002).Therefore, developing and applying prudent evaluation criteria during loan processing help banks to extend the right amount of loan to the right person. Credit risks that arise after loan processing can be minimized by applying good credit follow up procedure. This can also play a major role in minimizing migration of loans from normal status to Non-performing position. According to

NBE's directive No.SBB/32/2002 explanation, non-performing loans are loans or advances whose credit quality has deteriorated (NBE, 2002)..

The ultimate target of banks applying the evaluation criteria is to increase their operational efficiency and meet the expected level of their customer's satisfaction. Knowing what the customer expects is the first and possibly most critical step in delivering quality services. If banks can't meet the expected level of customer, they may start complaining about the service that bank is providing. Unless, banks proactively mitigate this gap, the situation may lead customer's to see other alternative that fills already created gap. The first action customer take as a first option is to migrate to other bank found in the country. This undesired situation has a direct impact on the financial position and performance of the bank. Apply prudent loan evaluation criteria during loan processing and after loan processing, will proactively help the bank to mitigate the possible occurrence of credit risks stated above and this helps the bank to maintain good asset quality. Asset quality measures the degree of recoverability and performance of loan and advances as per the predefined schedules agreed on the loan contract. Besides, the criteria will also help the banks credit performers to handle loan cases uniformly, avoid confusion and misunderstanding and ease management. Therefore, banks has to make sure that the evaluation criteria they are applying can bring the expected outcome in terms of providing good banking service to its customers and increasing their operational efficiency. When banks apply Transparency in lending practices emanates from sound loan policy (Zeleke, 2007).

When customers submit application for loan, the request of the customer is analyzed before extending the requested loan. Credit eligibility criteria help the bank to see the credit worthiness of applicants. Creditworthiness is valuation performed by lenders that determines the possibility a borrower may default on his debt obligations. It considers factors, such as repayment history and credit score. Lending institutions also consider the amount of available assets and the amount of liabilities to determine the probability of a customer's default. The creditworthiness of an individual or company is determined by several businesses who have established credit rating systems. It is essential for every person to keep track of his credit score because this is the primary factor that financial institutions use to decide if the person is eligible for the requested loan. A high credit score or customer that highly meets the eligibility criteria will have high creditworthiness. In general the eligibility criteria analyze the five 'C' of every customer. In the eligibility criteria the applicant's ability to pay the requested loan is assessed in terms of

- Customers strong financial performance and positions
- Line of business the customer engaged
- Credit track registered with commercial banks found in the country
- Structure of the organization and its management competency in terms of year of experience and educational qualification
- Formation of the business
- Business experience of the applicant
- Banking relationship maintained with commercial banks found in the country in terms of deposit, credit and international banking service
- Type, nature and marketability of the collateral offered.

Operational efficiency is the capability of an enterprise to deliver products or services to its customers in the most cost-effective manner possible while still ensuring the high quality of its products, service and support. Operational efficiency is often achieved by streamlining a company's core processes in order to more effectively respond to continually changing market forces in a cost-effective manner. In order to attain operational efficiency a company needs to minimize redundancy and waste while leveraging the resources that contribute most to its success and utilizing the best of its workforce, technology and business processes. The reduced internal costs that result from operational efficiency enable a company to achieve higher profit margins or be more successful in highly competitive markets (Beal, 2018). The operational efficiency of banks can be increased by applying best service delivery mechanisms. This delivery mechanism has to minimize the processes of originating and servicing loans, reducing loan cycle time and eliminate paper documents. It is their operational efficiency that increases the financial position and performance of firms.

Performance, as defined by Lessier (1996), is a means of evaluating how effectively and efficiently organizations use resources to achieve their objectives. The performance of commercial banks is judged by many factors. For the sustainability of commercial banks, profitability is a very significant factor and can be used to measure the performance of commercial banks (Dagmawi, 2011). As per Dietricha and Wanzenriedb's (2009) study explanation regarding operational efficiency, it is the cost income ratio reflect bank’s operational efficiency and it is defined as non interest costs (operating cost, such as administrative costs, staff salaries and property costs excluding bad debts and doubtful expenses) divided by total of interest income and non-interest income. Cost Income Ratio depicts the cost incurred per income generated. The study, therefore, used this variable to see the practices of credit eligibility assessment and its perceived relationship with operational efficiency in the case of Dashen Bank S.C.

1.2 Statement of the Problem

Banks has to take several factors into consideration and acquire sufficient qualitative and quantitative information about their customers before availing loans. Dashen bank has been providing different types of term loans and facilities since its establishment. The bank has currently applied its eligibility criteria so as to evaluate the credit worthiness of customers to qualify for a loan scheme and to avoid or mitigate future credit risks. All customers who are approaching the bank for credit service couldn’t be accepted due to several reasons. For instance, customers may not be accepted due to their unacceptable credit worthiness, poor business performance, bad credit character and the value and nature of collateral they offered. Owing to these, only customers who are identified to be eligible through the credit evaluation process could be accepted (Dashen Bank, 2016).

The developed evaluation criteria consists of analyzing different mathematical models like risk grading and ratio analysis. After assessing and analyzing the market situation, the bank has assigned weight for every variable considering their degree of importance. The amount of the loan which is going to be availed will be determined based on the grade each customer scored. In the evaluation criteria the subjective and objective nature of the customer is analyzed and automatically graded to the respective rank called risk grade. Application of risk grading can be seen as an essential part of credit lending process. Due to its absence, the probability of loans switching to bad is high. If customer applications are well managed during loan processing, it will increase the bank’s profitability and sustainability in the future. However, if the bank failed to do so, it will be the major threat to its survival (Koch & MacDonald, 2003). Thus it requires sound credit policy and procedure; qualified credit line performers and efficient credit lending process that increase the operational efficiency of the bank. This research paper aims at the practices of credit eligibility assessment and it’s perceived relationship with operational efficiency of Dashen Bank particularly its contribution in terms of increasing service quality and customer satisfaction, to see how the bank is using the evaluation criteria during loan processing and challenges faced by the bank on its credit lending process due to application of the criteria.

Any gap between what the application of eligibility criteria should be and what it actually is will be identified in the study.

1.3 Objective of the Study

1.3.1 General Objectives

- The general objective of this study is to assess the practices of credit eligibility assessment and its perceived relationship with operational efficiency in the case of Dashen Bank S.C.

1.3.2 Specific Objective

- To explore the practices of the bank's loan processing
- To examine challenges faced by the bank due to implementation of the evaluation criteria
- To assess the perceived relationship between eligibility criteria and customer's satisfaction
- To describe the perceived relationship between eligibility criteria and operational efficiency

1.4 Scope and Limitation of the Study

Since it is difficult to assess and address all the bank's credit operations, the study was limited to the banks credit performers found at corporate and district offices here in Addis Ababa. During conducting the study, the researcher encountered some difficulties like obtaining the required data at the right time from the respondents was a challenge. Besides, time constraint was also a challenge in conducting the research.

1.5 Significance of the Study

This research identified problems associated with the criteria and ways of mitigating them. In addition, it enables the bank to take any remedial action based on the findings of the study. Besides, this paper will give insights to other researchers who want to further study on the eligibility criteria or other related business researches. It will also help readers to understand and update their knowledge how Dashen Bank is using the eligibility criteria during loan processing and to indicate the banks credit performers what is expected from their side as a professional in applying and analyzing the criteria.

1.6 Organization of the Paper

The thesis is organized in five chapters. Chapter two, deals with the review of literature in the area of credit eligibility. Chapter three includes research methodology of the study. Chapter four result and discussion and the last chapter deals with the conclusions drown and recommendations that originates from the result and discussion. Finally, list graphs and tables will be attached as an appendix.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

Banking is a financial intermediary business engaged in dealing on others money. A financial intermediary is an institution that acts as an intermediary (for two parties with a specified inter-related demand) by matching the supply and demand of funds (Beck, 2001). It is presumed that banks are licensed to engage in rendering financial service with major responsibility of facilitating the saving and investment function within the economy or jurisdiction they are operating. Heffernan (1996) defined banks as intermediaries between depositors and borrowers in an economy which are distinguished from other types of financial firms by offering deposit and loan products. This perspective is meant for addressing the notion that banks are playing a vital role in linking the instrumental activities that enhance the improvement of an economy by extending financial assistance or service for those committed in creating production capacity through development of investment projects that require financial resources which is expected to be mobilized through accepting deposits from the public, both private and government entities. Bossone (2001) agrees that banks are special intermediaries because of their unique capacity to finance production by lending their own debt to agents willing to accept it and use it as money.

The activities of commercial bank primarily focus on receiving deposits and providing loans, which are two aspects of credit operations. Among other things, receiving deposits or fund mobilization is considered as an 'input' activity of the bank, while lending or fund utilization is considered an 'output' activity. Concurrently, the efficiency of fund mobilization and utilization at banks should have causal impacts on each other (Frederic S. Mishkin, (1995). Like any other business institutions, the primary objective of commercial banks is to sustain their profitability and growth. Their sustainability and survival will be achieved by making profit. The major profit banks earn is highly dependent on both volume and quality of loan they are providing. Good quality of loan can only be considered as a good source of earning high profit. The effect of maintaining low volume and poor quality of loans has a direct impact on the profitability of the bank. Maintaining poor quality loans is highly related and has clear reflection on the loan processing activity. This is why banks develop their credit evaluation criteria in advance so as to mitigate the possible occurrence of availing poor quality loans.

2.2 Concept and Definition

Loan is a financial asset of a development finance institution arising from a direct or indirect advance of funds or commitment to advance funds by a development finance institution to a person that are conditioned on the obligation of the person to repay the funds, either on a specified date or dates or on demand, usually with interest. The term includes a contractual obligation of a development finance institution to advance funds to or on behalf of a person, claim evidenced by a lease financing transaction in which the development finance institution is the lesser, and line of credit to be funded by the development finance institutions on behalf of a person (NBE, 2010). It is also defined as a certain amount of money that is given by one party to the other party with the expectation of it being fully repaid. A lender granting temporary use of a sum of money to borrower, who must repay the money that, was borrowed over a fixed term, in addition to the interest on the loan or debt, that was incurred, defines loan. Generally, a financial loan typically refers to monetary debt, although it is possible to lend any material possession, aside from sales, the lending of money is the most frequent type of commercial transaction that occurs in a modern economy (Dashen Bank, 2016).

Credit is borrowed money that you can use to purchase goods and services when you need them. You get credit from a credit grantor, whom you agree to pay back the amount you spent, plus applicable finance charges, at an agreed-upon time. Bank credit is an amount of funds that a person or business can borrow from a bank (JhiNGan, 2002). In economics, the term credit refers to a promise by one party to pay another for money borrowed or goods or services receive. It is a medium of exchange to receive money or good on demand at some future date. Credit defines as the right to receive payments or the obligation to make payment on demand at some future time on account of the immediate transfer of goods (JhiNGan, 2002). The principal reason commercial banks are operating in their environment is to maximize their profit by extending credit facilities to their customers. Banks are expected to support their local business comminutes with an adequate supply of credit for all legitimate business and consumer finical needs and to price that credit reasonably in line with competitively determined interest rates. Indeed, it is the principal economic role of banks to provide loans to the business entities and individuals who are engaged in various economic activities. The bank's role in finding involves assisting prospective borrowers by availing working or investment capital from which it generates profit. How well a bank performs its lending function has a great deal to do with the economic development of the country, because bank loans support the growth of new businesses and creates jobs within the banks' environment and promote economic growth. Moreover, bank loans often seem to convey positive information to the marketplace about a borrower’s credit quality, penalty, enabling borrowers to obtain more and perhaps somewhat cheaper funds from other sources. For most commercial banks, loan accounts are half or more of their total assets and about half to two-third of their revenue. This clearly infers the high degree of banks should pay while extending credit facilities to their customer. (Yonas, 2004)

2.2.1 Loan Classifications

1) Loan Classification Based on Type

Loans based on type are classified as *term loan* and *facility loans*. *Term loans* are loans generally repayable at regular payments within a fixed number of installments period of time. Facility loans are also loans like overdraft facility, letter of credit facility and merchandise loans. *Overdraft loans are facility loans* that permit an account holder to use or withdraw more than they have in their account, without exceeding a specified maximum negative balance. Such facility is usually granted to well establish customers with sizable businesses as a supplement to their working capital. In order to be eligible for overdraft facilities the applicant has to be a customer of bank with good current accounts operations. However, the facility granted to new customers is based on some criteria of banks. These criteria’s are discussed later under Loan eligibility criteria. *Letter of credit Facility* is a line of credit taken by a business entity, which can come in a variety of types with a variety of terms and used for a variety of purposes. A letter of credit facility is a written commitment to pay, by a buyer's or importer's bank (called the issuing bank) to the seller's or exporter's bank (called the accepting bank, negotiating bank). *Merchandise loan* this is the type of facility by which customers are provided with credits against pledge of goods, commodities. The duration of this loan is for three months. (Dashen Bank, 2018).

2) Loan Classification Based on Maturity Time

Loans based on their maturity time are classified as short, medium (intermediate) and long term loans. *Short Term Loans* are loans which are categorized under less than or equal to one year loans. These loans are availed for special commitment of customers for a single purpose to cover cash shortage, such as for special inventory purchase, unexpected increase in account receivable or a need for interim financing. *Intermediate or Medium Term Loans are also* usually run greater than one year and less than or equal to five years. These types of loans include finance for purchase of furniture, fixtures, vehicles, plant & office equipment. Consumer loans for automobiles, household furniture, are also good examples of intermediate loans. *Long Term Loans* are loans that fall between five and twenty five years. This may include mortgage loans which are used to purchase real estate and are secured by the asset itself. Besides, project term loans are best examples of loans term loans. (Dashen Bank, 2018).

3) Loan Classification Based on Purpose

Considering their purpose, loans can be classifies as working capital loans, investment loans, consumer loans and revolving credit facility loans. *Working capital loans* are loans and advances to be availed for the purpose of financing current assets which are presumed to cover costs of raw materials, labor, business administration activities, marketing, sales and distribution and operational overheads including maintenance and spare parts. It mainly focuses on ensuring sustainable liquidity position of the business entity. A working capital loan is a loan that is taken to finance the everyday operations of a company. Working capital loans are not used to buy long-term assets or investments and are, instead, used to cover accounts payable, wages, etc. Companies that have high seasonality or cyclical sales cycles usually use working capital loans to help with periods of reduced business activity. *Investment purpose Loans* are loans and advances to be availed for the purpose of covering capital expenditures or non-current assets which are presumed to cover costs of capital goods, non-recurrent renovations, research and development, long term business programs, acquisition of businesses or investment properties, business re-organization and financial re-construction. Capital goods includes building and construction, industrial machineries and equipment, industrial technologies, office machineries and equipment, long-term advance for lease payments, long-- term advance for copy right and patent right fees, furniture and fixtures. The other classification of loan by purpose *Consumer Loan* are also loans and advance to be availed to consumers for the purpose of procurement of residential houses, automobiles, households and home supplies, health service, education service, life insurance and other social needs. An amount of money lent to an individual for personal, family, or household purposes. *Revolving Credit Facilities* are Credit instruments designed for tenor based financial support which include advance on L/C, Merchandise loans, export pre-shipments (including export credit guarantee scheme availed by DBE), export post-shipments (including revolving overdrafts or export bills discounting) and bridge trade finance. Some of revolving credit facilities offered by the bank are: (Dashen Bank, 2018).

- **Advance on L/C:** Temporary documentary credits availed to import customers until the documents are collected by the customer from the Bank so as to facilitate receipt of the goods from customs office after fulfilling the custom formalities.
- **ECG Loans:** Short term export loans availed to exporters against export credit guarantee scheme issued by Development Bank of Ethiopia based on the exporters experience and performance to facilitate procurement, processing, transportation and distribution of selected exportable commodities.
- **Export Post-Shipment Loans:** Short term or temporary loans availed to exporters on the strength of valid export documents to facilitate shipment of the export commodities to foreign market.
- **Export Pre-Shipment Loans:** Short-term or temporary loans availed to exporters based on the experience and performance of the exporters on the strength of irrevocable letter of credits or bonafide sales contracts to facilitate procurement, processing, transportation and distribution of the export commodities.
- **Merchandise Loans:** Short term or temporary loans availed to customers engaged in domestic trade and others, who relatively keep high stock volume because of their production or distribution strategy, to facilitate the smooth flow of goods in the customer's production and distribution system. The loan is availed against the pledge of the proposed merchandise provided that the customer has good warehousing system and the goods are non-perishable, non- specialty, non-fragile, non-flammable, non-obsolete, produce of non- disruptive technology and fast moving.

4) Loan Classification Based on Economic Sector

Loans are also classified based on their respective sector. (Dashen Bank, 2018).

Agriculture Sector: Economic activities that involves cultivation of crops, horticulture, floricultures, breading of animals and development of live-- stock, development of dairy farms, development of commercial forestry and preparation of animal feeds.

Construction Sector: Economic activities that involves construction site survey, designing, engineering, consulting, site preparation and excavation works, construction, procurement and management of construction projects by undertaking main contracts or sub contracts. It also includes rental and leasing of construction machineries.

Domestic Service Sector: Economic activities that involves rendering of services in management consultancy and training services, legal advisory and attorney services, investment advisory and commissioning, accounting and auditing firms, printing and distribution of printing articles, houses, health services, education, hospitality services, mechanical and electro-mechanical services, art and art gallery, films and software, music, museums, symposiums, exhibitions, flight ticketing offices, cleaning and maintenance services, and promotions. The hospitality service involves provision of accommodation, conference, food and beverage, catering, recreation centers, tour and travel and cultural expositions.

Domestic Trade Sector: Economic activities that involves collection, storing and distribution of agricultural and industrial inputs and outputs on a wholesale or retail basis. It facilitates the flow of goods from the producers through the input market to the final individual consumers and corporate consumers through the output market. It mainly focuses on supplying of goods produced in the domestic market and imported goods in the domestic market.

Export Sector: Economic activity that involves collecting, producing, processing and supply of agricultural and industrial goods and services to the foreign market. It also includes domestic services that supply more than 75% of their annual services to the foreign market.

Import Sector: Economic activity that involve sourcing goods and services from the foreign market and supply to the domestic market.

Manufacturing Sector: Economic activity that involves sourcing of agricultural and industrial inputs and process, finish and supply to the output to the local or foreign market. Operational manufacturing units that supply more than 75% of their annual outputs to the foreign market can be classified under export sector.

Mining Sector: Economic activities that involve exploration, extraction, processing and supply of natural resources to the market. Extraction and processing of metallic and non-- metallic natural resources including stones fall under this category. Operational mining plants that supply more than 75% their annual out outs to the foreign market can be classified under export sector.

Real Estate Sector: Economic activities that involve development of buildings for the purpose of selling and renting or leasing. It could also involve construction of roads, railways, bridges, dams and concrete reservoirs for commercial purpose provided business entities are allowed to engage in such investment. Operational Real Estates that transact more than 75% of their annual services in foreign currency can be classified under export sector.

Transport Sector: Economic activities that involve rendering of moving services. Cargo transport, railway transport, air transport, maritime transport and canal transport are under this category. The transport service also includes public transport in all possible means.

Consumer/Personal Sector: It involves activities focused on provision of services to the consumer to ease consumption. It includes facilitation of provision of residential houses, transport service vehicles, households, home supplies, health services, education services and other social needs.

2.2.2 Loans and Advances

The 2017 annual report of Dashen Bank clarifies the word loan and advance is that, **Loan** is a sum of money that a bank avail to borrowers for temporary use, the borrower is expected to repay back the loan amount within the agreed fixed repayment period, including interest on the borrowed amount. The loan contract which is signed by the bank and the borrower at list should include the loan principal amount, interest rate, penalty charges if customer fails to pay the stated repayment amount, installment start date, installment amount, maturity date, mode of repayment, collateral offered to secure the loan. **Advance** is also credit facilities in the form of written promises and should not necessarily be given on physical money like loans. (Dashen Bank Annual Report, 2017)

2.2.3 The Major Sources of Loan and Advance

A bank is an organization whose principal operations are concerned with the accumulation of the temporarily idle money of the general public for the purpose of advancing to other investment. Deposits are the major sources of loan-able fund in commercial banks, deposits provide most raw materials for bank loans and advances, thus it represent the ultimate source of bank profit and growth. As other profit making organizations commercial banks are aiming at maximizing their profit by increasing the quality and quantity of the loans. Banks mobilize deposit from depositors by offering interest and other features of benefits that meet customers' needs better than alternative uses of funds. Deposits can be categorized in to the following major forms:

- **Demand or Current Deposit:** are funds such as checking account balances, which may be withdrawn in whole or in part at a time. (United Bank Quarter Report, 2016)

- **Saving Deposit:** are funds accumulated for special purpose or cash saved for the future, which earn compound interest. It is common practice to permit the depositor to withdraw these funds without advance notice of intention to do so. (United Bank Quarter Report, 2016)
- **Time Deposit:** relatively high interests earning bank deposit for a specified period. Withdrawal before the end of the specified period results in partial or total loss of accrued interest. (Dashen Bank monthly News Letter)

2.2.4 Loan Processing

It is the entire sequence of steps, from the time a loan application is received (or a loan offer is accepted) to the time loan is closed, the loan proceeds are disbursed, and the aggregate amount (principal plus interest) is placed on the lender's books as an asset. (Business dictionary)

Before a bank agrees to commit its funds to a company, its loan performer analyze the prospective borrower to determine credit worthiness. Loan performers have responsibility to grasp the quantitative and qualitative details of each transaction thoroughly, analyze its variables and make adequate for their impact (Muller, 1981)

Loan Processing Steps

As per the bank's credit processing and appraisal procedure, 2018 loan processing should pass the following steps:

- **Customer acquisition** it is the first stage of loan processing where customers are acquired through in person "visit" or existing ones.
- **Interview**: after customers are acquired, the respective relationship manager interviews the applicant in which regard they want to work with the bank. The relationship manager through their interview introduces the banks deposit and credit product and figure out the best solution for the customer.
- **Field Visits:** the relationship manager together with the credit analyst visit the applicant's business sites to see the overall operation of the business.
- **Initiation:** after the customer is convinced to work with the bank, the first document used to proceed the loan processing is receiving the loan application of customer. The loan application of a customer should state clearly the application date, loan application

reference, applicant name, purpose of loan, loan amount required, mode of repayment, duration of the loan period, signature of the applicant and type of collateral to be offered. Besides, relevant legal documents like valid and renewed trade and registration license, audited or provisional financial statements, tax clearance, copy of collateral certificate, marriage certificate, proforma invoice, tax identification number etc has to be presented with the loan application.

- **Evaluation:** a process through which applicant's actual need for bank loan is assessed; viability of the business and repayment capacity is measured. Assessment of financial soundness can be done by analyzing financial statements of the applicant, which could be audited or provisional. But, for those customers who are not keeping financial record, the bank resort to fill in the information required for analysis in a format already prepared to serve the purpose.
- **Documentation:** the relationship manager collect and organize all related documents which are used for further loan analysis and organize them on the separate loan file. If security documents are received, the original certificates are separately kept in safe lock.
- **Credit Information:** the credit administrator generates credit information to see the applicant's credit reputation, credit exposure and nature of loan repayment.
- **Property Estimation:** the bank assessor together with the relationship manager performs the estimation of collateral offered.
- **Due Diligence:** after the relationship manager fulfills all the above requirements, he/she prepares loan application form "LAF" by clearly incorporating what he/she has seen during the site visit. In addition to the above hard copies, the relationship manager states the subjective nature of the applicant.

2.2.5 Credit Analysis and Appraisal

The relationship department sends the document already organized to the credit analysis and appraisal department for detail and further analysis. In this department deep analysis about the borrower capacity of servicing the loan is computed. It is done to ensure that loans are made in appropriate terms to clients who can and will pay it back.

What analysis is needed and in what scope, is primarily determined by the type and size of loan, but the ultimate purpose is to place good loans so that both parties can benefit from it and meet their objectives. In properly analyzing the credit worthiness of borrowers, lenders often look at some five factors that are known as the five C's of credit. (Ballard, 2003)

The Five C's

This is a method of evaluating a borrower incorporates both qualitative and quantitative measures. The bank look at a borrower's credit reports, credit scores, income statements and other documents relevant to the borrower's financial situation, and they also consider information about the loan itself.

Character

Sometimes called credit history, the first C refers to a borrower's reputation or track record for repaying debts. This information appears on the borrower's credit reports. The report is generated from credit bureaus server of National Bank of Ethiopia. The requested report contain detailed information about how much an applicant has borrowed in the past and whether they have repaid their loans on time. Information from these reports helps lenders to evaluate customer's credit risk. The general rule is the higher a borrower's credit scores, the better their chances are to receive an approval.

Character is also about the manner of the borrower in terms of having a well defined purpose, and a responsible attitude toward using the borrowed sum. Responsibility, truthfulness, serious purpose, and intention to repay are important elements in evaluating character. The credit officer can ensure this through serious interviews. (Dashen Bank, 2017)

Capacity

Capacity measures a borrower's ability to repay a loan by comparing income against recurring debts and assessing the borrower's debt-to-income (DTI) ratio. Lenders calculate DTI by adding together a borrower's total monthly debt payments and dividing that by the borrower's gross monthly income. The lower an applicant's DTI the better their chances of qualifying for a new loan.

Earning can be taken as a good indicator of loan repayment capacity. For instance, for a poor farmer, the capacity can be determined by looking the possible discretionary income he/she can have. That is income left after meeting essential requirements like food, and clothing. The average family size should be taken in to consideration since it affects the discretionary income to a large extent. A family with three members can have better discretionary income than a family with six members because the total income that seems to be fixed is going to be shared by large number as the family size increases. Another factor that can dictate the capacity of the borrower is the indebt of the borrower so far. For instance, if he is indebted to someone else, he/she may use the proceed he gets from selling the product towards the payment of his earlier debt (Ballard, 2003)

Capital

Lenders also consider any capital the borrower puts toward a potential investment. A large contribution by the borrower decreases the chance of default. The success of the business depends on the motivation attached to ownership interest, Banks will have to make sure that there is proportionate risk of the owners in the venture; hence the level of capital will have to be evaluated to ensure that the risk is shouldered by the party with ownership interest. In this connection factors like customers net worth, equity in home and other assets should be taken as indicators. (CBE, 2000)

Condition

The environment surrounding them affects borrowers. For instance, climatic condition (absence of rain, for example) is one factor that affects the agricultural sector. Farmers are much affected by drought, hail, and uneven rainfall. The ability of farmers to repay their debts is directly linked to such risk in terms of successful crops, selling stocks etc… In addition to this, market for the product is another condition that affects the capacity of farmers to pay back their loans. For instance, if the productivity in other areas of the country is good, then the price for agricultural product will decline which adversely affect the cash flow of the farmer. All conditions that can affect the borrower in the future should be assessed before the loan is granted. Failure to recognize such things may lead to bankruptcy especially if the loan portfolio is concentrated on certain regions. (Teferi, 2002)

Collateral

Collateral is the security held to back up the loan in the event of possible default. It can be anything of value, which is readily saleable.

2.2.6 Credit Evaluation

Effective management of the lending function is central to the business of banking. In turn, an effective risk evaluation process is a pre-requisite for successful lending. Banks' processes for risk rating or grading loans help management make informed lending decisions and monitor risk on an ongoing basis. (Sandra Macias, 2018)

Credit evaluation and approval is the process a business or an individual must go through to become eligible for a loan or to pay for goods and services over an extended period. It also refers to the process businesses or lenders undertake when evaluating a request for credit. Granting credit approval depends on the willingness of the creditor to lend money in the current economy and that same lender's assessment of the ability and willingness of the borrower to return the money or pay for the goods obtained plus interest in a timely fashion.

Granting of credit depends on the confidence the lender has in the borrower's credit worthiness. Credit worthiness encompasses the borrower's ability and willingness to pay the loan. Creditors and lenders utilize a number of financial tools to evaluate the credit worthiness of a potential borrower. When both lender and borrower are businesses, much of the evaluation relies on analyzing the borrower's balance sheet, cash flow statements, inventory turnover rates, debt structure, management performance, and market conditions.

The following are some of the factors lenders consider when evaluating an individual or business that is seeking credit.

Credit worthiness: A history of trustworthiness, a moral character, and expectations of continued performance demonstrate a debtor's ability to pay. Creditors give more favorable terms to those with high credit ratings via lower point structures and interest costs.

Size of debt burden: Creditors seek borrowers whose earning power exceeds the demands of the payment schedule. The size of the debt is necessarily limited by the available resources. Creditors prefer to maintain a safe ratio of debt to capital.

Loan size: Creditors prefer large loans because the administrative costs decrease proportionately to the size of the loan. However, legal and practical limitations recognize the need to spread the risk either by making a larger number of loans or by having other lenders participates.

Frequency of borrowing: Customers who are frequent borrowers establish a reputation which directly impacts on their ability to secure debt at advantageous terms.

Length of commitment: Lenders accept additional risk as the time horizon increases. To cover some of the risk, lenders charge higher interest rates for longer term loans.

Social and community considerations: Lenders may accept an unusual level of risk because of the social good resulting from the use of the loan. Examples might include banks participating in low-income housing projects or business incubator programs.

The following issues are also some of the factors Dashen Bank is using when evaluating an individual or business that is seeking credit. (DB Credit Procedure and Manual, 2018)

Liquidity: All credit applications can be positively entertained only when the business of the customer is proved to exhibit the required level of liquidity which can be determined by the Bank based on its periodical assessment of financial index for different sectors.

Profitability: The Bank extends financial support only to value creating businesses. The capability of business firms to create value can be measured at least in the short term using the level of profitability. The level of required profitability for each sector is determined by the Bank based on its periodical assessment.

Safety: The financial supports extended to customers should be secured by the intangibles or tangible assets of the customers. The management should determine the level of the security required based on the credit risk grade of the customer.

Purpose: All credit applications should clearly state the very purpose of the financial support required and same should be ensured by the Bank. Only legitimate purposes that create economic value and are acceptable by the credit policy and procedure of the Bank can be entertained.

End Use: All financial supports extended to customers should be closely monitored to ensure that the end use of the fund is according to the purpose agreed during the credit approval.

Feasibility: All credit applications related to new projects and expansion projects should be checked for feasibility before financing; and for this the customer or the project sponsor should present feasibility study.

National Priority: With no contradiction to the primary objective of the Bank to ensure its profit optimization, the credit deployment activities should be strategically aligned to the national economic priorities based on the related opportunities.

Sector Diversity: The credit deployment plans of the Bank should be fairly distributed to all economic sectors taking in to account the respective economic opportunities and risks.

Transparency: The credit lending process should ensure that the customer is well informed about the Bank's credit policies and procedures. And also, the Bank should be well informed of the customer's business events and transactions relevant to the credit decision making.

Commitment: The capability and commitment of the customers should be ensured before the Bank extends its financial support. The Bank should join customers as financing partner after ensuring that the customers have the required level of resources, both tangibles and intangibles, to conduct the business as expected.

After the above credit lending principles are fulfilled, the customer relationship manager start engaging in to customer recruitment and selection process. The Relationship Managers carry out preliminary marketing researches around the respective market segments to track and take list of potential customers who should be attracted to work with Dashen Bank and they issue letter of expression of interest to the identified potential customers for business relationship.

2.2.7 Loan Eligibility Criteria

It is a criterion that has been standardized by lenders to evaluate the credit worthiness of a customer to qualify for a loan scheme. Dashen Bank developed loan eligibility criteria to minimize the effect of individual perceptions in loan evaluation. On Dashen Bank's credit manual eligibility criteria's are stated broadly according to the purpose of the loan and type of the loan. In general, the basic loan eligible criteria that the customer should bring at time of loan application are:

- Management profile of the company that clearly shows the company's management competency in terms of year of experience and academic qualifications.
- Renewed trade, registration and investment license including TIN No of the applicant and shareholders of the company
- Provisional and/or audited financial statement for those who keep financial record and FCR "Financial credit report" for those who are not maintain book of record.
- Collateral offered to secure the loan (unless clean base)
- Situation requires; such as article and memorandum of association in the case of non –natural legal persons.
- Feasibility study in case of projects finance.

In order to qualify for a loan, the following criteria's are needed to be fulfilled by all applicants a preliminary check.

A. Basic documents required to be fulfilled

- Loan application
- Renewed business documents (valid trade license, trade registration, TIN No etc)
- Marriage certificate
- Financial statements (audited or provisional with supportive documents)
- Article and Memorandum of Association
- Business plans
- Statement of duty tax
- Recent tax clearance certificate
- Power of attorney
- Performa invoice
- Sales agreements
- Security related documents
- Testimonial letters
- Banks statements

B. Customers are expected to clearly state on their letter of application including the following key issues

- Amount requested, mode of repayment, loan period, purpose of the request, offered value and type of collateral, name of applicant, date of application, application reference number etc
- Profitability of the business should be justified
- In financing investment or project loans, the project proposal or the feasibility study has to accommodate the future social, governmental and economical benefits of the intended project by computing required financial analysis like its payback period, net present value, and interest rate of return.
- The business operational experience (when it started operating)
- Unless treated exceptionally, sufficient collateral has to be offered.

2.2.8 Dashen Bank's Borrower's Risk Rating Parameters

Scoring the credit worthiness of borrowers based on the predefined parameters both financial and non-financial. The borrowers risk rating is done to insure the credit scoring parameters of the eligibility criteria in the credit decision making are properly captured, to insure the analytical processes undertaken at credit processing centers in the recommendation document are consistent with the approval processes undertaken as shown in the approval document, insure the credit decision will clear out the subjective elements and sentiments in the credit processes. The content of the credit decisions will have enhanced objectivity that avoids disruptive arguments as between counter committee members, insure the customer recruitment and selection, acquiring, extension and retention activities do have multiple factor analysis where in the decisions will be free of biased single factor and sentimental orientations, insure transparency in all the relationships established with the borrowers, insure the monitoring and controlling of the quality of loans and advances, assist in setting loan pricing and maintain appropriate level of loan provisioning (DB Credit Manual Part Two, 2017). According to the bank's policy and procedure, the following parameters are used to rate borrower's risks grading.

Financial Position

The financial position of any business entity helps to analyze and understand the production capacity, resource-base, the strength of the business engagement and organizational commitment of the entity in its respective sector. It also helps to understand how the business entity is financially engineered. Evaluation of the financial position of the business entity of the subject uses the liquidity position, financial leverage and activity ratio as primary measurement metrics.

Financial Performance

The financial performance report helps to understand the financial gearing and operational gearing level of any business. It helps to measure the financial benefits of the resources committed to run the business. As such, we can easily understand the revenue structure and cost structure of the operation; and thereby the efficiency and effectiveness of the value/cost engineering efforts of the operations management of the business can also simply be analyzed. Evaluation of the financial performance of the business entity of the subject uses the gross profit margin, operating profit margin, net profit margin and return on total asset as primary measurement metrics.

Cash Flow Position

The cash flow position helps to understand the sources and applications of the financial resources of the envisaged business. It is, however, used here as measure of transactional robustness to ensure adequacy and sustainability of the internal financial resource base. The strength of the reliance of this measurement depends on the degree to which the customer channels its payments and receipts through the account maintained at Dashen Bank. It measurement is weighted in term of the account swing and turnover and sales volume of the customer and the Bank. Evaluation of the cash flow position of the business entity uses account turnover, account swing and sales turnover.

Credit Profile

The credit profile helps us to understand the credit character, loan exposure, debt servicing capacity and repayment habit of a customer. It majorly comprises of the soft elements of the relationship between the bank and the customer. Evaluation of the credit profile of the business entity uses credit exposure, debt service capacity and credit history.

Organization and Management

Organization and Management is crucial element of any business engagement because it is the area where most businesses can develop their respective core capabilities and competitive advantages. The financial resources, physical resources and human resources need to be properly configured to enhance the operational efficiency and strategic effectiveness of businesses. This is possible only through prevalence of appropriate organization and management. It is the instrument that guarantees delivery of expectations up to promises. The relevant factors or measurement metrics to be considered in evaluation of the organization and management level of businesses are form of organization and management competence.

Collateral Position

Whenever loan requests are presented, the magnitude of the loan to be advanced to the potential customer is usually determined based on the analysis made on the historical financial data presented by the customer. Because of the information asymmetry and market imperfections in the business environment we are operating, it is always advisable to extend secured credits to mitigate possible risks. Hence, collaterals are worth considering in extending credit services.

After considering the all the above borrowers risk rating parameters, risk impact will be categorized under unacceptable, acceptable with mitigation, acceptable and preferred.

2.2.9 Borrower's Risk Grading:

There is no one correct system for grading loans, and as noted, approaches vary widely across banks of different sizes and levels of complexity (Winter 2017). A formal evaluation of borrower's financial health and ability to repay debt obligation is called credit rating which helps the bank to grade the concerned customer. The Credit Risk Grading reflects the underlying credit risk for a given exposure, deploys a number/ alphabet/ symbol as a primary summary indicator of risks associated with a credit exposure and it is a module for developing a Credit Risk Management system (Hossain & Chowdhury, 2011). The credit risk grading system is vital to take decisions both at the pre-sanction stage as well as post-sanction stage. At the pre-sanction stage, credit grading helps the sanctioning authority to decide whether to lend or not to lend, what should be the pricing for a particular exposure, what should be the extent of exposure and what should be the appropriate credit facility and the various risk mitigation tools. At the post-sanction stage, the bank can decide about the depth of the review or renewal, frequency of review, periodicity of the grading, and other precautions to be taken. Having considered the significance and necessity of credit risk grading for a Bank, it becomes imperative to develop a credit risk grading model which meets the objective outlined above. This manual describes in detail the process required to spread and analyze the financial statement of a bank, identify the critical risk elements, mitigate these risk and provide appropriate weight age and marking to the risk element and thereby arrive at a systematic risk grading for an effective credit decision. "Bangladesh Credit Risk Grading Manual, 2017"

Mosharrafa (2013) found that credit risk grading technique is an important tool for credit management as it helps a bank to understand various dimensions of risk involved in different credit transactions. Lahsasna et al. (2010) emphasized that credit risk decisions are key determinants for the success of financial institutions because of huge losses that result from wrong decisions. Poor evaluation of credit risk can cause money loss (Gouvea 2007). Wu Et Al. (2010) stressed that credit risk assessment is the basis for credit risk management in commercial banks and provides the basis for loan decision making. Furthermore, Angelini et al. (2008) stressed that risks continues to provide a major threat to successful lending despite advancements in credit evaluation techniques and portfolio diversifications. Credit risk assessment is an integral part of the loan process in banking business. Both credit scores and credit ratings are credit risk assessment tools. Credit scoring is a credit risk management technique that analyzes the individual borrower's risk and is expressed in numerical form. On the other hand, credit rating is often expressed as a letter grade, conveying the creditworthiness of a business or government. Without a thorough risk assessment, banks have no way of knowing if capital reserves accurately reflect risks or if loan loss reserves adequately cover potential short-term credit losses.

Functions of Credit Risk Grading

Well-managed credit risk grading systems promote bank safety and soundness by facilitating informed decision making. Grading systems measure credit risk and differentiate individual credits and groups of credits by the risk they pose. This allows bank management and examiners to monitor changes and trends in risk levels. The process also allows bank management to manage risk to optimize returns. The Credit Risk Grading matrix allows application of uniform standards to credits to ensure a common standardized approach to assess the quality of an individual obligor and the credit portfolio as a whole (Bangladesh Credit Risk Grading Manual, 2017).

Financial Analysis

A thorough financial analysis requires preparation of the following: year to year comparisons of financial statements, cash flow statements, liquidity analysis, capital structure analysis, projections and sensitivity analysis, estimation of asset value such as market value and liquidation value and comparison of actual versus budgeted performance (Mason, 1991).

Qualitative Assessment

Credit evaluation also requires assessment of the character and capabilities of the persons to whom a loan may be extended, i.e. the persons responsible for achieving the goals of the operation and financial plans. Lenders must determine the quality, breadth and depth of the management team. Assessing their ability to implement operating and financial plans will give the lender insight into the management team's capability. Banks pay high price for hasty credit decisions. Though judging the integrity of a new customer takes time, integrity is a critical component of any lending decision.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Design and Approach

Research design entails the detail exploration of the specific case, which could be community, person or organization. Generally, research design is a framework for collecting and analyzing data as the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in producer (Bryman, 2008). Research design is determined by the nature of a research problem, objectives, questions, data, sample and population, and factors that affect data collected. It can be classified in to three groups namely, exploratory, descriptive and causal researches. Since this research aims at describing the practice of credit eligibility assessment by Dashen bank and its perceived relationship to operational efficiency and customer's satisfaction, a descriptive research design was adopted as it fits better to the study's objectives.

3.2 Study Population and Sample Selection

Credit performers found at corporate and district office were considered as population of the study. Since the total number of employees found in the department is manageable i.e. 92 the study were used all employees as respondents. Considering the size of population to be studied, census was conducted and the questionnaires were distributed to the target population. In addition to this, personal interview was made with identified and selected two employees of the bank as stated in the below table. The employees were selected considering their credit line experience and role they played during application of the eligibility criteria. The study population consists of Chief Vice President, District Managers, Directors, Customer Relationship Managers, Credit Analysts, Credit recovery officers Credit Administrators, Credit follow up Experts and selected borrowers. Eight borrowers of the bank were taken as sample using convenience or accidental sampling technique. The researcher used this sampling technique is due to unavailability of list of all borrowers who closed their loan accounts because of the eligibility criteria. The researcher selected the borrowers to get first hand information to strengthen the findings. Borrowers that are highly suit with the research topic are selected from the exit interview of the bank using the above sampling technique.

Table 3.1: Distribution of Sample Respondents

No	Position	Population Size	Questionnaire	Interview
1	Chef Vice President Customer Relationship Department	1	✓	✓
2	Director Corporate Analysis and Appraisal	1	✓	✓
3	Senior Manager Corporate Analysis and Appraisal	1	✓	
4	Director Customer Relationship Managers	3	✓	
5	Corporate Senior Credit Analysis	12	✓	
6	Corporate Senior Customer Relationship Managers	22	✓	
7	District Credit Analysts	16	✓	
8	District Customer Relationship Managers	16	✓	
9	Director Credit Recovery and Portfolio	1	✓	
10	Senior Manager Credit Recovery and Portfolio	1	✓	
11	Corporate Credit Administrators	5	✓	
12	Credit follow up experts	5	✓	
13	Credit recovery experts	4	✓	
14	District Credit Administrators	4	✓	
15	Credit Customers (Borrowers)	8		✓
	Total	**100**		

3.3 Data Source and Method of Data Analysis

In conducting this study, both primary and secondary data were used. Primary data was collected through questionnaire and in-depth personal interview were made with the above selected credit performers of the Bank and selected borrowers.

In addition, secondary data were collected through document analysis. This was achieved through the review of documents, publications and reports. Much of these documents were from the company's document publications like policy, procedure, manual, different reports, training material etc. Quantitative data were analyzed using descriptive statistics such as frequency and percentages, and the results were presented in tables and graphs.

CHAPTER FOUR
RESULTS AND DISCUSSION

4.1 Introduction

The data collected through the questionnaire and direct personal interview from the target respondents is so as to understand the practice of credit eligibility assessment and its perceived relationship with operational efficiency of Dashen Bank. The research questions are presented with unique code and percentage show the number of respondents to each question from the total participants together with the corresponding responses being uniquely coded, frequency and percentage. The frequency shows the response with the highest relative frequency. A total of 92 questionnaires were distributed to credit performers of the bank found under Credit Department supervision and all the questioners were properly filled and completely collected. All the responses obtained from the respondents were relevant and useable to conduct the research. Therefore, the following findings and discussions were made considering the data collected through the questionnaire.

4.2 Characteristics of Respondents

The characteristics of the respondents have a great contribution in understanding the credit policies and procedures of the bank in relation to how the credit lending process is performed. Thus, in this work process the demographic characteristics of respondents like gender, age and educational qualifications are assessed here under. As presented in table 4.1, the gender mix of employees who are working in the area of credit; accordingly out of the total 92 respondents, 63 percent dominated by male and 29 percent is female as it is depicted in above table 4.1. The above table indicates the age proportion of respondents. About 54 percent of the respondent's age falls between 31 up to 40 and 42 percent of the respondent's age range between 20 up to 30. This implies most of the respondents are young and adolescence that are competent in archiving the banks organizational goal and objectives. The remaining 3 percent of respondent's age range from 41 up to 50.

Table 4.1: Characteristics of Respondents

Variables	Response	Frequency	%
Sex of respondents	Female	29	32
	Male	63	69
	Total	**92**	**100**
Age of respondents	20-30	39	42
	31-40	50	54
	41-50	3	3
	Above 50	-	0
	Total	**92**	**100**
Work experience in Credit Processing	Below 5 Years	29	32
	6-10 Years	42	46
	11-15 Years	15	16
	16-20 Years	6	7
	Total	**92**	**100**
Respondent's Role in the Company	Credit Analyst's	20	22
	Relationship Manager's	24	26
	Portfolio and Recovery Management	19	21
	Director's	3	3
	Credit Administration Officer's	21	23
	Senior Manager CAAD	1	1
	Internal Credit Controller's	3	3
	Branch Manager	1	1
	Total	**92**	**100**
Respondent's Current Responsibility	Credit Analysis and Appraisal Dept	24	26
	Customer Relationship Department	41	45
	Credit Portfolio and Recovery Department	23	25
	Other	4	4
	Total	**92**	**100**
Respondent's Educational Qualification	Diploma	5	6
	First Degree	61	66
	Masters	26	28
	Total	**92**	**100**

Source: Survey Result (2019)

The majority of the respondents identified to have been working in a credit line for the year that ranges from 6 up to 10, while32 percent of them had years of experiences ranging from 0 to 5 years. The remaining 23 percent of respondent's year of experience in the credit line ranges from 11 to 20 years. It is known that educational qualification of credit performers found in the credit line has a great role in making day to day credit related decisions. In terms of educational qualifications of the respondents, above 66 percent of the respondents are first degree holders, 28 percents are master holders and the remaining 6 percents are diploma holders.

4.3 Results of the Descriptive Analysis for the Study Variables

4.3.1 Credit Policy and Procedure

For ease of understanding, please note that the response frequency was measured using scales where 1 stands for strongly disagree, 2 stands for disagree, 3 stands for neutral, 4 stands for agree and 5 stands for strongly agree. The value under each measurement scale shows the number of experts who opted for that scale category. The percentage shows the rate of the response frequency value.

Table 4.2: Credit Policy and Procedure

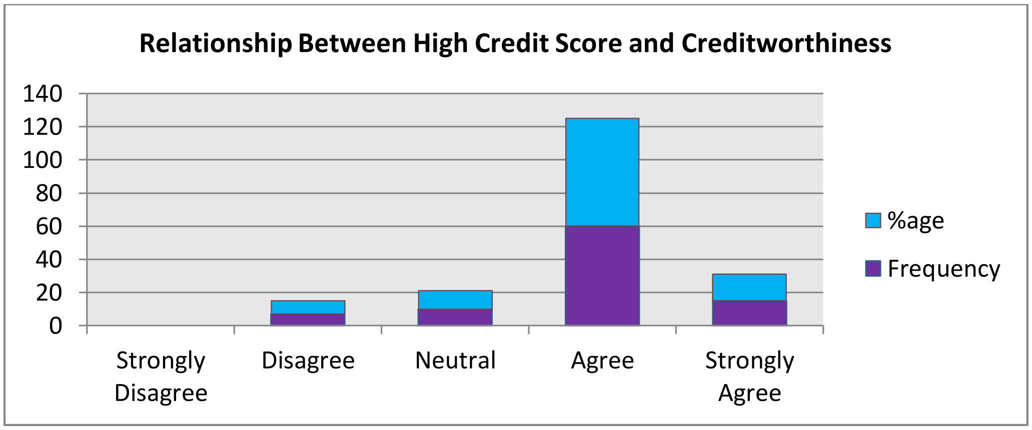
Description	Significance										Total	
	1		2		3		4		5			
	Fre	%age	Fre	%age	Fre	%age	Fre	%age	Fre	%age	Fre	%age
A. Predefined Loan Processing time Frame	1	1	6	7	7	8	64	70	14	15	92	100
B. Guideline of determining customers creditworthiness	2	2	4	4	7	8	69	75	10	11	92	100
C. System supported loan processing	6	7	36	39	12	13	35	38	3	3	92	100

Source: Survey Result (2019)

Producing and developing credit policy and procedures as well as other pertinent manuals and guidelines help to create common understanding and uniformity among all employees (Dashen Bank, 2018). Besides, in order to run the banks daily credit operation in a smoothly manner and avail the right loan at the right time, defining activities to be performed by every credit performers plays a major role. As per the above table 4.2 **item A** shows 70 percent of the respondents agreed that the bank has a predefined loan processing time frame. Besides, 15 percent of the respondents strongly agreed that the bank has already included the loan processing time frame for each of loan application. Moreover **item B** indicates 75 percent of respondents replayed the bank has already established a guideline of determining customers creditworthiness. About 11 percent of the respondents found under **item B** also strongly agreed that the bank has its own guideline of determining the credit worthiness of its customers. For the question found under **item C** the researcher try to know whether the bank is using system supported loan processing or not. Accordingly, 39 percent of respondents disagreed about the availability of the system and 38 percent of respondents agreed and supported the research question.

4.3.2 Loan Processing, Credit Score and Credit Worthiness

Muller, 1981 explains loan performers have responsibility to grasp the quantitative and qualitative details of information for each transaction thoroughly, analyze its variables and make adequate for their impact. Further, the study also attempted to describe the relationship between having high credit score and credit worthiness. The majority of the respondents, constituting 65 percent of the respondents replayed that there is high relationship between credit score and creditworthiness. As per the respondents response the customer who has high credit score or meets the eligibility criteria will be highly creditworthy (see Graph 4.1).



Graph 4.1: Relationship between Credit Score and Creditworthiness
Source: Survey Result (2019)

As it is known credit risk grading is an important tool for credit risk management as it helps the banks & financial institutions to understand various dimensions of risk involved in different credit transactions. Well-managed credit risk grading systems promote bank safety and soundness by facilitating informed decision-making. Loan processing is a time from the date of loan application is received to the time the loan is approved or declined. During this period different data's are involved to be analyzed. As per the above table 4.3 **item A** 65 percent of respondents agreed that the bank use qualitative and quantitative information of customers during loan processing. Furthermore, 25 percent of respondents strongly agreed that the stated data is highly consumed by the bank during appraisal of a given loan. For the question under **item B** 35 percent of respondents responded that application of risk grading has reduced the loan processing time of customer's application. In addition to this 11 percent of respondents strongly agreed that application of risk grading has significantly reduced the processing time. Under this investigation 34 percent of respondents were neutral.

Table 4.3: Loan Processing and Risk Grading

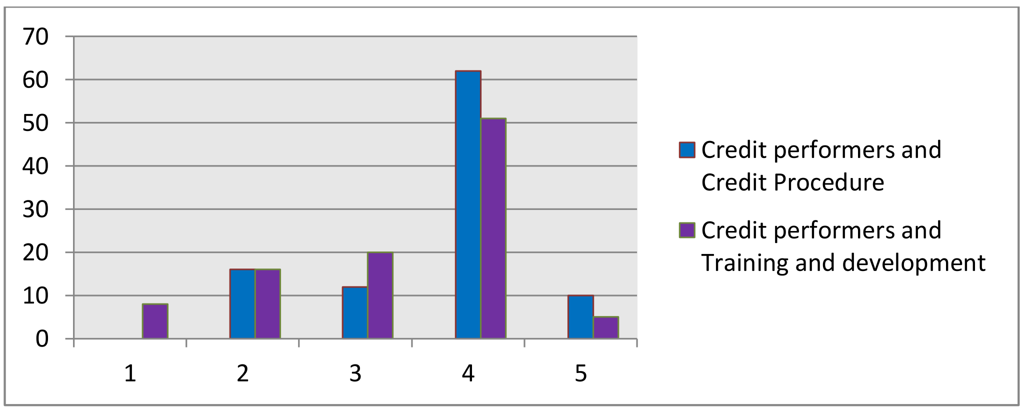
Description	Significance										Total	
	1		2		3		4		5			
	Fre	**%age**	**Fre**	**%age**	**Fre**	**%age**	**Fre**	**%age**	**Fre**	**%age**	**Fre**	**%age**
A. Loan processing and qualitative and quantitative information	1	1	3	3	5	5	60	65	23	25	92	100
B. Risk grading has reduced the loan processing time	2	2	14	15	34	37	32	35	10	11	92	100
C. Overall credit analysis method is efficient enough	9	10	37	40	20	22	26	28	0	0	92	100
D. Timely credit processing and operational efficiency has a relationship	2	2	2	2	5	5	60	65	23	25	92	100

Source: Survey Result (2019)

Under **item C** the researcher try to see the overall credit analysis approach applied by the bank is efficient or not. In this regard 40% of respondents replayed that they disagree about the efficiency of credit analysis applied by the bank. Besides, 10 percent of the respondents strongly disagreed that the credit analysis method used by the bank is not efficient enough. Under this research question 22 percent of respondents are neutral. Under the last **item D** the majority of respondents, constituting 65 percent of respondents replayed they are agreed that timely loan processing and operational efficiency are highly related. Additionally, 25 percent of respondents strongly agreed that operational efficiency can be achieved by reducing the processing time.

4.3.3 Capacity of Credit Performers in Appraisal Process

The researcher was interested to know if the credit performers of the bank had a clear understanding about the credit analysis and appraisal process of the bank. Besides, the researcher examined if the credit performers of the bank undertaken any training and development sessions to fill the gap in the credit analysis and appraisal processes. In addition to this, the researcher intended to see challenges faced by the bank due to application of risk grading. This was important for the study because one of the objectives of the study was to examine challenges faced by the bank due to implementation of the evaluation criteria. Since the application was new for the bank, every credit performers of the bank were expected to have full knowledge about the application and interpretation of the loan processing output. During application time, the bank faced challenges due to credit performer's knowledge gap on how to use the application in the credit lending process and high resistance to accept the change were the major challenges faced by the bank. It has taken its own time to fully engage and utilize risk grading. This has lead customers to reflect their dissatisfaction due to late engagement of the bank. This has affected the bank not to extend the already available fund to borrowers at the right time. As per the below Graph 4.2, 27 percent of respondents agreed credit performers of the bank don't have clear understanding about the credit analysis and appraisal process of the bank. On the other hand, 34 percent of the respondents disagreed that the bank is not arranging training and development sessions for the credit performers so as to fill the knowledge gap in relation to the credit processing activity. (see Graph 4.2).



Graph 4.2 Credit performers and Credit Analysis and Appraisal Procedure

Source: Survey Result (2019)

4.3.4 Perceived Relationship between Credit Eligibility Criteria and Customer Satisfaction

In the current banking industry it is obvious that banks gain competitive advantage by rendering efficient service and thereby enhancing customer relationship. It is pivotal for all players in the financial service industry to understand the needs of the customer and customize services based on their needs. This in turn will pave way for achieving customer satisfaction to a larger extent. The researcher was interested to know the customers perception and level of satisfaction in relation to the newly applied risk grading eligibility criteria. This finding helped in answering one of the objectives of the study, which was to examine criteria's contribution in terms of customer satisfaction.

Table 4.4: Credit Eligibility and Customer Satisfaction

Description	Significance										Total	
	1		2		3		4		5			
	Fre	%age	Fre	%age	Fre	%age	Fre	%age	Fre	%age	Fre	%age
A. The eligibility criteria is on the way satisfying all credit sector customers	10	11	44	48	18	20	18	20	2	2	92	100
B. Eligibility criteria's used by the bank are enough in determining the credit worthiness of customers	7	8	34	37	15	16	28	30	8	9	92	100
C. Credit exposure is reduced due application of risk grading	3	3	14	15	19	21	48	52	8	9	92	100
D. Dissatisfied customer affect the financial position and performance of the bank	3	3	5	5	11	12	49	53	24	26	92	100
E. Room of entertaining customers with less risk grade	6	7	22	24	33	36	30	33	1	1	92	100

Source: Survey Result (2019)

As per the SPSS data analysis indicated in the above table 4.12, under **item A** the researcher was interested to know whether the newly applied eligibility criterion is in the way to satisfy all sector credit customers. Accordingly, the majority of the respondents constituting 48 percent of the total respondents disagreed about the issue and 8 percent of the respondents were also strongly disagreed. In addition to this 20 percent of respondents were neutral and the remaining 22 percent of the respondents replied as the eligibility criteria applied by the bank is in the way to satisfy all sector credit customers. Under **item B** the researcher was also need to address the applied eligibility criteria's of the bank are enough in determining the credit worthiness of customers. Accordingly, the majority of the respondents constituting 37 percent are disagreed. Besides, under **item C** the researcher tried to investigate whether of the applied risk grading has reduced the previously credit exposure of customers. The result stated that 52 percent of the respondents agreed due to application of the criteria the previous credit exposure of customer was affected or reduced. The majority of respondents constituting 53 percent of respondents found under **item D** replayed the banks financial position and performance directly affected by those dissatisfied customers. Lastly the researcher, tried to know if there is any room of entertaining those customers with less risk grading and 36 percent of respondents were neutral.

4.3.5 Perceived Relationship between Risk Grading and Operational Efficiency

Banks include risk grading during loan processing so as to help the management to make informed lending decisions and monitor risk on an ongoing basis (Macias, 2018). Hossain & Chowdhury also explained credit risk grading can be a module for developing a credit risk management system in order to enhance the operational efficiency of a business. Lahsasna et al. (2010) emphasized that credit risk decisions are key determinants for the success of financial institutions because of huge losses that result from wrong decisions. Poor evaluation of credit risk can cause money loss (Gouvea 2007). Financial analysis consists of tools and techniques applied analytically to commonly-used financial statements such as balance sheets, income statements, cash flow statement etc. Financial statements are used to identify useful information in making business decisions and used as a screening tool to determine which companies are worth investing in and as a forecasting tool to estimate how well a business will perform in the future. In addition to the financial statement, creditors use the credit profile, organizational management and collateral position of the customers before making any credit decision. As per the above table 4.5 the research tried to see whether the bank use the above mentioned customer information for determination of their credit worthiness and eligibility. The findings summarized from the above structured questionnaire indicated that the bank use the applicants financial position, performance, cash flow statement, organizational structure, credit profile and offered collateral for the determination of their creditworthiness.

Table 4.5: Grounds for Determining Customer Creditworthiness

Description	Significance										Total	
	1		2		3		4		5			
	Fre	%e	Fre	%e	Fre	%e	Fre	%e	Fre	%e	Fre	%
A. Customers financial position and their creditworthiness	0	0	1	1	5	5	73	79	13	14	92	100
B. Customers financial performance and their creditworthiness	1	1	1	1	4	4	72	78	14	15	92	100
C. Customers cash flow statement and their creditworthiness	0	0	3	3	3	3	75	82	11	12	92	100
D. Customers organizational management and their creditworthiness	1	1	1	1	2	2	73	79	15	16	92	100
E. Customers credit profile and their creditworthiness	1	1	2	2	5	5	73	79	11	12	92	100
F. Customers collateral and their creditworthiness	0	0	3	3	3	3	64	70	22	24	92	100

Source: Survey Result (2019)

Operational efficiency refers efficient utilization or use of human and material resources. Better utilization of any or a combination of resources can increase output of goods and services and reduce costs. Operational efficiency is the tactical planning of an organization to keep a healthy balance between cost and productivity. It deals with minimizing waste and maximizing the benefits of resource to provide better services to the customers. In table 4.6 the researcher was interested to know risk grading contribution in terms of increasing operational efficiency, increasing asset quality, maximizing profitability and decreasing availing poor loans. The majority of the respondents were replayed for the above research question is that, there is high relationship between risk grading and operational efficiency, risk grading plays a major role in increasing the asset quality and profitability of the bank. Besides, the majority of the respondents also answered the grading system has played a major role in reducing availing poor loans.

Table 4.6: Risk Grading and Operational Efficiency

Items	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agreed		Total	
	Fre	%	Fre	%	Fre	%	Fre	%	Fre	%	Fre	%
A. Risk grading and operational efficiency are highly related	1	1	6	7	11	12	65	71	9	10	92	100
B. Risk grading plays a great role in maintaining the bank's asset quality	0	0	5	5	6	7	62	67	19	21	92	100
C. Risk grading plays a great role in maximizing the bank's profitability	0	0	2	2	17	18	59	64	14	15	92	100
D. Do you believe customer satisfaction and operational efficiency are highly related	2	2	1	1	6	7	56	61	27	29	92	100
E. Do you believe availing poor loans will affect the financial position and performance of the bank	1	1	1	1	5	5	47	51	38	41	92	100

Source: Survey Result (2019)

4.4 In Depth Interview

In addition to the above structured questionnaire, the researcher was interested to conduct interview with individuals stated on the sample study to acquire first hand information. The main objective of this interview was to see the criteria's contribution in terms of operational efficiency and customer's satisfaction and challenges faced by the bank due to application of eligibility criteria. In order to get deep understanding how the bank is using the credit eligibility criteria in its day to day credit activity and customers perception about the eligibility criteria, in-depth interview was conducted with the banks two employees and eight borrowers. Most of interview responses are discussed in the structured questionnaire analysis part in order to strengthen respondent's response.

Before directly engaging in summarizing and briefly discussing the interview responses, the guide line of the interview is depicted as follow. First the researcher selected interviewees from the bank; after profiling their position, role and experience in relation to the topic of my research. Since the study aims to see the practice of the bank is using the eligibility criteria during loan processing, there is no better option than customer relationship and credit analysis and appraisal departments of the bank to conduct the interview with since the staffs are solely using the application every day. The employees were selected for the interview considering their current position, experience in the credit line and direct role they have during the development and application of eligibility criteria and the borrowers were selected from the exit interview they made before closing their loan accounts. The sample customers were selected from the exit interview they made. Since the bank is not using the exit interview consistently across the board, the researcher was unable to set the total population of borrowers and selected eight borrower's who are best suiting with my research topic using convenience sampling technique.

Next the researcher wrote down the requirements that are going to be addressed through the interview. Since this is an additional way of collecting primary data, the researcher set priority to ask about the actual credit lending practice of the bank and customer's perception about it. The questions that the researcher raised to the interviewee were in the way to meet the research objectives.

The summary of the interview questions together with interviewee response is discussed here under:-

A) Interviewee's profile and Banking Relationship

Since the staffs profile is already discussed in the above structured questionnaire analysis part, in this section only profile and banking relationship of borrowers is discussed. The first question the researcher asked the borrowers were for how long they were working with the bank and a type of banking service they were using. From the summarized interview, the banking relationship of the customers ranges from 2 up to 6 years. Most of the respondents have in common in utilizing the banks service. They were credit, deposit and international banking customers of the bank. The nature of business engagement of the customers were diversified by its nature like import sector, transport sector, construction machinery rental sector, domestic trade and service and manufacturing. Before switching to other banks, the customers were availed and settled different term loans ranging from one up to four credit loan accounts.

B) Eligibility Criteria and Customers satisfaction

As it is known anything applied on the company's service package has to meet the requirement of the customers. Service providing company's existence is highly dependent on the service they are providing. Their existence is determined based on the positive responses obtained from their customers. Besides, to be successful in the industry and keep the growing track of the business, service providing company's has to pay due attention on how they are providing their intended service.

In this regard the researcher raised the first question to clearly understand borrower understanding and level of their satisfaction in relation to the banks credit lending process. Most of the respondent's response indicates that the bank has good credit lending process. As per their clarification, once a customer submits the loan request, the bank start analyzing all available information to determine whether the requested loan meets the banks risk-return objectives. Credit analysis is essentially default risk analysis, in which a loan officer attempts to evaluate a borrower's ability and willingness to repay. During loan processing the following information's and documents are used as an input to start loan processing. The respective relationship manager conduct interview and business visit to clearly see the current condition of the business. All observed information's are addressed on the due diligence they prepare. This helps to further know the existing customers capital, capacity, collateral and character and condition of the business. Interviewees also explained they are required to submit their loan application indicating application date, name of borrower, line of business, type and amount of loan, purpose of the request, life of the loan, mode of repayment and collateral offered to secure the request, management profile to see management competency, statement that shows the financial position and performance of the borrower for viability of the borrower business, legal documents like trade license, registration, TIN, tax clearance letter, memorandum of association, article of association, credit history of applicants etc. The second question the researcher raised was to know the reason why they switch to other banks. Most of the respondents replayed, they were banking with the bank for long time and was availed and settled several loan accounts with good repayment habit. But after application of risk grading, their borrowing capacity were significantly reduced and this affected their day to day business operation. They further explained, the variables included in the credit eligibility criteria and score assigned to each variable is not exhaustively done considering all sector customers. Since the customers were working in a diversified sector, the evaluation techniques were expected to consider nature of each business requirements. Respondent's also replied the eligibility criteria mainly concentrate on analysis based financing and less room on relationship based financing. Some of the documents which are requested by the bank for loan processing purpose were mandatorily and required to be fulfilled from the customer side to qualify the loan processing. As per their explanation even if they complained about the issue, the bank was not in the position to give them immediate solution and they are forced to see other alternatives.

C) Eligibility Criteria and Challenges faced by the bank

As per the interview conducted with the banks employees, the major objective of the bank applying risk grading on the credit and lending process was to mitigate credit risk that arises from availing poor loans. They also explained this kind of application is used by many banks found all over the world before they availed the requested loan. From their explanation the application plays a major role to proactively mitigate availing loans that migrate to none performing status. They also explained there was a knowledge gap in using and interpreting the application by some credit performers. Besides some of them where not fully engaged on the expected time. This has somehow affected the loan processing and delivering time of the bank. The researcher also asked about those customers who are switched to other banks due to application of risk grading and explained the application were affected the borrowing capacity of some borrowers.

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusions

This research paper is conducted to evaluate the effect of credit eligibility criteria on the operational efficiency of Dashen Bank. In so doing, primary data were collected through structured questionnaire and personal interview. In this chapter, conclusions of the research finding that are analyzed and discussed in the preceding chapter are briefly presented. The conclusions are mainly in the way to answer the research objective of this study.

Without direct interference and contribution of employees it is impossible for businesses to achieve their predetermined goal and objectives. Well experienced, educationally qualified and competent employees play a major role in realizing the success of the business. From the analysis, the majority of employees working in the credit line are well experienced, young and adolescence having good energy to deliver the expected service. In addition, Degree holders take the major share in relation to educational qualifications.

The credit policy, procedure, manuals and guidelines of the bank help the credit performer's too uniformly carryout their day to day business dealings. Besides, it helps to create a common understanding on every aspects of credit activity they perform. The majority of the respondents reflected the credit analysis and appraisal process of the bank in good. They indicated during loan processing the bank uses the customers financial statements, organizational managements, credit profile and collateral offered as an input for determination of customer's creditworthiness. In addition to this qualitative aspect of customers is also taken in to consideration during loan processing. But from the analysis we can observe that there are credit performers who are in need of training and development so as to fully understand and own the credit analysis and appraisal process of the bank.

The researcher also investigated that there is high relationship between credit score and creditworthiness of customers. Meaning a customer with high credit score can be termed highly creditworthy and can get the requested loan amount. Besides, this research also identified timely processing the requested loan has direct impact on the operational efficiency and performance of the bank in terms of increasing profitability, asset quality and customers satisfaction within reduced time and cost.

Most of the respondents revealed that the eligibility criteria applied by the bank is not in the way to satisfy all business sector customers. In addition, criteria's included in the risk grading are not enough to clearly and exhaustively determine the eligibility of customers for the requested service. Besides, most of respondents replayed the borrowing capacity of existing customers were reduced due to application of risk grading and this has adversely affected the expectation of some customers. As a result of this, some customers were enforced to switch to other banks in need of good credit exposure. Some respondents also replayed that this shift has affected the financial position and performance of the bank.

In addition, the personal interview found out that due to application of risk grading some borrowers were dissatisfied and obligated to shift to other banks. The majority of the interviewee were replayed there credit exposure was reduced due to the application and they were forced to look other solution since there were no other option given from the bank side.

5.2 Recommendation

Based on the findings, analysis and conclusion, the researcher would like to forward the following recommendations to the management and concerned stakeholders of Dashen Bank S.CO.

- As it is discussed in the analysis part of the study, the credit performs of the bank should have a clear understanding about the credit analysis and appraisal procedure of the bank. Besides, it is advisable that the bank to arrange training and development sessions for the employees so as to fill the gap and deliver the expected service in relation to the loan processing.
- From the research investigation and discussion made in the preceding chapter, credit eligibility criteria applied by the bank is not in the way to address all sector borrowers and this created dissatisfaction from the customer side. Hence, the bank is advisable to give more emphasis and exhaustively go through all the details of risk grading variables and refine them so as to meet the expected level of customer's satisfaction found in all sector of the economy.
- The bank should have room of entertaining customers whose credit exposure is reduced due to application of risk grading so as to retain them.

- Since we are living in a changing environment, the bank should accordingly make the necessary amendments on the risk grading parameters so as to comply with the changing situation.
- From the finding obtained, the credit process of the bank is not fully systematized or automated. Hence, the bank is advised to apply prudent loan origination module so as to increase the operational efficiency of the bank and to remain competent in the industry.
- The bank is advisable that paying due attention on relationship based financing for prominent customers other than analysis based financing.
- The bank is advisable to consistently use borrowers exit interview with those customers who are closing their loan account before maturity date. This may help the bank to proactively plan and take the necessary action and reduce the number of early settlements that arises due to dissatisfaction of borrowers on the credit lending process.

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APPENDIX

The Questionnaire

St. Marry University
School of Graduate Studies General MBA Program
Questionnaire

Dear Sir/Madam I am a graduate student in School of Graduate Studies General MBA Program, St. Marry University. Currently, I am conducting a research on "**The Effect of Credit Eligibility Criteria on the Operational Efficiency" in the case of Dashen Bank S.C**. The research is undertaken as academic requirements of partial fulfillment of the requirements for the Degree of General MBA. To assist me, on the following pages, be asked to indicate whether or not you agree with a set of statements concerning the credit operation of your company specifically how your company's is doing in determination of customer's credit worthiness using the banks stated eligibility criteria. I do sincerely hope that you take the time to answer all questions, and do so honestly. Finally, I confirm you that your response will be kept confidential and only used for academic purpose. Thank you in advance for your kind cooperation and dedicating your time. If you have any inquiry, please feel free and contact me at dere371795@yahoo.com

Yours sincerely

Deresse Habtamu

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Part I. Please select the correct answer by putting tick sign (√)

1. Gender Female ☐ Male ☐
2. What is your age? ____________ Years.
3. Your role at your company ____
4. How long have you worked in the area of your current responsibility? _________ Years.
5. In which of the following functions is your current responsibility?
   - ☐ Credit Analysis and Appraisal Department
   - ☐ Customer Relationship Department
   - ☐ Credit portfolio and recovery Department
   - ☐ Other

6. Educational Qualification

Diploma ☐ First Degree ☐ Masters ☐

Other please specify ___________________________

Part II: The following statements and questions are intended to measure the extent on which the **Credit Policy and Procedure** of the Bank has proactively addressed.

Instruction: Please select the correct answer by putting tick sign (√) on the scale ranging strongly agree through Strongly Disagree in the appropriate space provided.

Q. No	Questions on Credit Policy and Procedure	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1.	My organization has predefined loan processing time frame	☐	☐	☐	☐	☐
2.	My organization has system supported loan processing	☐	☐	☐	☐	☐
3.	My organization has a clear guideline of determining customers credit worthiness	☐	☐	☐	☐	☐
4.	My organization has exhaustively addressed all the eligibility criteria in the way to satisfy its customers	☐	☐	☐	☐	☐
5.	My organization arranges a training and development session to its credit performers to fill gaps in credit processing activities	☐	☐	☐	☐	☐

Part 2: Instruction: Please select the correct answer by putting tick sign (√) on the scale ranging strongly agree through Strongly Disagree in the appropriate space provided.

Q. No	Questions on Credit Eligibility and Creditworthiness	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
6.	A high credit score or customer that highly meets the eligibility criteria will have high creditworthiness	☐	☐	☐	☐	☐
7.	The bank uses qualitative and quantitative information of customer's as an input during loan processing	☐	☐	☐	☐	☐
8.	Application of risk grading in the loan processing has reduced the loan processing time	☐	☐	☐	☐	☐
9.	Do you believe application of risk grading on loan processing enhance the operational efficiency of the bank					
10.	Timely credit processing and operational efficiency has a relationship	☐	☐	☐	☐	☐
11.	Credit performers found in the credit line have a clear understanding about the credit analysis and appraisal procedure of the bank	☐	☐	☐	☐	☐
12.	The eligibility criteria's used by the bank are enough in determining the credit worthiness of customers	☐	☐	☐	☐	☐
13.	Criteria's stated under risk grading on the credit policy and procedure of the bank is in line with satisfying all credit sector customers.	☐	☐	☐	☐	☐

14.	Do you believe the overall credit analysis method applied by the bank before extending the requested loan is efficient enough	☐	☐	☐	☐	☐
15.	There are customers whose existing credit exposure (borrowing) limit is reduced due application of risk grading	☐	☐	☐	☐	☐
16.	Do you believe migration of dissatisfied customer to other banks directly affect the financial position and performance of the bank	☐	☐	☐	☐	☐
17.	There is a room of entertaining those customers whose risk grade is less from the standard	☐	☐	☐	☐	☐
18.	The bank determines the creditworthiness of the customers by analyzing their financial position	☐	☐	☐	☐	☐
19.	The bank determines the creditworthiness of the customers by examining their financial performance	☐	☐	☐	☐	☐
20.	The bank determines the creditworthiness of the customers by looking into their cash flow statement	☐	☐	☐	☐	☐
21.	The bank determines the creditworthiness of the customers by analyzing their credit profile	☐	☐	☐	☐	☐
22.	The bank determines the creditworthiness of the customers by analyzing their organization and management	☐	☐	☐	☐	☐
23.	The bank determines the creditworthiness of the customers by analyzing their collateral position	☐	☐	☐	☐	☐

24. Why do you think the factors stated above affect the credit worthiness of customers? Give short descriptions of the reasons if any for each item based on your response under question No 17-22.
   a) Financial position ____
   b) Financial performance ____
   c) Cash flow Statement ____
   d) Credit Profile ____
   e) Organization and Management ______________________________________
   f) Collateral position ____
   1. Please mention if there is any criterion stated under borrowers risk rating that contributes less for enhancement of the banks operational efficiency. And why?
   ____
   ____.

Q. No	Questions on <u>Operation Performance</u>	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
25.	Do you believe risk grading and operational efficiency are highly related?	☐	☐	☐	☐	☐
26.	Do you believe application of risk grading has an impact on the operational performance of the bank	☐	☐	☐	☐	☐
27.	Risk grading plays a great role in maintaining the bank's asset quality	☐	☐	☐	☐	☐

28.	Risk grading plays a great role in maximizing the bank's profitability	☐	☐	☐	☐	☐
29.	Financial and non-financial measures are used to measure and manage the overall operational performance of the bank	☐	☐	☐	☐	☐
30.	Do you believe customer satisfaction and the bank's operational performance are highly related	☐	☐	☐	☐	☐
31.	Are you satisfied with the current operational performance of the bank?	☐	☐	☐	☐	☐
32.	Do you believe availing poor loans will affect the financial position and performance of the bank	☐	☐	☐	☐	☐

Interview Questions

With (Staff's)

1. For how long you have been working at credit department and what is your current role at the department?
2. Does your organization have well structure credit policy and procedure?
3. What was the major intension of the bank to apply risk grading?
4. What was the application contribution in terms of increasing the loan processing time, profitability and customer satisfaction?
5. What was the customer's response after applying the credit eligibility criteria?

With (Borrower's)

1. For how long you have been using working with the bank and which banking service you have been using?
2. Have you ever availed and settled loan from the bank? If so how many loan and how was the nature of your settlement?
3. What was the major reason for early settling the loan account found at the bank and your major reason why you switch to other banks?
4. Are you satisfied with the current applied credit lending process of the bank?
5. Is there anything you want to say regarding the credit lending process of the bank?