ST.MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIES

CREDIT MANAGEMENT PRACTICE OF UNITED BANK S.CO

BY: KIDIST BEKELE

ID No: SGS/0050/2009B

JUNE, 2019

ADDIS ABABA, ETHIOPIA

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A THESIS SUBMITTED TO ST.MARY'S UNIVERSITY, SCHOOL OF GRADUATE STUDIES IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION (GENERAL MANAGEMENT)

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ABBREVIATIONS

ETB: Ethiopian Birr

FQ: Frequency

CIC: Credit Information Center

IMF: International Monitory Fund

L/C: Letter of Credit

NBE: National Bank of Ethiopia

NPLTL: Non Performing Loan Total Loan Ratio

NPL: Non Performing Loan

OD: Overdraft

PSS: Proportionate Stratified Sampling

SD: Standard Deviation

SPSS: Statistical Package for Social Science

UB: United Bank

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ABSTRACT

Bank promote economic growth by offering credit to borrowers, which is essential for the economic development of the country, this study intends to assess credit management practice of United Bank S.co based on four basic dimensions namely credit follow up and monitoring system after it has been advanced, Bank's Non-performing Loans (NPLs) and its workout strategy so far, causes for increment of Bank's loan provision for anticipated loan loss, and sectoral distribution of bank's loan portfolio. For the purpose of the study descriptive survey design method was applied. Sources of both primary and secondary data were used. Questionnaire was used as a main instrument to collect primary data while secondary data were collected from Bank's audited annual reports, NBE directives, and bulletin of the bank, furthermore the researches employed Proportionate Stratified Sampling (PSS) approach to select the number of respondents from each section, to analyzing the collected data descriptive statistical tools were used. Data was analyzed using SPSS 21 version and results are described based on statistical mean and standard deviation values. The study found that the bank has insufficient credit monitoring and administration practice, lack of confirming the end use of loan, insufficient rapid remedial on NPL, low quality of lending practice and week control over the credit causes high provision, uneven distribution of bank's loan portfolio to different economic sector. Finally, based on the findings possible recommendations are given. These include both branches and credit portfolio department of the bank should build strong and efficient credit management practice, the bank should check and confirm the end use of funds to reduce risk of default, the bank should have diversified loan portfolio composition in all aspects to manage the credit risk.

Key Words: loan portfolio, Provision

CHAPTER ONE
1. INTRODUCTION

1.1Background of the Study

Financial institutions are performing a key role in economic growth as they are mobilizing savings for productive investments through facilitating role in capital flows towards various sectors of the economy (Shanmugan & Bourde, 1990) It is also worth to note that commercial banks in most of the world economies are dominant as a financial institution providing installment loans compared to any other financial institution. The significance of banks in an economy may not be eliminated as they are institutions, which provide liquidity for both lender and borrower (Kashyap et al., 1999).

Moreover, the banking industry has been known for its intermediation role in providing financial assistance (credit) needed in the economy. This role is normally carried out in many ways, for example, granting of loans and advances to customers, which constitute the major part of bank lending. Apart from loans and advances, there are other forms of banking or bank credits or bonds issued by banks for and on behalf of customers. Banks are merely custodians of the money they lend; hence interest must be paid to depositors and dividends to the investors. The financial viability of any credit institution depends absolutely on selecting applicants who have a high probability of repayment and rejecting those who have a high probability of default Ssewagudde, (2000).

Credit management is a comprehensive process made up of the monitoring of loan facilities, extension of credit, distinguishing the market segments as well as delineating the returns generated. The policy on credit management comprises systems, guidelines and principles that serve as a blueprint for employees in the credit department in awarding loans and steering the total collection of credit facilities. The policy on credit management is described as a combination of principles devised to reduce expenditure connected with loan delivery while taking full advantage of the gains that can be generated from them (McNaughton, 1992).

Effective management of the loan and the credit function is fundamental to a bank's safety and soundness. Loan portfolio management is the process by which risks that are inherent in the credit process are managed and controlled. Because assessing and reviewing of the credit process is so important and it is a primary managerial activity. Assessing credit management involves evaluating the steps bank management takes to identify and control risk throughout the credit process. (Comptroller"s hand book 2003)

According to Afroz, N. N. (2013) good loan portfolio managers have concentrated most of their effort on prudently approving loans and carefully monitoring loan performance. And these activities continue to be main objectives of loan portfolio management. Credit managers expected to understand not only the comprehensive risk posed by each credit but also how the risks of individual loans and portfolios are interrelated

According to the International Monetary Fund (IMF, 2009), NPL is any loan in which interest and principal payments are overdue for 90 days or more. This is further supported by Alton and Hazen (2001) NPLs are those loans which are ninety days or more past due or no longer accruing interest Therefore, NPLs refer to those as financial assets from which banks no longer receive interest or installment payments as scheduled

This research paper assessed the credit management practices of one Ethiopian private bank. This is United Bank S.Co (UB) working to be 'the preferred bank' in the banking industry of Ethiopia and playing an important role in country's economy and social life. Among the various services provided by the bank, lending has been the primary activity for a decade it advances large sum of money to borrowers. It is equally true that bank loans, as they are profitable, are equally. As of June 30, 2018 the total outstanding balance of loan and advance extended to customers are birr 15.1 billion, reflecting an increasing of birr 3 Billion (25%) compared with the previous year (Annual report 2017/18). Sound credit management practices like making timely evaluation and frequent examination of their level of credit management is one basic way of banks to keep their entire loan healthy. Currently increasing nature of nonperforming loans, annual increasing volume of loan provision for anticipated loan losses and uneven distribution of bank's loan to different sector were observed.

Therefore the researcher is interesting to look in to what extent credit management practices are performed so far to evaluate and identify areas that need further enhancement to carry one sound and healthy credit activities because credit management can be seen as an integral part of lending and as such in its absence, good loans can turn bad. Good credit management requires the establishment of adherence to and of sound and efficient credit policies of government.

1.2 Statement of the Problem

Effective credit management practices and loan accounting practices should be performed in a systematic way and in accordance with established policies and procedures. To be able to prudently value loans and to determine appropriate loan provisions, it is particularly important that banks have a system in place to reliably classify loans on the basis of credit risk to facilitate repayment of loans by customers (Kagwa, 2003).

Despite the fact that credit operation is major source of banks income and constitutes their major assets, maintaining low level of nonperforming loans and facilitates is crucial for the economic development of a country, Gray (2000). When a borrower cannot repay interest and/or installment on a loan after it has become due, then it is qualified as default loan or non-performing loan (Chowdhury & Adhikary, 2002). It is known as nonperforming, because the loan ceases to "perform" or generate income for the bank. The default/nonperforming loan are not a "uniclass", rather a "multiclass" concept. According to the International Monetary Fund (IMF), a loan is termed as non-performing if it is 90 days (3 months) overdue. Therefore, a high NPL portfolio leads to a reduction in the profitability and their ability to further perform the art of granting more credit to borrowers. This ultimately has a negative effect on the economy.

Even though the credit volume of United Bank S.co is increased from birr 5.1 billion to 15.1 billion, Accordingly bank's non-performing loans are raised from birr 87.9 million to ETB 195 million in the statistical report of (2014 to 2018) . Furthermore, total provision held by the bank has increased from birr 73 million in 2014 to birr 197 million in 2018, This clearly shows that there is a high anticipation of possible loan loss through time as a credit volume increases despite the rate of an increase in credit volume is still less than the rate of increase in provision.

The researcher is also need to assess bank's credit portfolio as per the bank annual report it is invested in different sector of the economy; however it seems set out to specific sectors the portfolio mix of the bank is not consistent throughout the reporting periods.

Various researchers have been conducted on the bank loan management in the context of the relationship between bank performance and credit risk management, loan repayment and recovery problems, looking at determinants of NPL and Evaluating credit analysis in terms of the loan policies and procurers, however there seems to be a gap in increasing nature of nonperforming loans, annual increasing volume of loan provision for anticipated loan losses and uneven distribution of bank's loan to different economic sector observed.

Therefore, the researcher is highly interested to assess the credit management practices of the bank once it advanced, since good quality loan will satisfy the banks quest for maximizing returns and also has a low default risk. To achieve this, banks need effective credit management to avoid possible fold up.

1.3 Research Questions

The study answered the following specific research questions.

1. How adequate is the credit practice of the bank after disbursement of loan made?
2. What are the major procedures that the bank has used to reduce the amount of nonperforming loans?
3. What cause the bank's loan provision rate change over the past five years?
4. How does bank's loan portfolio distributed to different economic sectors?

1.4 Research Objective

1.4.1 General Objective

The general objective of the study is to assess the credit management practice of United Bank. S.Co.

1.4.2 Specific Objectives

The study as formulated the following specific research objectives.

1. To assess the adequacy of credit management practice of the bank once loan advanced.
2. To assess the procedures that the bank has used to reduce the amount of nonperforming loans in the past.
3. To assess the specific factor that changes bank's loan provision rate for the past five years.
4. To analyze the bank's credit portfolio diversification in economic sectors.

1.5 Significance of the Study

Loans and advances are known to be the main stay of all commercial banks. They occupy an important part in gross earnings and net profit of the banks. The share advances in the total asset of the banks forms a lion share almost more than 80 percent and as such it is the back bone of banking sector. Bank lending is very crucial for it makes possible the financing of agricultural, industrial, construction, and commercial activities of a country.

This research shall be of an indicator to United Bank S.Co to identify the areas of the credit management that needs further enhancements so as to benefit from its and to point out strength and weakness based on the research output.

The study not only an academic exercise, it has a substantial benefit to the researchers. It also widen the researcher's knowledge in research writing and pricing adopted by corporate social responsibility.

The result of this study shall also contribute as a source document to formulate credit management practice and may serve as a stepping stone to future researchers by providing literature and also by provoking them to undertake further research in this area.

1.6 Delimitation of the Study

The study has more fruitful if it can be able to see some banks of Ethiopia; however the research covers United Bank S.Co as a sample due to the concern on the availability of data, time, budget and the researcher found it unmanageable. Besides this research paper is delimited to assess the credit management practices of United Bank S.Co, mainly on credit follow up section. Credit follow up start right after the loan disbursement has been effected and to be exercised until final settlement of the loan in order to be preventive, value saving and remedial for outstanding problem loans.

1.7 Organization of the Study

The research work consist five chapters. Accordingly, the first chapter introduces what the study is about, the problem to be examine, the objectives, research questions, significance, delimitation of the study. The second chapter provides a highlight of pertinent theoretical and empirical reviews of the literature and conceptual framework relevant to the study. The third chapter focuses on description about the methodology and instruments to be used for gathering relevant data the paper.

The fourth chapter presents the results and discussions of the research work, based on data collected from secondary and primary sources. The results of the descriptive statistics also present in the fourth chapter of the study. The study has end with the summary of findings summery, conclusion and possible recommendations in a manner that relates to the topic.

CHAPTER TWO

2. LITERATURE REVIEW

The purpose of this chapter is to present a view of literature relating to credit management in banks on both theoretical and empirical grounds. Review of some of the studies carried out and suggestions extended by those authors on the subject have helped to carry out the study in line with the objective and scope.

2.1 Theoretical Review

2.1.1 Introduction

Financial institutions, which are composed of banks, micro finances, and insurances, have comprehensive roles in serving the needs of the society within the economy. The service is rendered through providing three major financial functions: intermediation, or allocation, operational and payment systems. Operational and allocation functions are the provisions of financial resources to meet borrowing needs of individuals and other economic agents. The main microeconomic function of banks is the provision of facilities to collect deposits and invest these deposits as credits. Provision of a sound payment mechanism is also the other expected service from banks. Hence, the performance of banks is measured in terms of the above major roles of the banking business and relies on the provision of these functions. (Kashyap et al., 1999).

2.1.2 Definition of Credit Management

Credit is derived from a Latin word “credere” meaning trust. When a seller transfers his wealth to a buyer who has agreed to pay later, there is a clear implication of trust that payment will be made at agreed date. Major causes of serious banking problems are directly related to lax credit standards for borrowers. Poor portfolio assessment or lacks of attention to changes in economic circumstances are common in emerging economies Hirtel and Lopez, (1999).

Banks as financial institutions extend credit to their customers in form of loans, overdrafts and off balance sheet activities (i.e. letter of credit (LC) and guarantees). Banks grant credit to enhance their revenues streams, maintain a competitive edge, to act as its bargaining power in the industry, as the industry practice as well as to enhance the relationship with their customers.
The fundamental objective of the bank management is to maximize shareholders wealth. This goal is interpreted to mean maximizing the market value of the firm's ordinary shares. Wealth maximization in turn requires that manager evaluate the present value of cash flows under uncertainty with large near-term cash flows proffered when evaluated on a risk adjusted basis.
To obtain higher yields on returns, a bank must either take an increase risk or lower operating costs. Thus managers must evaluate and balance the tradeoffs between the opportunities for higher returns, the probability of not realizing those returns, and the possibility that the bank might fail (Koch & MacDonald, 2006).

Credit management is one of the most essential activities in any company and cannot be neglected by any entity involved in the supply of credit lines no matter the nature of its business. It is the mechanism to ensure that customers will pay for the products delivered or the services rendered. Myers and Brealey (2003) consider it to be made up of techniques and strategies used by an enterprise to ensure that an optimal level of credit and its effective management are kept. Besides, (Gray, 2000) addresses the issues of Credit management as a vital tool and an intrusion into new markets as well as enroll more clients depends on the competence to rapidly and effortlessly make well-informed credit decisions and setting an appropriate strategy. Gray also explains the operational policy of the banking system determines the bank's nurture and future.

2.1.3 Features of Credit Management

Nzotta (2004) opined that credit management greatly influences the success or failure of commercial banks and other financial institutions. This is because the failure of deposit banks is influenced to a large extent by the quality of credit decisions and thus the quality of the risky assets. He further notes that, credit management provides a leading indicator of the quality of deposit banks credit portfolio.

A key requirement for effective credit management is the ability to intelligently and efficiently manage customer credit lines. In order to minimize exposure to bad debt, over-reserving and bankruptcies, companies must have greater insight into customer financial strength, credit score history and changing payment patterns.

According to Rosemary 2011, credit management starts with the sale and does not stop until the full and final payment has been received. It is as important as part of the deal as closing the sale. In fact, a sale is technically not a sale until the money has been collected. It follows that principles of goods lending shall be concerned with ensuring, so far as possible that the borrower will be able to make scheduled payments with interest in full and within the required time period otherwise, the profit from an interest earned is reduced or even wiped out by the bad debt when the customer eventually defaults. Credit management is concerned primarily with managing debtors and financing debts. The objectives of credit management can be stated as safe guarding the companies‟ investments in debtors and optimizing operational cash flows.

Policies and procedures must be applied for granting credit to customers, collecting payment and limiting the risk of non-payments. Accordingly every bank has to develop and implement comprehensive procedure and information systems to follow up the condition of individual credit (Odofuye (2007).

2.1.4 Credit Policies and Procedures

To accomplish the great objectives of credit administration strategy, Franklin (2010) instructed the endorsement and utilization of credit strategies. To Franklin, credit methods are particular routes in which top administration imposes expectations on the credit division to accomplish the credit administration policies. The credit systems incorporate guidelines on what information to be utilized for credit examination and investigation procedure, provide information regarding procedure, account supervision and cases needing administration's notice. Such credit gathering endeavors incorporate the utilization of reminders, adoption of insurance, the application of legal procedures, the factoring of debtors and final write-offs as highlighted underneath:

According to Franklin (2010), credit policy is not something that is only operated by the Credit and risk Department. All employees involved with customers, in any way, need to be aware of the credit policy and ensure that it is operated consistently.

In order to be effective, credit policies must be communicated throughout the organization, implemented through appropriate procedures, monitored and periodically revised to take into account changing internal and external circumstances. They should be applied, where appropriate, on a consolidated bank basis and at the level of individual affiliates. In addition, the policies should address equally the important functions of reviewing. (Horne,1995).

Economic conditions and the firm's credit policies are the chief influences on the level of a firm's account receivable. Economic conditions, of course, are largely beyond the control of the financial manager. As with other current assets, however, the manager can vary the level of receivables in keeping with the tradeoff between profitability and risk. Lowering quality standards may stimulate demand, which, in turn, should lead to higher profitable receivables, as well as a greater risk of bad debt. The credit and collection policy of one firm are not independent of those of other firms. If product and capital markets are reasonably competitive, the credit and collection practices of one company will be influenced by what other companies are doing. Such practice related to the pricing of the product or service and must be viewed as part of the overall competitive process. (Horne, 1995)

The examination of certain policy variables implies that the competitive process is accounted for in the specification of the demand function as well as in the opportunity cost associated with taking on additional receivables. The policy variables include the quality of the trade accounts accepted; the length of the credit period, the cash discount, any special terms such as seasonal dating and the collection program of the firm. Together, these elements largely determine the average collection period and the proportion of bad debt losses (Horne, 1995: 361).

2.1.5 Credit Analysis

Credit analyses refer to the process of deciding whether or not to extend credit to a particular customer. It usually involves two steps; gathering relevant information and determining credit worthiness. (Ross ET. Al 1998)

Once a customer requests a loan, bank officers analyze all available information to determine whether the 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. (Koch, 1995)

Many authors states in their book that the principal factors which may be taken in to consideration which extending or using credit. Among these authors are (pandey, 1990and Koch, 1995). These two authors have different number of credit evaluation, i.e pandey (1990) states three C's of credit, i.e., character, capacity, capital and sometimes also condition is added. But, Koch (1995) mentions five Cs credit: character, capital, capacity, condition and collateral.

The 5Cs act as a guide for financial institutions to improve loan portfolio, as they get to know their customers better. These 5Cs are: character, capacity, collateral, capital and condition.

Character

This assesses the client's qualities in order to examine the willingness of the prospective client to meet the credit commitments. Kakuru (2001) highlighted the accompanying variables to consider when investigating applicant's character. This is carried out by factoring the client's savings conduct from the bank records, the level of training, mental status, occupation dependability, contact, connection to government offices and the past dealings with bank. The borrower who seeks to be a loan beneficiary of cash endowed to the bank by its depositors must be very honest someone who will keep their word and who can be trusted.

Current trends in technology allow for credit investigation to be carried out helping to not just uncover past impressive and awful conduct in reimbursement of advances and handling of obligations but will likewise uncover the degree of a man's acquisition of credit limit. The higher the building up of a person's credit profile, the higher the response of the person to changes in interest rates or individual circumstances.

Capacity

This assesses the client's capacity to pay the obligation when given in the obliged time period. This is fundamental particularly for business, regardless of whether advances are included. This is determined by assessing the estimation of client's capital and resource offered as guarantee against the advance. The borrower must be, in any event, capable, if not a specialist at their employment or in their calling and should be able to produce strong evidence to support the viability or otherwise of the business.

Capital

This alludes to the general state of the organization. "This is ascertained by the analysis of the financial statements with special emphasis on the risks and the debt-equity ratios and also evaluating the customer's firm working capital positions" according to Floucks (2001). The budgetary supervisor can likewise survey the accounting report to discover how much the proprietor has put into the business as his own stake (BPP, 2000). A decent dependable guideline would be that a bank would not wish to put in more cash than the borrower.

Collateral

This alludes to properties like lands, houses, business and private bequests or whatever other property of quality offered as security of the estimation of the credit given out to the borrower (Kakuru, 2001). It is obtained by a lender as a claim on the borrower and on the asset that is secured, and provides a recourse that is available to a bank should the terms of the loan be breached by the borrower. The collateral ought to be secure, readily merchantable and that its quality ought to have the capacity to meet the obligation when sold off in the event that the borrower defaults in payment (Van Horne, 2007).

Conditions

These points to the predominant monetary and economic environment, which may influence or be a hindrance to the borrower's capacity to pay the obligation and which may turn out to be unbeneficial to the creditor firm. Case in point, under inflationary inclinations, it is inappropriate to extend credit as the leaser is certain to incur forfeiture on the lent sum if not getting lower returns. The credit officer ought to carve a sensible judgment in regards to the possibilities of default and appraise the likelihood of losses under such conditions Pandey (2008). It is critical that the credit guidelines are situated based on individual applications, calling to attention the importance of gathering credit data, credit investigation and credit limits .

According to Lawrence (2009:776-777), the credit analyst typically gives primary attention to the first two C‟s-character and Capacity because they represent the most basic requirements for extending credit to an applicant. Consideration of the last three C‟s-Capital, Collateral, and Conditions- is important in structuring the credit management and making the final credit decision, which is affected by the credit analyst‟s experience and judgment

Similarly Compton (1985) identified three distinct areas of commercial risk analysis related to the following questions:

1) What risks are inherent in the operations of the business?

2) What have managers done or failed to do in mitigating those risks?

3) How can a lender structure and control its own risks in supplying funds?

The first question forces the credit analyst to generate a list of factors that indicate what could harm a borrower’s ability to repay. The second recognizes that repayment is largely a function of decisions made by a borrower. Is management aware of the important risks, and has it responded? As (Timothy 1995) quoted, the last question forces the analyst to specify how risks can be controlled so the bank can structure to an acceptable loan agreement.

A bank’s credit analysts often use the five C‟s of credit to focus their analysis on the key dimensions of an applicant’s creditworthiness.

2.1.6 Credit Information

Adequate and timely information that enables a satisfactory assessment of the creditworthiness of borrowers applying for a bank loan is crucial for making prudent lending decisions. Prudent lending decisions made on the basis of adequate information on the creditworthiness of borrowers are one of the principal factors in ensuring the financial soundness of banks. But, there has been serious difficulty in Ethiopia of getting accurate and timely information on prospective borrowers that facilitates the marketing of such prudent lending decision. One of means for alleviating this difficulty of getting accurate and timely information on prospective borrowers is the establishment of a Credit Information Center (CIC) where relevant information on borrowers is assumed to be pooled and made available to lending banks. (UB Credit Policy and Procedure 2015 Edition)

According to article 36 of the licensing and supervision of banking business proclamation No 84/1994, the National Bank of Ethiopia (NBE) has issued the directive to establish such a credit information center (CIC).

So far this credit information center(CIC) was one of the problem in the credit management process regarding, However currently the system function very well and banks easily able to update their borrowers' information or get updated information from other banks.

2.1.7 Financial Analysis

Review, appraisal and follow-up are three basic elements in credit management and decision-making. At the time of considering fresh proposals or enhancement proposals, the banker reviews the past operations with to judge the health status of the client. Timothy (1995) identified three basic elements used in credit management to evaluate the creditworthiness of clients.

a) **Review** is for the past**.** It should enable the banker to find out whether it is safe to lend to a particular client. In order to arrive at this decision, the banker has to satisfy himself about the risk and viability of the unit. Review of any unit involves assessment of solvency, liquidity and profitability of that unit as revealed by its financial statements, i.e. profit and loss accounts and balance sheets. Review, thus, involves classification of profit and loss account and the balance sheet according to bank's requirement and analysis of these statements.

   The loan review effort is directed at reducing credit as well as handling problems loan and liquidating assets of failed borrowers. Effective credit ma management separates loan review from credit analysis, execution and administration. The review process can be divided in to two functions: monitoring the performance of existing loans and handling problem loans (Koch P.639).

b) **Credit appraisal** implies consideration of fresh or enhancement proposals on the basis of futuristic data. While appraising proposals, banker tries to find out: financial need of the client, end-use of funds, viability of operations and risk involved. In case of proposals involving working capital finance, the banker can ascertain the aforesaid factors only when he/she is supplied with the business plan of the borrower for the ensuing period. Business plan is expressed through operating statement, balance sheet, funds flow, and cash flow statements, all on projected basis.

c) **Follow-up** may be defined as a continuous activity aimed at ensuring observance of stipulations laid down by the bank, picking up signals on health status of client's position, remedial action and ensuring results of action on a continuous basis. Safety, need-based finance and end-use are the key assumptions of lending.

   A banker needs various types of data and information from the borrowers for taking the credit decisions. Such information is generally available in various financial statements such as income statement, balance sheet, cash flow statement, funds flow statement, etc

2.1.8 Loan Follow up

According WelshL (2010), Lending decision is made on sound credit risk analysis /appraisal and assessment of creditworthiness of borrowers. But past records of satisfactory performance and integrity are no guarantee future, though they serve as useful guide to project trend in performance. Loan granted on the basis of sound analysis might go bad because of the borrower may not meet obligations per the terms and conditions of the loan contract.

It is for this reason that proper follow up and monitoring is essential. Monitoring or follow-up deals with the following vital aspects:

- Ensuring compliance with terms and conditions
- Monitoring end use of approved funds
- Monitoring performance to check continued viability of operations
- Detecting deviations from terms of decision
- Making periodic assessment of the health of the loans and advances by nothing some of the key indicators of performance that might include: profitability, activity level and management of the unit and ensure that the assets created are effectively utilized for productive purposes and are well maintained.
- Ensuring recovery of the installments of the principal and interest in case of term loan as per the scheduled repayment program
- Identify early warning signals, if any, and initiate remedial measures thereby averting from possible default. Basically there are three types of loan follow up systems. These are: Physical follow up, financial follow up and legal follow up. Each is discussed in section that follows. (Welsh.L. 2010, Augus 13th).

a) Physical Follow -up

Physical follow-up helps to ensure existence and operation of the business, status of collateral properties, correctness of declared financial data, quality of goods, conformity of financial data with other records (such as taxes ,register books), availability of raw materials, labor situation, marketing difficulties observed ,undue turnover of key operating personnel, change in management set up among others. (Welsh, L. (2010).

b) Financial Follow- up

Financial follow up is required to verify whether the assumptions on which lending decisions was taken continues to hold good both in regard to borrowers" operation and environment , and whether the end use is according to the purpose for which the loan was given. (Welsh, L. (2010).

c) Legal Follow-up

The purpose of legal follow up is to ensure that the legal recourse available to the Bank is kept alive at all times. It consists of obtaining proper documentation and keeping them alive, registration, proper follow up of insurances. Specific issues pertaining to legal follow up include: ascertaining whether contracts are properly executed by appropriate persons and documents are complete in all aspects, obtaining revival letters in time (revival letters refer to renewal letter for registration of security contracts that have passed the statutory period as laid down by the law), ensuring loan/mortgage contracts are updated timely and examining the regulatory directives, laws, third party claims among others. (Welsh, L. (2010).

2.1.9 Credit Collection Techniques

Effective credit collection techniques are one of the necessities for financial institutions in any economic climate. Knowing how to encourage customers to pay their outstanding debts to financial institutions like banks on time can increase the cash flow of banks. Therefore a number of collection techniques are employed. Under normal circumstances loan clients are expected to pay in cash or deposit or keep their installment repayment as per the agreement made. As the loan account becomes past due or overdue the collection effort becomes more personal and strict. (Theodore N. Backman.1962)

According, Theodore N. Backman basic techniques are:

- **Telephone Calls:** If the loan client passes the due date, a telephone call may be made to the customer to request immediate repayment and up to date his or her account.

- **Personal visits:** - If the telephone call made is not resulted positive response vesting his business and discussing the issue with the customer can be a very effective collection procedure.
- **Letters:** - If the efforts made so far is unsuccessful and not resulted positive response a polite letter is to be served reminding the customer of its obligation followed by warning letters for the action to be taken in future and its consequence. **Using Collection Agencies:** Firms can turn uncollectible accounts over to a collection agency or an attorney for collection. The fees for this service are typically quite high; the firm may receive less than fifty percent on accounts collected in this way.
- **Legal Action:** legal action is the most stringent step in the collection process. It is an alternative to the use of a collection agency not only is direct legal action expensive, but is may force the debtor in to bankruptcy, thereby reducing the possibility of future business without guarantying the ultimate receipt of overdue amount.

2.1.10 Provisions

Loans and advances are financial instruments originated by the bank by providing money to the debtors. It is stated at costless impairment losses. Impairment losses comprise specific provisions against debts identified as bad and doubtful and general provisions against losses which are likely to be present in any loans and advances portfolio. The Bank follows the National Bank of Ethiopia Supervision of Banking Business Directives SBB/43/2008 in determining the extent of provisions for impairment losses. The Directive classifies loans and advances into the following.

According to, El Sood, H., A. (2012), Provision is usually held for anticipated loan losses which arise from different reasons like insufficient credit managements, low quality lending activities, inadequacy of integrated credit policy and procedure, inconsistent execution of credit activity against the existing policy and procedure, as well as weak control over credit. It is a kind of cash reserve set aside from the banks profits in order to recover expected loss from particular credit portfolio.

a. **Pass Loans**

Loans and advances in this category are fully protected by the current financial and paying capacity of the borrower and are not subject to criticism. It is fully secured, both as to principal or interest payments, by cash or cash substitutes are classified under this category regardless of past due or other adverse credit factors. (NBE, 2008)

b. **Special Mention**

Any loan or advance past due 30 days or more, but less than 90 days.

c. **Substandard**

Non- performing loans or advances past due 90 days or more but less than 180 days.

d. **Doubtful**

Non- performing loans past due 180 days or more but less than 360 days.

e. **Loss**

Non-performing loans or advances past due 360 days is classified as loss.

Extent of Provision Required

As per the directive of the national Bank of Ethiopia the extent of provision required for impairment of losses is determined as follows.

I. Pass loans 1 percent of outstanding loan balances

II. Special mention loans 3 percent of outstanding balance

III. Substandard loans 20 percent of the net loan balance

IV. Doubtful loans 50 percent of the net loan balance

V. Loss 100 percent of the net loan balance

This largely exposes the bank to liquidity problem.

2.1.11 Non-Performing Loans

The concept of NPLs has been defined in different literatures. According to Patersson and Wasman (2004), NPLs are defined as defaulted loans which banks are unable to profit from. They are loans which cannot be recovered within stipulated time that is governed by the laws of a country.

According to the International Monetary Fund (IMF, 2009), a NPL loan is any loan in which interest and principal payments are more than 90 days overdue; or more than 90 days worth of interest has been refinanced.

When a borrower cannot repay interest and/or installment on a loan after it has become due, then it is qualified as default loan or non-performing loan (Chowdhury & Adhikary, 2002). It is known as nonperforming, because the loan ceases to "perform" or generate income for the bank. The default/nonperforming loan are not a "uniclass", rather a "multiclass" concept. It implies that the default/NPLs can be classified into three different categories, usually based on the "length of overdue" of the said loan. These categories are:

i. Substandard – loans overdue for a period of 91 to 180 days

ii. Doubtful – loans overdue for a period of 181 to 360 days

iii. Loss – loans overdue for more than 360 days

Under the Ethiopian banking business directive, non-performing loans are defined as "loans or advances whose credit quality has deteriorated such that full collection of principal and/or interest in accordance with the contractual repayment terms of the loan or advances in question (NBE, 2008)." It further provides that:

..., loans or advances with pre established repayment programs are nonperforming when principal and/ or interest is due and uncollected for 90 (ninety) consecutive days or more beyond the scheduled payment date or maturity (NBE, 2008).

In addition to the above mentioned category of non- performing loans, overdrafts and loans or advances that do not have pre-established repayment program shall be non-performing when:

- The debt remains outstanding for 90 (ninety) consecutive days or more beyond the scheduled payment date or maturity;
- The debt exceeds the borrower's approved limit for 90 (ninety) consecutive days or more;

- Interest is due and uncollected for 90 (ninety) consecutive days and more; or for the overdrafts, (i) the account has been inactive for 90 (ninety) consecutive days or (ii) deposits are insufficient to cover the interest capitalized during 90 (ninety) consecutive days or (iii) the account fails to show the 20% of approved limit or less debit balance at least once over 360 days preceding the date of loan review.

In general as per loan classification and provision report made annually to the governing bank (bank supervision directorate of NBE), the bank's Nonperforming Loan (NPL) amount was also increasing during the last consecutive years. For example based on the bank's annual report, NPL amount of Birr 29.5 million in 2016, 26.4 million in 2017, and 61.3 million in 2018 was reported.

Currently the amount of bank's Nonperforming Loan (NPL) shows an increasing trade due to these branches who has NPL is limited to finance fresh loan to new and existing customers.

2.1.12 Workout Strategies

According, UB Credit Policy and Procedure 2015 Edition workout is a loan (or debtor) confronted with difficulties that will not respond to short-term adjustments because the debtor finds it difficult or impossible to meet its contractual obligation in the normal course of business. One-way of managing bank's credit risk among others is by way of workout. Once it is identified that some of the granted loans are classified as non-performing, it needs to take a quick actions to correct the problems that make the loans to be non-performing loan in order to safeguard the interest of the bank. Of the different workout strategies to resolve the problem loan, the most commonly used are:

- Convincing the customer to clear his/her/its irregularities without taking and further action;
- Restructuring of the problem loan for a further period of time;
- Injection of additional finance (re-financing)to resolve the working capital shortage of the customer;
- Voluntary liquidation of assets; and
- Foreclosure and /or litigation.

2.1.13 Role of Credit in Economy

Banks provide necessary finance for planned development. In developed and developing countries both, credit is the foundation upon which the economic structure is strengthening. Bank credit would play a significant role by influencing the types of commodities and quantum of their output.

To achieve high rate of economic growth over a long period, agriculture and industrial credit should be increased. Bank credit fulfills the capital requirement of an entrepreneur which increases the production at higher level by which production cost decreases and as a result price of product also decreases that affects the economy positively.

Credit provides financial ability to use advanced technology in the production. So the quality of production and product may increase. And business can survive in an international market too. According to an economist, “Credit has done more to enrich nations than all the gold mines in the world put together. (Professional Banker: March, 2009

2.1.14 Major Economic Sectors

According, Vasant Desai, Credit management is concerned mainly with using the bank’s resource both productively and profitably to achieve a preferable economic growth. At the same time, it also seeks a fair distribution among the various segments of the economy so that the economic fabric grows without any hindrance as stipulated in the national objectives, in general and the banking objectives, in particular.

A. Agricultural

This category of loans encompassed those loans granted for purchase of agricultural inputs like selected seeds, fertilizer, agro-chemicals, rental or purchase of agricultural equipment and machinery, small and simple agricultural implements, for crop collection, processing and marketing of agricultural products. (UB Credit Policy and Procedure 2015 Edition)

B. Domestic Trade

This category of loan embraced traders engaged in wholesale and retail business of various natures. The activities of such businessmen include the distribution of locally produced, manufactured and imported goods on a whole sell or retail basis. Financing domestic trade helps in the smooth flow of goods as a bridge between manufacturer and consumer and enhances the capacity of trade. (UB Credit Policy and Procedure 2015 Edition)

C. Domestic Service

Domestic service encompasses the different type of services rendered by service rendering business like health, education, hotel, travel and tour agent, fuel station, consultancy firms etc. (UB Credit Policy and Procedure 2015 Edition)

D. Manufacturing and Industry

Loan granted for purchase of raw material and / or semi processed goods and for payment of overhead costs are classified under this category. Manufacturing enterprise such as those are engaged in the large and small scale production of goods, drilling companies, production of large scale capital goods or import substitution products and the like fall under category. Loan availed for purchase of industrial machinery and equipment is also classified under this category. (UB Credit Policy and Procedure 2015 Edition)

E. Export

Export requires a considerable sum of money for financing the purchase, processing and packing of goods to be exported. The export sector is one of the sectors that the bank encourages. Exporters engaged in the export of agricultural products like oil seeds, coffee, and leather products, hides and skin, cereals and etc. are major sources of foreign exchange earnings. Therefore, the bank supports such types of exporters by providing different types of facilities like term loans, overdraft facilities, pre-shipment advance and others. (UB Credit Policy and Procedure 2015 Edition)

F. Import

It is obvious that in addition to locally manufactured commodities a country supports its consumption from the international market. Especially now the globalization has made the international trade very pervasive. (UB Credit Policy and Procedure 2015 Edition)

G. Building and construction

This area of lending encompasses mobilization fund to contractors in the form of working capital, working capital loan advanced for construction machinery and equipment, leases for real estate developers, acquisition of construction machinery and dump trucks and completion/ purchase of commercial and residential buildings. (UB Credit Policy and Procedure 2015 Edition)

H. Transport

This category of loan encompasses loans availed for working capital, purchase of trucks, tankers and public transport buses to licensed transport operators. On the other hand loans availed to purchase vehicle that help to facilitate other businesses are to be categorized under the respective type of category of loan. (UB Credit Policy and Procedure 2015 Edition)

I. Personal loan

Personal loans are granted to individuals for such purpose as purchase house-hold goods, electrical equipment for home use, automobile for own use, meeting the cost of home modernization, and minor repair and pay out personal debts already constructed else whereand covering medical expenses. (UB Credit Policy and Procedure 2015 Edition)

2.2 Empirical Review

According to Shekhar, 1985, credit plays an important role in the lives of many people and in almost all industries that involve monetary investment in some form. Hence, the issue of credit management has a profound implication both at the micro and macro level. The very nature of the banking business is so sensitive because more than 85% of their liability is deposits from depositors (Saunders, Cornett, 2005). Banks use these deposits to generate credit for their borrowers, which in fact is a revenue generating activity for most banks. This credit formation process inevitably exposes the banks to huge credit risk which might lead to financial anguish including economic failure.

As per Comptroller (1998), the primary activity of commercial banks is lending, and therefore the loan portfolio represents one of the largest assets and a predominant source of revenue. This would also be a great source risk to banks if it is not properly managed. As it is large part of the total banks asset, its failure will necessarily be big for the entire bank. Whether due to credit standards, poor credit management and control or weaknesses in the economy, credit problems have historically been the major cause of bank losses and failures. Therefore it is mandatory for banks to implement a sound practice of credit management so as to stay healthy and profitable in the commercial banking business.

Yalemzewud Taddesse (2013) has explored the "credit management practice of Bunna International Bank" with an objective, to determine the factors that influence access to credit, to analyze the collection strategies of the bank, to determine the credit control of the bank and the like, and the researcher applies survey sampling technique of all staff members involved in credit operations, and find out that the process of credit administration is performed inadequately of individuals involved in the business origination, the credit policy of the bank is stated as it is not clear, weak credit risk department is seen in the bank, and draws recommendations as the bank needs to hire the one who has high experience and qualification on credit risk management and the one who aware about its significant impact to banks performance.

Tekele (2011), studied the reasons behind the problem of loan recovery and determinants of loan default and summarized some of the causes for loan defaults as improper selection of an entrepreneur, poor analysis of project viability, inadequacy of collateral. He further discussed that factors affecting loan recovery can be categorized as pre-establishment problem, implementation, and operational problem.

Wondimagegnehu (2012) on "The determinants of Nonperforming loan on commercial banks of Ethiopia" also found as poor credit assessment, failed loan monitoring, underdeveloped credit culture, lenient credit terms and conditions, aggressive lending, compromised integrity, weak institutional capacity, unfair competition among banks, willful defaults by borrower and their knowledge limitation, fund diversion for un expected purposes and overdue financing has significant effect on NPLs.

Generally, what has been said from the above and other researches is that, provision of credit is the core function of commercial banks. It is commonly said that the successful banker is the successful lender. So that effective credit management practices and loan accounting practices should be performed in a systematic way and in accordance with established policies and procedures.

2.3 Conceptual Framework

Loan must be followed in continues basis in order to monitor the borrower's financial condition if the customer shows a sign of deteriorating financial status, the bank would be able to react during early warning stage. The conceptual framework of the study can be depicted in the following figure. The process of credit management begins with accurately assessing the credit-worthiness of the customer. Credit follow up is incorporates credit monitoring and reviewing aspect, the former mainly deal with the day to day and/or periodic checking, analysis and reporting of the proper implementation of credit decision, whereas review refers to the re-examination of a customer's loan file at an established interval in order to discover the existence of any favorable and unfavorable change in the credit worthiness of customer.

Source: UB manual

Figure: 1 conceptual frame work

The process of credit management begins with accurately assessing the credit-worthiness of the customer. Credit follow up is incorporates credit monitoring and reviewing aspect, the former mainly deal with the day to day and/or periodic checking, analysis and reporting of the proper implementation of credit decision, whereas review refers to the re-examination of a customer's loan file at an established interval in order to discover the existence of any favorable and unfavorable change in the credit worthiness of customer.

Credit management comprises two aspects; from one angle it is that how to distribute credit among all sectors of economy so that every sector can develop and banks also get profit and from the other angle, how to grant credit to various sectors, individuals and businesses to avoid credit risk. (Vasant Desai 2009)

Now a day's credit management is not only about the collection of the amount that is due but also about the timing of the collection because as the number of days the loan that is due stayed unpaid increases banks would be required to hold an equivalent amount of provision in case the borrower fails to settle the amount. This would lead the financial institution in to a liquidity problem. El Sood, H., A. (2012)

CHAPTER THREE

3. RESEARCH DESIGN AND METHODOLOGY

This chapter deals with the methodology of the study whereby the research design, sampling, data collection instruments, data collection procedures and the method of data analysis were discussed.

3.1 Research Design

In this study, a descriptive survey design method was applied. Orodho (2003), defines descriptive survey as a method of collecting information by interviewing or administering a questionnaire to a sample of individuals. It is a case study of specific bank and survey method enables the researcher to have a designed data. Survey methods are used for non- experimental but descriptive research methods. Descriptive research is basically used to ascertain and describe the characteristics of variables of interest in some situation and subject of study. Thus, this study is mainly based on primary data that was obtained through questionnaires from technical staffs of united bank with credit related functions, Accordingly the study has found this research design appropriate to collects data from sources and then analyzes it in order to asses and describes the credit management of the bank.

3.2 Population and Sample Techniques

3.2.1 Target Population

The target population of this study are the employees who are directly involved in credit processing and administering. Such professionals include credit analyst, credit portfolio management, branch managers, and loan offices. At UB branches are classified in to grades such as Special grade, A, B, C and D. Target population of the study is branches who have lending limit and performing frequent credit practice at branch such as Special grade, grade A, grade B and grade C and two departments such as credit analysis and credit portfolio management are focused.

This population size was limited deliberately because main branches found in Addis Ababa, since sub branches don’t have lending limit to perform credit while the two departments such as credit analysis and credit portfolio management are the main departments directly involved in credit operations and likewise.

3.2.2 Sampling Techniques

The sampling technique used for the purpose of this study is stratified random sampling. The technique of stratification is often employed in the preparation of sample designs because it generally provides increased accuracy in sample estimates without leading to substantial increases in costs. Though in order to select relevant respondents stratified random sampling is employed thus the population is divided in to sub groups or strata based on branches and head office and samples were selected from each stratum.

3.2.3 Sample Size

Considering the objectives of the study, Proportionate Stratified Sampling (PSS) approach is followed to select the number of respondents from each stratum. Because the sample size of each stratum in this technique is proportionate to the population size of stratum when viewed against the entire population. This means that the each stratum has the same sampling fraction. Based on this the researcher considered 59 branches which include special grade, grade A, grade B and grade C as samples drawn from the entire population 118 main branches as of June 30, 2018 which are found in Addis Ababa city (sub branches do not have lending limit to perform credit). The branches choose as a sample because one of the most important and primary activities in the credit management process i.e. credit analysis takes place at branch level. To this end the minimum numbers of staff directly involved at the branch level are two thus 118 employees were selected from the branch level as a sample. Moreover due to the fact that the number of officers found at head office level at credit analysis and portfolio departments are 18 all are consider as a sample which brings the total sample size 136.

Table 3.1 Sampling Distribution

Population	Total number of Staff	Sample	Percentage
Credit Analysis And Appraisal Department	10	10	100%
Credit Portfolio & Management Department	8	8	100%
Branch manager and loan officer	118	118	100%
Total	**136**	**136**	**100%**

Source: United Bank HRD Report.

3.3 Source of Data

Primary and secondary data was collected from staffs of United Bank with a direct credit related functions and from other published document.

3.3.1 Primary Source

The main primary source of data for this study is data collected from respondents through questionnaires. This helps to ascertain views and opinions pertaining to the topic under investigation

3.3.2 Secondary Source

The secondary source of data were collected from documents including company's annual report from 2014 to 2018, Bank's procedure manual, NBE's directive and reports, journal articles, Internet works, statistics and papers written by prominent scholars were also be perused to provide a more comprehensive assessment of credit management practices of United Bank S.Co.

3.4 Methods of Data Analysis

The data was collected through questionnaires and five year bank's annual report were present in tables and figure for further examination through the use of the Statistical Package for the Social Sciences (SPSS) software package. Descriptive statistics was use to analyze data.

Furthermore, descriptions were made based on the results of the tables. Generally the quantitative data was presented through frequency and percentage and analyzed and interpreted using descriptive statistical tools such as mean and standard deviation, the most widely used statistical tools to interpret population opinions as indicated by Likert scale 5 factor scale.

3.5 Validity

According to Leedy et al (2005), validity is the ability of an instrument used to measure what it is intended to measure or how truthful the research results are. These issues are addressed by the content validity, internal validity and external validity.

Content Validity

It is the extent to which the measuring instrument provides adequate coverage of the investigative questions and the degree to which it measure. In order to check content validity for the descriptive survey studies, sources of evidence chain evidence and having key informants reviewing draft of the study report is vital Leedy et al (2005). In this case the questionnaire has carefully designed and tested with a few members of participants for further improvement. Accordingly feedback has collected about clarity of a sentence, correctness of a language and whether the designed instrument can fully assess the research topic prior to administering the survey.

Internal validity

The internal validity of a research study is the extent to which its design and the data it yields allow the researcher to draw accurate conclusions about the relationships within the data. Since the respondents have professional background, knowledge about bank lending and credit management, they are not expected to change their behavior. They were also asked to give their consent and they were given all the right not to answer any questions if they did not wish to.

External validity

External validity is related to the extent to which the findings from one research can be applied to other similar situations. It is depends on how well the sample used can be extrapolated to a population as a whole. It evaluates whether the sample population represents the entire population, and also whether the sampling method is acceptable. There would be no problems in this case since the researcher adopted a sapling technique.

3.6 Reliability

Reliability is essentially consistency. That is, if measuring something many times and the result is always the same, then it can be said that the measurement instrument is reliable. In this regard the researcher has made reliability analysis using Cronbach's alpha for the sample of 20 respondents and found to be $\alpha=0.715$ which is higher than the threshold value of 0.65, and this confirms that the questionnaire is reliable.

3.7 Ethical Issues

Due consideration was given to obtain consent from each participant about their participation in the study in the first place, and the data was conducted on voluntary basis. The researcher gives respect to participant's right and privacy. Hence, this research paper fully considers the ethical matters of all the individuals and institutions involved in the study. The findings of the research were present without any deviation from the outcome of the research.

CHAPTER FOUR

4. DATA PRESENTATION AND ANALYSIS

4.1 Introduction

This chapter comprises the presentation, analysis and discussion of the findings in view of the research questions raised in the first chapter of this research work. Primary and secondary sources of data were used to look on the findings. The data were summarized and analyzed using SPSS and presented using, tables, frequencies, percentages, statistically described using mean and standard deviation, data were collected from the employees who are directly involved in credit processing and administering. This means, Branch managers, Loan offices, Credit analysts, credit portfolio officers of the bank.

Based on this the first part of this chapter describes the respondents profile as per their gender, age group, educational qualification and experience in the bank job and in the credit areas of the bank, while the second part presented results of respondents opinion on the credit monitoring and controlling activity after the loan advanced, the Non-performing Loans (NPL) and its workout strategy, Issue related with loan provision for possible loan loss, Bank's loan portfolio to economic sector, Finally by considering results from the past five years (June 30, 2014 to June 30, 2018) bank's Annual report, the portfolio mix were assessed and presented in figure and described in narrative form.

4.2 Survey Results

As indicated in the sample size of the research, questionnaires were distributed to 136 employees of the Bank who are directly involved in the credit operations of the Bank. So out of the total questionnaires distributed 110 questionnaires were completed and collected, i.e. about 81% of the total population, having in mind the time devotion and effort of the researcher, it would be more relevant if it was fully collected, the researcher feel comfort and convenient to conduct the research with the collected data.

Table 4.1 Performance of Questionnaires Administered

Questionnaires	Freq.	Percentage
Distributed	136	100
Collected	110	81

Source: Researcher's Survey Result from Primary Data Sources and SPSS output

As it can be seen from Table 4.1, 136 questionnaires were distributed to employees of the bank who are working and experienced in credit area. In this cases 110 (81%) percent of the distributed questionnaires were collected. As the distribution and collection of questionnaires is managed by self and assistant of others whom the researcher believed to have experience in the area together with high cooperation rendered from the employee the achievement was to the required level and this has enabled to extract sufficient and relevant information to the objective of the research.

4.3 Respondent's Profile

This section present profile of respondents in relation to their gender, ages group, educational level, service year and current positions as well as exposure in the credit area of the bank. The demographic nature of the employee has a great contribution in the credit management of loans and advance in understanding the credit policies and procedures as well as exercising and improving it when demanded. The details of respondent's profile are tabulated hereunder.

Table 4.2 Respondent's Profile

Item No	Respondents profile	Category	Frequency	Percentage
1	Gender	Male	71	64.5
		Female	39	35.5
		Total	**110**	**100**
2	Age	20-30	42	38.2
		31-40	48	43.6
		41-50	11	10
		Above 50	9	8.2
		Total	**110**	**100**
3	Educational level	Degree	75	68.2
		Maters	35	31.8
		Total	**110**	**100**
4	Service Year	1-5	28	25.5
		6-10	58	52.7
		11-15	13	11.8
		16-20	4	3.6
		Above 20	7	6.4
		Total	**110**	**110**
5	Service Year in credit	1-5	32	29.1
		6-10	61	55.5
		11-15	8	7.3
		16-20	3	2.7
		Above 20	6	5.5
		Total	**110**	**100**

Source: Survey Result, 2019

As shown in table 4.2 male respondents constitute the largest share of the gender composition representing 64.5 percent of the respondents while 35.5% were female employees. This implies that more than 50% of the Bank's credit operation is maintained by male employees.

As indicated in the above table 4.2, age category of respondents shows major number of them are found in the age range of 31-40, and 48 (43.6%), 42 (38.2) are categorized in 20-30, and 11 (10%) are categorized in 41-50. The rest of respondents who are 9 (8.2%) are categorized in above 50 age groups. This implies that the Bank maintains young and energetic employees that can perform to the maximum of their capacity.

Concerning educational level of the respondent as indicated in table 4.2, 75 (68.2%) of them are degree holder, whereas 31.8 percent of respondents are Masters Holders. This implies that credit related activates of the bank is performed by who have academic qualification of degree and above, it help them to conduct their job effectively and efficiently to the best satisfaction of the bank. This enables the Bank to perform well and become competitive.

As indicated in table 4.2 more than 58 percent of the respondent has found under the range of 6 to 10 years. On the other hand 28(25.5%) of respondents are having 1-5 service year, 13(11.8%) of respondents are having 11-15 service year, and only 4 (3.6%) of the respondents are having 16-20 service year, 7(6.4%) of the respondents having above 21 service years, and according to the data majority of employees have long service years and sufficient knowledge on credit area, so that it's found convenient to get such constructive data.

Regarding respondents' service year in credit operation of the bank, reflect that about 61(55.5%) of respondents are having 6-10 service years, 32 (29.1%) of respondent are with service year of 1-5 on credit operations, 8(7.3%) of respondent are with service year of 11-15 on credit operations, and only 3 (2.7%) of the respondents are having 16-15 year of service in credit operation, 6(5.5%) of respondents having above 21 service years. This implies that majority of the credit staff is well experienced in the credit operation of the Bank, since they have long stay in the bank they are familiar with company's procedure, policy, frequently posted management directives, and very good with customer interaction, so which contributes much to know deeply about the job and to analyze and assess the credit worthiness of the customer.

Table: 4.3 Current positions in the bank

Category		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Credit Analyst	8	7.3	7.3	7.3
	Credit portfolio Officer	7	6.4	6.4	13.6
	Branch Manager	17	15.5	15.5	29.1
	Loan officer	78	70.9	70.9	100.0
	Total	110	100.0	100.0	

Source: Survey Result, 2019

As indicated in table 4.7 majority of the respondent are loan officer and branch manger which is 78(70.9%) and 17(15.5%) respectively, they are directly interact with customers through collecting loan request letter along with pertinent documents, process the request and approve it if it is under their discretion limit or sent it to head office credit analysis and appraisal department for further analysis and approval. On the other hand 8(7.3%) of respondents are credit analysts who perform reviewing customer files, and the remaining which is 7(6.4%) are credit portfolio officers are monitor and control the credit function of the bank.

4.4 Credit Management Practice of United Bank S.CO

As the research has discussed about the monitoring and controlling practice of banking sector in the literature part, it is found critical that monitoring and control departments of bank play a great of post disbursement loan activity in administering, workout, and rescheduling of loans. In this regard he researcher tries to assess the credit management practice of the Bank with four major parameters namely credit follow up and monitoring system after it has been advanced, Bank's Non-performing Loans (NPLs) and its workout strategy so far, causes for increment of Bank's loan provision for anticipated loan loss, and sectoral distribution of bank's loan portfolio. Accordingly the respondents asked to express their level of agreement or disagreement as per the established scale for the statements that provide to evaluate these activities and the researcher presents the analysis separately as follows.

Table 4.4: Issue related with credit monitoring and controlling activity after the loan advanced.

Statements		Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree		Mean	Standard devotion
		FQ	%	FQ	%	FQ	%	FQ	%	FQ	%		
1.1	Periodic loan review is performed	4	3.6	7	6.4	21	19.1	58	52.7	20	18.2	3.75	0.95
1.2	Adequate credit follow up is done regularly	4	3.6	13	11.8	12	10.9	59	53.6	22	20	3.75	1.027
1.3	The bank assesses and confirms the utilization of the loan for the approved purpose.	12	10.9	55	50	22	20	15	13.6	6	5.5	1.75	0.92
1.4	Does collateral estimation regularly assessed related to applicants financial health	3	2.7	6	5.5	18	16.4	62	56.4	21	19.1	3.84	0.894
1.5	Does insurance coverage and its renewal timely reviewed related to borrower's financial health.	2	1.8	13	11.8	22	20	52	47.3	21	19.1	3.7	0.973
1.6	Credit control activity of the bank enables early identification of problem loan	2	1.8	15	13.6	9	8.2	62	56.4	22	20	3.79	0.97
1.7	Customers are given sufficient advice on the usage of loans	66	60	25	22.7	13	11.8	4	3.6	2	1.8	1.64	0.95
1.8	The bank classify loans based on their weakness level	3	2.7	7	6.4	16	14.5	56	50.9	28	25.5	3.9	0.94
1.9	Credit monitoring and controlling reports published regularly	2	1.8	0	0	9	8.2	44	40	55	50	4.36	0.78
1.10	The bank restructure & consolidate multiple loans in case of a borrowers' financial distress	14	12.7	7	6.4	28	25.5	59	53.6	2	1.8	3.2	1.06

Source: Survey Result, 2019

As periodic loan review is a basic function of banks to prevent occurrence of bad loan and misuse of facilities or documents, the bank is highly require to establish strong monitoring and controlling unit. Accordingly majority 58(52.7%), of respondents witnessed that the bank is conducting periodic review of loan files evidenced by mean value of 3.75 and SD of 0.95, the mean value indicates the bank has a good tend in establishing and performing periodic loan review, so that it helps the bank to early avoid problem related with operation and make consecutive corrective measures.

Regarding the adequate follow up again majority of the respondents agree that, the bank regularly perform loan follow up on the granted loan and advance amount, mostly which is performed by branches and credit portfolio department before the loan become sick and to enable the bank either to take measure or workout the loan, and it is evidenced by mean value of 3.75 and SD of 1.02.

In view of bank assessment and conformity of loan utilization for the approved purpose majority of the respondent are differ 55(50%) in the statement pertaining to probability of checking the financed loan for the requested purpose is week, that is evidenced by its mean value of 1.75 and SD of 0.92 Implies less efficient in controlling such activity, and this may lead the bank to hold excessive non-performing loans. But due to the nature of the activity and the nature of borrowers it is highly likely to diversify approved loan for different purpose. This may be one of the major parameters for customers to become unable to pay their obligations and regularize there repayments and finally goes to bankruptcy

Accordingly majority 62(56.4%) of respondents witnessed that the bank is conducting a regular assessment of collateral estimation in related to borrower's financial health. Which is evidencing by mean value of 3.84 and SD of 0.89, the mean value indicates the bank has a good tend in establishing and performing regular assessment of in the secured collateral, so that it helps the bank to reduce an risk involved in the at the time of default.

Again it shows almost similar or very little variation on the response given, majority 52(47.3%) of respondents witnessed that the bank is reviewing the insurance coverage and its timely renewal according banks policy and procedure. Which is evidencing by mean value of 3.7 and SD of 0.97, the mean value indicates the bank has a good tend in performing regular follow up on insurance coverage and its renewal related to borrower's financial health, so that it helps the bank to reduce an risk involved in the at the time of default.

In relation to the question raised on the credit monitoring and controlling activity of the bank majority 62(56.4%) of respondents observe that, credit control activity of the bank enables early identification of problem loans, and this enables either to assess the problem and take measure on it or implant a work out option before becoming NPL, as evidenced by its mean value and SD of 3.79 and 0.97 respectively.

In view of bank advice and support to customer who has a credit relationship with the bank majority 66(60%) of the respondent differ that, borrower's of the bank are given sufficient advice on the usage of loans. This is evidenced by mean value and SD of 1.64 and 0.95 respectively. Hence, proper monitoring of credit has assumed greater significance in the effective management of leading yet most of the respondents have witnessed that the bank does not provide any advice on the usage of loan.

In view of the regularity and sufficiency of credit controlling to enable the bank to classify loans and their weaknesses majority 56(50.9%) of the respondents has witnessed that the bank controlling practice is sufficient to mitigate sick loans and their weaknesses, and evidenced by its mean vale and SD of 3.9 and 0.94 respectively. The mean value justifies that the bank has good monitoring and controlling practice.

As it's also observed from the data, majority 55(50%), of the respondents has witnessed that, the bank especially credit portfolio department periodically prepare credit reports which might be an input for periodic follow up on the granted loans. This is evidenced by mean value and SD of 4.36 and 0.78. This mean value quite good and reflecting that the bank will further strengthen this department to better regularly perform their duties

Again majority (59(53.6%) of respondent have the same opinion with that the bank has he bank restructure & consolidate multiple loans in case of a borrowers' financial distress. This is evidenced by mean value and SD of 3.2 and 1.06. Hence, One-way of managing bank's credit risk among others is by way of workout. Once it is identified that, the borrower has impossible to meet its contractual obligation in the normal course of business, the bank has in use such a mechanism.

Table 4.5: Issue related with Non-performing Loans (NPL) and its workout strategy

	Statements	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree		Mean	Standard devotion
		FQ	%	FQ	%	FQ	%	FQ	%	FQ	%		
2.1	Strict monitoring ensures loan performance.	2	1.8	3	2.7	14	12.7	63	57.3	28	25.5	4.1	0.81
2.2	Poorly assessed and advanced loans may perform well if properly monitored.	32	29.1	61	55.5	9	8.2	0	0	8	7.3	2.0	1.0
2.3	Loan follow up is directly related to occurrence of NPLs	3	2.7	3	2.7	12	10.9	66	60	26	23.6	3.9	0.84
2.4	The bank have adequate workout strategy; in case of loans before NPL	3	2.7	4	3.6	10	9.1	65	59.1	28	25.5	4.0	0.86
2.5	The bank has a trend of voluntary realization of an asset once the loan classified as NPL	8	7.3	62	56.4	32	29.1	6	5.5	2	1.8	2.35	0.77
2.6	The bank has trend of reschedule/extension of the repayment period in case of borrower's financial problem.	2	1.8	3	2.7	5	4.5	66	60	34	30.9	4.15	0.78
2.7	Does the bank has trend of injecting additional loans during the difficult time	32	29.1	51	46.4	18	16.4	6	5.5	3	2.7	2.06	0.96
2.8	Loan in arrears are collected periodically at the time of waiver.	28	25.5	56	50.9	7	6.4	12	10.9	7	6.4	2.2	1.13

Source: Source: Survey Result, 2019

Accordingly majority 63(57.3%) of respondents have the same opinion that loan monitoring ensures commendable loan performance as asserted by (mean 4.1, standard deviation 0.81) of the times. This implies that giving special attention for all NPLs, regular monitoring and follow up on them until they are resolved and become performing or settled that protects the interest of the bank.

As indicated in table 4.5 majority, 61(55.5%) of the respondents have different opinion that, loans and advances might perform well if properly monitored, despite inadequate assessment during sanctioning, indicating that loan follow-up can never substitute prudent credit assessment.

Again as indicated in table 4.5 majorities, 66(60%) of the respondent witnessed that occurrence of NPLs is directly related to loan follow-up. This is evidenced by mean and standard deviation of 3.9 and 0.84 respectively, so that it implies that effective follow-up of loans and advances are in place good asset quality is maintained.

In relation to workout strategy majority 65(59.1%) of the respondents have the same opinion with the statement pertaining with the bank has adequate work out strategies in case of loan before NPLs, mostly credit portfolio department determine the track record of the borrower and the current status of the business whether or not the business can generate sufficient income, as evidenced by its mean value 4 and SD of 0.86 the question raised on.

In view of the voluntary realization of an asset once the loan classified as NPL majority 62(56.4%) of the respondents has different opinion with the statement pertaining to voluntary realization of an asset which is evidenced by its mean vale and SD of 2.35 and 0.77 respectively. The mean value justifies even voluntary realization of an asset is an alternative workout strategy the bank has no trend of it to resolve the problem loans.

Again as indicated in table 4.5, majority, 66(60%) of the respondent witnessed that reschedule the loan period or the extension of the loan repayment are practicable which is evidenced by its mean vale and SD of 4.15 and 0.78 respectively. This implies that when the borrowers are presented projected cash flow or proposal that justifies financial problem of the business, by taking cash flow and repayment capacity of the business in to account, loans even NPLs rescheduled or extend for reasonable period of time by the approval of the appropriate approving body.

Hence, injection of additional loan has assumed greater significant to restore or recover a problem loan through applying a corrective action to improve the condition or the capacity of the borrower and to prevent loss to the bank yet most of the respondents have witnessed that the bank does not provide additional loan when the borrower felt in financial problem as asserted by (mean 2.06, standard deviation 0.96) of the times.

As indicated in table 4.5, majority, 56(50.9%) of the respondents has expressed their opinion that, at the time of waiver loan in arrears are not collected periodically, as evidenced by (mean 2.2, standard deviation 1.13). This might be NBE’s directive No.SBB/43/2008 is replaced by SBB/69/2018 among the main change one is issues related with of rescheduling/ restructuring of loans and advances by skipping collection of loan in arrears.

Table 4.6 Non- performing Loans to Total Loan Ratio

Year	Outstanding Loan/in Billion/	Collection /in Billion/	NPL/in million/	NPLTL%
2014	5.06	3.30	87.9	1.73
2015	6.86	3.33	116.2	1.69
2016	8.5	5.24	143.1	1..68
2017	11.9	5.98	95.9	0.81
2018	15.07	11.2	195	1.29
Total	47.39	29.05	638.10	

Source: Annual Progress Report of the Bank and own computation

As indicated table 4.6, total non-performing loans as at June, 2014 reached birr 87.9 million. As a result, the ratio of non-performing loans to total loan portfolio of the bank was 1.73%. It has shown the bank even the has registered the largest NPL amount compared with other years it has managed to keep the ratio below the threshold set by NBE which is 5%.

During the reporting period (2015) the amount of outstanding total loans disbursed to various sectors of the economy was birr 6.86 billion. Among the sectors, DTS took the lion's share, followed by manufacturing and import. On the other hand, total non-performing loans as at June 2015 reached birr 116.2 million as a result, the ratio of non-performing loans to the total loan portfolio of the bank was 1.69. It shows a reduction of 0.08% compared with points compared with the previous year.

Again as of June 2016, the amount of total outstanding loans disbursed to various sectors of the economy was Birr 8.5 billion. It shows an increment of 1.64 billion compared with the previous year. Among the sectors, Export took the lion's share, followed by manufacturing and import. During the reporting period, total non-performing loans reached birr 143.1 million as a result, the ratio of non-performing loans to the total loan portfolio of the bank was 1.69. It shows a reduction of 0.01% compared with points compared with the previous year.

Total loan and advance extended to clients as of June 2017, stood at Birr 11.9 billion, showing an increment of Birr 3.4 billion compared with the last reporting period. Among the sectors, export sector accounted for lion's share, followed by Domestic Trade and Service and import.

On the other hand total non-performing loans reached birr 95.9 million as a result, the ratio of non-performing loans to the total loan portfolio of the bank was 0.81. It shows a significant reduction of 0.87% compared with the previous year.

As indicated table 4.6, total outstanding loans and advance disbursed to various business sectors was birr 15.07 billion, export again accounted for the lion's share, followed by Domestic trade and Service, manufacturing, import and building and construction. Non-Performing Loans reached birr 195 million as a result, the ratio of non-performing loans to the total loan portfolio of the bank was 1.29. It shows an increment of 3.17 billion compared with the previous year

Generally non- performing Loans to Total Loan Ratio is one of the most important criteria to assess the quality of loans or asset of any commercial bank. NPTL measures the percentage of gross loans which are doubtful in bank's portfolio. The lower the ratio of Non-performing loans to total loan ratio, the better is the performance with this in mind when we look at the NPTL ratio of the bank taken five years from 2014 to 2018 its shows the bank has managed to keep the ratio below the threshold set by NBE which is 5%, however when banks follow aggressive lending strategy and experience rapid credit growth they might end up with mountainous of NPLs.

Table 4.7: Issue related with loan provision for possible loan loss.

statements		Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree		Mean	Standard devotion
		FQ	%	FQ	%	FQ	%	FQ	%	FQ	%		
3.1	The existing credit control enables to maintain good provision for possible loan loss.	25	22.7	63	57.3	15	13.6	4	3.6	3	2.7	2.06	0.87
3.2	Credit control activity of the bank is insufficient to prevent credit risk.	4	3.6	8	7.3	22	20	59	53.6	17	15.5	3.7	0.94
3.3	Inadequate credit management of the bank directly related to anticipated loan loss.	3	2.7	4	3.6	12	10.9	32	29.1	59	53.6	4.2	0.98
3.4	Anticipated loan loss of the bank is caused by low quality lending activities.	2	1.8	9	8.2	18	16.4	59	53.6	22	20	3.8	0.91
3.5	Anticipated loan loss of the bank is caused by inadequacy of integrated credit policy and procedure.	73	66.4	29	26.4	3	2.7	3	2.7	2	1.8	1.47	0.83
3.6	Existing policy and procedure of the bank is inconsistent against the execution of credit activity.	38	34.5	62	56.4	4	3.6	4	3.6	2	1.8	1.8	0.814
3.7	Weak control over credit lead to high anticipated loan loss.	4	3.6	9	8.2	18	16.4	63	57.3	16	14.5	3.7	0.94

Source: Survey Result, 2019

Insufficient credit control and credit management of the bank is exposed for high provision for anticipated loan losses, the bank is highly require to establish strong monitoring and controlling unit, Accordingly majority 63(57.3%), of respondents witnessed that the bank has insufficient credit controlling and management practice, even the bank is conducting periodic control over the credit the response evidenced by mean value of 2.06 and SD of 0.87, the mean value indicates the bank has no good tend in maintaining good provision with the existing credit control, so that it helps the bank to early avoid monotony operation and make consecutive corrective measures.

As indicated in table 4.7, majority, 59(53.6%) of the respondents has witnessed that credit controlling activity of the bank is insufficient to mitigate sick loans and their weaknesses, and evidenced by its mean vale and SD of 3.7 and 0.94 respectively. The mean value justifies that the bank has no sufficient monitoring and controlling practice, this implies that branches should follow the repayment and utilization of loan accounts as per the schedule and credit portfolio department should assist branches to undertake strict credit follow up and monitoring activity.

In relation to inadequacy of credit management directly related to anticipated loan, majority 59(53.6%) of the respondents are the same opinion that, inadequate credit management of the bank directly related to anticipated loan loss, and this enables either to assess the problem and take measure on it since such kind of cash reserve set aside from the banks profit in order to recover expected loss, as evidenced by its mean value and SD of 4.3 and 0.98 respectively.

Hence, gathering relevant information and determining credit worthiness have assumed greater significance in the effective quality of lending yet most of the respondents have witnessed that low quality lending activities of the bank cause for anticipated loan loss, this is evidenced by mean value and standard devotion of 3.8 and 0.91), so that bank officers analyze all available information and evaluate a borrower's ability and willingness to repay.

As indicated in table 4.7, majority, 73(33.4%) of the respondents has witnessed that, that anticipated loan loss is not caused by inadequacy of integrated credit policy and procedure with mean and standard deviation of 1.47 and 0.83 respectively; this implies that the bank has good and rich in formulating its policy so as to meet the dynamic nature of the business environment, anticipated loan losses rather than inadequacy of integrated policy and procedure which may arise by different reasons like insufficient credit managements and low quality lending activities.

Hence, credit policy and procedure are not something that is only operated by the credit and risk department, all credit related employee involved with customers, need to be aware of the credit policy and ensure that it is operated consistently. Here again majority, 62(56.4%) of the respondents has witnessed that bank's credit policy and procedure are consistent and in line with the execution of credit activities, as evidenced by mean and standard deviation value of 1.8 and 0.81 respectively, besides it is in line with NBE's directive.

Accordingly majority 63(57.3%) of respondents has the same opinion that, weak control over credit leads to high anticipated loan loss. This is evidencing by mean value of 3.7 and SD of 0.94, the mean value indicates if loan granted on the basis of sound analysis might go bad because of the borrower may not meet obligations per the terms and conditions of the loan contract besides if there is a weak control.

Table 4.8: Issue related with loan portfolio to economic sector

Statements		Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree		Mean	Standard devotion
		FQ	%	FQ	%	FQ	%	FQ	%	FQ	%		
4.1	The loan portfolio is invested in different sectors of the economy	2	1.8	4	3.6	7	6.4	41	37.3	56	50.9	4.31	0.88
4.2	Loan portfolio of the bank concentrate in particular sectors of the economy	2	1.8	3	2.7	6	5.5	37	33.6	62	56.4	4.4	0.85
4.3	The bank has pre-set concentration limits in every sector	27	24.5	42	38.2	12	10.9	18	16.4	11	10	2.49	1.29
4.4	The bank quickly responds to market changes	10	9.1	2	1.8	16	14.5	56	50.9	26.	23.6	3.78	1.11

Source: Survey Result, 2019

As indicated in table 4.8, majority 56(50.9%) of the respondents witnessed that, bank's loan portfolio has invested in different sectors of the economy as evidenced by (mean and SD of 4.31 and 0.88 respectively), so that it implies that the bank has prudent management and well organized of sectroral distribution of bank's loan portfolio in order to prevent concentration risk in credit portfolio.

On the same table item 4.2, 62(56.4%) and 37(33.6%) majority of the respondents are the same opinion that, bank loan portfolio concentrated on particular sectors on the other hand 3(2.7%) and 2(1.8) of the respondents describe their level of different on the statement while 6(5.5%) of the respondents are neutral. Hence, sectoral concentration arises from uneven distribution of loan and advances which implies uneven sectoral exposure makes the bank more vulnerable in a way that if a shock hits one specific sector or a geographical region, the bank cannot spread these losses over remaining unaffected sectors.

Again on the same table respondent's reflection to the question whether the bank has pre-set concentration limit in every sector, majority 42(38.2%) of the respondents are differ with the statement. This is evidencing that mean and standard deviation of (2.49 and 1.29) respectively, so the bank better to have pre-set concentration limit to look for early warning signals, initiate proactive remedial measures and monitor on an ongoing basis the overall loan portfolio.

Accordingly majority 56(50.9%) of respondents are witnessed that, the bank has a good respond on the market change, currently one of the bank effort to attract hard currency; a benefit package has arranged for employee of non- governmental organizations (NGOs) who channeled (undertake to channeled) foreign currency through the bank, moreover the bank has arranged partial financing for purchase of a residential house and automobile for Diaspora (Ethiopian origin and lives outside Ethiopia) to raise scarce foreign currency form the remittance.

4.5 Secondary data on loan and advance by economic sector

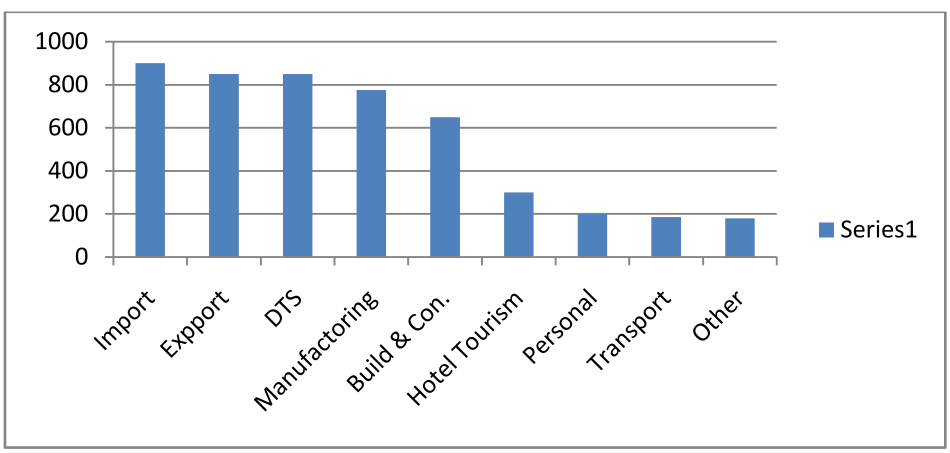

Figure 2: Loans and Advance by Economic Sector as of 2014
Source: Bank's Annual Report

**Others: merchandise, Advance against import bills, mines, power and water resource, health service.*

As of June 30 2014, outstanding loans and advance of the Bank reached Birr 5.1 billion, out of which Birr 73 million held for provision for impairment losses. Looking at sectoral distributions, Imports accounted for the largest share (18.25 percent) of the total loan portfolio, followed by Export and Domestic Trade Service (DTS) with 17.51 percent and 17.4 percent share, respectively

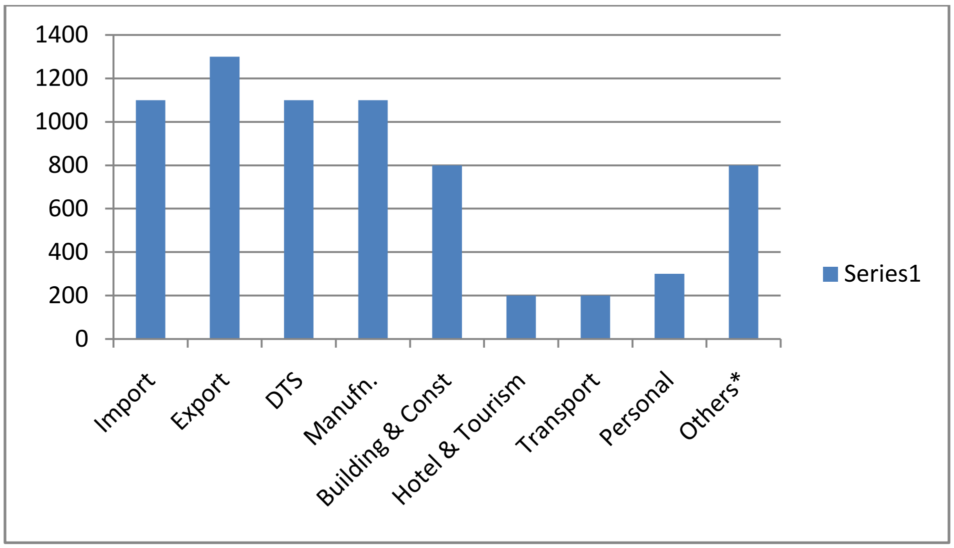

Figure 3: Loans and Advance by Economic Sector as of 2015

Source: Bank's Annual Report

**Others include merchandise, health service and mines, power and water resource.*

Total outstanding balance of loans and advances extended to customers who are engaged in different business and investment activities as at June 30, 2015 stood at Birr 6.9 billion, showing a significance increment of Birr 1.8 billion (35.32 percent) compared with the previous year, out of which Birr 83 million held for provision for impairment losses its it shows an increment of birr 10 million (12 percent) compared with the previous year.

Looking at sectoral distribution, Export sector accounted for the largest share (19.87 percent) of the total loan portfolio, followed by import (16.94 percent) and Domestic Trade and Services (11116.90 percent.

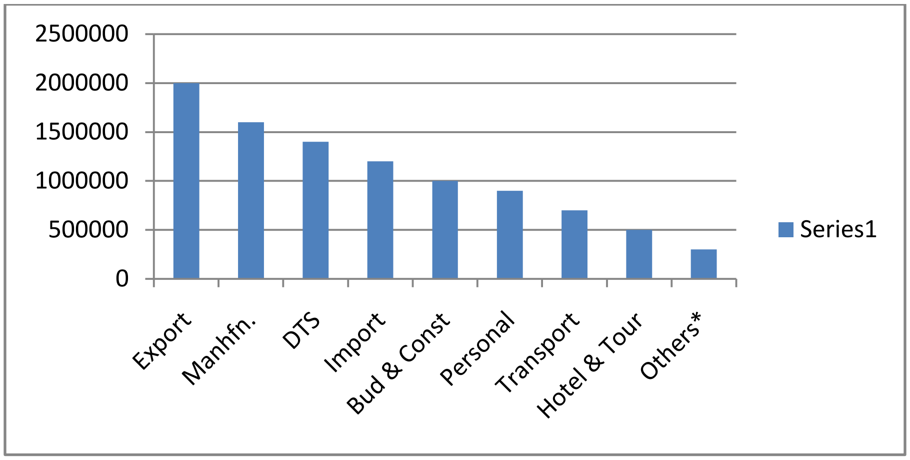

Figure 4: Loans and Advance by Economic Sector as of 2016
Source: Bank's Annual Report

**Others: merchandise, Advance against import bills, mines, power and water resource, health service.*

Loan and advance were extended to the customers engaged in different business and investment activates. During the period under review, the bank was able to maintain a healthy loan portfolio, mainly as result of prudent loan management practice. The total outstanding balance of loans and advances extended to customers as at 30 June 2016 stood at birr 8.53 billion, reflecting an increase of birr 1.7 billion (24.41%) compared with the previous year, out of which Birr 110.9 million held for provision for impairment losses its it shows an increment of birr 29.7 million (25 percent) compared with the previous year..

Looking at sectoral distribution, the export sector accounted for the largest share (20.74%) of the total loan portfolio, followed by manufacturing and domestic trade and services (DTS) (16.35% each and import 14.24%.

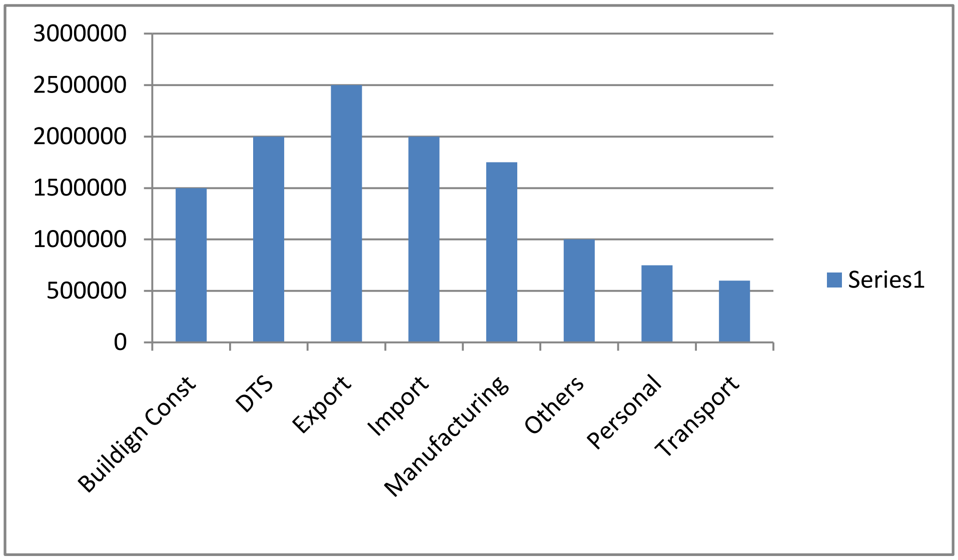

Figure 5: Loans and Advance by Economic Sector as of 2017

Source: Bank's Annual Report

**other includes hotel and tourism, loan under litigation, interest free financing, against import bills and health service and merchandise loan.*

United Bank has extended loans and advance to customer engaged in various business and investment activities. Loans and advance balance of the bank also resisted a commendable increment year –on- year. The total outstanding balance of loans and advances extended to customer as at 30June 2017 stood at Birr 11.99 billion reflecting an increase of Birr 3.46 billion (40.56%) compared with the previous year, out of which Birr 148 million held for provision for impairment losses its it shows an increment of birr 37.1 million (25 percent) compared with the previous year.

Looking at sectoral distributions, the export sector accounted for lion's share (21.02 percent) of the total loans and advances portfolio, followed by Domestic Trade and Service (16.60 percent) and import (16.42 percent).

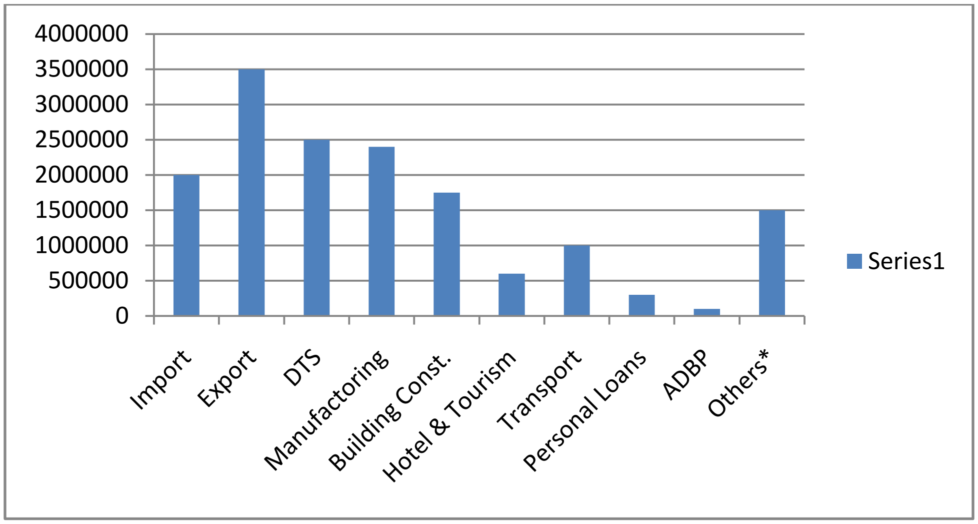

Figure 6: Loans and Advance by Economic Sector as of 2018

Source: Bank's Annual Report

**Others include Health Service, Interest free Financing Staff Loans and merchandise loan.*

The total outstanding balance of loans and advance as at 30 June 2018 stood at Birr 15.07 billion, reflecting an increase of birr 2.97 billion (24.53 percent) compared with the previous year, out of which Birr 195 million held for provision for impairment losses its it shows an increment of birr 37.1 million (24 percent) compared with the previous year.

A closer look at the distribution of loans by sector reveals that the export sector again accounted for the lion's share (23.75 percent) of the total loans and advance portfolio, that followed by; Domestic Trade and Service (15.47 percent), manufacturing (15.10 percent), import (13.26 percent) and building and construction (11.61 percent)

In general regarding the above trend assessment, from the total loans and advances granted to the customers, Export sector took the lion share for consecutive four years, since this sector has a major role in generating foreign currency the bank finance aggressively to this economic sector. On the other hand bank the trend assessment indicates that when the bank follow aggressive lending strategy and experience rapid credit growth they might end up with increased of provision for impairment losses. A provision for loan impairment is established if there is objective evidence that the bank will not able to collect all amounts due according to the original contractual terms of the loan. The amount of the provision is the difference between the carrying amount and the estimated recoverable amount.

CHAPTER FIVE

5. SUMMARY CONCLUSION AND RECOMMENDATION

In this chapter, the research overall findings that have been discussed based on each response in informative and summarized manner. In addition, general conclusions that are highly related with the research objective of this paper are offered. Furthermore, possible recommendations are forwarded on the following findings based on the findings are made.

5.1 Summary of Finding

Respondents provide their own opinion on each research questions; based on the responses majority of participants were indifferent between agreement and disagreement on the each variable, the following are the major ones that are assumed to create significant impact on the credit management practice of the Bank.

The first assessment was made on the credit management practice of the bank after the loan has been advanced. Accordingly majority of the respondents were given their positive responses on it, however respondents were strongly disagreed and disagree on statements including the bank assesses and confirms the utilization of the loan for the approved purpose, and customers are given sufficient advice on the usage of loans. This suggests that though credit controlling is one of the major activities in credit management practices, the bank failed to practice that to extent of its importance.

The second assessment was made on Bank's Non-performing Loans (NPL) and its workout strategy; consequently respondents were given their agreement on the statement including strict monitoring ensures loan performance and loan follow up is directly related to occurrence of NPLs and the bank have adequate workout strategy in case of loans before NPL. In this regard even though the bank has adequate workout strategy less likely to entertain customers by injecting additional loans during the difficult time and voluntary realization of an asset once the loan classified as NPL.

It is also observed that the bank don't timely collect loan in arrears at the time of waiver (skip payment), this implies that the bank may exposed for credit risk resulting from this nonpayment or delayed payment, besides its profit become deteriorate.

On the other hand, as per bank's annual report NPL position of the bank is below the thresh hold set by NBE which is 5% considering the period from 2014 to 2018. Since loans and advance are more profitable than any other assets, a bank is willing to lend as much of its fund as possible, but the bank have to be careful about the safety of such advance.

The third finding was related to bank's loan provision for anticipated loan loss, here again majority of the respondents were witnessed that insufficient credit control and low quality lending activities are exposed for high provision for anticipated loan losses, so that once a customer requests a loan, bank officers analyze all available information to determine whether the loan meets the bank's risk-return objectives by determining the financial strength of the borrowers, estimating the probability of default and reducing the risk of non repayment to an acceptable level. On the other hand anticipated loan loss is not caused by inadequacy of credit policy and procedure of the bank. This implies that even the research didn't address the adequacy of credit policy and procedure of the bank it is adequate to perform the credit operation.

Finally the research paper assessed bank's loan portfolio to different economic sector by using as an input respondents response and bank's five years annual report. Accordingly majority of the respondents were strongly agreed and agreed on statements including bank's loan portfolio is invested in different sectors of the economy while it is concentrate in particular sectors of the economy, this implies that there is a huge concentration in particular sector, so that it will create significant impact on the bank if the sector unable to survive in the economy, Besides respondents were strongly agreed and agreed on the statement pertain that the bank quickly responds to market changes. Nowadays in addition to conventional credit system the bank arranged benefit package for employee of Non- Governmental Organizations (NGOs) and Diasporas (Ethiopian origin and lives outside Ethiopia) who channeled (undertake to channeled) foreign currency through the bank partial financing for purchase of a residential house and automobile to raise scarce foreign currency form the remittance.

In contrast respondents were completely disagreed on statements that states the bank has pre-set concentration limits in every sector of the economy, So the bank better to have clear directive that state concentration limit on the every sector of the economy.

In general the researcher finds out from the data collected from respondents through questionnaire and five year annual report, bank's loan portfolio is disbursed in the following business lines, such as Domestic Trade, International Trade/ Export, Factories, Service Sector, Transport sector, Construction sector and Hotel and Tourism. In this regard Export sector took the lion share for consecutive four years, since this sector play major role in generating foreign currency the bank aggressively financed this sector. On the other hand bank the trend assessment indicates that when the bank follow aggressive lending strategy and experience rapid credit growth they might end up with increased of provision for impairment.

5.2 Conclusions

Out of all principal roles of the banks, lending is the most important role in which banks provide working capital to commerce and industry. Importance of credit is not only because of its social obligation to provide the credit needs of different sections of the community but also because lending is the most profitable activity, as the interest rates realized on business loans have always been well above those realized on investments. Credit being the principal source of income for banks and usually represents one of the principal assets of the banks so its effective management is fundamental to a bank's safety and soundness.

The research assesses the credit management of the bank using four basic parametrical dimensions namely, credit monitoring and controlling activity, NPL and its workout strategies, loan provision for loan losses and loan portfolio to economic sector. As per the premises and the forgoing findings the following conclusions are drawn.

Even though there is frequent loan administering, monitoring and controlling practice, it's still pointed as insufficient and requires continuous improvement from the branch and credit portfolio department side.

Large number of NPLs affect a bank's short term and long term performance, first the bank need to set aside or provision for more money to cover the NPLs'. This provision reduces banks profitability, second the bank has to dedicate high amount of its financial and human recourse to dealing with NPLs.

As the five year trend analysis indicated that, the capacity of providing loan and advance to borrowers are increased year to year, however there is a gap in checking and confirming all financed loans are granted for the requested purpose or not. Since loans are not confirmed the customer may divert the loan and which causes for NPLs and raise loan provision rate.

The bank has very limited practice of providing advice and support to customers on the usage of loans and at the time of financial distress

Here again the bank has limited practice of credit assessment and quality of lending, the bank should try to find out financial need of the client, viability of operations and risk involved. So that loan officer attempts to evaluate a borrower's ability and willingness to repay otherwise credit monitoring practice will not effective.

Bank relays more on restructuring and rescheduling of the loan period before and after occurrence of NPLs, rather than injection of additional loans and voluntary realization/liquidation of an asset. Hence the recovery of the loan considered as feasible the bank better to look on other workout strategies to facilitate a speedy recognition and recovery of NPLs and to control its growth rate.

The bank has very limited practice on collecting loan in arrears at the time of waiver (skip loan repayment); since income from interest plays an important role in the gross earnings and net profit of the bank timely collection of loan in arrears play significant impact on banks performance. As well as when it is not collected timely it will create repayment burden on the borrowers.

Even bank's loan portfolio disbursed to different sector of the economy; however it is unevenly distributed across the sectors. This may cause for credit default with sectoral distribution. For instance in 2017/18 the country has been facing turmoil in various parts of the country which resulted in announcement of the State of Emergency so that the instability will definitely have a negative impact on the business environment. In addition the amount of loan advanced to each sector has no pre-sent concentration limit. So the bank better to incorporate loan concentration limit of every sector in its policy and procedure manual.

5.3 Limitations

Although this study focuses on credit management practice of United Bank S.C, it is acknowledged that this study has some limitations and there is enough room for further study. The major limitations and of this study are as follows:

Firstly, this study emphasis only on a single bank out of many commercial banks that believed to carry on credit management practice as one of their basic functions. Had such study been made on all commercial banks in Ethiopian banking industry, it would have better results. But due to the vast nature of credit management, because of credit management function is different for different banks, moreover due to time and financial constraints of the researcher, it is limited to this specific bank.

Secondly, the study is based on available information from secondary and primary sources, it would have been better results if interview was conducted with credit portfolio department; however they are always reflects as they have no time to respond and they are busy with the new 20/30 strategy implementation.

5.4 Recommendations

On the basis of the results and conclusions of the study, the following recommendations are suggested so as to be considered future intervention strategies which are aimed at improving the credit management of the bank.

Both branch's and credit portfolio department should create a strong and efficient credit administration, monitoring, and controlling practice through regular review borrower's loan files, periodically value secured collaterals related to borrowers financial health and its insurance coverage once the loan has been advanced.

The bank should check and confirm the financed loan amount whether it spent for the requested purpose or not by arranging periodic business visit to check the existence of the business and by looking company's financial report whether it is audited or not, since money is most liquid asset diversion of it can be performed intentionally and unintentionally it causes for NPL.

The bank should take rapid remedial on NPLs, accordingly branches should act on Bank's workout strategy such as changing the form of loan fully or partially from overdraft or overdrwal to term loan, voluntary liquidation of collateral and injection of addition loan. Because once NPL occurred it has a big impact on the bank's profitability and branches performance.

The Bank should give sufficient advice and support for its borrower about the usage of loan and its repayment practice to maintain the debt healthy. For the borrower in normal circumstance and at the time of financial distress, for instance as per NBE's directive overdraft accounts must show a credit balance once in a year otherwise it will be NPL. So that bank's borrowers should have a clear understanding of overall bank's loan and advance.

Initially credit assessment and quality of lending should be performed in a well manner by check the viability of the proposed project to undertaken technical viability, the economic viability and the financial viability of the project to be undertaken. The risk associated with the loan can be reduced by doing the above, because strict monitoring will not safe the loan from bad debt.

The debtor discover it difficult or impossible to meet its contractual obligation, in addition to restructuring and rescheduling of the loan the bank advices to use other workout strategies like voluntary realization/liquidation of an asset and injection of additional loans.

Loan in arrears should be collected periodically, since income from interest plays an important role in the gross earnings and net profit of the bank as well as when it is not collected timely it will create repayment burden on the borrower.

The bank should have diversified loan portfolio composition in all aspects to manage the credit risk level. It should have a system for the ongoing administration of their various credit risk bearing portfolios and a system for monitoring conditions of inadequate credits, including determining the adequacy of provisions and reserves. In addition the amount of loan advanced to each sector should have a limited and it has to be clearly incorporated in the credit policy to avoid potential losses and failure in specific sector.

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APPENDIX

APPENDIX A

St. Mary's University

School of Graduate Studies

RE: QUESTIONNAIRE

Dear Sir/Madam

Thank you very much for your willingness to take time to respond to this research questionnaire. This research questionnaire is designed to collect data on the credit management practice of United Bank S.C which will be used as an input for a thesis in a partial fulfillment of Degree of Masters Business Administration (in General Management). Your genuine response is solely used for the research purpose only and any response you provide here is strictly held confidential. Therefore, your kind cooperation is appreciated in advance.

HOW TO COMPLETE THE QUESTIONNAIRE

Please answer the questions by making either tick (√) in the appropriate box or whichever the mark that best describes your situation that corresponds to the most appropriate response in each point, you may also write if any additional points supposed to be raised in the space provided at the end of every section.

For any ambiguity contact me on 0923504942 or my email address: kidistbirhan@35gmail.com.

Part 1: Socio Demographic profile of respondents

1.1. Gender

Male ☐ Female ☐

1.2. Age

20-30 ☐ 31-40 ☐ 41-50 ☐ above 50 ☐

1.3. Education background

Diploma ☐ Degree ☐ Masters ☐ PhD and above ☐

1.4. Service year in the Bank

1-5 years ☐ 6-10 years ☐ 11-15 years ☐ 16-20 years ☐ above 21 years ☐

1.5. Credit related experience within the bank

1-5 years ☐ 6-10 years ☐ 11-15 years ☐ 16-20 years ☐ above 15 years ☐

1.6 Current position in the bank

Credit Analyst ☐ Credit Portfolio Officer ☐ B/Manager ☐ Loan Officer ☐

Part 2: Issue related with credit monitoring and controlling activity after the loan advanced.

1. Please indicate your degree of agreement or disagreement to the statement pertain got credit monitoring once a loan has been advanced. (SD stand for Strongly Disagree, DA stand for Disagree, N stand for Neutral, SA stand for Strongly Agree)

	Statements	SD	DA	N	A	SA
1.1	Periodic loan review is performed					
1.2	Adequate credit follow up is done regularly					
1.3	The bank assesses and confirms the utilization of the loan for the approved purpose.					
1.4	Does collateral estimation regularly assessed related to applicants financial health					
1.5	Does insurance coverage and its renewal timely reviewed related to borrower's financial health.					
1.6	Credit control activity of the bank enables early identification of problem loan					
1.7	Customers are given sufficient advice on the usage of loans					
1.8	The bank classify loans based on their weakness level					
1.9	Credit monitoring and controlling reports published regularly					
1.10	The bank restructure & consolidate multiple loans in case of a borrowers' financial distress					

Part 3: Issue related with Non-performing Loans (NPL) and its workout strategy

2. Please indicate to what degree you agree with the following statements about occurrence of NPLs and its workout strategy. (SD stand for Strongly Disagree, DA stand for Disagree, N stand for Neutral, SA stand for Strongly Agree)

	Statements	SD	DA	N	A	SA
2.1	Strict monitoring ensures loan performance.					
2.2	Poorly assessed and advanced loans may perform well if properly monitored.					
2.3	Loan follow up is directly related to occurrence of NPLs					
2.4	Does the bank have adequate workout strategy; in case of loans before NPL					
2.5	The bank has a trend of voluntary realization of an asset once the loan classified as NPL					
2.6	The bank has trend of reschedule/extension of the repayment period in case of borrower's financial problem.					
2.7	Does the bank has trend of injecting additional loans during the difficult time					
2.8	Loan in arrears are collected periodically at the time of waiver.					

Part 4: Issue related with loan provision for possible loan loss.

3. Please indicate to what degree you agree with the following statements about loan provision for the anticipated loan loss. (SD stand for Strongly Disagree, DA stand for Disagree, N stand for Neutral, SA stand for Strongly Agree)

	Statements	SD	DA	N	A	SA
3.1	The existing credit control enables to maintain good provision for possible loan loss.					
3.2	Credit control activity of the bank is insufficient to prevent credit risk.					
3.3	Inadequate credit management of the bank directly related to anticipated loan loss.					
3.4	Anticipated loan loss of the bank is caused by low quality lending activities.					
3.5	Anticipated loan loss of the bank is caused by inadequacy of integrated credit policy and procedure.					
3.6	Existing policy and procedure of the bank is inconsistent against the execution of credit activity.					
3.7	Weak control over credit lead to high anticipated loan loss.					

Part 5: Issue related with loan portfolio to economic sector

4. Please indicate to what degree you agree with the following statements about bank's loan portfolio to economic sector. (SD stand for Strongly Disagree, DA stand for Disagree, N stand for Neutral, SA stand for Strongly Agree)

	Statements	SD	DA	N	A	SA
4.1	The loan portfolio is invested in different sectors of the economy					
4.2	Loan portfolio of the bank concentrate in particular sectors of the economy					
4.3	The bank has pre-set concentration limits in every sector					
4.4	The bank quickly responds to market changes					

Thank you for taking your time to answer this Questionnaire!

DECLARATION

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

Name   Signature

St. Mary's University, Addis Ababa   **June, 2019**

ENDORSEMENT

This thesis has been submitted to St. Mary's University, school of graduate studies for examination with my approval as a university advisor.

______________________________________ __________________________

Advisor Signature

St. Mary's University, Addis Ababa **June, 2019**