St. Mary's University

School Of Graduate Studies

ASSESSMENT OF CREDIT MANAGEMENT PRACTICE : THE CASE OF WEGAGEN BANK S.C.

***BY*: ESKEDAR BEKELE**

DECEMBER, 2019

SMU

ADDIS ABABA - ETHIOPIA

ASSESSMENT OF CREDIT MANAGEMENT PRACTICE
: THE CASE OF WEGAGEN BANK S.C.

By: ESKEDAR BEKELE

A THESIS SUBMITTED TO ST.MARY'S UNIVERSITY,
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IN GENERAL MANAGEMENT

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SMU

ADDIS ABABA - ETHIOPIA

DECLARATION

I hereby declare that this thesis is the result of my own research work towards the partial fulfillment of the requirements for the Degree of Masters in Business Administration in St. Mary's University. It contains neither material previously published by another person nor that has been accepted for the award of any other degree of the university, except where I have made explicit references to the work of others.

Eskedar Bekele	………………..	………………….
	Signature	Date

ENDORSEMENT

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

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Date____________________________

APPROVAL

This is to certify that this research document has been submitted in partial fulfillment of the requirements for the degree master's in business administration with approved board of examiners.

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LIST OF ACRONYMS/ABBREVATIONS

WB	Wegagen Bank
CA	Credit Administration
CCA	Credit Control Activity
CM	Credit Management
CP	Credit Policy
CPU	Credit Processing Unit
LPM	Loan Portfolio Management
NBE	National Bank of Ethiopia
NPL	Non-Performing Loan
SPSS	Statistical Package for Social Science

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ABSTRACT

This study intends to assess credit management practice of Wegagen Bank s.c.based on four basic dimensions namely the practice of the bank in managing its loaning activity and alignment with the National Bank of Ethiopia requirements, non-performing loan management, current credit control and its credit risk management practice. The research is designed as a case study on a single bank and a survey method was employed. Sources of both primary and secondary data were used. Questionnaire was used as a main instrument to collect primary data while the secondary data is collected from the bank's unpublished provision reports (2012-2018), directives, credit policy and procedure of the bank. Based on the nature of the study the research design is descriptive and the methodology used for the study is population census for bank staffs. To analyze the data collected a quantitative research method were used. Hence, the nature of the Study is descriptive. Data was analyzed using SPSS 20.0 version and results are described based on statistical mean and standard deviation values. As per findings of the study There is poor analysis cash flow statement of borrowers before approval of the loan repayment period and a proper assessment of credit risk is required in the analysis process and based on this findings recommendations are given that the management of Wegagen bank must come up with a credit risk management policy that is devised towards the granting of current loans whiles cutting down drastically the approval of loans which has the potency of becoming doubtful or loss in the long run.

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Key Words; *Credit Management, Credit Risk Management, NPL, NBE, Wegagen Bank s.c.*

CHAPTER ONE

1. INTRODUCTION

This introductory chapter of the thesis addresses background of the study, an overview of the financial institution activities mainly bank's lending and their associated risk and its management and the problem statement. Besides, the research question and study objectives, significance of the study, limitation of the study are presented. The scope of study too, is included in this chapter.

1.1 Background of The Problem

No one can deny the importance of financial institutions in any developed or developing economy these financial institutions not only ease the credit flow in the economy but also enhance the productivity by energizing the investment (Richard, 2011). Economic growth in any country is not possible without a sound financial sector (Rajaraman and Visishtha, 2002). Good performance of these financial institutions is the symbol of prosperity and economic growth in any country or region and poor performance of these institutions not only hinder the economic growth and structure of the particular region but also affects the whole world (Khan and Senhadji, 2001).

Financial institution is the support of the financial sector of the economy, they provide financing to different groups, different sectors in the economy namely, the contractors, real estate builder's, traders, house-holds, and manufacturers. These credits will be used to reinvest in businesses and for which the owners expect to earn a return. At the same time, lenders or financial intermediaries supply credit to earn a return when these companies borrow. This process for extending credit has a multiplier effect on the global money supply, so this is why credit is a powerful driver of our backward economy. This transformation from supply to demand side is not without risk(Yaw Adu, 2015).

Banks are exposed to credit, market, operational, interest rate and liquidity risk. The appropriate management of these risks is a key issue to reduce the earnings risk of the bank, and to reduce the risk that the bank becomes insolvent and that depositors cannot be refunded (Bart and Gestel, 2009). Since, banks earn their highest gross profits from loans; the administration of loan collection seriously affects the profitability of banks. Indeed, large number of uncollected amount

of loan or non-performing loans is the main cause of bank failure (Rehm, 2002). Therefore, there is a need of effective credit supervision where loans should be very well managed to minimize potential risks that may affect the bank's performance.
Credit creation is the main income generating activity for the banks. But this activity involves huge risks to both the lender and the borrower. The risk of a trading partner not fulfilling his or her obligation as per the contract on due date or anytime thereafter can greatly risk the smooth functioning of a bank's business. On the other hand, a bank with high credit risk has high bankruptcy risk that puts the depositors in jeopardy. Among the risk that face banks, credit risk is one of great concern to most bank authorities and banking regulators. This is because credit risk is that risk that can easily and most likely prompts bank failure (Conford A., 2000).

Credit management means the total process of lending starting from inquiring potential borrowers up to recovering the amount granted. In the sense of banking sector, credit management is concerned with activities such as accepting application, loan appraisal, loan approval, monitoring, and recovery of non-performing loans (Shekhar, 2005.) Banks take into account many considerations as a factor of credit management, which helps them minimize the risk of default that results in financial distress and bankruptcy. This is due to the reason that while banks providing credit they are exposed to risk of interest and principal repayment, which need to be managed effectively to acquire the required level of loan growth and performance.

According to Hettihewa (2001), Credit Management is extremely important as granting credit is considered to be the equivalent of investing in a customer. Credit analysis is the first step in the process to tailor-make solution to fit the customer's needs. The assessment starts with an understanding of the customer's needs and capacities to ensure there is a good fit in terms of the financing solution. Credit assessment is the most important safeguard to ensure the underlying quality of the credit being granted and is considered an essential element of credit risk management (Cade, 2003).

The credit quality generally refers to the borrower's ability and willingness to meet the commitments of the facility granted. It also includes default probability and anticipated recovery rate (Saunders & Cornett, 2003). Credit assessment thus involves assessing the risks involved in financing and thereby anticipating the probability of default and recovery rate. A credit analysis is

used by the credit official to evaluate a borrower's character, capital, capacity, collateral and the cyclical aspect of the economy (Strischek, 2000).

How long does it take business partners to pay their debts? Understanding the payment behavior of potential customers is vital in assessing credit management in every organization, since poor credit assessment can lead to major problems in financial planning, Atradius (2011), as cited in Emmanuel Y. (2012).

Myers and Brealey (2003) describe credit management as methods and strategies adopted by a firm to ensure that they maintain an optimal level of credit and its effective management. Nelson (2002) also views credit management as simply the means by which an entity manages its credit extension. It is a prerequisite for any entity dealing with credit transactions since it is impossible to have a zero credit or default risk. The key strategic value a bank adds has always depended on its ability to manage credit. This cannot be done properly without an effective risk assessment, control and follow up strategy.

A strong and effective credit management process is one that reinforces and compliments its corporate objectives and goals. The main problem that banks encounter in credit administration is that some of the granted credit facilities are not re-paid leading to a loss of depositor's funds and emergence of bad debts (yonas, 2016). Therefore, it becomes a matter of convincing determination to assess Wegagen bank's credit management practice. Since the Non-Performing Loan (NPL) position of the bank has a fluctuating tendency in the past few financial periods.

1.2. Statement of Problem

Credit Management refers to the efficient credit policy variables to ensure prompt collection of loans granted to customers and at the same time boost their confidence in and loyalty to the bank (Ankrah, 2011). This is the function within the bank to control credit policies that will improve revenues and reduce financial risks. It is an aspect of financial management involving credit analysis, credit rating, credit classification and credit reporting. Sound credit analysis, credit rating, credit classification and credit reporting standards are an excellent point of collectability performance and effective credit policy management leads to enlargement of economy and construct the self-reliance of customer by reducing the frequency and depth of loan problem (Koch, 2005).

Among the researches made in the area Selamawit (2017) conducted a study on credit management practice in the case of awash international Bank share company and found that private commercial banks including the wegagen bank is facing severe troubles as a result of the practice of poor credit analysis, poor follow-up and portfolio management practice which leads banks to maintain high percentage of nonperforming loans that will directly raise the provision expense and inversely affect the overall profitability of the bank. Hagos (2010) conducted a study on wegagen bank S.C. focusing specifically on credit management performance of nine branches in tigray region and concluded that there was poor credit management performance.

Even though different research has been done the area of credit management most of the studies have been mainly focused on the issue of compliance with policy and procedure banks Furthermore, based on the unpublished loan classification and provision report made quarterly Wegagen bank S.C.total loan portfolio and nonperforming loan has been increasing during the last consecutive years.as shown below under Table 1.1 the bank loan portfolio has been increased from 3.9 Billion to 15.04 Billion and the non-performing loan were increased from 395 million to 1.17 billion and the ratio of non-performing loan from the total portfolio has fluctuating tendency in the years under consideration. This clearly reveals that there is a problem of credit management in the bank.

Table 1.1 Trend of NPL

Year	**Amount of Credit availed**	**Amount of NPL**	**%age**
2011/12	3,950,970,950	395,097,094	10%
2012/13	4,682,219,781	519,726,395	11.1%
2013/14	4,604,415,561	529,507,789	11.5%
2014/15	6,169,528,313	556,491,453	9.02%
2015/16	7,630,319,726	565,406,691	7.41%
2016/17	10,367,457,925	915,446,535	8.83%
2017/18	15,038,492,106	1,171,498,535	7.79%

**Annual Internal Performance Report 2012-2018

Furthermore, the researcher believe that the result obtained from a case study of Hagos (2010) can not to reflect the current circumstance of the overall credit management practice of the bank due to the reason that the study has been done by focusing only on one region and specifically on nine branch's and since 2010 the bank credit portfolio, NPL amount and the number of branch has been increased by 27%, 34% and 18% respectively. Therefore, in light of the above facts and research

gaps the researcher belief that it is proper to undertake a research by taking all Addis Ababa district office and head offices credit processing and administering staffs to evaluate the overall current credit management activities of the bank at the district offices and at head office and thereby recommend courses of action that are assumed to promote effective credit management and consistency in lowering non-performing loans of the bank.

1.3. Research Question

The research is intended to answer the following basic questions which are entirely related to credit management practice of Wegagen Bank S.C

1. How is the practical loaning activity of the bank and alignment with the National Bank of Ethiopia requirements?
2. How are non- performing loans managed by Wegagen Bank
3. How are the current credit control activities of the bank
4. How are the credit risk management activities of the bank

1.4. Objective of the Study

1.4.1. General Objective

In view of the stated problems the general objective of the study is assessing credit management Practice of Wegagen Bank S.C. and the specific objectives of the study are stated as follow.

1.4.2. Specific Objective

1. To assess and describe the practical loaning activity of the bank and alignment with the National Bank of Ethiopia requirements
2. To describe how the bank manages its Non- performing loans
3. To assess the current credit control practice of the bank
4. To assess the credit risk management activities of the bank

1.5. Significance of the Study

This study has significant specifically to Wegagen bank s.co. in identify the areas of the credit management practices that needs further enhancements so as to benefit from its forward looking recommendations and helps them also to implement the recommendation if they have relative

problems and the research paper can also be an initial reference for those who are proposed to make further research in this area of the banks in different dimensions.

1.6. Scope of the Study

The study is concentrated on Wegagen Bank Share Company District offices found in Addis Ababa and at head office. This is because; out of 277 branches of the bank 169 branches' loan applications are processed and administered under these district offices and at the head office and The study covered unpublished report of Wegagen Bank S.C. for the period of seven years (2012-2018 G.C.) and also credit policies and procedures of the bank were used.

1.7. Limitation of the Study

The study emphasis only on a single bank out of many commercial banks that believed to carried 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. However due to the vast nature of the topic (since credit management is wide principle), because of credit management function is different for different banks (depends on their complexity, lending culture, risk appetite etc.), because of confidentiality nature of credit documents, due to time and financial constraints of the researcher, it is limited to this specific bank.

1.8. Operational Definition of Key Terms

Loans and Advances : means any financial assets of a bank arising from a direct or indirect advance or commitment to advance funds by a bank to a person that are conditioned on the obligation of the person to repay the funds, either on a specified date or on demand, usually with interest (NBE Directive, 2008).

Nonperforming loans- 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 are in question; or when principal and/ or interest is due and uncollected consecutive days or more beyond the scheduled payment date or maturity (NBE Directive, 2008).

Credit risk - it is the possibility of loan default or any type of inability to honor a financial agreement when due (kay,2002).

Loan Portfolio Management as the mechanism by which risks that are inherent in the credit granting process are controlled and effectively administered (office of comptroller Ghana, 2011).

1.9. Organization of the Study

The research is organized into five chapters. The first chapter introduces the background of the study, the research objectives and questions, significance of the study, limitation of the study and organization of the study. The second chapter presents the theoretical and empirical review of the related literatures while the third chapter deals with methodology of the study. The fourth chapter is concerned with summary of analysis as results and discussions. Finally the fifth chapter presents the conclusion and recommendations drawn from the findings.

CHAPTER TWO

2. RELATED LITERATURE REVIEW

This chapter presents the theoretical overview of credit management in the banking industry in Ethiopia. Describing different recorded manuals and literatures about bank's credit Management. Moreover, principles of the Basel committee, bank loans including concepts relating to nonperforming loans are discussed.

2.1 Theoretical Concepts

2.1.1. Credit Management

According to Asiedu-Mante (2011) credit management involves establishing formal legitimate procedures and policies that will ensure that the proper authorities grant credit, the credit goes to right people, the credit is given for the productive activities or for businesses which are economically and technically viable. The appropriate size of credit is given, the credit is recoverable and there is adequate flow of management information within the organization to monitor the credit activity.

Loans management refers to the effective use of the four major credit policy variables to ensure that there is quick collection of loan given to borrowers when due and at the same time improve on their confidence and loyalty to the bank (Van Home, 1995). Myers and Brealey (2003) consider credit management 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. This is one aspect of monetary administration including credit examination, credit assessment, credit scoring and credit reports.

Nzotta (2004) opined that credit management greatly influences the success or demise of banks and other financial institutions. This is because the failure of deposit banks is determined largely 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. One important precondition for effective credit management is the ability to intelligently and

efficiently manage customer credit lines. He continued by stating that to reduce over exposure to bad debts, overbooking and insolvency, financial institutions should have a better understanding of the financial strength of customers, credit account history and evolution of payment methods of clients.

Office of the Controller of the Currency (2011, Ghana) defined Loan portfolio management as the mechanism by which risks that are inherent in the credit granting process are controlled and effectively administered. It involves evaluating the steps taken by management of financial service providers of credit to identify and exercise adequate control over the element of risk throughout the credit delivery process. credit management starts with granting of a facility and does not stop until the full and final payment has been made. Technically a transaction cannot be termed as complete until full payment has been made. Good lending therefore ensures that the borrower follows the repayment plan set up for him in a timely and prompt manner otherwise; this eventually leads to the total loss of interest that the institution could have earned due to the opportunity cost of the loan, the risk involved and time value of money.

Credit management is primarily concerned with the effective management of debtors as well as judicious financing of receivables. The objectives of credit management can therefore be expressively stated as safeguarding the portfolio of the banks‟ investments in debtors and maximizing shareholders wealth. Policies and practices ought to be rigorously enforced for granting credit facilities to customers, collection of repayments that are due and limiting the high risk factor of non-performing loans.

2.1.2 Process Of Credit Management

The process of credit management begins with accurately assessing the credit-worthiness of the customer base and his/her business viability. This is particularly important if the company chooses to extend some type of credit line or revolving credit to certain customers. Hence, proper credit management is setting specific criteria that a customer must meet before receiving the proposed credit arrangement. As part of the evaluation process, credit management also calls for determining the total credit line that will be extended to a given customer (Yalemzewed, 2013).

According to Agyman (1987), several factors used as part of the credit management process to evaluate and quality a customer for the receipt of some form of credits. These factors include;

- Gathering data on the potential customer's current financial condition, including the current credit score.
- The current ratio between income and outstanding financial obligations
- Competent credit management which not only protects the vendor/bank from possible losses, but also protects the customer from creating more debt obligation that cannot be settled in a timely manner.

According to Edwards (2004), Banks Credit Management process can be summarized in three main stages. Theses stages are:

- Credit initiation
- Documentation and disbursement
- Credit Administration

When the process of Credit Management function becomes, efficient, everyone involved benefits from the effort. The vendor /bank has a reasonable amount of assurance that invoices issued to a client will be paid within terms, or that regular minimum payments will be received on credit account balances. Customers have the opportunity to build a strong rapport with the vendor and thus create a solid credit (Habtamu, 2015).

2.1.3 Credit Policies And Procedures

A 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 (Hagos, 2010).

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. 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 (Ibid).

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. 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 ((Hagos, 2010).

2.1.4. Credit Administration Policy

Credit administration is a critical element in maintaining the safety and soundness of a bank. Once a credit is granted, it is the responsibility of the bank to ensure that the credit is properly maintained. This includes keeping the credit file up to date, obtaining current financial information, sending out renewal notices and preparing various documents such as loan agreements (NBE, 2010).
In developing credit administration arrangements, banks should ensure:

- The efficiency and effectiveness of credit administration operations, including monitoring of credits, maintenance of adequate documentation, observance of contractual obligations and legal covenants and maintenance of collateral, etc.;
- The accuracy and timeliness of information generated by management information systems;
- The effectiveness of the segregation of duties and
- Compliance with prescribed management policies and procedures as well as applicable laws and regulations.

2.1.5. Credit Process

The fundamental objective of commercial and consumer lending is to make profitable loans with minimal risk. Management should target specific industries or markets in which lending officers have expertise. The credit process relies on each bank's systems and controls to allow management and credit officers to evaluate risk and return tradeoffs.

2.1.5.1 Credit Application

The credit application is the primary step in the credit management process. Regardless of the size and purpose of the loan a loan application is required. Though it may appear as simple questions to the applicants they should understand the importance of the document. The application documents contain detail information about the applicant. The information among other things include: name of the applicant, address, residential address, age, telephone number, marital status, number of dependents, educational background, hometown, the type of business, business location ,number of years in business, reasons for the loan, amount required, the repayment period, security pledge if any and guarantors Michael Danso (2015).

The loan application form makes provision for loans committee's member's approval signature and rejection comment. This document is the most important document as far as the loan agreement is concerned. It is the content of this document which the credit union can take any legal action against a borrower who defaults. Since this is the initial stage of the credit management process any error committed at this stage goes a long way to negatively affect the whole process. A loan defaulter can escape legal punishment if the content of the loan application form is not properly structured. Hence the need to evaluate the existing loan application forms to ensure that they are properly structured to protect the credit unions (Ibid).

2.1.5.2. 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 making of such prudent lending decisions. One of the 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.

According to article 36 of the Licensing and Supervision of Banking Business Proclamation No. 84/1994, the National Bank Ethiopia (NBE) has issued these directives to establish such a Credit Information Center (CIC). Though there is still serious limitations in the accuracy of the credit information extracted the summary of the directive is as follows:

- Banks shall provide, alter and update credit information on each and every one of their borrowers using online system.
- Upon written request by banks, the Supervision Department of the NBE shall provide to the requesting bank, in writing, all credit information available in the Central Database on a prospective borrower within three working days from the date of receipt of the request;
- Access to the Central Database shall be restricted to the user group;
- The role of the NBE shall be restricted to administering the Credit Information Sharing system, providing in writing credit information on borrowers available at Credit Information Center to banks, ensuring that access to online system to update or alter credit information is given only to authorized persons and ensuring that the system is operating smoothly and reliably;
- The NBE shall not be responsible for any damages, claims or liabilities that may arise as a result of inaccurate, misleading or incomplete credit information on borrowers supplied to the Credit Information Center by individual banks and shared, through the NBE, with other banks.
- Each bank shall provide, electronically, the initial credit and other related information to the Credit Information Center on each and every one of its borrower;
- Each bank shall be fully responsible for providing accurate, complete and timely credit information to the Credit Information Center. In cases where errors have been made, such errors shall be corrected promptly by the concerned bank;
- Each bank shall be fully responsible for any damages, claims or liabilities that may arise as a result of providing inaccurate, misleading or incomplete credit information to the Credit Information Center or failure to provide, inadvertently or otherwise, information to the Center that should have been provided in line with these directives;
- Each bank shall use the credit information on borrowers obtained from the Central Database of the Credit Information Center only and only for making a lending decision.

Such information shall be treated with utmost confidentiality and shall not be disclosed to any third party or used for any other purpose;

- Each bank shall be fully responsible for any damages, claims or liabilities that may arise as a result of disclosure of credit information on borrowers obtained from the Credit Information Center to third parties or use of that information for purposes other than for making a lending decision.

2.1.5.3 Credit Analysis

Credit analysis refers to the process of deciding whether or not to extend credit to a particular customer. Once a customer requests a loan, bank officers analyze all available information to determine whether the loan meets the bank's risk-return objectives. Credit analysis is essentially default risk analysis in which a loan official attempts to evaluate a borrower's ability and willingness to repay (Koch, 1995). Koch explained in his book that Eric Compton identified three district areas of commercial risk analysis related to the following questions:

A. What risks are inherent in the operations of the business?
B. What have managers done or failed to do in mitigating those risks?
C. 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. The last question forces the analyst to specify how risks can be controlled so the bank can structure an acceptable loan agreement.

Pandey (1990) and Kich (1995) stated in their book that there principal factors taken in to consideration when granting credit. Pandey states 3c"s of credit: character, capacity and capital, but Koch mentions 5 c's: character, capital, capacity, condition and collateral.

CHARACTER - refers to the borrower's honesty, integrity, serve of responsibility and trustworthiness. An analyst must assess the borrower's integrity and subsequent intent to repay. If there are any serious doubts, the loan should be rejected.

CAPITAL – refers to the borrower's wealth position, measured by financial soundness and market standing. It helps cushion losses and reduces the likelihood of bankruptcy.

CAPACITY – involves both the borrower's legal standing and management expertise in maintaining operations so the firm or individual can repay its debt obligation. A business or individual must have identifiable cash flow or income respectively repay debt.

CONDITION – refers to the economic environment or industry specific supply, production, and distribution factors influencing a firms operation. Repayment sources of cash often vary with the business cycle or consumers demand.

COLLATERAL – collateral is the lenders secondary source of repayment or security in the case of default. Having an asset that the bank can seize and liquidate when a borrower defaults reduces loss, but it does not justify lending proceeds when the credit decision is originally made.

2.1.6. The Loan System

Before endorsing any credit facility, it behooves the bank to ensure that the debtor has a practical and viable proposal. However, the marketability of a loan proposition does not depend all together on the quantum of collateral provided by the borrower. The financial intermediary needs to establish the amount of credit risk latent in the credit proposal and within the boundaries of that risk, a decision has to be made whether to accept or reject the proposal. An effective credit management system provides the right framework for such decisions to be made Puri and Poli (2013) For any provision of credit line within the retail sector for instance, a borrower must have a pre-existing capacity to repay the loan either from his/her salary or income from self-employed business or profession. But financing in the commercial sector is somewhat different.

A borrower is not always required to have a pre-existing capacity to repay a working capital or a term loan that he or she seeks from the bank. The capacity to repay is built over the duration of the facility with the help of the bank loan. As the borrower's business expands, incremental cash flows are generated from which the debt can be serviced and repaid as per agreement. Growth of business in the right direction supported by the bank credit drives the cash flow of the business upwards. It is the assessment of incremental cash flows which helps the lender to determine the repayment capacity of the borrower to meet loan obligations in a timely manner (Yaw Adu, 2015).

Bank lending is premised on the assertion that the debtor has the willingness and capability to requite the loan at all stages in their business transactions with the bank. However, the capacity to

pay back depends on future income streams and the disposition to repay has to be based on the pre-existent commitment that has been undoubtedly demonstrated by the borrower. It is a statement of faith because the lender relies largely on the debtor's ability and competence despite business downturns to at least guarantee future cash flows and ensure the flow of regular payments.

These are some of the factors that are necessary in carrying out an effective appraisal of the customer and provide the basis for making well-informed decisions as regards the credit granting process.

2.1.7. Proposed Lending Tools

The current economic difficulties crave for new credit management processes to be put in order to help reduce the lending risk (Fatemi and Fooladi, 2006). Consequently, several tools and technologies will be discussed that have emerged from other research work which could be integrated in the management of credit in the unions.

2.1.7.1 Credit Limits

Credit limit is one of the tools financial institutions use to control their loan portfolio. Setting credit limit is one of the main ways financial institution use to control its' credit process to reduce risks associated with lending. Bessis (2002) shows the significance of employing the credit limit process so as to avoid any credit risk which could imperil the financial position of the institution. Dekker (2004) argues that the credit officers‟ responsibility is to set repayment period and principle amount that would support the affordability of the customer.

Nevertheless, Bessis (2002) also states that the setting of credit limit could conflict with the development of the financial institutions business volume as it will control the customer's rate of taking Loans. Furthermore, he states that a shorter loan repayment period affects the interest income generated by the banks. This further increases the possibility of customers not being able to meet their repayment installment as it will increase big.

Consequently borrowers are needlessly grouped into a delinquency state (Dekker, 2004). Contrary to this, Dekker (2004) indicates that the longer the repayment period of a loan facility the greater the likelihood that borrower will default in repayment. This is due to the changing environment and possibly the changing circumstance and situation of the borrower. Accordingly, the question

then arises that, are financial institutions employing a rigorous credit limit procedure in their credit assessment? The amendment of credit unions system of credit assessment is to support their basic values of their formation which is assisting their members in the time of difficulties.

2.1.7.2. Loan Rescheduling

Loan rescheduling is a process by which the loan repayment agreement is changed as a result of loan default in loan repayment. Most credit unions have rescheduling policy in place which helps them to minimize the effect of none performing loans. Practice that involves restructuring the terms of an existing loan in order to extend the repayment period. Debt rescheduling may mean a delay in the due date(s) of required payments or reducing payment amounts by extending the payment period and increasing the number of payments.

In the other wards it refers to loans that have been restructured and re-negotiated between authorized institutions and borrowers because of deterioration in the financial position of the borrower or of the inability of the borrower to meet the original repayment schedule and for which the revised repayment terms, either of interest or the repayment period, are non-commercial.

In line with this, Jensen (2016) states that, once the going concern value of a financial institution is more than the liquidation value, its value of debt will have to be controlled in order to guarantee the survival of the financial institution. A well-developed literature has focus on the borrower – lender bargaining process in the design of debt contract (Hart and Moore 1998). At this point the new terms is done in favor of the loan defaulter thus it is done to the ability of the loan defaulter. The essence is to ensure that the loan does not go bad.

2.1.8 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. The 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. Collection letters are the first step in the collection process for past due and overdue loan accounts.
- 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.

2.1.9. Credit/Loan Follow Up

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. A 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. According to the National Bank of Ethiopia, 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 (NBE Directives, 2010). Each is discussed in section that follows:

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 (NBE Directives, 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 (ibid).

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 (ibid)

2.1.10 Non-Performing Loan (Npls)

Non-performing loans generally refer to loans, which for a relatively long period do not generate income; that is the principal, and/or interest on these loans has been left unpaid for at least 90

days (NBE, 2008). Furthermore, the stability of banking is a pre-requisite for economic development and resilience against financial crisis. Like any other business, success of banking is assessed based on Profit and quality of asset it possesses. Even though banks serve social objective through their priority sector lending, mass branch networks and employment generation, maintaining asset quality and profitability is critical for their survival and growth. A major threat to the banking sector is prevalence of Non-Performing Loans (NPLs).

Non-performing Loans represent bad loans, the borrowers of which failed to satisfy their repayment obligations. Banks as intermediaries of funds are responsible for attracting resources and inject it in various economic sectors. In the process of resources allocation, banks encounter several risks and nowadays while making profits, one of the most important risks is default risk, which leads to increase in non-performing loans (NPLs). Based on rules in banking system, the amount of non-performing loans should not be more than 5% of remaining facilities of each bank, but increasing growth of NPLs amount concerned officials and with considering the role of banks in the country's economy, this phenomenon could be named a "national" concern (Ghasemi, 2010).

Despite ongoing efforts to control bank-lending activities, non-performing loans are still a major concern for both international and local regulators. To date there is no bank crises happened in Ethiopia due to non-performing loans, but there is an indicator of high NPL in the country, which may lead to that direction if not controlled on time (NBE, 2010).

2.1.11 Provisions

Loans and advances are financial instruments originated by the bank by providing money to the debtors. There is a 50% chance the loan might be repaid on time, delayed or not at all. For this reason banks set aside finance to cover this loans since they lend out customers deposit which needs to be repaid on demand. This finance to be set aside is called provision. It is stated as 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.

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.
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.
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.

2.1.12. Credit Risk Management

OCC (2011) identifies fundamental credit risk management principles as sound underwriting, comprehensive financial analysis, adequate appraisal techniques and loan documentation practices and sound internal controls. Rose and Kolari (1995) see credit risk as the likelihood that borrowers will not be able to repay their loans within the period agreed upon. Kay (2002) sees Credit risk as distribution of financial losses due to unexpected changes in the credit quality of counterparty in a financial agreement. Kay (2002) also sees it as the possibility of loan default or any type of inability to honor a financial agreement when due. Kay stated that the likelihood of default is estimated by specifying a model of investor uncertainty; a model of the available information and its evolution over time and a model definition of the default event. Smook (2007) defines risk assessment as the general procedure of risk identification, quantification, evaluation, acceptance, aversion and management. He explains that risk management involves risk evaluation and risk control. In the piece he states that Risk assessment is a complex procedure of developing tolerable levels of risk to individuals, groups, or the society in general. It includes the associated procedures of risk acceptance and risk aversion.

Fatemi and Fooladi (2006) characterize credit risk as risk that occurs from the ambiguity in a borrowers‟ capacity to meet his/her debt. At a different angle, King (2008) defines credit management as the "policies and practices businesses employ in recovering payments from their defaulting customers". With respect to the levels of priority in financial institutions, it is expected

that their main focus is to make known that this type of risk management is efficient beyond all others. Risk acceptance means that the risk taker is ready to admit some risks to make a gain or benefit from it. This is when the risk is not avoidable or cannot be controlled. The acceptance level is a reference level against which a risk is identified and then compared. If the risk determined is less than the level that it can be accepted, the risk is then said to be within the acceptable range.

On the other hand, if it is higher than the accepted level it is seen as unacceptable and avoidable, steps may be taken to control the risk or the project in question should be stopped. Credit risk means the possibility of loan loss as a result of a borrower's inability to make payments as per the loan agreement. Credit risk management, meanwhile, is the practicing of measures that reduces the impact of those losses by appreciating the competence of both a bank's capital and loan loss reserves at any given period time, a process that has long been a challenge for financial institutions to fully implement.

2.1.13. Credit Control

According to O. Fatima (2010) credit control is concerned with the post approval and monitoring of the credit facility, to ensure that each credit remains qualitatively satisfactory during the tenure of the credit. It is very important to monitor (control) the facility after it has been approved to ensure that:

A. the borrower complies with the stipulated conditions
B. The facilities are utilized with the purpose for which they were approved
C. Any deterioration or negative trends in the customers‟ business or prospects are determined and corrective actions taken.

Credit controls also entail making some basic credit returns as required by the Banking Act for the purpose of monitoring the banks total commitments to clients in a particular period. Based on David T.R‟s statement made on the Hong Kong Monetary Authority's Quarterly Bulletin of 1997 edition, poor asset quality attributable to over-concentration and poor risk selection remains main causes of problems in banks.

In maintaining sound credit controls, a clear credit philosophy, and ongoing management of credit portfolio with a view to identifying early warning signals of deteriorating asset quality helpful.

The bank identifies three main causes of these asset quality problems, some of which were present in more than one case. One could be over concentration, where the failure of one loan places the bank in jeopardy. Another was specialization, where there was a concentration of loan book in one sector, region, or group of individuals. The third one may be poor risk selection, where the bank extends loan without correctly price a risk.

2.1.13.1. Credit Control Functions

Office of the Comptroller of Credit Portfolio Management (1998) states that besides the loan policy, the primary controls over a bank's lending activity is its credit administration, loan review, and audit functions. Independent credit administration, loan review, and audit functions are necessary to ensure that the bank's risk management process, management information systems, and internal and accounting controls are reliable and effective. The bank's control functions can also provide senior management and the board with a periodical assessment of how the bank's employees understand its credit culture and whether their behaviors conform to the bank's standards and values.

2.1.14. Principles Formulated By the Basel Committee

As a direction for the achievement of the required level of loan status and healthy financial institutions the Basel Committee on Banking Supervision in September 2000 also formulated the following Principles

A) ESTABLISHING AN APPROPRIATE CREDIT RISK ENVIRONMENT

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

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

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

B) OPERATING UNDER A SOUND CREDIT GRANTING PROCESS

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

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

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

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

C) MAINTAINING AN APPROPRIATE CREDIT ADMINISTRATION, MEASUREMENT AND MONITORING PROCESS

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

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

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

Principle 11: Banks must have information systems and analytical techniques that enable management to measure the credit risk inherent in all on- and off-balance sheet activities. The

management information system should provide adequate information on the composition of the credit portfolio, including identification of any concentrations of risk.

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

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

D) ENSURING ADEQUATE CONTROLS OVER CREDIT RISK

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

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

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

2.2 Empirical Review

Collins, A.and Miebaka, D. (2018). Studied Impact of Credit Management on Bank Performance in Nigeria. The study examined the impact of credit management and bank performance in Nigeria. The study adopted cross sectional survey design. The population of the study consisted of all management staffs of commercial banks operating in Nigeria. The sample sizes of eleven (11) select commercial banks were considered by systematic technique. The Purposive sampling technique was adopted; hence six respondents were administered questionnaire (Bank Manager and five senior staff) from each bank to make up a 66 respondents for the study. Multiple regression analysis was adopted for the study to determine the influence/impacts of credit management variables (Credit Appraisal, Credit Risk Control, and Collection policy) on bank performance. The study revealed that credit management has a significant impact on bank performance in Nigeria. The study also revealed that among the credit management variables

considered, credit risk control has the highest driving force for bring about an effect financial performance of bank in Nigeria. It was recommended that financial institution should not only take credit management serious, but should recognize the role of credit risk section if they aim at increasing profitability.

As with any financial institution, the principal risk in bank is lending money and not getting it back. On this note, Kagoyire and Shukla (2016) studied effect of credit management on performance of commercial banks in Rwanda (A case study of Equity Bank Rwanda LTD). The study sought to determine the effect of credit management on the financial performance of commercial banks in Rwanda. The study adopts a descriptive survey design. The target population of study consisted of 57 employees of Equity bank in credit department. The entire population was used; giving a sample size of size of 57 employees. Purposive sampling technique was used where the entire population was included in the study. Primary data was collected using questionnaires which were administered to the respondents. Descriptive and inferential statistics were used to analyze data. The study found that client appraisal; credit risk control and collection policy had significant effect on financial performance of Equity bank.

The study established that there was very strong relationship between financial performance of Equity bank and client appraisal, credit risk control and collection policy. The study also established that client appraisal, credit risk control and collection policy significantly influence financial performance of the bank. Collection policy was found to have a top effect on financial performance and that a stringent policy was more effective in debt recovery than a lenient policy. The study therefore recommends that Equity bank should enhance their collection policy by adapting a more stringent policy to a lenient policy for successful debt recovery. The findings also revealed that most borrowers did not spend the loan amount on intended and agreed projects. It came out that there are gaps in the credit management of the bank, which requires immediate response to safeguard the future of the bank.
Hagos (2010) studied credit management– A Case Study of Wegagen Bank Share Company in Tigray Region which attempts to indicate the importance of credit management in financial institutions such as commercial banks, micro finances and others. The main objective of the study was to evaluate the performance of credit management of Wegagen bank in Tigray Region as compared to National Bank’s requirements in comparison with its credit policy and procedures.

For the purpose of the study both primary and secondary data are used. Descriptive statistical tools are used in analyzing the data collected. The study concluded that the issues impeding loan growth and rising loan clients complaint on the bank regarding the valuing of properties offered for collateral, lengthy of loan processing, amount of loan processed and approved, loan period, and discretionary limits affecting the performance of credit management and recommend the bank to follow creative way of loan processing and approving direction that assists to meet the loan demand of potential loan applicants and the required level of loan growth as it is the main source of income for the banking industry.

Tekeste (2016) studied assessment of credit management performance in emerging private commercial banks in Ethiopia: the case of Berhan international bank S.C. The main purpose of the study was to assess the performance of credit management of Berhan International Bank as compared to National Bank requirements vis à vis its loan policy and procedures. The methodology used for the study is population census for bank staff and convenience non-probability sampling for clients to verify the bank respondents as the bank is the main study. The major findings of the study show that impeding loan growth and rising loan clients complaint on the bank are regarding the lengthy of loan processing, amount of loan processed and approved, loan period, and discretionary limits affecting the performance of credit management.

The overall credit management activity of the bank needs improvement in devising a strong follow-up unit, devising an office that can control the condition and sanctions at each approval document, establishing coordination among work units. Consequently, the bank should conducted monitoring visit before and after disbursement of the loan, shortening of loan processing and advice customers and give technical support that help to minimize loan loss and diversion of loans.

CHAPTER THREE

3. RESEARCH 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 will be discussed.

3.1. Research Design

This research has used descriptive research based on survey method. Descriptive research is basically used to ascertain and describe the characteristics of variables of interest in some situation and subject of study. This research design enables the researcher to describe the phenomenon of interest from individual or organizational perspectives. It is a case study of specific bank and survey method enables the researcher to have a designed data. Accordingly this study has found this research design appropriate to collects data from sources and has used quantitative research approach to analyzes the data collected in order to asses and describes the present practice of credit management in Wegagen Bank S.C.

3.2 Target Population and Sampling Technique

3.2.1 Target Population

The target population of this study is Wegagen Bank S.C credit department employees who are involved in credit processing and administering and clients. From head office credit department and the four city district office employees of all Eighty Four staffs who are directly engaged in loan activities this means Loan section head, Loan analyst, Loan officers and Loan clerks in forty one branches in Addis Ababa were included.

3.2.2. Sampling Technique and Sample size

The study employed Census method which is the method of statistical enumeration where all members of the population are studied as it is assumed to provide more efficient sample by considering all members Credit Performing Unit (CPU) of the bank at head office and Addis Ababa district offices that are taken under the study. The credit structural set up of the bank is arranged in a way that loan requests that are below five million birr are handled at district offices and loan requests that are above five million birr are handled at head office level.so that all

populations that are engaged in credit processing and administering at Addis Ababa district office and head office are taken. Hence, this enables the researcher not only to cover great area of credit management of the bank but also make the findings more concrete.

Table .3.1 Credit staffs of the bank at Addis Ababa district offices and head office credit unit

S/N	Position	Total Number
1	Credit director	1
2	Credit relationship management	27
3	Credit analyst	18
4	Credit portfolio management	8
5	Loan workout	4
6	Credit approval committee	12
7	Credit audit	5
8	Credit officer	9
	Total Credit Performing Employees	**84**

3.3. Data Sources and Collection Procedure

The type of data used in the study includes quantitative data. Primary and secondary sources of data were used for the study. The primary source of data was collected through the use of self-administered questionnaires from credit processing and administering staffs at district offices and head office staffs. Questionnaire is used as an instrument to collect primary data from the respondents about their opinion at every question that designed to evaluate the credit management practice of the bank.

In case of secondary source of data, NBE directives, Wegagen bank unpublished reports, credit policy and procedures, annual report were used to collected data on procedures and policy. Books, journals as well as different thesis were also used in the study.

3.4. Data Analysis Method

In order to evaluate the credit management practice of the bank quantitative analyses were employed. Data were collected from unpublished provision report of Wegagen Bank S.C. for the period of (2012-2018) and also using questionnaires; the questionnaires formed the basis for generating the primary data.

Moreover, most of the data were analyzed, summarized and presented in tables, by the help of the Statistical program for Social Sciences, Version 20, (SPSS, and V20). Frequency, Mean and standard deviation for these data were computed in order to facilitate the analysis and to make it presentable for the readers. Mean is basically used in order to measure the average opinion that the respondents give on subject provided by the questioner and SD is also used to show how the value obtained by participants opinion dispersed (spread) from the mean. They are widely used measurements of population opinions on survey provided by Likert scale.

3.5. Validity of Research Instruments

Validity refers to the degree success of an instrument in measuring what it is set to measure so that differences in individual scores can be taken as representing true references in the characteristics under study. The content validity will be used to determine the validity of the instruments. In subjecting the tools to validation, the process started by discussing with the supervisor of the study who scrutinized all the questions in the tools to assess their appropriateness in addressing critical issues in the study ARAKA et al (2018).

3.6. Reliability of Research Instruments

Reliability is the ability of research instruments to consistently yield the same results when repeated measurements are taken under same condition Sharma (2012). Reliability of the data collection instrument was first established through test re-test method (Bryman and Cramer, 2007). Keeping all these facts the researcher has made reliability analysis using Cronbach`s coefficient alpha Based on Standardized Items for the entire set of statements found to be 0.912, which is much higher than the threshold value of 0.65.

Table 3.2 Reliability results

Research topic	**Number of Items**	**Cronbach's Alpha**
Credit management practice & alignment with NBE requirements	10	0.759
Management of non-performing loan by the bank	10	0.807
Current credit control of the bank	4	0.720
Credit risk management activities of the bank	10	0.773

CHAPTER FOUR

4. DATA PRESENTATION, ANALYSIS AND DISCUSSION OF FINDINGS

This chapter presents the findings and discussions of the study. It starts with the academic background of the respondents with their respective work experience and current position of their job followed by the analysis of the subjects of the study.

4.1. Survey Results

As it is stated in the previous chapter, questionnaires were developed for respondents. A total of 84 questionnaires for credit processing and administering staffs at head office and Addis Ababa district offices were distributed. Of all the questionnaires distributed to the staffs 73 were filled and returned respectively. Therefore, the data discussed in the subsequent sections of this report is a summarized response of 73 respondents.

Table 4.1 Survey response rate

Sample size Completed and returned questionnaires	84 73
Response rate	**83.91%**

Source: Survey outcome result

4.2. Respondents Profile

This section presents profile of respondents in relation to their educational level, current positions and their total service year in the bank.

Educational background of employee is an important factor to be considered with regard to making business decision. Education improves the skill, capacity, communication and access to development endeavors.

Table 4.2 Academic background of respondents

Educational level	**Frequency**	**Percent**
Ba degree Master's degree Total	43 30 73	58.9 41.1 100.0

Source: *Researcher's Survey result from Primary Data Sources*

As shown above in table 4.2 all the respondents have a qualification of first degree and a master's degree only and more than 58 percent of them intact bachelor degree holders. This indicates that respondents are academically qualified to quality of the survey.

Table 4.3 Respondents experience in bank

Year of service in bank	Frequency	Percent
0-4 years	12	16.4
5-9 years	8	11.0
10-14 years	25	34.2
15-19 years	13	17.8
20 years and above	15	20.5
Total	**73**	**100.0**

Source: *Researcher's Survey result from primary Data Sources*

As presented on the above table-4.3 34.2 percent of the respondents have a service of 10-14 years while 20.5 percent of them have been working for the bank 20 years and above. In general more than half of the respondents have been working for more than 5 years in the bank, which indicate respondents had enough experience to provide response that naturally contributed to the data quality of the survey.

Table 4.4 Current Position of Respondents

Position of Respondents	Frequency	Percent
Credit director	1	1.4
Credit relationship management	22	30.1
Credit analyst	16	21.9
Credit portfolio management	6	8.2
Loan workout	4	5.5
Credit approval committee	12	16.4
Credit audit	4	5.5
Credit officer	8	11.0
Total	**73**	**100.0**

Source: *Researcher's Survey result from primary Data Sources*

According to Table 4.4 Out of the total respondents 71.2 percent of the positions are maintained by credit relationship managers, credit analysts, credit portfolio management officers and credit officers. Such a segregation of the respondent is important to suppose the research choose the

right professionals which have direct relationship with the subject matter and in order to gather the necessary information regarding credit management practice of the bank.

4.3. Assessing The Bank's Credit Management Practice

The study tried to assess the credit management practice of wegagen bank s.c. using four basic parameters namely, practical loaning activities and alignment against NBE requirements, Non-performing Loan Management, current credit control and credit risk management of the bank. A bank credit management system is expected to ensure compliance credit granting and collection with the bank credit policy and improve the control of credit with the bank.

4.3.1 THE PRACTICAL LOANING ACTIVITY OF THE BANK AND ALIGNMENT WITH THE NBE DIRECTIVES

Table 4.5 Practical loaning activities and alignment against NBE requirements

Item	Evaluating Statements	Strongly agree	Agree	Neutral	Disagree	Strongly Disagree	Mean	SD
Q1	The bank credit management has a policy for credit provisioning and write–off that are aligned with NBE requirements	11	33	-	17	12	3.19	1.39
Q2	To better the state of management of credit, reviews concerning collection policies have been done on a regular basis	6	12	3	27	25	2.27	1.32
Q3	The practical loan processing and appraisal activities of the district offices comply with the banks credit policy and procedure	13	25	1	31	3	3.19	1.28
Q4	The credit management at a district level improves the credit control of the bank	12	28	1	20	12	3.11	1.41
Q5	Managing the credit system of the bank at a district level improves the bank capability of reduction of the bank's NPL	18	24	-	21	10	3.26	1.45
Q6	The bank maintains effective credit management system to control the single borrower limit while extending additional loan.	5	18	-	38	12	2.53	1.23
Q7	Imposing loan size limits is a viable strategy in credit management	19	20	3	25	6	3.29	1.39
Q8	Client appraisal considers the character of the customers seeking credit facilities	11	13	2	32	15	2.63	1.39
Q9	The existing credit policy and procedure of the bank is encouraging and flexible to guide credit activities of the bank	3	20	1	32	17	2.45	1.24
Q10	Client appraisal makes proper analysis on the cash flow statement of a borrower while deciding on loan repayment schedules.	8	18	-	35	12	2.66	1.32
Average Mean							**2.86**	

Source: *Researcher's Survey result from Primary Data Sources*

According to the respondents answer on the question whether the bank credit management policy of credit provisioning and write-off are aligned with the NBE requirements under table 4.5 item (Q1). Majority of them agreed with the mean and SD of 3.19 and 1.39 this implies that the bank

credit management policy for provisioning and write-offs comply with asset classification and provisioning directive of the central bank.

Non-Performing Loans (NPLs) shall mean bad debts as defined in the Directives of the National Bank of Ethiopia. In order to manage these loans, the collection policy of the bank shall be regularly reviewed and effectively assist towards the overall credit management of the bank. Regarding this, under table 4.5 item (Q2) respondents were asked whether Regular reviews have been done on collection policies to improve state of credit management .as a result majority of the respondents strongly disagree with the mean of 2.27 and SD of 1.32. This implies that the collection policy of the bank is not regularly reviewed to improve state of credit management.

Majority of respondents were questioned whether the practical loaning activities at district offices comply with the banks credit policy and procedure. More than fifty percent of them agree with the mean value of 3.19 and SD 1.28 This denotes that the practical loaning activity of district offices comply with credit policy and procedure of the bank.

Previously wegagen bank credit appraisal and administering process were done centrally at head office. Loan requests were processed, approved and administered at the head office but currently the bank has disseminated its credit operation to district offices, the bank has opened nine district offices throughout the country, four district offices are operating in Addis Ababa and the remaining five are outlying cities. District offices are allowed to process up to five million birr of loan request while for loan requests that are above five million are processed at head office. Regarding this, under table 4.5 item (Q4) respondents were asked whether the credit control of the bank were improved after the credit processing and administering is disseminated to district offices. The majority of respondents agree with the mean value of 3.11 and SD of 1.41 on the issue similarly respondents were agreed for the statement that managing the credit system of the bank at a district level improves the bank capability of reduction of the bank’s NPL with a mean of 3.26 and SD 1.45 This implies that disseminating the credit processing and administration to district offices has practically improved the credit control of the bank and it also enables the bank reduce non-performing loans.

As the NBE directive no SBB/53/12 requires banks to maintain their single borrower limit up to 25% of their paid up capital. Regarding this the researcher desires to investigate the activity of the bank in controlling the borrowers limit as per the bank procedure and NBE requirements As shown on table 4.5 item (Q6) majority of respondents were strongly disagree with the mean 2.53 and SD 1.23. This entails that there is lack of effective credit management system in controlling the credit limit of borrowers.

Barusa's (2011) view that in setting up the credit limit, considerations must be taken to maximize the returns in terms of the sales and also the financial strengths of the customer to ascertain whether he will be able to pay the credit obligation. Regarding this respondents were asked whether imposing credit limit is viable strategy in credit management under item (Q7) of same table majority of respondents were agreed on the issue by mean value of 3.29 and SD 1.39.

Respondents were questioned whether the client appraisal considers the character of the customers seeking credit facilities as indicated under table 4.5 item (Q8) they were disagree with a mean of 2.63 and SD 1.39. This finding implies that the client appraisal does not consider the character of the customers seeking credit facilities.

Respondents were questioned whether the existing credit policy and procedure of the bank is encouraging and flexible enough to guide the loaning activity as indicated under table 4.5 item (Q9) they were disagree with a mean of 2.45 and SD 1.24 This finding implies that the current credit policy and procedure of the bank is not encouraging and flexible enough to attract and satisfy the credit demand of customers.

Under item (Q10) of same table respondents were asked whether Client appraisal makes proper analysis on the cash flow statement of a borrower while deciding on loan repayment schedules. Majority of respondents were disagree with mean value of 2.66 and SD 1.32 this indicates that there is poor analysis cash flow statement of borrowers before approval of the loan repayment period.

4.3.2. NON PERFORMING LOAN MANAGEMENT

Table 4.6 Management of non-performing loan by the bank.

Item	Evaluating Statements	Strongly agree	Agree	Neutral	Disagree	Strongly Disagree	Mean	SD
Q1	The bank make proper follow up on the loans availed whether they are spend on the actual purpose of the loan requested.	-	22	-	33	18	2.36	1.16
Q2	Collateralizing loans help protect loan default.	10	18	1	26	18	2.67	1.43
Q3	Poorly assessed and advanced loans may perform well if properly monitored.	-	27	-	23	23	2.42	1.28
Q4	The bank effectively implements its loan recovery mechanism to reduce its bad loans.	10	18	1	26	18	2.67	1.43
Q5	The bank continuously make sure the NPL cases transferred to foreclosure process get timely decision to reduce additional provision expense of the bank	11	32	1	24	5	3.27	1.26
Q6	Each districts having their own credit monitoring and follow up team would sustainably reduce the bank NPL	15	27	-	21	10	3.22	1.42
Q7	Having large number of borrowers causes loan default.	-	22	-	33	18	2.36	1.16
Q8	assessments of secondary source of repayments help the bank as another fallbacks for outstanding loan balances of non-performing borrowers account	15	27	-	21	10	3.22	1.42
Q9	Collection policies available have helped in effective management of credit practices.	-	27	-	23	23	2.42	1.28
Q10	The bank prepares regular report on selected credit accounts to help reduce future failures	-	22	-	33	18	2.36	1.16
Average Mean							**2.69**	

Source: *Researcher's Survey result from Primary Data Sources*

As shown on table 4.6 Item (Q1) respondents were disagree with 2.36 mean and SD 1.16 on the statement that The bank make proper follow up on the loans availed for they are spend on the actual purpose of the loan requested. This indicates that there is lack of proper follow up for actual outlay of the loan after it is granted.

In lending agreements, collateral is a borrower's pledge of specific property to a lender, to secure repayment of a loan. The collateral serves as a lender's protection against a borrower's default and so can be used to offset the loan if the borrower fails to pay the principal and interest satisfactorily under the terms of the lending agreement. Regarding this under table 4.6 item (Q2) respondent was asked whether collateralizing loans help protect loan default. Accordingly majority of the respondents were disagree with mean 2.67 and SD 1.43 This reveals that borrowers pledged asset cannot protect a loan from being defaulted.

As indicated under table 4.6 item (Q3) majority of respondents didn’t support the argument that loan would perform well only by proper monitoring even if they are poorly assessed while advancing the credit this is evidenced with mean value of 2.42 and SD 1.28 This indicates that follow up would never substitute credit assessment.

As per the response result that is indicated under table 4.6 item (Q4) respondents were disagree with mean 2.67 and SD 1.43 on the statement that the bank effectively implement its loan recovery mechanism to reduce its bad loans. As the majority of the respondents disagree on the effective implementation of loan recovery mechanism the bank towards reduction of bad loans it indicates that the loan recovery mechanism of the bank is not sufficiently implemented to reduce bad loans.

Foreclosure is a legal process in which the bank attempts to recover the amount of loan granted to the borrower who has stopped making payments by forcing the sale of the asset used as the collateral for the loan and timely decision must be made on the sale of the collateralized property to avoid additional costs and other related risk that might be faced by the bank. Regarding this under table 4.6 item (Q5) respondents were asked whether the NPL cases that are transferred to foreclosure process get timely decision to avoid additional provision expense and reduce the ratio

of NPL. The majority of the respondents with mean 3.27 and SD 1.26 were agreed on the issue. This shows that the foreclosure cases get timely decision.

Regarding question presented under table 4.6 item (Q6) respondents were questioned that district offices having their own credit monitoring and follow up team would sustainably reduce the bank NPL. Accordingly majority of respondents with mean 3.22 and SD 1.42 were agreed on the issue. This indicates that the bank maintaining credit monitoring and follow-up staff at all district offices would strengthen the credit management of the bank and enable the bank to sustainably reduce its non-performing loans.

Respondents were questioned under table 4.6 item (Q7) whether having large number of borrowers causes loan default. . Accordingly majority of the respondents were disagreed with the mean of 2.37 and SD 1.16 this shows that having large number of borrowers will not causes loan default.

Responses have agreed for the statement that assessment of secondary source of repayments help the bank as other fallbacks for outstanding loan balances of non-performing borrowers. Evidenced under table 4.6 items (Q8) by mean value of 3.22 & SD 1.42.this imply that assessing for additional source of repayment will help the bank recover outstanding loans in case the initial collateralized property or business defaults.

On same table item (Q9) respondents were disagree with mean of 2.42 and SD 1.28 that the available collection policies have helped in effective management of credit practices. This indicates that the collection policy must be organized in such a way that it would help to the management of credit activities effectively. Similarly according to the respondents under table 4.6 item (Q10) results showed that regular reports are not prepared on selected credit accounts to help the bank reduce future failures, this statement is evidenced with the mean value of 2.35 and SD 1.16.this shows that there is lack of follow up on the selected credit accounts so as to detect early sign of future repayment failures.

4.3.3. CREDIT CONTROL AND FOLLOW UP

Table 4.7 Current credit control of the bank

Item	Evaluating Statements	Strongly agree	Agree	Neutral	Disagree	Strongly Disagree	Mean	SD
Q1	The bank having pre-set concentration limits in every sector in every sector enables it to reduce risks and improves credit control activity of the bank.	16	26	-	20	11	3.22	1.45
Q2	The bank having strong credit control over collection of loans as per the repayment schedule helps it reduced bad loans.	10	28	-	22	13	3.00	1.40
Q3	The existing credit control enables to classify loans based on their weakness level	9	18	-	36	10	2.73	1.32
Q4	Penalty for late payment enhances customer's commitment to loan repayment.	12	29	-	19	13	3.11	1.43
Average Mean							**3.02**	

Source: *Researcher's Survey result from Primary Data Sources*

As depicted under table 4.7 item (Q1) majority of respondents with mean of 3.22 and SD 1.45 agree that the bank having pre-set credit limits in every sector enables the bank reduce risks and improve credit control activity of the bank. This indicates that pre-set concentration limits in every sector will strengthen the control of credit activities of the bank and help reduce risks associated with the lending.

Continuous supervision, monitoring and follow-up are highly required for ensuring the timely repayment and minimizing the default. Concerning this under table 4.7 item (Q2) respondents were asked whether the bank having strong credit control over collection of loans as per the repayment schedule helps it reduced bad loans. Majority of the respondents with mean 3.00 and SD 1.40 agree on the issue. This indicates that having strong control over loan collection helps the bank recover all loans as per their repayment contract period.

Regarding the question the existing credit control enables to classify loans based on their weakness level under table 4.7 item (Q3) respondents were disagree with the mean of 2.73 and SD 1.32 This denotes that the bank's existing credit control is insufficient to classify loans based on their weakness level.

Under table 4.7 item (Q4) respondents were asked whether Penalty for late payment enhances customer's commitment to loan repayment. Accordingly respondents were agreed with Mean 3.11 and SD 1.43 This indicates that penalizing non performing borrowers will help the bank enhance loan repayment commitment of borrowers.

4.3.4. CREDIT RISK MANAGEMENT

Table 4.8 Credit risk management activities of the bank

Item	Evaluating Statements	Strongly agree	Agree	Neutral	Disagree	Strongly Disagree	Mean	SD
Q1	The existing credit risk measurement tools used by the bank safeguard the bank from major credit risks	13	33	-	17	8	3.36	1.31
Q2	The Practical credit risk assessment activity of the district offices help the bank reduce risks associated with loan granting	16	28	5	22	2	3.47	1.21
Q3	The credit risk assessment of the bank considers a quick response to market changes	12	27	8	24	2	3.32	1.18
Q4	Poor credit risk assessment on the process of analysis would lead to loan default	12	28	1	20	12	3.11	1.41
Q5	Financial interest between the borrower and the bank official leads to loan default risks.	18	27	-	18	10	3.34	1.44
Q6	The bank practice in creating clear and trustworthy communication effectively reduce credit risk	15	27	-	21	10	3.22	1.42
Q7	There is a proper system implementation for understanding credit risks in the bank	5	19	1	38	10	2.60	1.21
Q8	providing credit risk management training courses will practically enable the bank reduce credit risks	13	23	2	24	11	3.04	1.41
Q9	The bank assesses the likelihood of occurring credit risks	3	24	1	27	18	2.55	1.29
Q10	The bank credit risk management procedure enable staffs to identify major credit risks	8	23	-	30	12	2.79	1.34
Average Mean							**3.08**	

Source: *Researcher's Survey result from Primary Data Sources*

As per the question presented under table 4.8 item (Q1) respondents were asked whether the credit risk measurement tools used by the bank safeguard are the bank from major credit risks. Accordingly respondents were agreed with mean 3.36 and SD 1.31 This denotes that the existing credit risk measurement tools capable of securing the bank from major credit risks.

It is advisable for banks to measure the credit risk of each loan requests made by clients before approval at least to minimize the risk of adverse selection. In this regard, respondents were questioned whether the Practical credit risk assessment activity of the district offices help the bank reduce risks associated with loan granting. The findings under table 4.8 item (Q2) showed that majority of respondents with mean value of 3.47 and SD 1.21 were agreed on the issue. This implies that the practical credit risk assessment activities of the district offices enables the bank reduce risks associated with the loan granting.

The credit risk assessment of wegagen bank considers a quick response to market changes is evidenced under table 4.8 item (Q3) by mean value of 3.32 and SD 1.18. This shows that the bank credit risk assessment consider taking fast response to changes in the market. Similarly on the same table item (Q4) respondents were agreed with mean 3.11 and SD 1.41 that poor credit risk assessment would lead to loan default. This also shows that proper assessment of credit risk is required in the analysis process.
Respondents under table 4.8 item (Q5) were agreed with mean 3.34 and SD 1.44 that financial interest between the borrower and the bank official leads to loan default risks this indicates the benefit that the bank official is going to receive will lead the analysis to poor appraisal of the loan requested.

With respect to the question asked whether the bank practice in creating clear and trustworthy communication effectively reduce credit risk. Under table 4.8 item (Q6) respondents were agreed with mean 3.22 and SD 1.42 on the issue .this imply that creating clear and trustworthy communication with the customer will help the bank reduce future risks through communicating and devising new ways to solve problems and avoid repayment failures.

As per the assessment question presented under table 4.8 item (Q7) respondents were asked if there is a proper system implementation for understanding credit risks in the bank. Accordingly

respondents were disagree with the mean 2.60 and SD 1.21. This denoted that the bank did not implement a system to develop understanding about credit risks.

Regarding the statement providing credit risk management training courses will practically enable the bank reduce credit risks respondents under table 4.8 item (Q8) with a mean of 3.04 and SD 1.41 were agreed. This indicates that providing proper training to staffs on credit risk management will help the bank enable in identifying and avoiding major risks.

Under table 4.8 item (Q9) respondents were asked whether the bank assesses the likelihood of occurring credit risks. Consequently respondents were disagreeing with Mean 2.55 and SD 1.29 which indicates that the bank did not make assessment on the likelihood of occurring risks.

Respondents under table 4.8 item (Q10) with the mean 2.79 and SD 1.34 were disagree that the bank credit risk management procedure enable staffs to identify major credit risks. This shows that the credit risk management procedure of the bank is not efficient enough to enable staffs identify major credit risks.

In general compared to the other assessment parameters considered under the study the bank is performing well in its current credit control and credit risk management areas as evidenced by the average mean value of 3.03 and 3.08 respectively. However, there are some individual assessment facts in the tables that tell us there are still problems in the current credit control and credit risk management areas of the bank like insufficient credit control to classify loans based on their weakness level, lack of proper system implementation to create understanding about credit risks, lack of assessment for the likelihood of occurring credit risks and inefficient credit risk management procedure are identified.

Even though the actual loaning activities of the bank going in a complied manner against the National bank of Ethiopia requirement which is evidenced by the average mean value 2.86 there are still problems in the loaning activity of the bank such as inflexible credit policy and procedure , lack of effective credit administration system to control credit limit of borrowers, poor analysis of client cash flow statements while setting loan repayment period, not considering clients character in the process of loan appraisal and lack of regularly reviewed collection policy.

Moreover the non-performing loan management of the bank is on average level as evidenced by the overall average mean of 2.69 some of the assessment facts in the table shows that there is lack preparing regular report on selected credit accounts to detect early sign of future repayment failures, lack of proper follow up on whether the loans disbursed are spend on the intended purpose, insufficient implementation of loan recovery mechanism and inefficient collection policies. These problems can be indicators for inconsistency in lowering of non-performing loans of the bank. If the trend continued in such a way, it will affect not only the profitability of the bank but also the lending capacity of the bank as well as the financial need of the general economy.

CHAPTER FIVE

5. SUMMARY OF FINDINGS , CONCLUSION AND RECOMMENDATION

In this section of the paper the findings based on each response will be presented in informative and summarized manner. The study analyzed each point that is believed to be weight and measure the overall credit management activities of the bank

5.1 Summary Of Findings On Credit Management Practice In Line With Its Policy And NBE Requirements

- The bank credit management policy for provisioning and write-offs comply with asset classification and provisioning directive of the central bank.
- The collection policy of the bank is not regularly reviewed to improve state of credit management.
- The practical loaning activities of district offices comply with credit policy and procedure of the bank.
- Disseminating the credit processing and administration to district offices has practically improved the credit control of the bank and it also enables the bank to reduce non-performing loans.
- There is lack of effective credit administration system in controlling the credit limit of borrowers.
- Imposing of loan size to borrowers is a viable strategy in credit management.
- The client appraisal does not consider the character of the customers seeking credit facilities.
- The current credit policy and procedure of the bank is not encouraging and flexible enough to attract and satisfy the credit demand of customers.
- There is poor analysis cash flow statement of borrowers before approval of the loan repayment period.

5.2 Summary Of Findings On Management Of Non-Performing Loan By The Bank

- There is lack of proper follow up for actual purpose of the loan after it is granted.
- Borrowers pledged asset cannot protect a loan from being defaulted.

- The loan recovery mechanism of the bank is not sufficiently implemented to reduce bad loans.
- The NPL cases that are transferred to foreclosure process get timely decision to avoid additional provision expense and reduce the ratio of NPL.
- The bank maintaining credit monitoring and follow-up staff at all district offices would strengthen the credit management of the bank and enable the bank to sustainably reduce its non-performing loans.
- Although, rapid credit growth is also believed to cause for occurrence of loan default. According to the result of the study significant number of respondents disagree that having large number of borrowers is not the cause for the loan default occurrences.
- Assessing for additional source of repayment will help the bank recover outstanding loans in case the initial collateralized property or business defaults.
- The bank does not prepare regular report on selected credit accounts to help reduce future failures.

5.3 Summary Of Findings on Current Credit Control of the Bank

- Pre-set concentration limits in every sector will strengthen the control of credit activities of the bank and help reduce risks associated with the lending.
- Strong and continuous supervision, monitoring and follow-up over loan collection as per their repayment minimize bad loans.
- The existing credit control of the bank is not sufficient to classify loans based on their weakness level.
- Penalizing non performing borrowers will help the bank enhance loan repayment commitment of borrowers.

5.4. Summary of Findings on Credit Risk Management Activities of the Bank

- The existing credit risk measurement tools enable the bank to secure the bank from major credit risks.
- The practical credit risk assessment activities of the district offices enables the bank reduce risks associated with the loan granting.
- The bank credit risk assessments consider taking fast response to changes in the market.

- Proper assessment of credit risk is required in the analysis process.
- Financial interest between the borrower and the bank official leads to loan default risks
- Creating clear and trustworthy communication with the customer will help the bank reduce future risks through communicating and devising new ways to solve problems and avoid repayment failures
- The bank did not implement a system to develop understanding about credit risks.
- Providing proper training to staffs on credit risk management will help the bank enable in identifying and avoiding major risks.
- The bank did not make assessment on the likelihood of occurring risks.
- The credit risk management procedure of the bank is not efficient enough to enable staffs identify major credit risks.

5.5. Conclusion

The general objective of the research was to assess the credit management practices of Wegagen bank S.C. Based on these objectives basic research questions were developed and survey was made on the bank's credit performing employees at head office and four city district offices. The research assesses the credit management of the bank using four basic dimensions namely the practical loaning activity of the bank and alignment with the National Bank of Ethiopia requirements, non-performing loan management, current credit control and its credit risk management practice. As per the evidences and the forgoing findings the following conclusions are drawn.

The result of assessment shows that the existing credit policy and procedure is concluded as inflexible to guide credit activities of the bank and there is also lack of regularly reviewed collection policy Moreover, the client appraisal does not consider the character of the customers seeking credit facilities and there is poor analysis of borrower's cash flow statement before approval of the loan repayment period.

Similarly based on assessment on the practice of the bank on management of non-performing loans it can be concluded as average. The assessment facts in the table shows that there is lack of

proper follow up on whether the loans disbursed are spend on the intended purpose, insufficient implementation of loan recovery mechanism and inefficient collection policies.

Regarding the current credit control of the bank it is concluded as great that continuous supervision, monitoring and follow-up over loan collection and Penalizing non performing borrowers helps the bank in improving its credit control and enhance its overall credit management activity .however The bank's existing credit control is insufficient to classify loans based on their weakness level.

Even though the researcher concluded the credit risk assessment activity of the bank as good there are problem of lack of proper system implementation to create understanding about credit risks, lack of assessment for the likelihood of occurring risks and inefficient credit risk management procedure.

5.6. Recommendation

From the above findings and conclusions the study makes the following recommendations. First, the study recommends that wegagen bank should have flexible credit appraisal policy and procedure so that it would attract more customers and the policy should help improve prudential oversight of asset quality of the bank. In addition, as borrower selection is the key to successful lending, the bank should focus on the selection of true borrower. But at the same time it must be taken into account that right borrower selection does not mean that the bank have to adopt inflexible lending policy but rather ensure that the seek to adopt knowing the customers so as to ascertain the true purpose of the loan as this would ensure that care is taken so that good borrowers are not discarded due to strict adherence to the lending policy and the debt collection policies pursued by the bank must be regularly reviewed so that it will ensure the credit advanced to customers are repaid on time and thus ensuring that loan repayment is not adversely affected as a result of debt accumulating due to non-repayments.

As deep credit assessment considers the borrowers` character, collateral, capacity, capital and condition (what is normally referred to in the banking circles as the 5C`s) should be undertaken to minimize credit risk (Kapoor et al., 2007). the researcher recommends the client appraisal to give

greater emphasis on the character of borrowers. Similarly, proper analysis must be undertaken on the cash flow statement of borrowers before loan repayment periods are approved this is due to the reason that the cash flow statement will exactly specify the cash cycle of the borrower business so that repayments will be made promptly.

Besides, the researcher recommends the bank to perform physical follow up or visits on the business activity of the borrower and makes proper check on the actual balance of accounts on the financial statement presented by the borrower at the time of analysis and after disbursement of the loan to help the bank ensure that funds disbursed to borrowers are utilized for the purpose for which they were sanctioned.

To monitor actual exposures against established limits the bank must set up a management information system in place in order so that exposures that are approaching risk limits will be identified before time and the study also recommends the bank to establish a systematic credit review process to identify weakened credits at their early stage when there may be options available for improving the credit quality.

Finally the management of Wegagen bank must come up with a credit risk management policy that is devised towards the granting of current loans whiles cutting down drastically the approval of loans which has the potency of becoming doubtful or loss in the long run. Through such a policy, the amount of risk associated with the granting of credit facility to borrowers will be greatly reduced. And also the bank should make assessment on the likelihood of occurring risks pay close attention to subtle changes in business practices that could affect the risks related to a loan granting, and must implement a system to develop understanding about credit risks so that the overall credit management practice of the bank will be improved.

5.7. Area for Future Research

The focus of this study was the credit management practice of the Wegagen Bank S.C.; therefore, it is worth to study in comprehensive level in order to solve the persistent problems and promote the bank as per its vision to the competitive level

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ANNEX A

QUESTIONERS

St. Mary's University

School of Graduate Studies

ANNEX I

St. MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDEIS, MBA PROGRAMME

QUESTIONNAIRE)

Dear respondent,

This is a questionnaire designed to solicit first hand data that maybe helpful to conduct a research on the title of " Assessment of Credit Management practice at Wegagen Bank S.C." in partial fulfillment of master of Business Administration (MBA).

Hence, I kindly request you to attempt all the questions in the questionnaire to meet the aim of the study. Whatever information provided will be treated with confidentiality and strictly to be used for academic purpose only. No need to write your name.

Therefore, Please put a tick mark (√) on the space provided ☐ for questions that need further explanation please use the space provided under each question.

Part I. Back ground of respondent:

1. Educational Qualification:

High school graduate ☐ Technical school graduate ☐

College Diploma ☐ BA/ BSc Degree ☐

Master's Degree ☐ Other (please state) ____________

2. Total banking experience you have worked for (in years):

0-4 ☐ 5-9 ☐ 10-14 ☐ 15-19 ☐ 20 years and more ☐

3. Your current position in the Bank

Credit Director ☐ Credit analyst ☐ Credit Portfolio Manager ☐
Customer Relationship Manager ☐ Loan Workout Officer ☐ Credit Portfolio Officer ☐
Credit Approving committee ☐ Credit Audit ☐ Other ☐

Part II: REASEARCH RELATED QUESTIONS

Under this part the questions have both close ended & open ended besides to this questions are divided in to

1. The practical loaning activity of the bank and alignment with the NBE requirements.
2. Management of non-performing loan by the bank
3. Current credit control of the bank
4. Credit risk management activities of the bank

<table>
<tr><td colspan="7">I. Practical Loaning Activity and Alignment with NBE Directive

Questions to assess and describe the practice of the bank loaning activity and alignment with the NBE requirements</td></tr>
<tr><td colspan="7">On a scale of 1 to 5, with 1 = strongly disagree, 2 = disagree, 3 = Neutral, 4 = Agree and 5 = strongly agree</td></tr>
<tr><td colspan="2">Evaluating Statement</td><td>1</td><td>2</td><td>3</td><td>4</td><td>5</td></tr>
<tr><td>Q1</td><td>The bank credit management has a policy for credit provisioning and write–off that are aligned with NBE requirements</td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Q2</td><td>To better the state of management of credit, reviews concerning collection policies have been done on a regular basis</td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Q3</td><td>The practical loan processing and appraisal activities of the district offices comply with the banks credit policy and procedure</td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Q4</td><td>The credit management at a district level improves the credit control of the bank</td><td></td><td></td><td></td><td></td><td></td></tr>
</table>

Q5	Managing the credit system of the bank at a district level improves the bank capability of reduction of the bank's NPL					
Q6	The bank maintains effective credit management system to control the single borrower limit while extending additional loan.					
Q7	Imposing loan size limits is a viable strategy in credit management					
Q8	Client appraisal considers the character of the customers seeking credit facilities					
Q9	The existing credit policy and procedure of the bank is encouraging and flexible to guide credit activities of the bank					
Q10	Client appraisal makes proper analysis on the cash flow statement of a borrower while deciding on loan repayment schedules.					

II. Non-Performing Loan Management

Questions to describe Non- performing loans management activity of the bank

On a scale of 1 to 5, with 1 = strongly disagree, 2 = disagree, 3 = Neutral, 4 = Agree and 5 = strongly agree

Evaluating Statement		**1**	**2**	**3**	**4**	**5**
Q1	The bank make proper follow up on the loans availed whether they are spend on the actual purpose of the loan requested					
Q2	Collateralizing loans help protect loan default.					
Q3	Poorly assessed and advanced loans may perform well if properly monitored.					
Q4	The bank effectively implements its loan recovery mechanism to reduce its bad loans.					
Q5	The bank continuously make sure the NPL cases transferred to foreclosure process get timely decision to reduce additional provision expense of the bank					
Q6	Each districts having their own credit monitoring and follow up team would sustainably reduce the bank NPL					
Q7	Having large number of borrowers causes loan default.					

Q8	assessments of secondary source of repayments help the bank as another fallbacks for outstanding loan balances of non-performing borrowers account					
Q9	Collection policies available have helped in effective management of credit practices.					
Q10	The bank prepares regular report on selected credit accounts to help reduce future failures					
II. Current Credit Control of the bank Questions to assess the current credit control activities of the bank.						
On a scale of 1 to 5, with 1 = strongly disagree, 2 = Agree, 3 = Neutral, 4 = Agree and 5 = strongly agree						
Statement		**1**	**2**	**3**	**4**	**5**
Q1	The bank having pre-set concentration limits in every sector enables it to reduce risks and improves credit control activity of the bank.					
Q2	The bank having strong credit control over collection of loans as per the repayment schedule helps it reduced bad loans.					
Q3	The existing credit control enables to classify loans based on their weakness level					
Q4	Penalty for late payment enhances customer's commitment to loan repayment.					
III. Credit Risk Management Questions to assess the credit risk management activities of the bank.						
On a scale of 1 to 5, with 1 = strongly disagree, 2 = Agree, 3 = Neutral, 4 = Agree and 5 = strongly agree						
Q1	The existing credit risk measurement tools used by the bank safeguard the bank from major credit risks					
Q2	The Practical credit risk assessment activity of the district offices help the bank reduce risks associated with loan granting					
Q3	The credit risk assessment of the bank considers a quick response to market changes					
Q4	Poor credit risk assessment on the process of analysis would lead to loan default					

Q5	Financial interest between the borrower and the bank official leads to loan default risks.					
Q6	The bank practice in creating clear and trustworthy communication effectively reduce credit risk					
Q7	There is a proper system implementation for understanding credit risks in the bank					
Q8	providing credit risk management training courses will practically enable the bank reduce credit risks					
Q9	The bank assesses the likelihood of occurring credit risks					
Q10	The bank credit risk management procedure enable staffs to identify major credit risks					