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SCHOOL OF GRADUATE STUDIES

MBA IN ACCOUNTING AND FINANCE

ASSESSMENT OF LENDING PRACTICE AND CREDIT MANAGEMENT THE CASE OF ZEMEN BANK SHARE COMPANY

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ADDIS ABABA

ASSESSMENT OF LENDING PRACTICE AND CREDIT MANAGEMENT THE CASE OF ZEMEN BANK SHARE COMPANY

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A THESIS SUBMITTED TO ST.MARY'S UNIVERSITY, SCHOOL OF GRADUATE STUDIES IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION IN ACCOUNTING AND FINANCE

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SAINT MARY'S UNIVERSITY

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Approved By: Board of Examiners

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DECLARATION

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

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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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Advisor Signature & date

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ACRONYMS/ABBREVIATION

CM- Credit management

CDLC-Credit department loan committee

EAD- Exposure at default

EMCC- Executive management credit committee

LGD- Loss given default

NBE-National bank of Ethiopia

NPL-Non-performing loan

NPLS- Non-performing loans

M- Maturity

MCC- Management credit committee

PD-Probability of default

SC-Share Company

ZB-Zemen bank

ABSTRACT

This research paper presents the assessment of lending practice and credit management in Zemen Bank S.C. the main purpose of this study was to assess the practice of lending and credit management of Zemen Bank as compared to National Bank directives vise a vise its loan policy and procedures. A case study research design of Zemen Bank was employed in this paper. A census method was used for the bank staff and a purposive sampling method in selecting the clients. As the source of data collection questionnaires were used to study and descriptive statistical analysis also used. The participants on the questioner are the bank staffs and some more clients who are directly involved in lending and borrowing activities. The finding of the study shows that there are complaints made by the customers with regards to credit worthiness, impending loan growth and rising loan clients. And, the lengthy of loan processing period affects the overall credit management and the bank needs to improve a better service and improvement the strong follow-up unit devising an office that can control the condition and sanctions at each approval document and establishing coordination among work units. And consequently, the bank should conduct monitoring visit before and after disbursement of the loan, shortening of loan processing, advice customers and give technical support that help to minimize shortening of loan processing. Additionally, the questioner shows that the bank should take an assessment on its lack of man power and internal control system.

Key Words; lending practice, credit management, Policy, Zemen Bank, National Bank

CHAPTER ONE

1. INTRODUCTION

1.1 Background of the Study

Having a strong financial system is very important for businesses and country's development. And the economic progress of a nation and development of banking are invariably interrelated. According to (Rajaraman and Vasishtha, 2002) the banking sector is an indispensable financial service sector supporting development plans through channeling funds for productive purposes and supporting financial and economic policies of the country the banking sector plays a key role in the development of an economy. The development role undertaken by the banking sector determines the step for the development of the economy. Hence the stability of the banking sector is key for the development of an economy. The primary function of a bank is to mobilize deposits from surplus units to deficit units in the form of loans and advances to various sectors such as agriculture, industry, personnel and governments. However, in recent times, the banks have become very cautious in extending loans due to non-performing assets (Sontakke and Tiwari, 2013). Therefore, commercial banks are one of the banking sectors which are the main source of funding to fund business activities as well as other projects throughout the country.

While providing credit as a main source of generating income, banks take many issues into consideration as factors of credit management which help them to minimize the risk of default that results in financial distress and bankruptcy. When banks provide credit, they are exposed to the risk of default (risk of interest and principal repayment) which needs to be managed effectively to acquire the required level of loan growth and performance.

According to Adedoyin and Sobodun (1991), "lending is undoubtedly the heart of banking business. Therefore, its administration requires considerable skill and dexterity on the part of the bank management". While a bank is irrevocably committed to pay interest on deposits it mobilized from different sources, the ability to articulate loanable avenues where deposit funds could be placed to generate reasonable income; maintain liquidity and ensure safety requires a high degree of realistic policy formulation and application.

The types and degree of risks to which banks are exposed depend upon a number of factors such as their size, complexity of the business activities and volume. It is generally believe

that banks face credit, market, liquidity, operational, compliance/legal/ regulatory and reputational risks. Of these credit risk is known to have an adverse impact on profitability and growth. Hence, the success of most commercial banks lies on prudent credit management including robust risk mitigating strategies at the right level.

Charles (1999) stresses the importance of credit management as follows: credit management process deserves special emphasis because proper credit management greatly influences the success or failure of financial institutions. This indicates that credit provision should be accompanied by appropriate and attractive credit policies and procedures that enhance performance of credit management and protects the banking industry from failure. For the banking sector, credit management means the total process of lending starting from inquiring potential borrowers up to recovering the amount loaned.

According to Hettihewa (1997) credit management is extremely important as granting credit is considered to be the equivalent of investing in a customer. However, payment of the debt should not be postponed for too long as delayed payments and bad debts are a cost to the company. Thus, efficiency and effectiveness in performing each steps of loan processing using various parameters has a significant effect on the performance of credit management.

In the last few years, investment and business activities involving both public and private sectors in Ethiopia underwent encouraging development in investment and business activities, paving the way for a growing banking industry (NBE, 2011). Zemen Bank Share Company is one of the financial institutions engaged in providing short, medium- and long-term credit, like other commercial banks in the country. Since its establishment in 2008 G.C, Zemen Bank has been striving to exploit all such opportunities towards achieving its corporate goals. The bank has been providing short, medium and long term loans and advances to its customers.(ZB Annual report,2015). The bank has been playing a significant role in providing loans and advances to its customers that enhance the investment needed in the country and as a means of generating income for its shareholders.

According to Hempel (1994), credit management is the most important function of the banking industry. Though risky and difficult, it’s the most profitable function performed by banks. 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 it leading to a loss of depositor's funds and emergence of bad debts. Since the Non-Performing Loan (NPL) position of the bank gets increment in five reported financial periods. It has become a matter of compelling urgency to Assess ZB's Lending practice and credit management.

1.2 Statement of the problem

Bank credit can be defined as money provided by the banks for eligible customers to support execution of legally formed profitable business or investment activities that have economic importance, with an agreement to pay back the principal with interest within the period specified in the loan contract. Every nature of banking business is ,so sensitive because more than 85% of their liability is deposits from depositor (Saunders, Cornett, 2005). Banks use these deposits to generate credit for their borrowers, which in fact is a major revenue generating activity for most banks. Lending practice influence the profitability level of the commercial banks significantly, if proper procedure and regulation are taken up for loan repayment and recovery processes, the loan are the greatest source of revenue/ profits to the banks compared to customer deposits (Zeller ,2001).

Effective credit management can be seen as an essential part of lending and as such in its absence, good loans can turn bad. Not being able to manage financial risk especially credit risk would lead to financial suffering including economic failure. And credit management cannot be over emphasized. Good Lending and credit management requires qualified personnel and the establishment of adherence to sound credit policies, procedures. According to (Koch& MacDonald, 2003) If loan is well managed; it will increase the bank's profitability and sustainability in the future. However, if failed to do so, it will be the major threat to their survival.

According to (Hable, 2018) a loan default that results from infirm lending practice and poor credit management reduces banks' lending capacity. It also denies new applicant's access to credit as the bank's cash flow management problem augment in direct proportion to the increasing default problem. In other words, it may disturb the normal inflow and out flow of fund

a bank has to keep staying in sustainable credit market. It also increases the bank's legal cost if the loan passes the workout stage and the case goes to court.

According to (Wondimagegnehu, 2012) the result of inappropriate lending practice of the problem was More so, realizing the need to focus on measurability of extent of reliance on Capacity, Capital structure, collateral, character and condition as lending criteria is a challenge to banks providing the funds.

As observed above and more studies made on private banks on credit management which engaged the bank and credit clients. But as a researcher both can play a greater role interdependently on the loan performance so for this reason that the researcher motivated to make an assess on the Lending practice and credit management of Zemen Bank S.C.

1.3 Research questions

This study was intended to answer the following questions

- What is the nature of credit monitoring process of Zemen bank?
- How does credit worthiness affect Zemen Bank Loan?
- What are the loan follow-up strategies and credit collection practice the bank uses to minimize or control bad debt loan?
- What are the causes of Non-performing Loan in Zemen bank?
- How consistently does the bank comply with its own credit policy and National bank requirement

1.4 Objective of the Study

In view of the stated problem the general and specific objectives of the study are stated as follow.

1.4.1 General Objectives

General objective of the study would to assess the lending practice and credit management on the case of Zemen Bank S.C.

1.4.2. Specific Objectives

- To assess credit monitoring process in Zemen Bank.
- To assess the credit worthiness of Zemen Bank.
- To assess the loan follow-up strategy and credit collection practice of Zemen bank

- To identify the problems that causes Non- performing loan in the Zemen bank
- To assess the Bank's credit quality as compared to National Bank's requirements and its credit policy.

1.5 Significance of the Study

Loan and advances are known to be the main stay of all commercial banks. They occupy an important part in gross earnings and net profit of the banks. The share advances in the total asset of the banks forms a lion share almost more than 80% and as such it is the back bone of banking sector. It may help as bench mark for researchers who are interested in the area to extend it further research. The study is significant for bankers, policy makers and other stake holders by generating pertinent information's and in indicating best practice and concepts for sound lending to enhance the performance of credit management. On the side of the bank, the findings would enable the bank to find out the right strategy that helps to meet its institutional objectives and the country's economic development agenda as well. The study would provide some insights that the banks management to focus on areas that need special attention through identifying and prioritizing the severity of risks that adversely affect the soundness of the credit management. It will also enable to create conducive situations that the bank to review the credit operations critically for more result-oriented approach by filling the existing gap.

1.6 Methodological Scope

The study was focused on Zemen Bank S.C which is one of the emerging private commercial banks in Ethiopia. The study examining the assessment of Lending practice and credit management of Zemen Bank and finding out the problems encountered in this process. The study covers loan policies, procedures, and credit operations and management of the bank in comparison and contrast to National Bank directives and policies. The time scope 2016-2019 year.

1.7 Limitation of the study

For a better outcome of the study, only the employees and the clients of the Zemen Bank S.C., participated and involved. However, due to constraints of the methodology used such as, the current situation of COVID-19 pandemic makes it difficult to collect accurate information so the researcher can only use email and telephone conversation. Despite the reasons the conclusion drawn by this research should be accepted in the condition of this limitation.

1.8 Organization of the Study

The study would be organized in to five chapters. The first chapter introduces the Background of the study, Statement of The Problem, the research objectives and questions, significance of the study, scope of the study and organization of the study. The second chapter was present theoretical and empirical review of related literatures. The third chapter was deal with methodology of the study. The fourth chapter was concerned with data analysis and interpretation. The last chapter was covered the conclusion and recommendations drawn from findings of the data.

CHAPTER TWO

2. LITERATURE REVIEW

2.1 Theoretical Literature Review

This chapter describes and documents what has been written and recorded in different manuals, literatures and authors about lending practice Credit Management.

2.1.1 Concept of Lending

Lending is the principal business activity for most commercial banks. The loan portfolio is typically the largest asset and the predominant source of revenue. Lending is the ability of bank to loan money on the promise that debtors will repay future. According to Adedoyin and Sobodun (1991), "lending is undoubtedly the heart of banking business. Therefore, its administration requires considerable skill and dexterity on the part of the bank management". While a bank is irrevocably committed to pay interest on deposits it mobilized from different sources, the ability to articulate loan-able avenues where deposit funds could be placed to generate reasonable income; maintain liquidity and ensure safety requires a high degree of pragmatic policy formulation and application.

The prudential guidelines (1990) succinctly convey a more comprehensive definition of credit, it defines credit facility as the aggregate of all loans, advances, overdrafts, commercial papers, bankers' acceptances, bill discounted, leases, guarantees and other loss contingencies connected with a bank´s credit risks. Also, the definition of credit proposed by the CBN Monetary policy circular (1992) agrees with the view above. Generally, we could conclude that credit includes all commitments by a bank that has risk exposure and that may result in financial loss to the bank. Mandel (1974) describes credit simply as the right of a lender to receive money in the future in return for his obligation to transfer the use of funds to another party in the interim. The facility is as old as man, though in the primitive society it was known as "mutual aid", because it was based on ancient customer of ensuring substance of all members of the community. Credit therefore arises out of the need to bridge the gap between the surplus and deficit economic units such that the highest level of satisfactory function is performed by the financial institutions notable among which are the Money-deposit banks. In agreeing with this view, Corley (1970) and Adeniyi (1985) state that credit is a crucial factor in growth process of any economy and that

by lending banks provide valuable services to the community as they serve to channel money from those who have idle fund to those who put the money in to constructive use.

Furthermore, Achar and Ambrose (2009) opine that Deposit Money Banks are in business to make loans. They however, added that the loan should work out in such a way that it will not seriously endanger the loan portfolio and solvency of the bank. This view appreciates that though some dangers may arise, lending is, and should be a major activity of Money-deposit banks. The techniques and complexities of lending have been changing with growth in the society.

Perhaps that is why Mather (1955) describes banking as an art as well as a science. He went further to say that in addition to the wealth of technical and legal knowledge; a bank manager should develop the aptitudes to assess every request for an advance according to innumerable factor pertaining to the political borrower.

2.1.2 Definition of Credit

The word credit is derived from the Latin word Creditum, which means to believe or trust. In economics, the term credit refers to promises by one party to pay another for money borrowed or goods or services received. It is a medium of exchange to receive money or goods on demand at some future date (Jhibgan, 2002).

Another definition claims that the word credit originated from the Latin word "Credo" which means 'I Believe'. Credit is a matter of faith in the person and no less than the security offered. Credit is purchasing power not derived from income, but by financial institutions either as an offset to idle incomes held by the depositors in the bank, or as a net addition to the total amount of purchasing power. In fact, no economy can function without credit. These days all economic transactions are settled by means of credit instruments. It is the very life blood of modern business and commercial system (Cole, 2000).

2.1.3 Types of Credit

Depending on the length of time, for which the loan is outstanding Medium-term, credit can be classified in three categories: Short, Medium- and Long-term credits. Credit transactions on the basis of whether or not the lender received collateral security, they can be classified as secured loan and/ unsecured loans.

According to Clemens and Dyer (1977) cited in Kokeb (2010) Secured loan is guaranteed by collateral which is an item of equal or greater value than the amount of the loan, such as a car, home, or cash deposit. It is a secondary source of payment and is recommended for more than 75% of the bank's loan. No loan should be granted based on the value of the collateral without a clear indication of a stable primary source of repayment.

Unsecured loan: It may be granted to customers with established characteristics of ability to repay. The purpose of the loan and the source of repayment must be clearly understood. Generally, unsecured should not exceed 25% of the net worth. These may be available from financial institution under many different guides or marketing packages; may also be granted to customers with established characteristics and ability to repay (Westerfield, 1993).

2.1.4 Definition of Credit Management

There are many definitions given for credit management (CM) by different scholars. Among them, some are provided as follows; according to Nath (2013) Credit management in a bank is a dynamic sector where a certain standard of long-range planning is needed to allocate the fund in diverse field and to minimize the risk and maximizing the return on the invested fund. The objective of the credit management is to maximize the performing asset and the minimization of the non-performing asset as well as ensuring the optimal point of loan and advance and their efficient management.

Credit management is implementing and maintaining a set of policies and procedures to minimize the amount of capital tied up in debtors and to minimize the exposure of the business to bad debts (Hagos, 2010). When it functions efficiently, credit management serves as an excellent instrument for the business to remain financially stable and profitable. Credit management is also the process of controlling and collecting payments from customers. This is the function within a bank or company to control credit policies that will improve revenues and reduce financial risks.

According to Wise (2014) describe credit management as the process of building a series of investments based upon credit relationships and managing the risks involved with these investments. Therefore, credit management encompasses assessing the risk involved with each loan and then analyzing the total amount of risks for all loans. The major objective of credit

management is to reduce the amount of loans default. Banks reduce the loan portfolio default risk by considering the credits repayment history of both individuals and groups applying for loans.

According to Myers and Brealey (2003) 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.

2.1.5 Dimension of Credit Management

According to Pandey (1997) credit management particularly performs the following core concepts in relation to credit policy:

I. **Formulation of credit policy**: - for firms with usual credit sales the prime responsibility is

Formulation of credit policy which includes the decision about three credit terms that is cash discount, discount period and credit period. Credit term refers to the duration of credit and the term payment of customers including discount if any credit standard specifies the attributes customer should demonstrate to get credit.

II. **Evaluation of credit policy**: - these involve evaluating the credit applicant's worthiness. It involves three steps:

a. Collection of credit information
b. Analyzing and evaluating information
c. Making of credit decision

III. **Implementation of credit policy**: - once credit policy is formulated and evaluated the next step is adapting and using it.

IV. **Administering and controlling credit policy**: the purpose of this step is to check and control whether implemented policy is properly working or not.

• **Credit standards**: - refer to the guidelines issued by a company that are used to determine that a potential borrower is credit worthy. Credit standards are often created after careful analysis of

2.1.6 Components of Credit Policy

There are three components of credit policy. They are credit standard, credit terms and collection policy (Pandey, 2010). Past borrowers and market conditions, and are designed to limit the risk of a borrower no making credit payments or defaulting on loaned money.

• **Credit terms**: - specify the length of credit period and the discount given early payment. The common credit term for the firm to offer of "net 30" or "2/10 net 30". Net 30 means the customer must pay its bill within 30 days of the invoice date. Term 2/10 net 30 means the customer is offered a 2% discount if payment is made within 10 days of the invoice date. Otherwise the full amount of the receivables is due in 30 days. The stated terms of credit extension will have a strong impact on the eventual size of the accounts receivable balance.

• **Collection policy**: - refers to the procedures that firms follow to obtain payment of past due account. As a general rule, the quicker account receivable is converted into cash the greater will be the profit. Collection policy is the final element in credit policy. It involves to spot trouble in obtaining payment of past due accounts.

2.1.7 Credit Information

This benefits for lenders to assess or analyses creditworthiness, the ability payback a loan and can affect the interest rate and other terms of loan. According to Westerfield (1993) there are a number of sources to get credit information about a customer including the following:

- Financial Status- a bank asks a customer to supply financial statement such as, balance sheet and income statement which can be used as a basis for extending or reducing of a credit.
- Credit report on the customer payment history from other firms: quite a few organizations sell information on the credit strength and credit history of business firms.
- Banks will generally provide assistance to their business customers in acquiring information on the credit worthiness of other firms.
- The customer payment history with the bank: The likelihood of the customer on the paying is to examine whether they have settled payment obligation and how quick they have met their obligation.

2.1.8 Credit Planning

According to Tekeste (2016) the concept of the credit planning has gained importance during recent years. The term credit planning is used to mean the allocation of financial resources from which ever source they are available. In such way that the plan target of output and investment achieved in full and distribution of these resources doesn't hamper the implementation of plan programmers. Viewed from this angle credit planning at each level of the banking system is a subsidiary one since the bank credit is only one of the financial resource available from several sources. Bank credit occupies a very prominent position and national allocation of their sources available with a bank is an important aspect of economic planning and policy. The significance of such planning is enhanced when banks have to operate principally with the deposit (Shekhor, 1999).

2.1.9 Credit Analysis

According to Abebaw (2015) Credit analysis is the primary method in reducing the credit risk on a loan request. This includes determining the financial strength of the borrowers, estimating the probability of default and reducing the risk of non-repayment to an acceptable level. In general, credit evaluations are based on the loan officer's subjective assessment or judgmental assessment technique. 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 officer attempts to evaluate a borrower's ability and willingness to repay. In the same way Compton (1985) identified three distinct areas of commercial risk analysis related to the following questions:

1) What risks are inherent in the operations of the business? Lowering quality standards may stimulate demand, which, in turn, should lead to higher profitable receivables, as well as a greater risk of bad debt. The credit and collection policy of one firm are not independent of those of other firms. If product and capital markets are reasonably competitive, the credit and collection practices of one company will be influenced by what other companies are doing. Such practice related to the pricing of the product or service and must be viewed as part of the overall competitive process.

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

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

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

The first question forces the credit analyst to generate a list of factors that indicate what could harm a borrower's ability to repay. The Second recognizes that repayment is largely a function of decisions made by a borrower. Is management aware of the important risks, and has it responded?

As Timothy (1995) quoted, the last question forces the analyst to specify how risks can be controlled so the bank can structure to an acceptable loan agreement. A bank's credit analysts often use the five C's of credit to focus their analysis on the key dimensions of an applicant's credit worthiness.

Pandey (1997) identified five C's of credit. They include; Character, Capacity, Capital, Collateral, and Conditions.

1. **Character**: The applicant's record of meeting past obligations, financial, contractual, and moral. Past payment history as well as any pending or resolved legal judgments against the applicant would be used to evaluate its character.

2. **Capacity**: The applicant's ability to repay the requested credit. Financial statement analysis, with particular emphasis on liquidity and debt ratios, is typically used to assess the applicant's capacity.

3. **Capital**: The financial strength of the applicant as reflected by its ownership position. Analysis is of the applicant's debt relative to equity and its profitability ratios are frequently used to assess its capital.

4. **Collateral**: The amount of assets the applicant has available for use in securing the credit. The larger the amount of available assets, the greater the chance that a firm will recover its funds if the applicant defaults. A review of the applicant's balance sheet, asset value appraisals, and any legal claims filed against the applicant's assets can be used to evaluate its collateral.

5. **Conditions**: The current economic and business climate as well as any unique circumstances affecting either party to the credit transaction. For example, if the firm has excess inventory of the items the applicant wishes to purchase on credit, the firm maybe willing to sell on more favorable terms or to less creditworthy applicants. Analysis of the general economic and business conditions, as well as special circumstances that may affect the applicant or firm is performed to assess conditions.

The credit analyst typically gives primary attention to the first two C's-character and Capacity because they represent the most basic requirements for extending credit to loan applicant. Consideration of the last three C's-Capital, Collateral, and Conditions-is important in structuring the credit management and making the final credit decision, which is affected by the credit analyst's experience and judgment. Lending is not just a matter of making loan and waiting for repayment. Loan must be monitored and closely supervised to prevent loan losses. As noted by MacDonald (2006) cited in Abebaw (2015) there are five Cs of bad credits that represent the issues used to guard against/prevent bad loans). These are:

Complacency: refers the tendency to assume that because of the things were good in the past, they will be good in the future. For instance, Assuming the past loan repayment success since things have always worked out in the past.

Carelessness: indicates the poor underwriting typically evidenced by inadequate loan documentation, lack of current financial information or other pertinent information in the credit files, and lack of protective covenants in the loan agreement. Each of these makes it difficult to monitor a borrower`s progress and identify problems before they are unmanageable.

Communication ineffectiveness: inability to clearly communicate the bank`s objectives and policies. This is when loan problems arise. Therefore, the bank management must clearly and effectively communicate and enforce the loan policies and loan officers should make the management aware of specific problems with existing loans as soon as they appear.

Contingencies: refers the lenders` tendency to play down/ignore circumstances in which a loan might in default. It focuses on trying to make a deal work rather than identifying down side risk.

Competition: involves following the competitors` action rather than monitoring the bank`s own credit standards. Banks, however, still have required expertise, experiences, and customer focus to make them the preferred lender for many types of loan. However, the key risk factors to be considered in credit analysis are traditionally grouped in to five C's and currently two C's have been added and become seven C's. These are capacity, character, capital, conditions and collateral (Koch and Macdonald, 2000 and Rose, 1999). The additional two are customer relation and competition (Koch and Macdonald, 2000).

Customer Relationship: A bank's prior relationship with a customer reveals information about past credit and deposit experience that is useful in assessing willingness and ability to repay (Koch and Macdonald, 2000).

Competition

It has an impact by affecting the pricing of a loan. In principle, competition should not hinder banks from obtaining positive risk adjusted returns and it should also not affect loan accept-reject decision. In reality, however, lenders sometimes react to competitive pressures by undercutting competitor's rates in order to attract new business. Similarly, loan accept reject decisions are at times compromised when competition is strong creating industry instability (Koch and Macdonald, 2000).

2.1.10 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 trade- offs. According to Timothy (1995), the credit process includes three functions: business development and credit analysis, credit execution and administration, and credit review.

I. Business Development and Credit Analysis

Business development is the process of marketing and services to existing and potential customers. With lending it involves identifying new credit customers and soliciting their banking business, as well as maintaining relationships with current customers and cross-selling non-credit services. Every bank employee, from tellers handling drive-up facilities to members of the board of the directors, is responsible for business development. Each employee regularly comes in to contact with potential customers and can sell bank services. To encourage marketing efforts, many banks use cash bonuses or other incentive plans to reward employees who successfully cross-sell services or bring new business into a bank.

II. Credit Execution and Administration

The formal credit decision can be made individually or by committee, depending on a bank's organizational structure. This structure varies with a bank's size, number of employees, and type of loans handled. A bank's Board of Directors normally has the final say onwhich loans are approved. Typically, each lending officer has independent authority to approve loans up to some fixed amount.

III. Credit Review

The loan review effort is directed at reducing credit risk as well as handling problem loans and liquidating assets of failed borrowers. Effective credit management separates loan review from credit analysis, execution, and administration. The review process can be divided into two functions: monitoring the performance of existing loans and handling problem loans. Many banks have a formal loan review committee, independent of loan officers, that reports directly to the chief executive officer and directors' loan committee. Loan review personnel review current loan to verify that the borrower's financial condition is acceptable, loan documentation is in place, and pricing meets return objectives.

2.1.11 Credit Approval and Implementation

The individual steps in the credit approval process and their implementation have a considerable impact on the risks associated with credit approval. The quality of credit approval processes depends on two factors, i.e. a transparent and comprehensive presentation of the risks when

granting the loan on the one hand, and an adequate assessment of these risks on the other. Furthermore, the level of efficiency of the credit approval processes is an important rating element. Due to be considerable differences in the nature of various borrowers and the assets to be financed as well as the large number of products and their complexity, there cannot be a uniform process assess credit risks. The quality of the credit approval process from a risk perspective is determined by the best possible identification and evaluation of the credit risk resulting from a possible exposure.

According to Oesterreichische National bank Credit Approval Process and Credit Risk Management (2000), the credit risk can be distributed among four risk components.

a. Probability of Default (PD)
b. Loss Given Default (LGD)
c. Exposure at Default (EAD)
d. Maturity (M)

The most important components in credit approval processes are PD, LGD, and EAD. While maturity (M) is required to calculate the required capital, it plays a minor role in exposure review. The significance of PD, LGD, and EAD is described below.

a) Probability of Default (PD)

Reviewing a borrower's probability of default is basically done by evaluating the borrower's current and future ability to fulfill its interest and principal repayment obligations. This evaluation has to take into account various characteristics of the borrower (natural or legal person), which should lead to a differentiation of the credit approval processes in accordance with the borrowers served by the bank.

Furthermore, it has to be taken into account that for certain finance transactions interest and principal repayments should be financed exclusively from the cash flow of the object to be financed without the possibility for recourse to further assets of the borrower. In this case, the credit review must address the viability of the underlying business model, which means that the source of the cash flows required to meet interest and principal repayment obligations has to be included in the review (analyst).

b) Loss Given Default (LGD)

The loss given default is affected by the collateralized portion as well as the cost of selling the collateral. Therefore, the calculated value and type of collateral also have to be taken into account in designing the credit approval processes.

c) Exposure at Default (EAD)

In the vast majority of the cases described here, the exposure at default corresponds to the amount owed to the institution. Thus, besides the type of claim; the amount of the claim is another important element in the credit approval process. Once information has been gathered, the firm faces the hard choice of either granting or refusing credit. Many financial managers use the "five C's of Credit" as their guide (Ross et al. 1999) as discussed earlier and identify and evaluate the credit risk resulting from a possible exposure to sanction the credit.

2.1.12 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).

According to Shekhar (1985), loan plays an important role in the lives of many people and in almost all industries that involve monetary investment in some form. Loan is mainly granted by banks including to several other functions like mobilizing deposits, local and international transfers, and currency exchange service.

2.1.13 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, 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 tolerated 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.

2.1.14 Steps in the Lending Process

Finding prospective loan customers most loans to individuals arise from a direct request from a customer who approaches a member of the lender's staff and asks to flit out a loan application (Rose and Hudgins, 2005).

I. Evaluating a prospective customer's character and sincerity of purpose

Once a customer decides to request a loan, an interview with a loan officer usually follows, given the customer the opportunity to explain his or her credit needs. That interview is particularly important because it provides an opportunity for the loan officer to assess the customer's character and sincerity of purpose. If the customer appears to lack sincerity in acknowledging the need to adhere to the terms of a loan, this must be recorded as a strong factor weighing approval of the loan request.

II. Making site visits and evaluating a prospective customer’s credit record

If a business or mortgage loan is applied for, a loan officer makes a site visit to assess the customer’s location and the condition of propriety and to ask clarifying questions. The loan officer may contact other creditors who have previously loaned money to this customer to see what their experience has been. A previous payment record often reveals much about the customer’s character, sincerity of purpose, and sense of responsibility in making use of credit extended by a lending institution.

III. Evaluating a prospective customer’s financial condition

If all favorable to this point, the customer is asked to submit several crucial documents the lender needs in order to fully evaluate the loan request, including complete financial statement and, in the case of a corporation, board of director’s resolution authorizing the negotiation of a loan with the lender. Once all documents are on file, the lender’s credit analysis division conducts a through financial analysis of the applicant, aimed at determining whether the customer has sufficient cash flow and backup asset to repay the loan. The credit analysis division then prepares a brief summary and recommendation, which goes to the appropriate loan committee for approval.

IV. Assessing possible loan collateral and signing the loan agreement

If the loan committee approves the customer’s request, the loan officer or the credit committee will usually check on the property or other assets to be pledged as collateral in order to ensure that the lending institution has immediate access to the collateral or can acquire title to the property involved if the loan agreement is defaulted. This is often referred to as perfecting the lender’ claim to collateral.

V. Monitoring compliance with the loan agreement other customer service needs

The new agreement must be monitored continuously to ensure that the terms of the loan are being followed and that all required payments of principal and interest are being made as promised. For larger commercial credits, the loan officer will visit the customer’s business periodically to check on the firm’s progress and see what other services the customer needs.

2.1.15 Debt Recovery Strategy

Monitoring of credit faculties granted to customers a significant function in ensuring the success of the project for which repayments is made. Huppi and Feder (1990) revealed that effective monitoring leads to high recovery of loans by exposing possible danger (like loan diversion) and reminding borrowers of their obligations to the lending bank(i.e. calling for redoubling of efforts towards loan repayment).

2.1.16 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 potentials 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. A good credit management system helps to reduce the amount of capital tied up with debtors (people who owe money) and minimize the exposure to bad debts. Good credit management is vital to cash flow.

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

1. Credit initiation
2. Documentation and disbursement
3. 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).

2.1.17 Credit Management Practice

As noted by Abebaw (2015), credit risk continues to remain the largest sources of risk for banking institutions in the world. Effective credit management is therefore vital to ensure that the banking institutions credit activities are conducted in a prudent manner and the risk of potential bank failure; of which success of banks hinge on their ability to manage their credit effectively. Even though there are no strictly laid down credit management practice, most financial institutions practice the following in order to maximize profit as well as to reduce credit risk.

2.1.18 The Role of Credit Analysis in Minimizing Credit Risk

Credit risk analysis is the process of analyzing all available information to determine whether the loan meets the bank's risk return objective. It is essentially default risk analysis in which a loan officer attempts to evaluate a borrower's ability and willingness to repay (Koch and Macdonald, 2000), according to Greenbaum and Thakor (1995), credit analysis determines factors that may lead to default in the repayment of a loan and the principal objective of credit analysis is to determine the ability and willingness of the borrower to repay the loan. In other words, the objective of credit analysis is to determine the repayment ability of a potential or existing customer, to assist in accept reject decision and the pricing policy as well as loan review evaluation. The problem is how willingness and ability can be measured because loans granted at present are paid back in the future, which depends on future happenings, and willingness to pay depends on personality characteristics which is even more difficult to measure. Credit analysis involves examining all relevant qualitative and quantitative data in order to make a reasonable assurance that the loan will be paid. The depth of credit analysis depends on the size and complexity of the case and the cost benefit factors. Credit analysis for commercial lending involves identifying inherent risks in the operation of business by generating a list of factors that indicate what could harm a borrower's ability to pay, examining what managers have done or

failed to do in justifying those risks, and structuring an acceptable loan agreement and controlling the risk of the bank in the supplying founds (Koch and Macdonald, 2000).

2.1.19 Addressing Risk Associated With Risk Management

According to Theodore (1962), cited in Tekeste (2016), credit risk has the repercussion of liquidity risk, which in the extreme can lead a bank to severe financial crisis, resulting in erosion of capital, insolvency and could ruin the bank. To identify and address the risk associated with credit management, the Basel Committee on Banking Supervision in its publication No.54 issued in September 2000 outlined the following measures:

- Establishing an appropriate credit risk environment
- Operating under sound credit granting process
- Maintaining an appropriate Credit administration, measurement and monitoring process.
- Ensuring adequate controls over credit risk
- The role of Supervisors

2.1.20 Default Problems

Non-payment of loans has several undesirable consequences. It gradually destabilizes the credit system. Costs of loan administration of overdue loans are high. Defaults pushup lending costs without any corresponding increase in loan turnover. Also, defaults reduce the resource base for further lending, weaken staff morale, and affect the borrower’s confidence.

According to Padmanabhan (1986), causes of delinquencies and defaults are classified as relating to three levels: borrower level, financing institution level, and economy level.

I. Causes at borrower level:

- Borrowers who deliberately divert loans to non-essential consumption find it difficult to meet repayment commitments on time.

- Investments fail to generate sufficient incomes due to improper technical advice; absence of supporting services, inadequate marketing, and etc. investments also fail due to unforeseen like floods, drought, etc. In both cases repayment would be affected.

 When borrowers have liabilities towards informal lenders, they get precedence over institutional lenders.

 Contingencies at borrower household like death, sickness, etc., affect repayment performance.

Formal institutions which do not extend consumption and emergency loans are liable to have higher default rates.

II. Causes at financing institution level:

 Defective procedures for loan appraisal in the financing institutions could lead to the financing of bad projects and consequent defaults.

 Quality of loan officers, their ability and knowledge in the field, and their capacity to judge borrowers as also the incentive packages available to them affect repayment performance.

 Fixing of inappropriate repayment schedules and lack of flexibility often result in defaults. Similarly, when the procedure for repayment is cumbersome borrowers tend to delay repayments

 Defaults have a 'spread effect' particularly in the marginal cases. When lenders show reluctance to enforce sanctions against conspicuous defaulters, defaults tend to increase through a process of imitation.

III. Causes at economy level:

 When overall government policies, particularly those relating to pricing of inputs and out puts, marketing etc., discriminate against the specific sector.

 Faulty monetary and fiscal policies of governments could result in high inflationary conditions. Borrowers tend to delay repayments in such a situation to take advantage of the falling value of currency

 Interest rate policies of government have a vital role in the promotion of repayments. When the real rate is excessively low, borrowing and consumption will be much more profitable than saving and repayment.

 Excessive government intervention in the day-to-day administration of financial institutions could result in bad loans.

 Calamities like drought. Floods, market glut, etc. could result non-performing loans.

2.1.21 Common Sources of Major Credit Problems

According to Habtamu (2005), the sources of major credit problems are mentioned below:

Most major banking problems have been either explicitly or indirectly caused by weaknesses in credit management. In supervisors' experience, certain key problems tend to persist. Severe credit losses in banking system usually reflect simultaneous problems in several areas, such as concentrations, failures of due diligence and inadequate monitoring.

 Concentrations are probably the single most important cause of major credit problems. Credit concentrations are viewed as any exposure where the potential losses are large relative to the bank's capital, its total assets or, where adequate measures exist, the bank's overall risk level.

Banking supervisors should have specific regulations limiting concentrations to one borrower or set of related borrowers, and in fact, should also expect banks to set much lower limits on single-obligor exposure. Most credit managers in banks also monitor industry concentrations. Many banks are exploring techniques to identify concentrations based on common risk factors or correlations among factors. While small banks may find it difficult not to beat or near limits on concentrations, very large banking organizations must recognize that, because of their large capital base, their exposures to single obligors can reach imprudent levels while remaining within regulatory limits.

Many credit problems reveal basic weaknesses in the credit granting and monitoring processes. While shortcomings in underwriting and management of market-related credit exposures represent important sources of losses at banks, many credit problems would have been avoided or mitigated by a strong internal credit process.

 Many banks find carrying out a thorough credit assessment (or basic due diligence) a substantial challenge. For traditional bank lending, competitive pressures and the growth of loan syndication techniques create time constraints that interfere with basic due diligence.

 Some credit problems arise from subjective decision-making by senior management of the bank. This includes extending credits to companies they own or with which they are affiliated, to

personal friends, to persons with a reputation for financial acumen or to meet a personal agenda, such as cultivating special relationships with celebrity.

 Many banks that experienced asset quality problems in the 1990s lacked an effective credit review process (and indeed, many banks had no credit review function). Credit review at larger banks usually is a department made up of analysts, independent of the lending officers, who make an independent assessment of the quality of accredit or accredit relationship based on documentation such as financial statements, credit analysis provided by the account officer and collateral appraisals. At smaller banks, this function maybe more limited and performed by internal or external auditors. The purpose of credit review is to provide appropriate checks and balances to ensure that credits are made in accordance with bank policy and to provide an independent judgment of asset quality, uninfluenced by relationships with the borrower. Effective credit review not only helps to detect poorly underwritten credits, it also helps prevent weak credits from being granted, since credit officers are likely to be more diligent if they know their work will be subject to review.

2.1.22 Credit Control

According to 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:

(I) the borrower complies with the stipulated conditions

(II) The facilities are utilized with the purpose for which they were approved

(III) Any deterioration or negative trends in the customers‟ business or prospects are determined and corrective actions taken.

Al Musharafa (2013), on his study has investigated some of the Bangladesh commercial banks to evaluate credit assessment activities and to forward possible suggestions. Up on his study the researcher used both primary and secondary data sources and both qualitative and quantitative

2.2 Empirical Review

This part of the study takes a closer look on empirical studies on the subject matter. Haron et al. (2012) assessed credit management system on loan performance of micro finance institutes and to establish the effect of credit term, client appraisal, credit risk control and credit collection policies on loan performance of the institute. The researchers used primary data source and quantitative research design to test the relationships of these selected variables. These researcher have found that credit term formulated by MFI has an effect on loan performance, involvement of client on credit term formulation affects loan performance, interest rate charged has a reverse effect on loan performance, credit risk controls adopted by MFI has an effect on loan performance and collection policies of the institutes have high effect on loan repayment performances. Therefore, the research concludes that all the above-mentioned variables have relationship with loan performance and hence lenders should make their loan extension in considerations of these factors.

data analysis methods to evaluate the banks credit assessment using banks loan and advance growth, income from loan, sector credit allocation and credit risk management and nonperforming loan status of the bank as measuring parameters. The research has found that growth of loan and advances are sustainable, better sector allocation of loans, better risk management and income from loan and advances are increasing despite some banks need to improve their general loan policy.

Afroz (2013), under his study the researcher tried to specify and estimate necessity of credit portfolio management of Bangladesh Kirishi Bank and describe present credit management practice of the bank along with his suggestions. The study used primary and secondary data sources with descriptive data analysis techniques. The research has found that: the framework of the bank's function is not clear, agro business financing is risky for the bank, very few activities on L/C and other purchase type financing has been made, poverty alleviation credit program of the bank is successful but very little portion of the total portfolio (only 3%-4%).

Aguand Basil (2013), on their study of Credit Management and Bad Debts in Nigerian Commercial banks, in order to determine major causes of bad debts in Nigerian banks using both primary and secondary data like interview, questionnaires other sources. The researchers also

used both qualitative and quantitative data analysis using time series and regression data analysis tools to identify nature and causes of bad debts in Nigeria.

Accordingly, the researcher had found an overall inefficiency of the banks due to inadequate monitoring of borrowers on their borrowed fund utilization, an increase in lending rate, and failure in appropriate follow-ups, poor credit policy and weak credit administration practices.

Omoijiode (2014), has made a comparative research under the topic "Critical Assessment of Credit Management in Nigerian Bank Sector". This comparative study had been made between Union and Zenith banks of Nigeria for the objective of establishing level of Union bank and Zenith bank advance and provision against doubtful debts, to evaluate of Union bank net competitive advantage or disadvantage on credit management and to establish if United bank net competitive advantage or disadvantage against Zenith bank of Nigeria in their credit management.

The researcher used secondary data collected from Nigerian Union and Zenith banks financial reports of 2005/2006, united bank's loan and advance. The researcher also employed qualitative analysis techniques and evaluate the two banks loan and advances (using balance score card map), financial perspective, loan and advance mix (O/D and loans against doubtful accounts provision), customer perspectives (customer service capability and geographic coverage), internalperspective(relationshipandcreditmonitoring),andlearnandgrowth perspective(knowledge, innovation technology and reward system) to compare loan and advance of the two banks, against their provision for bad debts, to evaluate responsibility for increasing NPL for Union bank and to analyze competitive strength of the two banks using some success factors. The research findings show that there is an inverse relationship between Union bank's loan portfolios against provision i.e. loan and advance of union bank is lower than Zenith bank's but the provision for union bank is higher due to failure to monitor loan and advance efficiently. Success factor evaluation shows Zenith bank is much better than Union bank of Nigeria.

Joseph(2014), on his study on the Effectiveness of loan portfolio management in Rural Saving and Credit Cooperatives in Tanzania, the researcher has used both primary data in the form of questionnaire on seventy microfinance officers in fourteen microfinance institutes,

using multi regressive and descriptive data analysis tools to identify factors that affect Credit Portfolio qualities, the finding has revealed that quality of loan portfolio has strictly influenced by loan size, gender(Female have better repayment history than men), loan type, borrower's location, and insurance coverage and status of the loan.

Hagos (2010), which is a case study on "Credit Management Practice of the Wegagen Bank in Tigray Region" using both primary and secondary data and qualitative and quantitative data analysis tools, has found that the bank was managing its credit well in many aspects in this specific region. However, the researcher has also indicated that very long loan processes, in adequate credit policy in terms of customers aspect discouraging credit customers, the researcher has also only short-term credit facility resulted in repayment burden on the client within a short period that leads the customers to termination.

Daniel (2010), focusing on management of non-performing loan on private commercial banks in Ethiopia. The study employed the mixed type of research. The result showed that credit policy and supervision by the management has less contribution to the NPLs and most of the NPLs are caused by factors after the loan released, like Moral hazard of the borrower, ineffective monitoring, and operational loss of the borrower has created high NPLs in private commercial banks in Ethiopia.

Wondimagegnehu (2012), conducted a study on determinants of NPL in Ethiopia Banks, focusing only bank specific factors that cause NLPs by using mixed research method. The study conclude that poor credit assessment, failed loan monitoring, underdeveloped credit culture, lenient credit terms and conditions, aggressive lending, compromised integrity, weak institutional capacity, unfair competition among banks, willful default by borrowers and their knowledge limitation, fund diversion for unintended purpose, over/under financing by banks ascribe to the causes of loan default. Even if both studies are a very recent one, the gaps are there that are not touched by both researchers and need further investigation by others.

Yohannes (2015) stated some relevant factors that lead to establish effective credit managements in the credit financing process. According to the researcher, improving the credit risk management practice, improving the quality of credit granting process, establishing appropriate credit risk environment, recruiting adequate and qualifies credit and credit risk management

staffs and experts, putting a well-documented credit management strategy, policy and procedure, conducting a comprehensive credit worthiness analysis during credit offering might have a significant effect and positive effect on the credit management process.

Tekeste (2016), assessed the credit management practice of Berhan International Bank S.C (BIB) and the researcher pointed out some relevant factors to be considered in the credit management process. According to the view of the researcher are visiting business on regular basis after disbursement, applying due care before granting a loan, establishing payment guideline, considering prompt payment, writing reminder letter and providing incentive for prompt payment are some of advisable points to be taken by banks.

Hable (2018), was tried to assessed the credit management practice of United Bank S.C and she stated some relevant factors to consider credit management practice and used quantitative approach and cluster sampling. The outcome of the researcher found out that the bank of applied lack and less credit management policy.

To the extents of my reviews of related research materials, did not find any general or specific study that made on the ASSESSMENT OFLENDING PRACTICE AND CREDIT MANAGEMENT IN ZEMEN BANK. Therefore, it is the researcher's belief that it is appropriate to carry on the research on the established topic.

From the above empirical review of literatures, the researcher observed that there are no studies conducted mainly to identify the problems related to lack of effective lending practice credit management assessed the bank and clients with reference to Zemen Bank Share Company.

2.3 Summary of Knowledge Gap

Most studies which were conducted on credit management have been conceptual in nature and focused only on the industry in general and on manufacturing, industry and big banks in particular. There is limited studies evidence on Lending practice and credit management in banks. Even if the issue of lending practice and credit management is having an equal factor on banks, however as per the researcher's knowledge, no study is conducted on Zemen Bank S.C to assess the lending practice and credit management performance. Hence, this study aims to fill the gap in the literature by focused on the assessment of lending practice and credit management on Zemen Bank.

CHAPTER THREE

3. RESEARCH DESIGN AND METHODOLOGY

The objective of the study is to assess the current lending practice and credit management of Zemen Bank S.C. The chapter briefly discuss about the overall methodologies utilized in the study. Particularly it deals about research design, research approach, the type of data used, data collection method, sources of data, population and the sample size and sampling technique used.

3.1 Research design

Data collected and analyzed on the basis of research design because it provides the data could be collected and analyzed on the basis of research design because it provides the structure for such an assessment, Bryman and Bell (2013). This research is descriptive research, the research uses questionnaire as a data collection tool. This was exactly used to collect useful information for assessment of lending practice and credit management of Zemen Bank S.C

3.2 Research Approach

Research approach for this study was selected by researcher based on the research purpose, the nature of the research, the problem area, and research purpose, the nature of the research questions (Alhamdani et al.2006). The research approach in this study was chosen based on the purpose and the research questions set out to be addressed. In order to attain the objective of the study and answer the research questions, the researcher has adopted qualitative research approach.

3.3 Population and Sampling Techniques

Population is the whole collection of items from which sample can be drawn (Yayhiya, 2011). For this study, the population is Zemen Bank S.C directly involved in credit processing and administrating and clients. This means loan officers, credit analyst, branch managers and loan committee members. In order to undertake this study, the researcher selected 15 branches which have the greatest transactions flow which are currently operated in Addis Ababa. However, the researcher used census for bank employees. More over the researcher undertake this study applied purposive sampling for bank employees selecting by educational level based on self-selection sampling. Because of the COVID-19 pandemic the researcher used purposive sampling

to collect data from clients based on their educational level from 15 branches. Educational level needed to understand the question and respond the questioner by email.

3.4 Sources and Tools/Instrument of Data collection

This study tries to assess the lending practice and credit management practice of Zemen bank in order to address this issue the study was conducted by collecting data from both primary and secondary sources. Primary data was collected from the staff of Zemen bank and clients based on structurally designed questionnaire; it included both close ended and open-ended options, which gives the respondents an opportunity for adequate expression of their view on the questions. Mainly primary data sources were considered which were collected through questionaries' distributed for 115 respondents, whereas 65 for the bank staff the remaining 50 for bank clients. Additionally, secondary data were also gathered from manual and procedure, related thesis and NBE directives.

3.5 Method of Data analysis and Presentation

The researcher was used a qualitative research approach method, because the basis of such an approach helps to neutralize or cancel the limitations of applying any of a single approach. The researcher was used both methods of analysis and SPSS Software to collect and analyze the structured questioners and secondary sources.

Findings which reflect problems were selected from questionnaires; the raw data were analyzed, presented, and interpreted to give solution for the research problem. Moreover, most of the data were summarized and presented in table and figures, by the help of the statistical program for social science, version 23, (SPSS, and version23). Percentages for these data were computed in order to facilitate the analysis and make it presentable for the readers.

CHAPTER FOUR

4. DATA ANALYSIS AND PRESENTATION

This chapter presents the findings and discussions of the study. It starts with the socio – demographic analysis of the respondents followed by the analysis of the subjects of the study. As it is specified in the earlier chapter, questionnaires were developed for respondents. A total of 65 questionnaires for employees (branches and head office) and 50 questionnaires for clients were distributed. Of all the questionnaires distributed to employees and clients 60 (92.3%) & 45 (90%) were filled and returned respectively. Therefore, the data discussed in the subsequent sections of this report is a summarized response of 105 respondents.

Result from Bank Staff

4.1 Demographic Profile

This section presents profile of respondents in relation to their age group, educational level, service year and work positions and experience in the credit area of the bank.

Table 4.1 Demographic profile of the respondent

Variables	Classification of Variables	Frequency	Percentage (%)
Sex	Male	33	55
	Female	27	45
	Total	60	100
Age	20-29	20	33.3
	30-39	29	48.3
	40-49	11	18.3
	>50	-	-
	Total	60	100
Educational Status	Diploma	-	-
	Degree	31	51.7
	Masters	29	48.3
	PHD'	-	-
	Total	60	100
Work Experience	< 2 Years	4	6.7
	2-5 Years	29	48.3
	5-10 Years	24	40
	>10 Years	3	`5
	Total	60	100
Work Position	CSO	15	25
	Senior CSO	20	33.3
	Credit Follower	7	11.7
	Credit Analyst	8	13.3
	Manager	10	16.7
	Total	60	100

Survey Result, 2020

As indicated in table 4.1 above, while 48.3 percent are in the age range 30-39, 33.3 percent are between 20 and 29 and 18.3 percent are in the age range of 40-49**.** This implies the bank has energetic and matured staff.

The educational level of employees is an important factor with regard to making business decisions. Education improves the ability, capacity, communication and access to development activities.
As it can be reviewed from table 4.1 that 31 (51.7 %) of the respondents are BA degree holders and 29(48.3%) percent of the respondents are master holders. This denotes that the majority of the bank's employees working in the loan first area well skilled. This enables the bank to perform most and become competitive in the industry.

The above table 4.1 shows the percentage of the years of work experience the respondents had working experience the respondents had working in credit management. This question was asked because the researcher wanted to know how experienced the respondents were in the area of lending practice and credit management.

Results showed that 29(48.3%) have 2-5 years' experience working in credit management area. Whereas, employees with credit management experience of 5-10 years, < 2 years, and > 10 years represented 24(40%), 4(6.7%) and 3(5%) respectively.

As it is presented on table 4.1 the majority of the respondents are senior CSO and which contains 20(33.3%) out of the total respondents engaged to fill the questionnaire. Therefore, these indicates that the information collected from those respondents are expected to be relevant and the most valid. Because they have long years of experience in the loaning sector and expected to have better understanding about the overall strengths and problems encountered related with the services they provide. In addition to this; the information was collected from 35 officers and 10 Managers.

4.2 Credit Worthiness

A banks credit analysis often uses the five CS of credit to focus their analysis on the key dimensions of applicant's credit worthiness Lawrence (1997;776-777), as a measuring criterion for borrowers' credit worthiness. The five CS are the most respected credit worthiness measuring criteria and which are used by the lenders and other financial institutions involved in the credit

financing sector. The idea is supported by Hagos (2010), and the researcher point of applying 5CS are the most essential determinants to reduce the credit risk on a loan request process conducting a credit analysis is the most desirable method. This helps to determining the financial strength of the borrowers, estimating the probability of default and reducing the risk of non-repayment to an acceptable level. The 5CS essential for lenders to evaluate the credit worthiness of borrower in respect to characteristics of the borrower, conditions of the loan, attempting to determine chance of default (NPL) and in general the risk of a financial loss for the financer. The five CS of credit includes capacity, capital, collateral, character and condition. The credit worthiness assessment practice of ZB is presented as follows in the stated table below.

4.2.1 Character Analysis

This consideration is the personal integrity of the customer requesting for the loan, which is relation to client's business dealings with the bank and other. The bank officers or loan officers would take steps to determine the character of the customer to ensure that they are convinced that the customer has a well-defined purpose for requesting bank credit and a serious intention to repay the loans appropriately. Character basically is a tool that provides weighting values for various characteristics of a credit applicant and the total weighted score of the applicant is used to estimate his/her credit worthiness (Myers &Forgy, 2005).

Table 4.2 character analysis

Item No	Description	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree	
		Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%
Q1	Assessment of past track record of repayment before granting loan	-	-	5	8.3	4	6.7	34	56.7	17	28.3
Q2	Assessment of character of loan applicants before granting loan	-	-	6	10	9	15	32	53.3	13	1.7
Q3	Assessment of sound financial management policy of borrowers before granting loan	-	-	3	5	11	18.3	35	58.3	11	18.3

Source, Survey Result 2020

In item Q1 as can be seen in the above table 4.2, the majority of the respondents 34(56.7 %) agreed up assessment of past track record of repayment before granting loan.

In item Q2 as can be seen in the above table 4.2, the majority of the respondents 32(53.3%) agreed up assessment of loan applicants before granting loan.

In item Q3 as can be seen in the above table 4.2, the majority of the respondents 35(58.3%) agreed on assessment of sound financial management policy of borrowers before granting loan. As the above table 4.2 in item Q1, Q2 and Q3 implies that the bank highly assesses the character analysis of the respondent before granting the loan.

4.2.2 Capacity Analysis

One of the pillars five CS to identify the ability to repay the requested credit. Financial statement analysis, with particular emphasis on liquidity and debt ratios, is typically used to assess the applicant's capacity. This involves the authorization of the person making the request to make a demand for loan facility, which is normally defined by virtue of client position. Therefore, the bank always takes steps to ensure that the customer requesting credit has the authority to do so. The bank will also consider the approval of the board of directors and the legal standing of the person to sign a binding loan agreement on behalf of his/her firm. This customer characteristic is known as the capacity to borrow money.

A crucial component of determining credit worthiness is capacity (Titus, 2012). He opines that determining capacity should be the priority area as all other factors come to support capacity. Capacity refers to ability to meet the loan obligations. The major variable when determining capacity is the nature of cash flows which is contained in business plan of borrowers. In credit, cash is king as loan repayments are made by cash. It follows naturally that capacity to generate revenue and collect all receivables will have a big impact on loan repayment.

Table 4.3 Capacity analysis

Item No	Description	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree	
		Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%
A	Assessment of business plan from all borrowers before granting loan	-	-	2	3.3	1	1.7	36	60	21	35
B	Assessment of relevant experience of the loan applicants before granting loan	1	1.7	3	5	3	5	38	63.3	15	25
C	Assessment of cash flow projection of the borrowers before granting loan	-	-	4	6.7	6	10	32	53.3	18	30
D	The bank analyze sells growth of the borrowers before granting loan	-	-	5	8	9	15	36	60	10	16.7
E	Financial analysis conducted to determine credit strength of a borrower before granting loan	-	-	3	5	7	11.7	29	48.3	21	35

Source, Survey Result 2020

As can see from the above table 4.3 in item A, respondents were asked whether the bank assess of business plan from all borrowers before granting loan 36(60%) of the respondents have responded agree with issue while 21(35%) strongly agree in' the meantime 2(3.3%) of them disagree with the issue and 1(1.7%) of the respondents are uncertain.

In the same table item B, respondents were asked whether the bank look at the relevant experience of loan applicants with regard 38(63.3%) of the respondents agreed, 15(25%) of respondents strongly agree, on other hand 3(5%) of respondents related with neutral and disagree the remaining 1(1.7%) of respondents strongly disagree with on the issue.

As can be seen on item C of table 4.3, 32(53.3%) of respondents agree the bank check the cash flow project of the borrowers whereas18 (30%) of the respondents strongly agree, 6(10%) of respondents are uncertain and the remaining 4(6.7%) of respondents have responded disagree.

On table 4.3 item of D respondents were asked whether the bank check sales growth of the clients, with this regard 36(60%) of respondents agree, 10(16.7%) of respondents strongly agree and the rest 9(15%) and 5(8.3%) of respondents have responded neutral and disagree respectively.

As the above table presented in item E, 29(48.3%) of respondents agreed with regards the bank conduct credit strength of the borrower whereas 21(35%) of respondents strongly agree, 7(11.7%) of the respondents are uncertain and 3(5%) of respondents disagree on the issue.

Regarding to the above table 4.3 is summarized capacity analysis of the bank is in good condition. Properly check and assess business plan relevant experience of the bank, cash flow projection sale growth and credit strength of the applicants.

4.2.3 Capital Analysis

This refers to the contribution of the customer's business to the financing of the project for which the loan request is desired. This is important because in the absence of any appreciable contribution or the capital base of the business, the customer will not feel that the firm has any stake in the scheme of things. Therefore, the project may be allowed to fail and the bank will lose its funds. Capital is measured by the general financial position of the borrower as indicated by a financial ratio analysis, with special emphasis on tangible net worth of the borrower's business. Thus, capital is the money a borrower has personally invested in the business and is an indication of how much the borrower has at risk should the business fail. Dhankar*et al.* (1996) in their research noted that sound financing decisions of a firm would ideally lead to an optimal capital structure because capital structure in general had an effect on the cost of capital, net profit, earnings per share, dividend payout ratio and the liquidity position of the firm therefore, when a firm decides to use debt financing for its operations it's faced with a financial risk and it's referred to as a levered firm.

Table 4.4 Capital analysis

Item No	Description	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree	
		Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%
A	Assess and analyze the past financial report of the borrowers before granting loans	7	11.7	5	8.3	1	1.7	32	53.3	15	25
B	Assessment of the quality of financial report presented before granting loan	4	6.7	10	16.7	2	3.3	28	46.7	16	26.7
C	Assessment of capitalization of business before granting loan	4	6.7	8	13.3	7	11.7	34	56.7	7	11.7
D	Assessment of the long-term planning horizon of every loan applicant before granting loan	1	1.7	8	13.3	8	13.3	34	56.7	9	15

Source, Survey Result 2020

As presented the above table 4.4 Item A , 32(53.3%) of respondents agreed up on the bank analyze past financial report of the client , 15(25%) of respondents strongly agree, 7(11.7%) of respondents strongly disagree , the remaining 5(8.3%) and 1(1.7%) of respondents disagree and neutral respectively on the issue.

In item B table 4.4, the majority 28(46.7%) of the respondent agreed upon the bank analyze the clients financial quality, 16(26.7%) of respondents have responded strongly agree, 10(16.7) of respondents have responded disagree, 4(6.7%) of the respondents responded strongly disagree and 2(3.3%) of respondents responded neutral.

The same table item C, 34(56.7%) respondents agree that the bank assess capitalization of the client, whereas 8(6.7%) disagree on other hand 7(11.7%) respondents strongly agree and neutral the remaining 4(6.7%) responded strongly disagree.

In item D the bank assesses long term planning of the clients, 34(56.7%) of respondents agreed, 9(15%) of respondents strongly agree, 8(13.3%) of responded neutral and disagree whereas 1(1.7%) responded strongly disagree. This implies the bank properly assess the capacity analysis of the clients before granting a loan.

4.2.4 Collateral Analysis

Collateral is any asset that customers have to pledge against debt (Lawrence &Charles, 1995). Collateral represents assets that the company pledges as alternative repayment source of loan. Most collateral is in form of hard assets such as real estate and office or manufacturing equipment. Alternatively accounts receivable and inventory can be pledged as collateral. lenders of short-term funds prefer collateral that has duration closely matched to the short-term loan. According to Weston and Eugene (1966), securities for bank lending are property pledged as collaterals for loans by borrowers.

Securities are the general name for stocks, mortgages, bonds, and certificates showing ownership of property. From the foregoing, the preview of securities for bank lending shall be limited to such properties held as securities by banks in Nigeria. Shegolar and Thomas (1999) and Mandel (2000) from the diagnosis of the Nigerian banking system, some of the securities held by banks before any lending is made to any individual, corporation or government and those securities often demanded by banks for loans and advances in the country have been shown to be quite unsatisfactory.

Table 4.5.Collateral analysis

Item No	Description	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree	
		Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%
A	Assessment of value of collateral before granting loan	-	-	5	8.3	-	-	29	48.3	26	43.3
B	Assessment of collateral as secondary source of repayment granting loan	-	-	7	11.7	4	6.7	31	51.7	18	30
C	Assessment of account receivables and inventory as security before granting loan	-	-	12	20	28	46.7	13	21.7	7	11.7
D	Assessment of liquidity level of collateral before granting loan	-	-	4	6.7	3	5	34	56.7	19	31.7

Source, Survey Result 2020

In item A of table 4.5, respondents were asked wheatear the collateral value is assessed before granting loan. Majority of the respondents 29(48.3%) agree, 26(43.3%) strongly agree. Whereas 5(8.3%) disagree.

In item B of table respondents were asked whether collateral as assessed secondary source repayment majority of the respondents 31(51.7%) agree, 18(30%) strongly agree whereas 7(11.7%) of respondent disagree the remaining 4(6.7%) of respondents neutral with the idea.

As shown in item C of the same table, majority 28 (46.7%) of respondents have a hesitation about account receivable and inventory as a security. Whereas 13(21.7%) agree, 12(20%) disagree and 7(11.7%) strongly agree.

As shown in table 4.5 item D, respondents were asked assessment of liquidity level of collateral, majority of the respondent 34(56.7%) agree, 19(31.7%) strongly agree, 4(6.7%) disagree the remaining 3(5%) neutral on the issue.

This implies the bank assess collateral analysis before granting the loan is well but the bank is not pledged account receivable and inventory as a collateral or security to granting loan for the clients.

4.2.5 Condition Analysis

The circumstances or conditions in which the borrower runs its business. It includes economic, political, socio-economic and international circumstance by which the business is influenced with. To assess industry and economic conditions, most banks maintain files of information newspaper clippings, magazine articles, and research reports-on the industries represented by their major borrowing customers.

Table 4.6 Conditional analysis

Item No	Description	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree	
		Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%
A	Assessment of political conditions before granting loan	1	1.7	9	15	7	11.7	34	56.7	9	15
B	Assessment of economic conditions before granting loan	-	-	4	6.7	3	5	36	60	17	28.3
C	Assessment of consumption behavior of the market before granting loan	-	-	6	10	30	50	17	28.3	7	11.7

Source, Survey Result 2020

As shown the above table 4.6 in item A assessment of political condition, majority 34(56.7%) of respondents agree, 9(15%) strongly agree and disagree respectively. On other hand 7(11.7%) of respondents neutral with the idea and the remaining 1(1.7%) responded strongly agree.

As shown item B of the same table, majority of respondent 36(60%) agree, whereas 17(28.3%) strongly agree on other hand 4(6.7%) and 3(5%) responds disagree and neutral respectively.

In item C table 4.6, majority 30(50%) of respondent's neutral, the bank assesses consumption behavior. Whereas 17(28.3%) of respondents agree, 7(11.7%) strongly agree and 6(10%) responded disagree. This implies that the bank strongly assesses the condition analysis before granting the loan as shown the above table result.

4.3 Credit Policy and Procedure

In compliance to the policy of the regulating body, all banks formulate their own credit policies and procedure manual which assist provide different types of credit within each credit policy of their loan clients. Assessment of credit policy and procedure practice of ZB is presented as follows in the stated table below.

Table 4.7 Response of the respondent on credit policy and procedure

		Frequency	Percentage (%)
Q1: How can you see the bank credit policy and procedure?	Rigid	20	33.3
	Flexible	24	40
	Average	16	26.7
	Total	60	100
Q2: How do you rate credit analysis and procedure as NBE Directives?	Poor	5	8.3
	Fair	6	10
	Good	11	18.3
	Very Good	30	50
	Excellent	8	13.3
	Total	60	100
Q3: How do you evaluate the bank's credit providing procedure as NBE Directives?	Creativity	3	5
	Conservative	25	41.7
	Moderate	32	53.3
	Total	60	100
Q4:Who approving the bank loan procedure of credit proposal of borrowers?	Loan Department	33	56.7
	Loan Committee	19	31.6
	The President	7	11.7
	Total	60	100

Source, Survey Result 2020

How encouraging and flexible a bank's credit policy is another factor for customers to decide to be a clients of a bank or not in compliance to the policy of the regulating body, all banks formulate their own credit policies and procedures which assist to provide different type of credit within each credit policy to their loan customers. Therefore, knowing the outlook of loan clients for each bank is very important in reshaping its credit policy and procedures.

Hence, in order to know the nature of the bank's credit policy, the researcher raised questions for the employees of the bank consequently, as revealed in table 4.7, Q1 24(40%) and 20(33.3%), described the credit policy and procedure of the bank as flexible and rigid respectively. On the other hand, 16(26.7%) of the respondents described the banks credit policy as average. Most of the respondents have agreed on the status, attractiveness and suitability of flexible credit policies and procedures as it assists for loan formation and growth. In relation to credit analysis, as indicated in table 4.7 Q2,30(50%) of the respondents have rated the credit analysis of the bank very good, 11(18%) rated good, 8(13.3%) and 6(10%) rated excellent and fair respectively while 5(8.3%) respondents rated poor. Hence, there is a gap such as proper implementation of policy to be addressed to improve the quality of credit analysis and loan processing at both head office and branch level that enables to create quality loans arresting Non-performing loans.

As can be seen from item Q3 in table 4.7, 32(53.3%) of the respondent reveal9ed the credit providing procedure of the bank moderate and 25(41.75%) acknowledge it as conservative. While 3(5%) of the respondents stated the credit, delivery is based on creativity. It indicated that the bank has moderate procedure that helps to implement its policy.

In item Q4 of table 4.7, respondents were asked the bank loan approving and recommending. Procedure on the credit proposal 33(56.75%) agreed that based on recommendation loan department, 19 (31.6%) agreed on recommendation of loan committee, 7(11.7%) agree that it is based on the bank president. It revealed that based on their capability each unit has its own level of decision making. Based on ZB Credit Manual, loan department commit approves until 300,000 Birr, from 300,000 birr up to 3000,000 approved by management credit committee and greater than 3,000,0000birr's approved by the bank president. Zemen bank credit manual (2012).

4.4 Credit Processing/Appraisal

Credit processing and lending function is the core product of all banks in general as it contributes the major shares of revenue to it's profitably. Appraisal is the primary activates of every financial institution engaged in the credit granting service. To ensure the soundness of the credit management lenders should have well organized credit appraisal process. Among other things the majority of debt fails due to poor appraisal evaluation. Due to this fact the researcher wants to assess credit processing/ appraisal practice of Zemen bank S.C.

Table 4.8 Response of the respondents on credit processing/appraisal

Item No	Description	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree	
		Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%
Q1	The bank checks lending history of the borrowers before granting loan	-	-	7	11.7	1	1.7	37	61.7	15	25
Q2	The bank properly assessed the customer ability to meet obligation	-	-	9	15	1	1.7	31	51.6	19	31.6
Q3	There is accountability in credit granting approval process for making a decision	-	-	9	15	6	10	33	55	12	20
Q4	There are over hidden in credit-granting and approval process	14	23.3	15	25	12	20	16	26.7	3	5
Q5	The bank carried out credit processing activities appraisal independently	1	1.7	7	11.6	8	13.3	28	46.7	16	26.7

Source: Survey result, 2020

As indicated in table 4.8 item Q1 respondents were asked whether the bank checks the borrower's history before granting loans or not. With this regard, 37(61.7%) of the respondents agree on the issues while 15(25%) of employees strongly agree that the bank checks the history of a borrowers. On the other hand, 1(1.7%) respondents neutral on the issues, 7(11.7%) of respondents disagrees. This denotes that the tendency of non-performing loan is low because the history of the client properly checked during assessment.

In the same table item Q2, respondents were asked whether the bank properly assessed the customer ability to meet obligations. The majority of respondents 31(51.6%) agree with the idea. On the other hand, 19(31%) of respondents strongly agree, 9(15%) of respondents disagree, 1(1.7%) of respondents neutral. This infers that the bank has properly assessed the customers' ability to meet this ability its obligation in the credit granting process.

As can be seen from item Q3 of table 4.8, 33(55%) of respondents agree that the credit granting process of the bank creates accountability for each decision-making activity and 12(20%) of respondents strongly agree on the issue. Whereas 9(15%) of respondents are dis agree and the remaining 6(10%) of respondents neutral with the idea. This implies that the banks each credit staffs are accountable and responsible for their decision making in loan granting process.

From item Q4 of table 4.8 shows, 16(26.7%) of respondents agreed up on there are overridden in credit-granting and approval process and 15(25%) strongly agree on the issue. On other hand 14(23.3%) of respondents disagree, 12(20%) of respondents responded neutral and 3(5%) of respondents strongly agree.

As item Q 5 of table 4.8 shows, 28(46.7%) of respondents agree with the idea that bank carried out credit processing independent of appraisal, 16(26.7%) strongly agree, 8(13.3%) neutral and the rest 7(11.6%) and 1(1.7%) respondents are disagree and strongly disagree. These revealed there is segregation of duty in the credit department as well as the branch level.

4.5 Credit Monitoring and Control

Credit monitoring and follow up process guideline is included in the credit policy of the bank. Appropriate usage and implementation benefit the bank to arrest NPL and have good relationship with clients. Assessment of credit monitoring / practice control of ZB is presented as follows in the stated table below.

Table 4.9Response of the respondents on credit monitoring and controlling

Item No	Description	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree	
		Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%
Q1	The bank strictly implements the conditions and sanctions set by NBE	-	-	1	1.7	2	3.3	31	51.7	26	43.3
Q2	The borrower's collateral coverage assessed regularly	1	1.7	9	15	2	3.3	31	51.7	17	28.3
Q3	After granting of the loan the bank monitors the borrower's business at regular interval	1	1.7	24	40	12	20	18	30	5	8.3

Source: Survey result, 2020

As can be seen from item Q1 in table 4.9 in table 9, (51.7%) of respondents agree and 26(43.3%) of 26(43.3%) of respondents strongly agree with the proposition that the bank strictly implement the condition and sanctions set by NBE directives, 2(3.3%) of respondents neither agree nor disagree. It also found that 1(1.7%) of them disagree with the idea. This is an implication that the bank has a better stand in implement the condition and sanction by NBE that helps to monitor and control its loans provided to creditors.

In item Q2 of table 4.9, respondents were asked whether there is regular assessment of collateral coverage. The majority of respondents, 31(51.7%) agree, 17(28.3%) strongly agree and accept there is assessment of collateral coverage. Specifically, 9(15%) respondents disagree and 2(3.3%) of respondents neutral. Furthermore, the rest 1(1.7%) of respondents strongly disagree. Majority of the respondents agreed that there is fair collateral coverage assessment this revealed the bank can collect the loan from defaulters.

The result presented in item Q3 of table 4.9 indicates that, 24(40%) disagree the bank monitors the business of clients after granting credits on regular interval basis, 18(30%) agree, 12(20%) of respondents neutral and the rest 1(1.7%) of respondents strongly agree. credit monitoring is an integral part of lending activity. Hence, proper monitoring of credit has assumed greater significance in effective management of lending yet most of the respondents have witnessed the bank does not provide any advice on monitoring and this shows lack of monitoring on disbursed loan the bank to improve this to mitigate minimize trend of NPL.

4.6 Credit Administration

Table 4.10 Response of the respondents on credit administration

Item No	Description	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree	
		Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%
Q1	The process of credit administration is performed by an individual who involved in the business organization independently	-	-	6	10	17	28.3	33	55	4	6.7
Q2	The bank segregates the workout activity from the area that originated the credit	-	-	6	10	12	20	40	66.7	2	3.3
Q3	The bank has well- structured documentation tracking systems for credit and collateral files	1	1.7	10	16.7	3	5	29	48.3	17	28.3
Q4	The bank has appropriate criteria for credit classification and provision	1	1.7	7	11.7	5	8.3	32	53.3	15	25

Source: survey result, 2020

As we can see from table 4.10 item Q1, respondents were asked whether the process of credit administration is performed of independently of individuals involved in the business organization of credit. With this regard 33(55%) of respondents agree, 17(28.3%) neither agree nor disagree, the remaining 6(10%) and 2(3.3%) of them disagree and strongly agree respectively. This shows the bank policy is implemented and embedded the accountability of credit staffs to counter check by other staff.

In item Q2 respondents were asked whether the bank segregates the work activity from the area that originated credit. Among the respondents 40(66.7%) of respondents agree that the bank segregate the work activities, 12(20%) of respondents neutral, 6(10%) of respondents disagree and the remaining 2(3.3) of respondents strongly agree. this shows the segregation of duty for each loan processing and granting this helps to the bank can easily process the loan without delay by assigning the exact person to their duty.

In item Q3 respondents were asked whether the bank has employed well-structured documentation tracking system for credit and collateral files, their response suggest that 29(48.3%) agree, 17(28.3%) strongly agree, 10(16.7%) disagree, 3(5%) neutral and the rest 1(1.7%) strongly disagree. As we know collateral is by nature sensitive because the only source of repayment when the loan is failed so it documented in a secured file only branch managers have an access or control this document. This revealed the availability of tracking system on collateral files.

In the same table item Q4 respondents were asked whether the bank has appropriate criteria for credit classification and provisioning. The majority of respondents 32(53.3%) agree with the idea. On other hand, 15(25%) of respondents strongly agree 7(11.7%) of respondents disagree and 5(8.3%) of respondents neither agree nor disagree. This implies that the bank has an appropriate credit administration criterion that helps to abide on its policy.

4.7 Credit Decision

Table 4.11 Response of the respondents on credit request decision

		Frequency	Percentage (%)
Q5: How long it takes to process and make a decision on single credit request?	< 15 Days	12	20
	15-30 Days	28	46.7
	>30 Days	20	33.3
	Total	60	100

Source: survey result, 2020

As indicated above table respondents were asked how long it takes on average to process and make a decision on a single credit request. 28(46.7%) of respondents 15-30 days, 20(33.3%) of respondents greater than one month while 12(20%) of respondents less than 15days. A maximum of fourteen and twenty-one working days is required to make final decision on loan requests. However, the first date of counting shall start from the final date the loan applicant submits all the necessary document to the bank. (Credit Procedure manual,2012). This implies the bank provides credit request in short period of time this encouraged old and new clients.

4.7.1 Prevailing Factors Affecting Timely Decision

Table 4.12 Internal factors prevail affecting fast and timely decision of credit

Item No	Factors	Not Prevail		Moderately Prevail		Prevail		Highly Prevail		Very High Prevail	
		Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%
Q1	Lack of adequate man power	8	13.3	11	18.3	10	16.7	22	36.7	9	15
Q2	Centralized decision-making process	2	3.3	12	20	19	31.7	15	25	12	20
Q3	Submission of incomplete data by the prospective	2	3.3	4	6.7	8	13.3	18	30	28	46.7
Q4	Delay in obtaining credit information	1	1.7	9	15	23	38.3	20	33.3	7	11.7
Q5	Lack of experience analyst	10	16.7	16	26.7	11	18.3	11	18.3	12	20
Q6	Absence of performance management system of staff	6	10	11	18.3	11	18.3	19	31.7	13	21.7

Source: survey result, 2020

One of the major way's clients decided to use a bank is the possibility of getting loan and the time it takes to be done with the process. Therefore, even though timely and accurate credit decisions are critical to banks there are factors which hinders them to do so therefore the researcher raised to questions which are the most prevailing factors affecting timely decision among this table.

In table 4.12, item Q1 of respondents responded the lack of adequate manpower affects the decision-making process, 22(36.7%) highly prevail, 11(18.3%) moderately prevail, 10(16.7%) prevail, 9(15%) very highly prevail and the rest 8(13.3%) not prevail. This denotes that the bank decision making process affected by lack of adequate man power.

Item Q2 of table 4.12 questions whether centralized decision affects timely decision with this regard, 19(31.7%) prevail, 15(25%) highly prevail, 12(20%) both very highly prevail and prevail the remaining 2(3.3%) is not prevail. Loans at Zemen bank S.C are approved at different level based on their loan amounts.

In item Q3 of the same table submission of incomplete data by the applicant is as a cause for delay of fast decision making. Accordingly, 28(46.7%) of them in favor of very highly prevail, 18(30%) highly prevail, 8(13.3%) prevail and 4(6.7%) moderately prevail. Even though loan is not granted to clients without submit incomplete document the problem is after informing the loan applicants of the required document it takes the loan applicant to provide the bank with all document needed to process the loan on time. Customer's document presentation is mainly affected by what they were told at the beginning when they imitated the loan process if they are not given full information then they will be greatly dissatisfied with the service they get and mainly they will lose time and additionally its lack of proper documentation by the customer causing this problem.

In item Q4 delay in obtaining reliable credit information is prevail by 23(38.3%) of respondents, highly prevail by 20(33.3%) of respondents, moderately prevail by 9(15%) of respondents, very highly prevail by 7(11.7%) of respondents and not prevail by 1(1.7%) of respondents. Credit information is a mechanism of haring a client's credit relation with any of the banks it is done by using a system that is developed by national bank of Ethiopia and is updated every month end. It

is actually one of the requirements of the NBE not to process a loan without enquiring credit information.

In item Q5 of the same table lack of experience analyst is moderately prevail by 16(26.7%) of respondents, very prevail by 12(20%), 11(18.3%) both prevail and highly prevail respondents, whereas 10(16.7%) of respondents not prevail. This signifies that lack of experience of loan analysts is a factor for delaying on decision making of loan granting.

As shown in item Q6 of the same table, 19(31.7%) of respondents responded that the absence of performance management system affect the decision making process highly prevail, 13(21.7%) of respondents very highly prevail, 11(18.3%) of responded both moderately prevail, and the remaining 6(10%) responded not prevail. This indicates that there is no adequate appraisal system of staff engaging in the loan process and might leads to delay of decision in loan processing and granting.

4.8 Credit Analysis

Loan requests should be carefully analyzed and appraised in accordance with the prevailing credit policy and procedures. Financial statements should be analyzed to determine the financial soundness of the applicants. All type of risks such as ownership risk, management risk, business risk, financial risk, collateral risk and legal risk should be assessed with utmost care.

Table 4.13 Factors that inhibited access to credits

Item No	Factors	Not Inhibited		Moderately Inhibit		Inhibit		Highly Inhibited		Very High Inhibited	
		Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%
Q1	Customers credit history	2	3.3	5	8.3	10	16.7	31	51.7	12	20
Q2	Age of client	21	35	25	41.7	13	21.7	-	-	1	1.7
Q3	Purpose of loan	3	5	13	21.7	16	26.7	22	36.7	6	10
Q4	Cash flow/financial position of the applicants	-	-	-	-	9	15	34	56.7	17	28.3
Q5	Amount of request	-	-	-	-	14	23.3	35	58.3	11	18.3

Source, Survey Result 2020

In the above table 4.13 client credit history is also cited as a factor that determine access to credit in Q1, 31(51.7%) highly inhibited, 12(20%) very highly inhibited, 10(16.7%) inhibited, 5(8.3%) moderately inhibited and 2(3.3%) not inhibited. This implies that credit history of the clients as a factor to get accredits access. that the bank done commercial risk analysis based on Pandey, (1997) that is character or the clients record meeting past obligations

Item Q2 on the same table, 25(41.7%) of respondents moderately inhibited that age of applicants for a factor to access credit, 21(35%) not inhibited, 13(21.7%) inhibited. While the rest 1(1.7%) respondents very highly inhibited. It implies that the bank is not affected by age of clients to access credit.

In item Q3 of table 4.13 purpose of the loan is cited as factor that inhibits access to credit. From respondents 22(36.7%) highly inhibited, 16(26.7%) inhibited, 13(21.7%) moderately inhibited and 6(10%) very highly inhibited. It reveals the purpose of loan that is reliable and considering the market and economic situation highly inhibited access to credit further the cash flow/ financial position of the applicant is mention as a factor for credit assess.

Item Q6 on the same table 35(58.3%) of respondents highly inhibited that the amount of request of applicants is a factor to determine access to credit, 14(23.3%) inhibited and 11(23.3%) inhibited. This demonstrate that the applicants request amount is exaggerated from the cash flow and collateral limit it will hinder access to credit.

4.9 Credit Collection Strategy

Table 4.14 Response of the respondents on credit collection strategy

Item No	Factors	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree	
		Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%
Q1	Consider prompt payment	4	6.7	18	30	12	20	21	35	5	8.3
Q2	Establish payment guideline	-	-	9	15	12	20	28	46.7	11	18.3
Q3	Writing reminder letter	5	8.3	10	16.7	6	10	26	43.3	13	21.7
Q4	Seek legal advice	2	3.3	10	16.7	15	25	25	41.7	8	13.3

Source, Survey Result 2020

As can be seen in table 4.14 item Q1 21(35%) strongly agree, 18(30%) disagree, and 12(20%) neither agree nor disagree, 5(8.3%) and 2(6.7%) respondents strongly agree and strongly disagree respectively on the idea prompt payment of credit to improve credit collection. Prompt payments agreed as a good strategy not only by the bank respondents but also by clients as a tool for credit collection. As most of responded clients have taken loan repeatedly.

Item Q2 of the above table, 28(46.7%) of the respondents has agreed, 12(20%) neutral, 11(18.3%) strongly agree and 9(15%) disagree. That established payment guideline improves the collection of loan. It reveals that the payment guideline is effective tool as credit collection.

In item Q3 of the same table, the researcher requested whether writing of reminder letter improve collection of loan process or not, of the respondents 26(43.3%) agree, 13(21.7%) respondent strongly agree and 10(16.7%) disagree, 5(8.3%) neutral and 5(8.3%) strongly disagree. Respondents response reflected that issues raised under item Q3 (writing reminder letter) is key element that the bank has to follow as a strategy because the element is the basic factors to encourage timely and effective collection of the loans. However, the reverse is true for the bank and argued that writing reminder letter and provider's incentive for prompt payment is not the major and key element to collect the loan.

In items Q4 of the same table, the researcher requested whether seek legal advice will facilitate the credit collection or not. Of the respondents 25(41.7%) agree for each,15(25%) neutral,10(16.7%) disagree, 8(13.3%) agree and the remaining 2(3.3%) strongly disagree. This infers that as client respondents seeking advice by the bank is a good strategy and bank respondents agree as an effective tool to mitigate default of loan.

4.10 Loan Follow Up

Table 4.14 Response of the respondents on loan follow up

		Frequency	Percentage (%)
Q10:How frequently you conduct follow up to your customers sit?	None	22	36.7
	Monthly	7	10.7
	Quarterly	6	10
	Semi-Annually	6	10
	Annually	19	31.7
	Total	60	100

Source, Survey Result 2020

The above respondents have put their position in the time interval that the bank deploys in conducting a visit after release of fund to the borrower's business site. 22(36.7%) responded that no visit is conducted after disbursement of the loan, 19(31.7%) of them annually, 7(10.7%) monthly,6(10%) of the respondents both quarterly and semiannually. This indicates that majority of the respondent reflects no frequent monitoring after release the loan of the bank. However, the majority of the bank's respondents stated that in the interval is from monthly to quarter. The above table respondents have put their position in the time interval that the bank deploys in conducting a visit after release of fund to the borrower's business site.22(36.7%) responded that no visit is conducted after disbursement of the loan, 19(31.7%) of them annually, 7(10.7%) monthly, 6(10%) of the respondents both quarterly and semiannually. However, the majority of the bank's respondents stated that in the interval is from monthly to quarter. The bank Credit Department Manager/Credit Analyst/ Follow-Up and Monitoring Division may arrange unexpected/surprise business visit to the borrower's business location after the loan amount is disbursed if the need arises (credit manual,2012). This indicates of the respondent reflects no frequent monitoring after release the loan of the bank Loan granted on the basis of sound analysis might go bad because of the borrowers may not meet obligations per the terms and conditions of the loan contract supported by(Hable,2018).

4.11 Non-Performing Loan

Table 4.15 Response of the respondents on non-performing

		Frequency	Percentage (%)
Q11: How do you evaluate the bank credit management policy in dealing with Non-performing loan?	Poor	1	1.7
	Fair	8	13.3
	Good	15	25
	Very Good	32	53.3
	Excellent	4	6.7

Source, Survey Result 2020

How far the credit management policy of the bank policy is helps to deal with nonperforming loans or not .32(53.3%) have responded very good that the banks policy is dealing with non-performing loan. Whereas 15(25%) very good, 8(13.3%) fair, 4(6.7%) and the rest 1(1.7%) responded poor on the issue. This indicates that the bank has stipulated policy which is effective and efficient to deal with nonperforming loan.

4.12 Credit Risk Management

Table 4.16Response of the respondents on credit risk management

	Factors	Not Applied		Less Applied		Applied		Highly Applied		Very Highly Applied	
		Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%
Q12: Which techniques /instrument do you use for credit risk management in the bank?	Prudential Limits	1	1.7	11	18.3	30	50	16	26.7	2	3.3
	Credit Approval Authority	1	1.7	4	6.7	8	13.3	39	65	8	13.3
	Portfolio Management	1	1.7	8	13.3	22	36.7	23	38.3	6	10
	Risk Rating	1	1.7	4	6.7	13	21.7	35	58.3	7	11.7
	Loan Review Policy	1	1.7	2	3.3	11	18.3	36	60	10	16.7
	Diversification	-	-	3	5	8	13.3	35	58.3	14	23.3

Source, Survey Result 2020

In table 4.18, 30(50.2%) responded applied application of prudential limits, 16(26%) responded as highly applied, 11(18.3%) responded or not applied. This implies that the bank is able to use prudential standard and its internal limit in the same table, item 2 of the same table 4.17, 39(65%) of respondents responded highly applied that there is credit approval authority in the bank as one credit management technique is 8(13.3%) responded as both applied and very highly applied, 1(1.7%) responded as not applied. This reveals that the bank uses credit approval authority as credit management techniques.

As per item Q3, portfolio management is responded by 23(38.3%) of respondents as highly applied, 22(36.7%) as applied, 8(13.3%) as less applied, 6(10%) very highly applied and 1(1.7%) responded not applied. It implies that the bank is properly taken portfolio credit risk management techniques. Item 4, 35(58.3%) responded as highly applied, 13(21.7%) of respondents responded that risk rating is applied as a credit management tool, 7(11.7%) responded very highly applied as risk rating and the rest 4(6.7%) respond as less applied. It denotes internal rating system is applied sufficiently as a credit risk management technique. Loan review policy, 36(60%) of respondents highly applied, 11(18.3%) of respondents applied, 10(16.7%), 2(3.3%) of respondents very high applied and less applied respectively as a tool for credit risk management.

Diversification as a tool for credit risk management is responded by 35(58.3%) as highly applied, 14(23.3%) of respondents very highly applied, 8(13.3%) of respondents applied the remaining 3(5%) respondents agree on less applied.

4.13 Information Management

Table 4.17 Response of the respondents on information management

		Frequency	Percentage (%)
Q13:Does the information management system support the credit management of the bank?	Strongly Disagree	1	1.7
	Disagree	1	1.7
	Neutral	7	11.7
	Agree	19	31.7
	Strongly Agree	32	53.2
	Total	60	100

Source, Survey Result 2020

As indicated in the above table 4.19,32(53.2%) of respondents strongly agree that there is a management information system that helps credit management in the bank, whereas 7(11.7%) respondents responded no idea and the rest 1(1.7%) disagree and 1(1.7%) strongly disagree on the help of the system. This reveals the information system support is in full capacity.

Results from Client

4.14 Demographic profile of clients

The demographic profile of client has a great contribution in the lending practice and credit management. In this research process the demographic characteristics of respondents like sex, age, marital status, educational level was assessed.

Table 4.18 Demographic profiles of the respondents

		Frequency	Percentage (%)
Sex	Male	29	64.4
	Female	16	35.6
	Total	45	100
Age	25-35	1	2.2
	36-45	23	51.1
	46-55	17	37.8
	>56	4	8.9
	Total	45	100
Educational status	Diploma	1	2.2
	Degree	30	66.7
	Masters	14	31.1
	PHD	-	-
	Total	45	100
Marital status	Single	7	15.6
	Married	35	77.8
	Divorced	2	4.4
	Widowed	1	2.2
	Total	45	100

Source: survey, 2020

As we can see from the above table 4.20, most of the credit client of the bank were 29 (64.4%) are male clients the remaining 16 (35.6%) are female, 51% of the respondents are young (36-45), 30(66.7%) were degree holder and 35(77.8%) respondents are married.

4.15 Characteristics of Clients

Table 4.19 Characteristics of the respondents

		Frequency	Percentage (%)
Business client engaged	Agricultural	8	17.8
	Trade	6	13.3
	Industry	16	35.6
	Service sector	15	33.3
	Total	45	100
Year of conducting in business	<3 years	3	6.7
	4-6 years	10	22.2
	7-10 years	19	42.2
	>10 years	13	28.9
	Total	45	100
Initiation of the loan	Self	10	22.2
	Loan clients of the bank	4	8.9
	Marketing	3	6.7
	Staff	28	62.2
	Total	45	100

Source: survey, 2020

As it is shown on the above table 4.21, the higher percentage of the bank clients 16(35.6%) are engaged in industry sector, more of the clients business service year is 7-10 years range in 19 (42.2%), an initiation of the clients are more of imitated by the bank employees (staff) 28(62.2%).

4.16 Loan Process Requirement

Loan processing is one of the measurements of credit management in banks and other financial sectors. Hence, the processing procedure, transparency, and length of time are some of the factors determining the convenience of lending facilities which contributes to loan growth and lasting client of bank relationship. Therefore, knowing the outlook of loan clients is very important in reshaping credit policy and procedure of each bank.

Table 4.20 Respondents response on loan process requirements

ITEM No	Description	Strongly disagree		Disagree		Moderate		Agree		Strongly agree	
		Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%
1	The loan process time is short and convenient	1	2.2	3	6.7	9	20	23	51.1	9	20
2	There is fair collateral estimation	1	2.2	2	4.4	15	33.3	19	42.2	8	17.8
3	Application requirements and procedures are simple	1	2.2	1	2.2	11	24.4	20	44.4	12	26.7
4	The bank assigns staff to visit your business site during your loan request or before loan approval	-	-	1	2.2	12	26.7	17	37.8	15	33.3
5	The relevant information is provided by the bank as per your request	-	-	1	2.2	6	13.3	27	60	11	24.4

Source, Survey Result 2020

In item Q1 as can be seen in the above table 4.22, the majority of the client's 71.1% agreed up on the bank loan process is short and convenient.

In Item Q2 as can be seen from the above table 4.22, majority of clients of the bank 75.5% agreed up on the bank properly assessed customers collateral estimation, from this we can understand the bank assess properly collateral estimation for their clients.

In item Q3 as we can see in the above presented table 4.22, majority of the respondents 32(71.7%) are agreed up on the bank loan application requirement procedures are simple. This implies that the bank has proper and easy application procedure for loan applicants.

In item Q4 of the above table 4.22, respondents were asked the bank assigned staff for visit site during loan request. The majority of the respondents 32(71.1%) agreed up on the issue, specifically 12(26.7%) respondents neither agree nor disagree, on other hand the remaining 1(2.2%) respondents disagree. This implies that the bank has a well credit monitoring control to minimize loan default / NPL.

In item Q5 of the above table 4.22 presented, majority of the respondents 38(84.4%) agreed up on the bank provides relevant information on loan as per request, the remaining 6(13.3%) and 1(2.2%) respondents are neutral and disagree respectively up on the issue.

Table 4.21 Internal factors prevail affecting fast and timely decision of credit

ITEM No	Factor	Strongly disagree		Disagree		Moderate		Agree		Strongly agree	
		Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%
1	Lack of adequate man power	1	2.2	9	20	14	31.1	16	35.6	5	11.1
2	Centralized decision-making process	-	-	9	20	13	28.9	17	37.8	6	13.3
3	Submission of incomplete data by the prospective borrower	2	4.4	10	22.2	20	44.4	11	24.4	2	4.4
4	Delays in obtaining credit information	2	4.4	9	20	14	31.1	16	35.6	4	8.9
5	Lack of experienced analyst	1	2.2	11	24.4	13	28.9	18	40	2	4.4

Source, Survey Result 2020

As can be seen from the above table 4.23 Q1, presented the majority 21(46.7%) of respondents agreed up on there is a lack of adequate man power and the remaining 14(31.1%), 9(20%) are moderate and disagree respectively. Researcher can find lack of adequate man power is a factor that affect timely decision making due to this the clients of the bank cannot get the right decision at the right time.

In item Q2the above presented table 4.23, majority of 23(51.1%) respondents agreed with central decision making of loan process highly affect the timely decision making of the bank. 13(28.9%) of respondents neither agree nor disagree the remaining 9(20%) respondents disagree on the issue. This implies the banks central decision making of the loan process highly affects the timely decision making of the bank. Loans at ZB are approved at different committee based on their discretion by different committee CDLC (credit department loans committee), MCC (management credit committee), EMCC (executive management credit committee) the all committees hire in head office level so the delay mainly happen when loans are approved at head office level.

In item Q3, respondents requested whether the client submission of incomplete data is one factor for the delay with this regard, 2(4.4%) of respondents strongly agree, 11(24.4%) respondents agreed and 20(44.4%) of respondents neither agree nor disagree, 10(22.2%) of respondents responded disagree and 2(4.4%) of respondents are responded strongly disagree.

It can see from item of Q4 of table 4.23, that 16(35.6%) of respondents have responded agree as a factor of delay of obtaining information,14(31.1%) are responded neutral, 9(20%) of respondents disagree whereas 2(4.4%) of them strongly agree that delay in obtaining information is one factor that affect the timely decision making of the bank.

From item Q5 of table 4.23 that 18(40%) of respondents have responded agree as a factor on the delay as lack of experienced analyst, 13(28.9%) respondents neither agree nor disagree, 11(24.4%) of respondents have responded disagree and 1(2.2%) of respondents have responded strongly disagree. This implies lack of experienced analyst affect the banks' credit decision.

Table 4.22 Credit collection strategies of the bank adopt in retrieving credit statements.

ITEM No	Factors	Strongly disagree		Disagree		Moderate		Agree		Strongly agree	
		Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%
1	Consider prompt payment	12	26.7	21	46.7	4	8.9	4	8.9	4	8.8
2	Establish payment guide line	5	11.1	12	26.7	15	33.3	10	22.2	3	6.7
3	Writing reminder letter	6	13.3	13	28.9	7	15.6	17	37.8	2	4.4
4	Providing incentive for prompt payment	9	20	22	48.9	7	15.6	2	4.4	5	11.1

Source, Survey Result 2020

As can be seen in table 4.24 item Q1, 22(46.7%) disagree, 12(26.7%) strongly disagree and remaining 4(8.9%) respondents have responding moderate, agree and strongly agree respectively of each on the idea prompt payment of credit to improve credit collection. This implies the bank is not adopting prompt payment as a credit collection.

In item Q2 of the above presented table 4.24, 15(33.3%) of respondents have responded neutral, 12(26.7%) responded disagree, 10(22.2%) responded agree, 5(11.1%) responded strongly disagree and the remaining 3(6.7%) responded strongly agree. This implies the bank is not adopt payment guideline to improve the collection of loan.

In item Q3 of the same table 4.24, the researcher requested whether writing of reminder letter to improve collection of loan process, 17(37.8%) respondents agree, 13(28.9%) respondents disagree, 7(15.6%) respondents neither agree nor disagree, 6(13.3%) respondents strongly disagree and the remaining 2(4.4%) responds strongly agree. This implies the bank is adopting writing reminder letter to improve loan collection.

In item Q4 of same table 4.24, provide incentive for prompt payment will improve the credit collection process or not. 22(48.9%) responds disagree, 9(20%) responds strongly disagree,

7(15.6%) responds neither agree nor neutral, 5(11.1%) responds strongly agree and the remaining 2(4.4%) responds have agreed.

Q3 and Q4 those two elements are the basic factors to encourage timely and effective collection of loans. But the bank is not adopting incentives for prompt payment elements to improve the loan collection.

Comments forwarded by the bank and client respondents for improving credit respondents for improving credit management of the bank:

- As the clients comments the bank should clearly communicate the guide line to access credit and service both for esteemed and new customer without favoring.
- Furthermore, some credit controlling processes commented by bank respondents includes putting a strong and practical credit risk rating policy, developing the staff capacity at all level to manage the credit activity in general, visiting the business after disbursement on regular basis, and applying due care before granting the loan.

CHAPTER FIVE

5. MAJOR FINDINGS, CONCLUSION AND RECOMMENDATIONS

In this chapter, conclusion of the research findings that has been discussed and analyzed in detail in the previous chapters briefly presented. In addition, general conclusions that are highly related with the research objective of this paper is offered. Furthermore, possible recommendations based on the findings are made.

5.1 Major Findings

- The bank assesses the credit worthiness of the customers of Five Cs such as character, capacity, capital, collateral and conditions before granting loan to borrowers.

- The bank properly assesses the value of collateral and liquidity position of the collateral before granting of the loan.

- The bank assesses customer ability to meet obligations. The bank is not in position to monitor or visit the client's business on regular basis after disbursement that creates high amount of non-performing loan.

- The bank regularly assesses the collateral coverage with the borrower's financial position though most credit approval is collateral based.

- The workout activity is segregated from the area that the credit is originated helps to reduce conflict of interest.

- The bank has not yet deployed adequate measure to recover non-performing loans. The bank should improve the time chosen for centralized decision making of credit. The bank credit approval period is flexible so is not to taking time. The lack of man power is a case in the bank for determining the decision-making process in addition; the bank should hire staffs with the requested skill and train them. Submission of incomplete data by the applicant is reason for delay the officers or branch manager should use a checklist as first contact as the time of application and resolve the incompleteness. Absence of performance management system of staff is a affecting the bank loan decision so, the bank should improve the management system.

- The bank has a well-structured documentation and also the bank have an appropriate credit classification and provision to providing their loan clients.
- The bank has a good information management system that supports the credit-management.

5.2 Conclusion

The broad objective of this research was to assess the lending practice and credit management of Zemen Bank S.C. for this intention, the study was intended to answer quite specific questions which derived from this broader objective. And hence, the study focused on credit worthiness, loan appraisal, loan provision, and monitoring and credit collection with loan practice and management.

The overall lending practice and credit management activity of the bank is good but some parts need attention of the management. The main problem in ZB is not lack of clear policy and procedure rather a problem in the implementation of the existing guidelines in proper manner. The finding of the study also assures existence of weak credit management including improper follow-up. The following conclusions are drawn.

- While the existing credit control activities of the bank and credit staff requirements are complied with the stipulated policy in a little or weak manner. This indicates that the mentioned activities are performed in deviation from the policy guideline.
- The bank does not undertake credit quality report so improve the internal control system and devising a strong risk management environment is mandatory.

5.3 Recommendation

Based on the in-depth examination and subsequent findings from the study, the following recommendations are forwarded; in the hope that they would help in order to control the major problems identified in the study and facilitate the overall lending and credit activities.

- Frequent contact or business visit shall be conducted to minimize loan loss since it helps the bank to advise the customers besides reduces diversion of loan.

- Visiting business on regular basis after disbursement applying due care before granting loan establishing payment guideline, considering prompt payment, writing reminder letter, providing incentive for prompt payment, as best strategy in retrieving credit.
- Employment of well experienced staff on critical areas (loan analyst). Challenged faced by the bank includes knowing the customer, dependency on collateral, lack of awareness of individuals work on credit about the credit policy and procedure of the bank.
- Credit staff should be assigned in required number and skill for each credit unit of the bank. This enables the bank to timely process the loan until the disbursement phase, which in the way helps to satisfy customers and make adequate follow-up process.
- The credit controlling process of the bank needs training of the staff, improving internal control system, designing effective monitoring system and serving reminder letter early as possible.
- The bank should assess need of the credit departments and branch level staffs that related to lending and credit activity to give appropriate training that enable to conceptualize.

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APPENDIX

ST. MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDEIS,

MBA-AF PROGRAMMEQUESTIONNAIRE)

For Bank Employees

Dear respondent,

This is a questionnaire designed to solicit first hand data that maybe helpful to conduct a research on the title of "Assessment lending practice and Credit Management at Zemen Banks S.C." in partial fulfillment of master of Accounting and Finance.

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

No	Variable	Code	Remark
1	Sex	1. Male 2. Female	
2.	Age group	1.20-29 2.30-39 3.40-49 4.above 50	
3	Educational qualification	1.Diploma 2. Degree 3. Masters 4.PHD	
4	Working experience in bank	1.less than 2 years 2. 2-5 years 3. 5-10 years 4. above 10 years	

Part II. Question on Lending Practice

Please provide your level of agreement using the following rates (Where 1= strongly

Disagree, 2= Disagree, 3= Neutral, 4 = Agree, 5 = strongly agree)

CHARACTER ANALYSIS

		1	**2**	**3**	**4**	**5**
1	Assessment of the past track record of repayment before granting loan					
2	Assessment of the character of loan applicants before granting loan					
3	Assessment of sound financial management policies of borrowers before granting loan					

CAPACITY ANALYSIS

		1	**2**	**3**	**4**	**5**
1	Assessment of business plan from all clients/ borrowers before granting loan					
2	Assessment of relevant experience of the loan applicants					
3	Assessment of cash flow projections of a given project before granting loan					
4	We analyze growth in sales of our borrowers before granting loan					
5	Financial analysis to determines credit strength of a client before granting loan					

CAPITAL ANALYSIS

		5	**4**	**3**	**2**	**1**
1	Assessment of for past financial reports from all clients before granting loan					
2	Assessment of the quality of financial report presented before granting loan					
3	Assessment of capitalization of the business before granting loan					
4	Assessment of the long-term planning horizon of every loan applicant before granting loan					

COLLATERAL ANALYSIS

		1	2	3	4	5
1	Assessment of value of collateral before granting loan					
2	Assessment of collateral as secondary source of repayment granting loan					
3	Assessment of accounts receivables and inventory as security before granting loan					
4	Assessment of liquidity level of collateral before granting loan					

CONDITION ANALYSIS

		1	2	3	4	5
1	Assessment of the political conditions before granting loan					
2	Assessment of the economic conditions before granting loan					
3	Assessment of consumption behaviors of the market before granting loan					

Part III Question on Credit Management

Credit Creation, Policy and procedure

No	Variable	Code	Remark
1.	How can you see your institution's credit policy and procedure?	1. Rigid 2. Flexible 3. Average	
2.	How do you rate credit analysis and procedure followed by the bank in Extend in credit?	1.Excellent 2.Very good 3.Good 4.Fair 5.Poor	
3	How do you evaluate your bank's credit providing procedure as NBE directives?	1. Creativity 2. Conservative 3. Moderate	
4	Yourbank's Loan approving /recommending procedures of the credit proposal of clients	1. The bank president 2. Loan committee 3. Loan department	

6. Credit Management Process

Please provide your level of agreement using the following rates (Where 1= stronglyDisagree, 2= Disagree, 3= Neutral, 4 = Agree, 5 = strongly agree)

6.1Credit Processing /Appraisal /

		1	**2**	**3**	**4**	**5**
1	The Bank Checks the lending history of borrowers before granting loans					
2	The Bank properly assessed the customer ability to meet obligation					
3	Crediting- granting approval process established accountabilityfor decision taken					
4	Situation that are overridden credit granting and monitoring process					
5	The bank carried out credit processing activities and appraisals. Independently					

6.2 Monitoring and Control of Credits

		1	**2**	**3**	**4**	**5**
1	The bank strictly implements the conditions and sanctions set by NBE directives					
2	Borrower's collateral coverage is regularly assessed					
3	The bank monitors the business of clients after granting credits on regular interval basis					

6.3 Credit Administration

		1	**2**	**3**	**4**	**5**
1	The process of credit administration is performed by an individual who involved in the business organization.					
2	The Bank segregates the workout activity from the area that originated the credit					
3	The bank has well-structured documentation tracking systems for credit and collateral files					
4	The bank has appropriate criteria for Credit classification and Provisioning					

No	Variable	Code	remark
	How long it takes to process and make a decision on single credit request?	1. < 15 days 2. 15-30 days 3. More than a month	

1.What internal factors prevail affecting fast and timely decision of credit? (Where 1 = Not Prevail, 2 = Moderately Prevail, 3= Prevail, 4= Highly Prevail, and 5= Very High prevail)

		1	**2**	**3**	**4**	**5**
1	Lack of Adequate Man power					
2	Centralized decision-making process					
3	Submission of incomplete data by the prospective borrower					
4	Delay in Obtaining Credit Information					
5	Lack of experience analyst					
6	Absence of performance management system of staff					

1. Rank the factors that inhibited access to credits? (Where 1= No inhibit, 2 = moderately Inhibited, 3= Inhibit, 4= Highly inhibit, and 5= Very highly inhibit)

		1	**2**	**3**	**4**	**5**
1	Customers credit History					
2	Age of client					
3	Purpose of Loan					
4	Cash flow / Financial position of the applicant					
5	Amount of request					

2. How can the credit control process be improved? (Where 1= strongly disagree, 2= Disagree, 3= Neutral and 4= agree and 5= stronglyagree)

		1	**2**	**3**	**4**	**5**
1	Improve internal control system					
2	Training of staff					
3	Initiate legal process early					
4	Effective monitoring					
5	Provide reminder letters early					

3. What credit collection strategies does the bank adopt in retrieving credit? (Where 1= Strongly Disagree, 2= Disagree, 3= Neutral and 4= agree and 5= strongly agree)

	Factors	**1**	**2**	**3**	**4**	**5**
1	Consider prompt payment					
2	Establish payment guide line					
3	Writing reminder letter					
4	Provide incentive for prompt payment					
5	Seek legal advice					

No	Variable	Code	remark
1.	How frequently you connect a follow-up or a visit to your customer's site?	1. Monthly 2. Quarterly 3. Semiannually 4. Annually	
2.	How do you evaluate the bank credit management policy in dealing with non-performing loan?	1. Excellent 2. Very good 3. Good 4. Fair 5. Poor	

6. Which techniques/ instrument do you use for credit risk management in your bank? (Please rank them Where, 1= Not used at all, 2= Less applied, 3= Applied, 4= highly applied and 5= intractably applied Techniques

	Techniques	1	2	3	4	5
1	Prudential Limits					
2	Credit Approval Authority					
3	Portfolio Management					
4	Risk ratings					
5	Loan review Policy					
6	Collateral					
7	Diversification					
8	Credit audit and problem Loan					

No	Variable	Code	remark
	Does the Information Management system support the credit management of the bank?	1. Strongly Disagree 2. Disagree 3. Neutral 4. Agree 5. Strongly agree	

7. What preventive measures do you think effective to be used before failing loans todefault?--

Thank you!

ST. MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDEIS, MBAAF PROGRAMME

QUESTIONNAIRE

For Clients

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 Lending practice and Credit Management at Zemen Banks S.C." in partial fulfillment of master of Accounting andFinance. Kindly noted that this is an academic study and the findings will remain confined within academic interest. No part of this study will be discloosed. Your kind cooperation will be highly appreciated. No need to write your name.

Instruction:

Please encircleor/andfillintheblankspacesyourpossible answer to the corresponding question and comment on open questions.

I. Loan application and Processing

No	Variable	Code	Remark
1	What is your business sector?	1. Agriculture 2. Trade 3. Industry 4. Service sector 5. Service Industry	
2.	For how many years you are conducting this business?	1. Below 3 years 2. 3-6 Years 3. 6-10 years 4. Above 10 years	
3	Who initiates you to approach the bank for your first loan request?	1. Self 2. Loan clients of the bank 3. Staff 4.Marketing	

2. Loan Process requirement

Statements (SD=strongly Disagree, D=Disagree; M=Moderate; A=AgreeSA=strongly agree)

		SD	D	M	A	SA
1	The loan process time is short and convenient					
2	There is fair collateral estimation					
3	Application requirements and procedures are convenient and simple					
4	The bank assigns staff to visit your business site during your loan request or before loan approval					
5	The relevant information is provided by the bank as per your request.					

3. Internal factors prevail affecting fast and timely decision of credit Statements (SD=strongly Disagree, SA=strongly Agree, D=Disagree, M=Moderate, A=Agree

	SD	D	M	A	SA
Lack of Adequate Man power					
Centralized decision-making process					
Submission of incomplete data by the prospective borrower					
Delays in Obtaining Credit Information Lack of experienced analyst					

4. Credit collection strategies of the bank adopt in retrieving creditStatements

(SD=strongly Disagree, SA=strongly agree, D=Disagree, M=Moderate, A=Agree

	SD	**D**	**M**	**A**	**SA**
Consider prompt payment					
Establish payment guide line					
Writing reminder letter					
Provide incentive for prompt payment					

Thank You!