ST. MARY'S UNIVERSITY

SCHOOL OF POSTGRADUATE STUDIES

ASSESSMENT OF CREDIT RISK MANAGEMENT PRACTICES IN THE CASE OF AWASH BANK S.CO.

By

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Advisor:

Mohamed Seid (Assistance Professor)

A THESIS SUBMITTED TO ST. MARY'S UNIVERSITY, SCHOOL OF POSTGRADUATE STUDIES, IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF A MASTER'S DEGREE IN ACCOUNTING & FINANCE.

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Declaration

I, **Flagot Menberu Fetanu,** declare that this thesis is my original work, prepared under the guidance of my advisor. 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 University, School of Postgraduate studies for examination with my approval as a university advisor.

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Advisor Signature

St Mary University **Addis Ababa July 2021**

St Mary UNIVERSITY COLLEGE

SCHOOL OF GRADUATE STUDIES

FACULTY OF ACCOUNTING AND FINANCE

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APPROVED BY BOARD OF EXAMINERS

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Contents

Acronyms and Abbreviations

AB	Awash bank
CAR	Capital Adequacy Ratio
CEO	Chief Executive Officer
CHIPS	Clearing House Interbank Payments System
CRM	Credit Risk Management
NBE	National Bank of Ethiopia
NPL	Non-Performing Loans
RM	Risk Manager
ROA	Return on Asset
ROE	Return on Equity
SPSS	Statistical Package for Social Sciences

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Abstract

The objective of this study is to examine the practice of credit risk management at Awash Bank. In order to address this objective, the study targeted credit and loan department employees who currently work at the head office of the bankand collected primary data. The primary data were collected through questionnaires. The study distributed 88 questionnaires, from which79 questionnaires were correctly filled and returned. The collected data was analyzed using descriptive statistical tools. The findings showed that there is a well-designed credit risk strategy and policy that clearly indicate and recognizes areas of credit engagement and the risks inherent in these engagements. The findings also indicated that respondent employees believed there is good level of credit appraisal and granting process at the bank that checksborrowers history, financial condition and collateral requirements before granting loans.Furthermore, the study showed that Awash Bank uses appropriate internal risk scoring system, employs risk based scientific pricing and has an independent risk management function. But results also indicated there is a room for improvement with regard to monitoring activities undertaken at Awash Bank. In line with the findings of the study, it was suggested to the bank to enhance its monitoring process by regularly inspecting the business of clients after granting credits.

Keywords:*Credit Risk, Credit Risk Management, Credit Appraisal, Credit Monitoring*

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The banking sector occupies a very important position in a country's economy, acting as an intermediary to all industries, ranging from agriculture, construction, textile, manufacturing, and so on. The banking industry thus contributes directly to national income and its overall growth. As the banking sector has a major impact on the economy as a whole, evaluation and monitoring of its performance is very important (Dash & Das, 2009).

Banks are established with the objective of providing various services to their clients; among the services credit facility took the lion's share in most banks.It is argued that the granting ofcredit remains the central and the vital role playedby banks in any economy. The credit related function of banksis associated to inherent risks including borrowers outright default, unwillingness or inability to meet credit commitment due to the vagaries of business activities or other environmental dynamics(Bidani*et. al.*, 2004).

This highdependence on credit creation process and the availability of huge demand oncredit exposes banks to different risks associated with such facility. Hence,credit risk management is neededfor the success of any bank.Credit risk management (CRM) in a financial institution starts with the establishment of sound lending principles and an efficient framework for managing the risk. The goal of credit risk management is to maximize a bank's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters (Basel I, 2000).

Credit risk management frameworks and policies therefore become imperative tools in decision-making thatrelates to loan-pricing, delegating lending powers, mitigating or migrating as well asmanaging incidences of credit risk on bank portfolio. CRM policies are designed and applied both internally as an operational tool by bankmanagement and externally by bank regulatory authorities to manage the financial healthof the banking sector (Jackson et. al, 1999).

In Ethiopia, the banking sector has evolved a lot since Bank of Abyssinia was first established based on the agreement between Ethiopian government and National bank of Egypt in 1905. During the finale decade of the last century, notable structural change in the financial sector has laid the ground for the establishment of several private commercial banks.Currently there are eighteen (18) commercial banks operating in the country among which sixteen are privately owned commercial banks. The National Bank of Ethiopia (NBE) believes such growth should be matched tostrong risk management practices.This study, therefore, attempted to assess the actualcredit risk management practice at one of the privatebanks,Awash Bank, which is the first private bank and which has the highest credit provision among the private banks operating in the country.

1.2 Statement of Problem

While financial institutions have faced difficulties over the years for a multitude of reasons, the major cause of serious banking problems continues to be directly related to credit standards for borrowers and counterparties, poor portfolio risk management, or a lack of attention to changes in economic or other circumstances that can lead to a deterioration in the credit standing of a bank’s counterparties (Saunders and Cornett, 2006).

It is believed that generally banks face credit, market, liquidity, operational, compliance (legal) regulatory and reputation risks among which credit risk is known to have the adverse impact on profitability and growth. Hence, the success of most commercial banks lies on the achievements in credit management justifying risk to the acceptable level (Hagos, 2010).Thus it is expedient to note that the importance of credit management cannot be over-emphasized and good credit management requires qualified personnel and the establishment of adherence to sound credit policies, procedures. If credit 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 bank’s survival (Koch&MacDonald, 2003 and Singh, 2013).

According to Edward (2006) a good credit risk management focuses onproper identification, assessment, and prioritization of risks followed by coordinated and economical application of resources to minimize, monitor, and control the probability and/or impact of unfortunate events or to maximize the realization of opportunities.In contrast a poor credit management practice reduces banks lending capacity by making loan defaults happen more frequently. 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 the court. Thus, a distinctive position of any bank-be it private or public, large or smallliesin the way it manages its credit risks (Bagchi, 2006).

In Ethiopia, to the knowledge of the researcher, few researches were conducted in this area of credit riskmanagement. Studies undertaken byTibebu (2011) and Girma (2011) focused on creditrisk management and their impact on profitability. Another study by Solomon (2013) assessed Credit Risk Management Techniques and Practices of NIB International Bank S.C.However, most of literatures with regard to the topic made in Ethiopian context were focused to part of credit management aspect such as performance, profitability, credit exposures instead of assessing the credit risk management. Thus, researcher tries to fill the gap and contribute to the literature by giving addressing problems of credit risk management of Awash bank. Moreover,previous researches did not consider Awash Bank, which is the first private bank and which has the highest credit provision among the private banks operating in the country.Consequently, thisresearch tried to fill the knowledge gap by focusing on assessing the credit risk managementpractices of the bank.

1.3.Research Objectives

1.3.1. General objective

The general objective of this study is to assess the credit risk management practice at Awash bank S.C.

1.3.2. Specific objectives

In line with general objective of the study, the following specific objectives are identified.

- To examine the soundness of the existing credit policies and guidelinesatAwash bank S.C.
- To assess the client appraisal and credit granting process at Awash bank S.C.
- To look intothe credit measurement and monitoring practice of Awash bank S.C.
- To examine methods employed control and mitigate credit riskat Awash bank S.C.

1.4. Research Questions

1. What are the existing credit guidelines and procedures atAwash bank S.C.?
2. What aspects are considered in the bank's client appraisal and credit granting process?
3. What mechanisms are used to measure and monitor credit at Awash bank S.C.?
4. What are methods are employed to control and mitigate credit risk at Awash bank S.C.?

1.5. Significance of the study

The central purpose of the study was to examinecredit risk management practice at Awash bank. Consequently, the finding of this study adds to the stock of knowledge on the area of credit risk management in the banking industry. Specifically, this study is significant in the sense that it helps managers and other stake holdersin Awash Bank and other banking firms to determine their position and take necessary actions to improve their performance in terms of credit risk management and make a better informed decision. Furthermore, the study also opens the issue under study for further and detail investigations for academic scholars as well as for policy makers as the sector continues to leap forward.

1.6. Scope of the study

The scope of the study is to overview the application of credit risk managementpractice of the bank, hence, the key area on credit risk management process ascompare to acceptable standard focusing only athead office of the Bank.The study used Primary data source that include structured questionnaires and interview.

1.7. Organization of the Paper

The paper is consisted of five chapters. Chapter one is introduction. The second chapter focuses on literature review. The third chapter deals with research design and methodology. Chapter four presentsdata analyses, results and discussions. The fifth chapter, which is the closing chapter, focuses on conclusions and recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.1 Theoretical Review

2.1.1 Definition and Concepts of Credit Risk

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

Beasens and Gestel(2009) defines credit risk as the risk that a borrower fails to pay and does not act according to their obligation to service debt. They state that the causes for the failure to pay could be incapability of the other party to pay or failure to pay on the due date. Besides they mentioned that by its character credit risk is the most apparent risk of a bank. In addition to this the writers characterized credit risk by ways of three aspect the first one is default risk is the possibility that payment is not issued at least within three month this delay will happen due toCounterparts with a weak financial situation, high debt burden, low and unstable income have a higher default probability, sector information and management quality. The second aspect is loss risk or loss given default (LGD) which is a fraction of exposure in the case of failure to pay and exposure risk is ambiguity on the accurate amount at risk at the very instant of a future default.

In the same way Singh (2013) states that another term for credit risk is default risk and defines it as the bank’s risk of loss arising from a counterparty that does not make payments in accordance with his/her promise. He also points out credit risk is the earliest and the main source of risk in the banking sector.

Credit risk encompasses both the possibility that a borrower will default by failing to repay principle and interest in timely manner, and the possibility that the credit quality of the obligor will deteriorate, leading to an economic loss (Ong, 2006).

Credit risk occur when one of the counter parties to a transaction does not clear up in full either when the fund are outstanding or on some later date and it may result in bankruptcy of counterparty (Baker, 1998).

According to Anuj (2011), credit risk is delay of one's own obligation in accordance with stetted contractual financial obligation within the deadline of payment by counter party. Credit risk is the possibility that debtors or borrowers incapability of paying its obligation in a way that predetermined contractual agreement made during credit approval process which adversely affect the working environment of the lender.

The Basel (2001), defines credit risk as a chance when borrowers fail to repay their loan partially or fully due to different circumstances. It also state that the extent to which the bank exposed to higher credit risk will lead to unexpected financial crises and lower credit risk will minimize the probability of the crises because large amount of profit will be generated from this department of the bank.

2.1.2. Process of Credit Management

More than 80% of financial institution‟ balance sheet is related to credit. For this reason banks should take a careful care when dealing with credit. The process of credit management begins with accurately assessing the credit-worthiness of the customer base and his/her business viability. This is done by looking in to loan applications carefully which is part of the loan process. 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. Basu and Rolfes (1995) indicate that the success of a financial institution is built on a proper and quality credit management process.

As part of the evaluation process, credit management also calls for determining the total credit line that will be extended to a given customer. Several factors are used as part of the credit management process to evaluate and qualify a customer for the receipt of some form of commercial credit. This includes gathering data on the potential customer's current financial condition, including the current credit track record that discloses the character of a customer in meeting obligations as well as collateral value. As a result the writer discusses the different procedures that can be employed in each of these areas with the sole aim of examining the present loan management procedure of financial of institution mainly bank. A weak credit risk management system is the reason for many none performing loans (Nishiru and al, 2001).

Generally credit management has three basic steps credit analysis, credit approval and follow-up. The first two are pre-disbursement process while the last one is a post disbarment process. Credit management of banks simply put in the framework of the above category includes the following:-

Credit Application

The credit application is the primary step in the credit management process. Regardless of the size and purpose of the loan a loan application is required. Though it may appear as simple questions to the applicants they should understand the importance of the document. The application documents contain detail information about the applicant. The information among other things include: name of the applicant, address, residential address, age, telephone number, marital status, number of dependants, educational background, hometown, the type of business, business location ,number of years in business, reasons for the loan, amount required, the repayment period, security pledge if any and guarantors. It is the content of this document which financial institutions can take any legal action against a borrower who defaults. Since this is the initial stage of the credit management process any error committed at this stage goes a long way to negatively affect the whole process.

Credit Assessment

This is the procedure for gathering the necessary information on a potential borrower and projects in other to conduct risk assessment exercise to determine the associated risk. This is carefully done by the financial institutions before providing any loans. This is also done to check the viability of the proposed project to undertaken. This as well helps to examine the technical viability, the economic viability and the financial viability of the project to be undertaken. The risk associated with the loan can be reduced by doing the above. Credit risk simply means the risk of default as a result of a borrowers‟ failure to repay the loan taken from a financial institution.

Appropriate assessment of a customer determines the financial situation and also helps to measure capability of the customer to repay the loan when due. This is a fundamental point in the credit procedure. It is said to be the heart beat of a healthy credit portfolio. This involves collecting, analyzing and processing information as provided by the applicant on the credit application form. This helps to assess the applicants' creditworthiness and helps to reduce the difficulties between borrowers as an agents and the financial institution as the principal. The lending institution's loans management processes procedures and directives controls the loan evaluation processes. The question that must be answered before anything else is whether or not the borrowers have the financial capacity to repay the loan, that is, repay the credit when due with the appropriate interest rate. The factors underlying the evaluation of a borrower should be based on the credit assessment principles of the financial institution which is the basic principles of lending which is also used by the financial institution , it is also known as the 5 C‟s which is Character, Capacity, Capital, Collateral and Conditions (Matovu and Okumu,1996).

Credit Monitoring

Credit Monitoring is an integral part of lending activity. Financial institutions have a great responsibility to maintain the quality of the assets and to recover the interest and principal due in time. Though adequate precautions are taken during assessment and approval of a loan, a financial institution has to be more vigilant. Unless early warning signals are captured, a financial institution may not be able to take proper remedial measures to arrest and reduce bad debt in the institution.

A financial institution needs to put in place a very sound and effective credit monitoring system for watching the borrower's account from various angles for prompt action. In line with Robinson (1962) and Anjichi (1994), many of the agonies, frustrations and distress financial institutions can be reduced by good credit monitoring and follow up process. A good supervision helps maintain a good loan. It may be by visiting the borrowers' places of business to examine the general state of affairs. Insufficient maintenance is often an early sign of financial distress.

Credit Recovery /work out process/

It is undeniable fact that any institution in the business of lending is likely to meet customers who will default in payment or will fail to pay at all. This is why the institutions create provision for bad and doubtful debt in their books to take care of these eventualities. When despite every attempt by the lender to reach amicable arrangement for repayment and no agreement has been possible it will be necessary to treat the loan as a recovery matter.

This is especially prominent in the financial institutions especially where the institutions provide services which are continuous but not one time. Loan recovery is the collection of a loan amount from a customer in default. In simple terms, loan recovery refers to the pay back of the principal loan amount together with interest. Financial institutions need to be aware of loans that are at risk of not being paid back (also known as NPL or non performing loan). Collections department of the bank will begin contacting the individual loan defaulter's. They must notify them of the amount owed and any interest accrued.

2.1.3. Credit Risk Exposures in Banks

Generally, credit risk is related to the traditional bank lending activities, while it also comes from holding bonds, interbank transactions, trade financing, foreign exchange transactions, in the extension of commitments and guarantees, and the settlement of transactions. Various financial instruments including acceptances, interbank transactions, financial futures, guarantees, etc. also increase banks' credit risk.

Basel (1999a) reports that for most banks, loans are the largest and most obvious source of credit risk; however, throughout the activities of a bank, which include in the banking book as well as in the trading book, and both on and off the balance sheet, there are also other sources of credit risk. The possible sources of credit risk for most banks are,

2.1.3.1 on-Balance Sheet Exposures

Loans

Credit risk is the predominant risk in bank loans. Since the default risk is usually present to some degrees in all loans (Saunders and Cornett 2006), the individual loan and loan portfolio management is undoubtedly crucial in banks' credit risk management.

Nonperforming Loan Portfolio

According to Hennie (2003), nonperforming loans are those not generating income, and loans are often treated as nonperforming when principal or interest is due and left unpaid for 90 days or more. Thus the nonperforming loan portfolio is a very important indication of the bank's credit risk exposure and lending decisions quality.

Debt Securities

Besides lending, credit risk also exists in banks' traditional area of debt securities investing. Debt securities are debt instruments in the form of bonds, notes, certificates of deposits, etc, which are issued by governments, quasi-government bodies or large corporations to raisecapital. In general, the issuer promises to pay coupon on regular basis through the life of the instrument and the stated principal will be repaid at maturity time. However, the likelihood that the issuer will default always exists, resulting in the loss of interest or even the principal to banks, which can be a damaging impact.

2.1.3.2 Off-Balance Sheet Exposures

Some of the off-balance sheet credit exposures are:

Derivatives Contracts

According to Saunders and Cornett (2006), banks can be dealers of derivatives that act as counterparties in trades with customers for a fee. Contingent credit risk is quite likely to be present when banks expand their positions in derivative contracts. Since the counterparty may default on payment obligations to truncate current and future losses, risk will arise, which leaves the banks un-hedged and having to substitute the contract at today's interest rates and prices. While trading in options, futures or other similar contracts may expose banks to lower credit risk since contracts are held directly with the exchange and there are margining requirements.

Guarantees and Acceptances

Bank Guarantee is an undertaking from the bank which ensures that the liabilities of a debtor will be met, while a bankers' acceptance is an obligation by a bank to pay the face value of a bill of exchange on maturity (Basel,2008).

It is mentioned by Basel (2008) that since guarantees and acceptances are obligations to stand behind a third party, they should be treated as direct credit substitutes, whose credit risk is equivalent to that of a loan to the ultimate borrower or to the drawer of the instrument. In this sense, it is clear that there is a full risk exposure in these off balance sheet activities.

Interbank Transactions

Banks send the bulk of the wholesale payments through wire transfer systems such as the Clearing House Interbank Payments System (CHIPS). The funds or payments messages sent on the CHIPS network within the day are provisional, which are only settled at the end of the day. Therefore, when a major fraud is discovered in a bank's book during the day, which maycause an immediate shutting down, its counterparty bank will not receive the promised payments and may not be able to meet the payment commitments to other banks, leaving a serious plight.

As pointed out by Saunders and Cornett (2006), the essential feature of the above kind of settlement risk in interbank transactions is that, "banks are exposed to a within-day, or intraday, credit risk that does not appear on its balance sheet", which needs to be carefully dealt with.

Loan Commitments

A loan commitment is a formal offer by a lending bank with the explicit terms under which it agrees to lend to a firm a certain maximum amount at given interest rate over a certain period of time. In this activity, contingent credit risk exists in setting the interest or formula rate on a loan commitment. According to Saunders and Cornett (2006), banks often add a risk premium based on its current assessment of the creditworthiness of the borrower, and then in the case that the borrowing firm gets into difficulty during the commitment period, the bank will be exposed to dramatic declines in borrower creditworthiness, since the premium is preset before the downgrade.

2.1.4. Credit Risk Measurement

Measuring risk is always a crucial part in risk management process, and as suggested by Fabozzi (2006), quantifying credit risk can be complicated due to the lack of sufficient historical data, the diversity of involved borrowers and the variety in default causes. In the following, the three categories of methods for bank credit risk measurement---credit rating, credit scoring and credit modeling will be explained.

Credit Risk Rating; A credit rating is for assessing the creditworthiness of an individual or corporation to predict the probability of default, which is based on the financial history and current assets and liabilities of the subject. As mentioned by the Federal Reserve (1998), credit risk ratings may reflect not only the likelihood or severity of loss but also the variability of loss over time. For banks, both the internal credit rating and the external one are involved in their credit risk assessment.

A credit risk-rating framework deploys a number/alphabet/symbol as a primary summary indicator of risks associated with a credit exposure.

Credit Scoring Systems; Credit-scoring approaches, as stated by Reto (2003), can be found in virtually all types of credit analysis and share the same concept with credit ratings. A credit scoring system determines points for each pre-identified factor, which are combined to predict the loss probability and the recovery rate.

According to Altman and Saunders (1998), there are two types of accounting based credit-scoring system in banks uni-variate and multivariate. The first one can be used to compare various key accounting ratios of potential borrowers with industry or group norms while in the latter one, key accounting variables are combined and weighted for producing a credit risk score or a probability of default measure, which if higher that a benchmark, indicates a rejection to the loan applicant or a further scrutiny.

2.1.5 Credit RiskManagement

The fundamental objective of the bank management is to maximize shareholders wealth. This goal is interpreted to mean maximizing the market value of the firm's ordinary shares. Wealth maximization in turn requires that managers evaluate the present value of cash flows under uncertainty with larger near-term cash flows proffered when evaluated on a risk adjusted basis. To obtain higher yields on returns, a bank must either take an increased risk or lower operating costs. Thus managers must evaluate and balance the tradeoffs between the opportunity for higher returns, the probability of not realizing those returns, and the possibility that the bank might fail (Koch & MacDonald, 2006).

There are many definitions given for credit management by different scholars. Among these some are here cited as follows:

Credit management is defined as the efficient control and co-ordination of loan able funds so as to keep credit and the investment in credit at optimal level (Hempel, 1994). Credit management is a term used to identify accounting functions usually conducted under the umbrella of Accounts Receivables (Wise-geek, 2012).

Credit Management, from a debtor's point of view, is managing finances especially debts so as not to have a tail of creditors lurking behind your back. Credit management is a responsibility that both the debtor and the creditor should seriously take (Hagos, 2010). When it functions efficiently, credit management serves as an excellent instrument for the business to remain financially stable (Tekeste, 2016).

The significance of credit management has been highlighted by Mensha (1999) as follows: "credit management process deserves special emphasis since appropriate credit management greatly influences the success or failure of financial institutions". Knowledge of a bank's credit risk management process offers a key indicator of the quality of a bank's loan portfolio.

The crucial elements of successful credit management therefore are well developed credit policies and procedures; strong portfolio management; effective credit controls and the most central of all a well-qualified staff capable of implementing the system (Endeshaw, 2018).

2.1.6. Process of Credit Risk Management

More than 80% of financial institution‟ balance sheet is related to credit. For this reason banks should take a careful care when dealing with credit. The process of credit management begins with accurately assessing the credit-worthiness of the customer base and his/her business viability. This is done by looking in to loan applications carefully which is part of the loan process. 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.

Basu and Rolfes (1995) indicate that the success of a financial institution is built on a proper and quality credit management process. As part of the evaluation process, credit management also calls for determining the total credit line that will be extended to a given customer. Several factors are used as part of the credit management process to evaluate and qualify a customer for the receipt of some form of commercial credit. This includes gathering data on the potential customer's current financial condition, including the current credit track record that discloses the character of a customer in meeting obligations as well as collateral value.

A thorough credit and risk assessment should be conducted prior to the granting of loans, it should also focuses on the credit risk assessment of other determinate factors. The results of this assessment should be presented in a Credit Application that originates from the relationship manager/account officer (RM‖), and is approved by Credit Risk Management (CRM). The RM should be the owner of the customer relationship, and must be held responsible to ensure the accuracy of the entire credit application (Yong, 2003)

According to Ayalew (2011) Credit Applications should summaries the results of the RMs risk assessment and include, as a minimum, the following details:

Borrower Analysis: The majority shareholders, management team and group or affiliate companies should be assessed. Any issues regarding lack of management depth, complicated ownership structures or inter group transactions should be addressed, and risks mitigated.

Industry Analysis: The key risk factors of the borrower's industry should be assessed. Any issues regarding the borrower's position in the industry, overall industry concerns or competitive forces should be addressed and the strengths and weaknesses of the borrower relative to its competition should be identified.

Supplier/Buyer Analysis: Any customer or supplier concentration should be addressed, as these could have a significant impact on the future viability of the borrower.

Historical Financial Analysis: An analysis of a minimum of 3 years historical financial statements of the borrower should be presented. Where reliance is placed on a corporate guarantor, guarantor financial statements should also be analyzed. The analysis should address the quality and sustainability of earnings, cash flow and the strength of the borrower's balance sheet. Specifically, cash flow, leverage and profitability must be analyzed.

Projected Financial Performance: Where term facilities (tenor > 1 year) are being proposed, a projection of the borrower's future financial performance should be provided, indicating an analysis of the sufficiency of cash flow to service debt repayments. Loans should not be granted if projected cash flow is insufficient to repay debts.

*Account Conduct***:** For existing borrowers, the historic performance in meeting repayment obligations (trade payments, cheques, interest and principal payments, etc) should be assessed.

*Adherence to Lending Guidelines***:** Credit Applications should clearly state whether ornot the proposed application is in compliance with the bank's Lending Guidelines. The Bank's Head of

Credit or Managing Director/CEO should approve Credit Applications that do not adhere to the bank's Lending Guidelines.

Mitigating Factors: Mitigating factors for risks identified in the credit assessment should be identified. Possible risks include, but are not limited to: margin sustainability and/or volatility, high debt load (leverage/gearing), overstocking or debtor issues; rapid growth, acquisition or expansion; New business line/product expansion; management changes or succession issues; customer or supplier concentrations; and lack of transparency or industry issues.

Loan Structure: The amounts and tenors of financing proposed should be justified based on the projected repayment ability and loan purpose. Excessive tenor or amount relative to business needs increases the risk of fund diversion and may adversely impact the borrower's repayment ability.

Security: A current valuation of collateral should be obtained and the quality and priority of security being proposed should be assessed. Loans should not be granted based solely on security. Adequacy and the extent of the insurance coverage should be assessed.

2.1.7. General Principles of Sound Credit Risk Management in Banking

Reviewing the general principles of credit risk management can provide a clearer picture on how banks carry out their credit risk management, despite of the specific approaches that may differ among banks. Some of the principles of sound practices of bank credit risk management as outlined in the Basel Committee publications (2008) and others cover the following four areas:

2.1.7.1. Establishing an Appropriate Credit Risk Environment

To establish an appropriate credit risk environment mainly depends on a clear identification of credit risk and the development of a comprehensive credit risk strategy as well as policies. To banks, the identification of existing and potential credit risk inherent in the products they offer and the activities they engage in is a basis for an effective credit risk management, which requires a careful understanding of both the credit risk characteristics and their credit-granting activities. Besides, the design of objective credit risk strategies and policies that guide all credit-granting activities is also the cornerstone in bank credit risk management process.It is stated that a credit risk strategy should clarify the types of credit the bank is willing to grant and its target markets as well as the required characteristics of its credit portfolio (Basel, 2008).

According to Saunders (2005), these strategies should reflect the bank's tolerance for risk and the level of profitability the bank expects to achieve for incurring various credit risks. Again, Boateng's (2004) study shows that the credit risk strategy of a bank should give recognition to the goals of credit quality, earnings and growth. It was mentioned every bank, regardless of size, is in business to be profitable and, consequently, must determine the acceptable risk-return trade-off for its activities, factoring in the cost of capital.

While credit policies express the bank's credit risk management philosophy as well as the parameters within which credit risk is to be controlled, covering topics such as portfolio mix, price terms, rules on asset classification, etc. (Hennie 2003).

According to Boating (2004), a cornerstone of safe and sound banking is the design and implementation of written policies and procedures related to identifying, measuring, monitoring and controlling credit risk.Moreover, establishing an appropriate credit environment also indicates the establishment of a good credit culture inside the bank, which is the implicit understanding among personnel about the lending environment and behavior that are acceptable to the bank.

2.1.7.2. Operating under a Sound Credit Granting Process

The Basel Committee (2008) asserts that in order to maintain a sound credit portfolio, a bank must have an established formal transaction evaluation and approval process for the granting of credits. Approvals should be made in accordance with the bank's written guidelines and granted by the appropriate level of management. There should be a clear audit trail documenting that the approval process was complied with and identifying the individual(s) and/or committee(s) providing input as well as making the credit decision.

A sound credit granting process requires the establishment of well-defined credit granting criteria as well as credit exposure limits in order to assess the creditworthiness of the obligors and to screen out the preferred ones. In this regard banks have traditionally focused on the principles of five Cs to estimate borrowers' creditworthiness.

According to Boating (2004) these five C's are:

i. Character. This refers to the borrower's personal characteristics such as honesty, willingness and commitment to pay debt. Borrowers who demonstrate high level of integrity and commitment to repay their debts are considered favorable for credit.

ii. Capacity. This also refers to borrowers' ability to contain and service debt judging from the success or otherwise of the venture into which the credit facility is employed. Borrowers who exhibit successful business performance over a reasonable past period are also considered favorable for credit facility.

iii. Capital. This refers to the financial condition of the borrower. Where the borrower has a reasonable amount of financial assets in excess of his financial liabilities, such a borrower is considered favorable for credit facility.

iv. Collateral. These are assets, normally movable or unmovable property, pledged against the performance of an obligation. Examples of collateral are buildings, inventory and account receivables. Borrowers with a lot more assets to pledge as collateral are considered favorable for credit facility.

v. Condition. This refers to the economic situation or condition prevailing at the time of the loan application. In periods of recession borrowers find it quite difficult to obtain credit facility.

2.1.7.3. Maintaining an Appropriate Credit Administration, Measurement and Monitoring Process

Credit administration is a critical element in maintaining the safety and soundness of a bank. Once a credit is granted, it is the responsibility of the bank to ensure that credit is properly maintained. This includes keeping the credit file up to date, obtaining current financial information, sending out notices and preparing various documents such as loan agreements, and follow-up and inspection reports (Basel, 2008).

Credit administration, as emphasized by Wesley (1993), can play a vital role in the success of a bank, since it is influential in building and maintaining a safe credit environment and usually saves the institution from lending sins. Therefore, banks should never neglect the effectiveness of their credit administration operations. Then talking about credit risk measurement in banks, it is required that banks should adopt effective methodologies for assessing the credit risk inherent both in the exposures to individual borrowers and credit portfolios, and this will be explained in details later. The last focus in this area of principles is related to credit risk monitoring, which is definitely a must in banks' risk management procedure.

2.1.7.4. Ensuring Adequate Controls over Credit Risk

In order to ensure adequate controls over credit, Ganesan (2000) asserts that there must be credit limits set for each officer whose duties have something to do with credit granting. Material transactions with related parties should be subject to the approval of the board of directors (excluding board members with conflicts of interest), and in certain circumstances (e.g. a large loan to a major shareholder) reported to the banking supervisory authorities.

The means for guaranteeing adequate controls over credit risk in banks lay in the establishment of different kinds of credit reviews. Regular credit reviews can verify the accordance between granted credits and the credit policies, and an independent judgment can be provided on the asset qualities (Basel, 2008).

2.1.8. Tools of Credit Risk Management

The instruments and tools, through which credit risk management is carried out, are detailed below:

a) Exposure Ceilings: Prudential Limit is linked to Capital Funds – say 15% for individual borrower entity, 40% for a group with additional 10% for infrastructure projects undertaken by the group, Threshold limit is fixed at a level lower than Prudential Exposure; Substantial Exposure, which is the sum total of the exposures beyond threshold limit should not exceed 600% to 800% of the Capital Funds of the bank (i.e. six to eight times) (Raghavan, 2003).

b) Review/Renewal: Multi-tier Credit Approving Authority, constitution wise delegation of powers, Higher delegated powers for better-rated customers; discriminatory time schedule for review/renewal, Hurdle rates and Bench marks for fresh exposures and periodicity for renewal based on risk rating, etc are formulated (Thirupathiand Manoj,2013).

c) Risk Rating Model: Set up comprehensive risk scoring system on a six to nine point scale. Clearly define rating thresholds and review the ratings periodically preferably at half yearly intervals. Rating migration is to be mapped to estimate the expected loss (Thirupathiand Manoj,2013).

d) Risk based scientific pricing: Link loan pricing to expected loss. High-risk category borrowers are to be priced high. Build historical data on default losses. Allocate capital to absorb the unexpected loss. Adopt the Risk Adjusted Return on Capital /RAROC/ framework (Raghavan, 2003).

e) Portfolio Management The need for credit portfolio management emanates from the necessity to optimize the benefits associated with diversification and to reduce the potential adverse impact of concentration of exposures to a particular borrower, sector or industry. Stipulate quantitative ceiling on aggregate exposure on specific rating categories, distribution of borrowers in various industry, business group and conduct rapid portfolio reviews. The existing framework of tracking the non-performing loans around the balance sheet date does not signal the quality of the entire loan book. There should be a proper & regular on-going system for identification of credit weaknesses well in advance. Initiate steps to preserve the desired portfolio quality and integrate portfolio reviews with credit decision-making process (Thirupathiand Manoj, 2013).

f) Loan Review Mechanism This should be done independent of credit operations. It is also referred as Credit Audit covering review of sanction process, compliance status, review of risk rating, and pick up of warning signals and recommendation of corrective action with the objective of improving credit quality. It should target all loans above certain cut-off limit ensuring that at least 30% to 40% of the portfolio is subjected to loan review mechanism in a year so as to ensure that all major credit risks embedded in the balance sheet have been tracked. This is done to bring about qualitative improvement in credit administration (Raghavan, 2003).

2.1.9. Other Techniques for Mitigating Credit Risks

The last step for any kind of risk management is to mitigate and transfer the risk in order to avoid or reduce losses. Credit risk mitigation means reduction of credit risk in an exposure by a safety net of tangible and realizable securities including third-party approved guarantees/insurance (Raghavan, 2003).

Banks use a number of techniques to mitigate the credit risks to which they are exposed. Exposures may be collateralized by first priority claims, in whole or in part with cash or securities, a loan exposure may be guaranteed by a third-party, or a bank may buy a credit derivative to offset various forms of credit risk. Additionally banks may also net the loans owned to them against deposits from the same counter-party.

The various credit risk mitigation tools laid down by Basel Committee (2000) are as follows:

1. *Collateral (tangible, marketable) securities:* to support various lending agreements for reducing credit risk.

2. *Guarantees:* a transaction in which security is offered for abstract payment undertakings. It creates a non-accessorial, abstract obligation to the beneficiary.

3. *Credit derivatives:* Credit derivative is an instrument designed to segregate market risk from credit risk and to allow separate trading of credit risk. Credit derivatives allow a more efficient allocation and pricing of credit risk. Credit derivatives are privately negotiated bilateral contracts that allow users to manage their exposure to credit risk.

For example, a bank concerned that one of its customers may not be able to repay a loan can protect itself against loss by transferring the credit risk to another party while keeping the loan on its books. This mechanism can be used for any debt instrument or a basket of instruments for which an objective default price can be determined.

4. *On-balance-sheet netting:* A netting agreement nets the amounts to be exchanged between counterparties, which reduce the credit exposure. For banks, netting agreements are mostly applied to interbank transactions, including bilateral payments netting, multilateral payment systems with net settlement and master derivative agreements.

2.2. Empirical literature

There are many researches regarding credit management and financing policy locally as well as internationally. This section presents evidence which identify the major factors affecting credit management. Many researchers have conducted a lot of study on determinants of credit management due to its significance for the bank's failure.

Credit approving that has not properly considered the credit terms would potentially lead to occurrence of loan default. As per the study by Jimenez &Saurina (2005) on the Spanish banking sector from 1984 to 2003 nonperforming loans (NPLs) are determined by lenient credit terms.

The authors indicated that the causes for the leniency were attributed to disaster myopia, herd behavior, moral hazard and agency problems that may entice bank managers to take risk and lend excessively during boom periods. This has been supported by Rajiv & Dhal (2003) who found that terms of credit determines occurrence of non-performing loans.

On the other hand, banks that charge high interest rate would relatively incur a higher default rate. In this regard, a study by Sinkey& Greenwalt (1991) on large commercial Banks in US revealed that a high interest rate charged by banks is associated with loan defaults.

Pyle (1997), in his study on bank risk management noted that banks and other financial institutions need to meet forth coming regulatory requirements for capital and risk measurement. However, meeting regulatory requirements is not the sole or most important reason for establishing a sound, scientific risk management system. Managers need reliable risk measures to direct capital to activities with the best risk/reward ratios.

They need estimate of the size of potential losses to stay within limits imposed by readily available liquidity by customers, creditors and regulators. They need mechanisms to monitor positions and create incentives for prudent risk taking by individuals and divisions.

Bank Performance and Credit Risk Management in Qatar were studied by TakangFelizAchou and Ntui Claudine Tenguh in 2008 in their study the researchers' intention was to see the relationship between bank performance and credit risk management, by taking data from Qatar Central Bank (QCB). They used regression model to show the result of Return on Equity (ROE) and Total Losses (TL). In addition, tables and charts were used by the researchers for proper analysis of the data obtained. Lastly, their study result shows that there is a significant relationship between bank profitability and credit risk management (in terms of loan performance). Better credit risk management results in better bank performance.

Another study by Ahmad and Ariff (2007) inspected the key determinants of credit risk of commercial banks on emerging economy banking systems compared with the developed economies. The study found that regulation is important for banking systems that offer multi-products and services; management quality is critical in the cases of loan-dominant banks in emerging economies. An increase in loan loss provision is also considered to be a significant determinant of potential credit risk. The study further highlighted that credit risk in emerging economy banks is higher than that in developed economies.

Ahmed, Takeda and Shawn (1998), in their study found that loan loss provision has a significant positive influence on non-performing loans. Therefore, an increase in loan loss provision indicates an increase in credit risk and deterioration in the quality of loans consequently affecting bank performance adversely.

Ben-Naceur and Omran (2008) in attempt to examine the influence of bank regulations, concentration, financial and institutional development on commercial banks' margin and profitability in Middle East and North Africa (MENA) countries from 1989-2005 found that bank capitalization and credit risk have positive and significant impact on bank's net interest margin, cost efficiency and profitability. Berger and De Young (1997), poor management in the banking institutions results in bad quality loans, and therefore, escalates the level of non-performing loans. They argue that bad management of the banking firms will result in banks inefficiency and affects the process of granting loans. The banks" management might not thoroughly evaluate their customers' credit application due to their poor evaluation skills. Therefore, banks" inefficiencies might lead to higher non-performing loans.

Kargi (2011) evaluated the impact of credit risk on the profitability of Nigerian banks. Financial ratios as measures of bank performance and credit risk were collected from the annual reports and accounts of sampled banks from 2004-2008 and analyzed using descriptive, correlation and regression techniques. The findings revealed that credit risk management has a significant impact on the profitability of Nigerian banks. It concluded that banks" profitability is inversely influenced by the levels of loans and advances, non-performing loans and deposits thereby exposing them to great risk of illiquidity and distress.

Al-shakrchy (2017) studied effects of managing profitability of credit risk on the bank case of commercial banks in Sweden. The study was an empirical study that was carried out before and after the mortgage crisis.Specifically, the study carried out an investigation on impacts of management of credit risk exposure on profitability of banks while specifically focusing on 2008's financial crisis. The study empirically tested if management of risks in techniques that substantially lowers probability that loan defaulting will take place and the way the banks can avoidcredit crisis in related activities. It purposed to establish the key issue that arises from the lending activities of the bank and that can have serious effects on the banking sector and instability financially. The study did a further exploration of whether exposure to credit changed during the crisis period. Management of credit risk that is successful in Sweden had a great likelihood of improving availability of banks credit.

Kaitibi (2018) evaluated effects of management of credit on banks profitability in Sierra Leone.Study's main objective was critically assessing the effects of effective management of credit on banks profit making. The study was a case study of Rokel Commercial Bank. Secondary data was used, collected mainly from the banks yearly report from 2010 to 2014. Data collected was analyzed qualitatively and quantitatively with the use of charts and ratios analysis. The findings showed efficient management of credit significantlyaffectedprofitability of the bank.

Ntiamoah, Diana and Kwamega (2014) determined the association ofCRM strategies and performance of loans in micro-banking organizations in Ghana. It was revealedthatCRM and performance of loan were positively associated. Further, Ayodele, Thomas and Raphael (2014) determined impacts of credit policies on performance of Zenith Bank Plc in Nigeria. Data was collected using questionnaires. Zenith Bank adopted management of credit activities such as client appraisal hence reducing the rate of loan default.

Achou and Tenguh (2008) revealed that there is a significant relationship between bank performance (in terms of return on asset) and credit risk management (in terms of loan performance). Better credit risk management results in better bank performance. Thus, it is of crucial importance that banks practice prudent credit risk management and safeguarding the assets of the banks and protect the investors, interests.

Credit risk management and profitability of commercial banks in Sweden was studied by Ara Hosanna, Bakaeva,Manzura and Juan in 2009. In the study the researchers intended to analyze effect of credit risk management on profitability of commercial banks in Sweden. They took four banks as a sample and collected the necessary data from different sources like annual report of the banks from 2000-2009 and journals developed by the banks. The researchers used multiple regression models using SPSS for analyzing the findings. The result shows that credit risk management has significant effect on the profitability of the banks.

When it comes to Ethiopia, Solomon (2013) in his paper entitled “Credit risk management techniques and practice of NIB International Bank” has conclude that credit risk management system of commercial Banks should incorporate a check and balance for the extension of credit that integrate separation of credit risk management from credit sanction, credit processing/approval from credit administration and finally establishment of an independent credit audit and risk review function.

In addition, Alebachew (2014) in his paper entitled “Assessment of Credit Risk Management Policies and Practices in NIB International Bank” has conclude The Bank has to establish a clearly-established process in place for approving amendment, renewal and re-financing of existing credits and The Bank requires also to established a credit follow up system which control consistency of all credit approvals made as per the Bank’s written guidelines and granted by appropriate organ level of the Bank’s management.

Girma in 2011 studied Credit Risk Management and Its Impact on Performance on Ethiopian commercial Banks; the researcher used empirical data analysis technique to investigate credit risk management on banks performance. He uses six private commercial banks as reference and used their annual report for reference; the researcher used quantitative research method and interpreted the output sing regression. From the research he has arrived at there is a significant relationship between bank performance (in terms of return on asset) and credit risk management (in terms of loan performance). Better credit risk management results in better bank performance.

Credit risk management and profitability of commercial banks in Ethiopia was studied by Tibebu in 2011.In the study, the researcher took seven banks purposively that have been operating over ten years in Ethiopia. To examine its impact level the researcher uses multiple regression models by taking 10 years ROE (dependent variable), NPLR and CAR (independent variables) from each bank in addition; questioner was also distributed to the authorized personnel assigned to risk management position in each bank. From the study he has concluded that non-performing loan ratio and capital adequacy ratio has a negative impact on profitability‘s of commercial banks in Ethiopia.

Impact of credit risk management on credit risk exposure private banks in Ethiopia was studied by Martha in 2012; the scholar used four purposively selected private banks in Ethiopia. In her study she used four variables in SPSS regression model to illustrate impact of credit risk management on credit exposure of the bank. Based on the study she has concluded that statistically credit risk management and credit risk exposure has inverse relation.

2.3 Literature Gap

In general from above literatures on credit risk management has decisive role in overall performance of the bank activity. The study conducted in Ethiopia had showed that the strong credit risk management has positive impact overall performance of the business. Similarly effective credit risk management practice profitability of the business. On the other hand according to the literatures credit risk management of and credit risk exposure of the banks has inverse relation towards profitability of the business. However, most of literatures under review were focused to part of credit management aspect such as performance, profitability, credit exposures instead of assessing the credit risk management of the bank Thus, researcher tries to fill the gap and contribute to the literature by giving addressing problems of credit risk management of Awash bank.Moreover,previous researches did not consider Awash Bank, which is the first private bank and which has the highest credit provision among the private banks operating in the country. Consequently, thisresearch tried to fill the knowledge gap by focusing on assessing the credit risk management practices of the bank.

CHAPTER THREE

RESEARCH METHODLOGY

The discussion includes research design, the research sampling and population, data collection and analysis.

3.1 Research Design

This research used descriptive research design. Descriptive research was employed as a main research method of this study to describe credit risk management practice at the bank. As described by Suryabrata, (2003) descriptive method is a method that describes the study systematically, factually and accurately utilizing facts and behaviors and of the phenomenon being studied.

3.2 Research Approach

The study mainlyemployed quantitative research approach. In the study quantitative approach is used to analyze quantitative data obtained from the structured questioners prepared using the 5-point Likert scale measurement.

Qualitative approach was used to analyze the data from the interview conducted. According to Kothari (2004) mixed research method is defined as the class of research welfare the researcher mixes or combines quantitative and qualitative research techniques, methods, approaches, concepts or language in to a single study. The quantitative approach involves the generation of data in quantitative form which can be subjected to rigorous quantitative analysis in a formal and rigid fashion. Qualitative approach to research is concerned with subjective assessment of attitudes, opinions and behavior.

By means of employing this mixed approach, the research tried to obtain the advantage of both quantitative and qualitative approaches and can overcome their limitations.

3.3 Target population

Awash bank has more than 450 branches; of these branches 223are located in Addis Ababa as of July, 2020. For this study the population comprisesemployees in the credit and loan department at the Head Office located around National Theater. The study targets the head office, because setting out credit guidelines, polices, credit assessment and approval process of credit are under the authority or pass through the approvalof the head office level departments for all district in Addis Ababa.

Because the researcher is currently employed at the institution, it was possible to conduct a preliminary survey without difficulties. And according to the preliminary survey, there are more than 600 employees working at different departments at the head office. Of this employees at the head office 112 are currently working at the credit and risk management department. Consequently, the target populations of the study are the 112 employeescurrently working at the credit and risk management department at the head office.

3.4 Sample Procedure and SampleSize

The study employed simple random sampling technique to make the sample size more manageable. As cited in Glenn (2012), there are several approaches to determine the sample size, this include using a census for small populations, imitating a sample size of similar studies using published tables and applying formula to calculate a sample size. The study uses a formula developed by Cochran (1963) cited in Glenn (2012) to determine the sample size assuming 95% confidence level and 5% margin of error.

$$\mathbf{n=}\frac{\boldsymbol{N}}{\mathbf{1+}\boldsymbol{N}(\boldsymbol{e})\mathbf{2}}$$

Where n =sample size, N =population size and e = margin of error

$$\mathbf{n=}\frac{\mathbf{112}}{\mathbf{1+112(0.05)2}}$$

$$\mathbf{n= 88}$$

As mentioned above, there are 112 employees currently working at the credit and risk management department. Consequently, the target populations of the study were the 112 employees currently working at the credit and risk management department at the head office. As a resultof the total sample size selected and number of participants in the studywas 88 employees working at the credit and risk management department selected randomly.

3.5 Data collection Instruments

This study usedprimary data. The study collected the primary data through a self-administered questionnaire and an interview with the head of credit and risk management department.The items of the questionnaire were adopted from the prior literature (Sahlemichale, 2009: Basel, 1999). The adopted items were slightly modified according to the context of the study. The questionnaire used in the study has two parts.The first part was designed to collect the demographic information from each respondent. The second part contains information to assess variables and is prepared on five point Likert scale ranged from "1=Strongly Disagree" to "5=Strongly Agree".

In addition to this, the study interviewed the department head at the head office to obtain responses on open ended questions prepared. The interview questions were prepared to obtain additional information about the practice of credit risk management at the bank.The head of credit portfolio and management department is chosen for an interview since it is directly involved with credit management. This research conducted an Interview as it affords a follow up questions to respondents for clarity.

3.6 Method of Data Analysis

The study analyzed the data collected from respondents through questionnaire by using SPSS version 23.0 software. The study presented the data from primary source by using descriptive statistics and tables which are expressed in the form of frequency, percentage, mean and standard deviation.Narrationwas used to analyze the data from the interview conducted.

Chapter Four

Data Presentation and Analysis

The general objective of this study was to assess the credit risk management practice at Awash Bank. To attain the objective of the study, data from primary source was collected through questionnaires distributed to employees working in the credit and risk management department at the head office of Awash Bank. In this chapter data presentation, interpretation and discussion are presented. The data of the respondents is analyzed by using descriptive statistical tools. The first part of this chapter discusses about the response rate and demographic characteristics of respondents, while the second part deals with the analysis and interpretation of findings of the study.

4.1 Response rate and Demographic Characteristics of Respondents

4.1.1 Response rate

As stated in the previous chapter the study took a sample size of 88 employees who work in credit and risk management department of the bank. Thus, eighty eight questionnaires were given to the relevant employees of the organization. Of which 79 questionnaires were correctly filled in and returned which makes a response rate of 90%. This response rate was good enough to make conclusions for the study.

4.1.2 Demographic Characteristics of the Respondents

In the following section, the demographic information of respondents is presented. These include gender, age and work experience of respondents. To get information on these issues the respondents were asked questions regarding their demographic characteristics' and their responses are presented as follows.

Table 4.1 below was designed to display the respondent's distribution in terms of gender. As it is presented in table 4.1 below, 57% of the respondents are male and 43% are female. Majority of the respondents are male. This result shows that there are slightly higher numbers of male employees working in the credit and risk management department of the bank.

TABLE 4.1 DEMOGRAPHIC CHARACTERISTICS OF RESPONDENTS

	Frequency(n)	Percentage (%)
Gender		
Male	45	57
Female	34	43
Total	**79**	**100**
Age		
25 to 30 years	13	16.5
31 to 35 years	28	35.4
36 to 40 years	31	39.2
Above 40	7	8.9
Total	**79**	**100.0**
Level of education		
Diploma	19	24.1
Bachelor’s Degree	40	50.6
Master’s Degree	20	25.3
Total	**79**	**100.0**
Work Experience		
Below 5 years	6	7.6
6 to 10 years	35	44.3
11 to 15 years	35	44.3
Above 15	3	3.8
Total	**79**	**100.0**

Source: Own survey (2021)

As it is shown on table4.1 above, 16.5% of the respondents are in the age group between 25 to 30 years, 35.4% of the of the respondent indicated they are in the age group between 31 to 35 years, 39.2% of the respondents were in the age group 36 to 40 years, whereas the remaining 8.9% of the respondents indicated that they are above 40 years old. Furthermore, the study also requested respondents to indicate their highest level of education. The findings presented above revealed that 24.1% of the respondent indicated their highest level as Diploma, 50.6% of the respondent indicated their highest level as Bachelor's Degree, and the remaining 25.3% of the respondents indicated their highest level of education as Master's Degree. It is identified that most of the respondents included in the study had Bachelor's Degree. This result shows that majority of the employees (74.1%) who are currently working in the credit and risk management department of the bank have Bachelor's Degree or above.This result indicates that the respondents are academically well prepared to understand and respond to the questionnaire items.

Moreover, as presented on table 4.1 above, the study requested respondents to indicate their work experience. Their responses' revealed that 7.6% of the respondents have a work experience of less than five years, 44.3% of the respondents had a work experience ranging 6 to 10 years, 44.3% of the respondent indicated that they had worked for a period ranging between 6 to 10 years. This implies that most of the employees (89.8%) have above 5 years of experiences accumulated. This result adds recognized value for this study, as most of the respondents have enough work experience that can enable them to understand credit related environment of the bank and provide valuable responses.

4.2 Presentation and Analysis of the Findings of the Study

This study was conducted with the main objective of assessing the credit risk management practice of Awash bank (AB). This study has assessed existing credit policies and guidelines, client appraisal and credit granting process, credit measurement and monitoring practice and the methods employed control and mitigate credit risk at Awash Bank. As stated in the research methodology, Likert scale was used to measure the respondents' perception towards credit risk management practice at the bank. The data collected is analyzed by using descriptive statistics such as minimum, maximum, mean and standard deviation. The mean value findings from the Likert scale measures were evaluated according to the neutral (average) value which is 3. A result which is above 3 shows high and a result which is less than 3 shows below average. In addition interview results obtained from discussing with the department head are incorporated and presented.

4.2.1 Credit Policies and Guidelines at -

Credit risk management guidelines and policies are imperative tools in decision making and good credit management requires the establishment of sound credit policies and guidelines (Koch & MacDonald, 2003). With this in mind, the study first sought to establish the view of the respondents regarding the existing credit policies and guidelines at the bank. To do so the study asked respondents questions related with the issue and responses are summarized and presented in table 4.2 below.

TABLE 4.2; EMPLOYEES OPINIONS TOWARDS CREDIT POLICIES AND GUIDELINES AT THE BANK

No		Min	Max	Mean	Std. D.
1	The bank has well-designed and comprehensive credit risk Strategy and policy.	1	5	3.70	.868
2	There is credit policy and procedure with clearly stetted eligible criteria	1	5	3.49	.946
3	The existing credit policy of the Bank explicitly indicate general areas of credit in which the bank is prepared to engage	1	5	3.59	.913
4	The existing credit policy of the bank incorporates credit risks inherent in all products and activities on which the Bank engages in.	2	5	3.53	.765
5	The existing credit policy of the Bank incorporate sound and prudent credit portfolio concentration limits	1	5	3.41	1.044
6	The credit policy of the Bank clearly defined appropriate levels of delegation of approval, and provision or write- off authorities	2	5	3.52	.890
7	The Bank has credit risk policy that clearly set out how bad credits are to be managed	2	5	3.63	.787
	Average			3.58	0.863

Source: Own survey & SPSS output (2021)

As presented in table 4.2 above, employees were first asked to indicate their feelings towards the presence of well-designed credit risk strategy and policy at the bank. The mean value for the item was 3.7. This shows that respondents believe that the credit risk strategy and policy at the bank is comprehensive and well designed.

Item 2 and 3 in table 4.2 above inquired the opinion of the respondents regarding the presence of credit policy that indicates areas of engagement and the ability of the credit strategy to incorporate risks inherent in activities on which the Bank engages. The mean scores regarding these items were 3.49 and 3.59 respectively. This result indicates respondents believe that the credit policy and strategy at Awash Bank indicates and recognizes areas of credit in which the bank engage in and the risks associated with the activities the bank engages in.

According to table 4.2 above, respondents agreed with regard to the presence of credit policy at the bank that incorporates sound and prudent credit portfolio concentration limits. This is reflected in the mean score value of 3.41 which shows agreement with the proposed statement.. This finding shows that the credit policy and strategy of the bank recognizes the concentration limits of the risk the bank engages in. Moreover, respondents were asked whether the bank's credit policy and procedures clearly define appropriate levels of delegation with regard to approval and provision of credit. The mean score for the item was 3.52. This implies respondents believe the existing credit policy of the Bank clearly states delegation of loan approval. This helps to distinguish who is responsible to carry out credit related tasks.

Furthermore, as shown in table 4.2, respondents also agreed with the statement the Bank has credit risk policy that clearly set out how bad credits are to be managed. This was reflected in the 3.63 mean score for item 7 in table 4.2 above. This implies that the when the bank encounter bad loans the bank's credit policy has set out a way to deal with bad loans.

In addition, the overall mean score for the above items, which inquire about the credit policies and guidelines of the bank, is 3.58. In general, from this and the results presented in table 4.2 above, it can be implied that the existing credit policy of bank possess the valuable ingredients needed to sustain a healthy credit management. It is argued in the literature that appropriate credit risk environment mainly depends on a development of a comprehensive credit risk strategies and policies that can address the identification of existing and potential credit risk, the activities the bank engages in and credit portfolio concentration limits (Basel, 2008). The above result and discussion shows that these standards are met in the credit strategy and policy the bank currently has.

Furthermore, in order to grasp the overall risk status of the bank, in the interview carried out with the credit and risk administration department head, it was asked about the trends of non-performing loan and default rate of the bank over the last decade. From the interview response revealed that the NPTL ratio for the bank has decreased from 20013 to 2019. It was mentioned this was as a result of asset quality improvement over the period. And as a result the bank has managed to edge down the non-performing loan (NPL) ratio from 7.72 percent in 2013 to 5.49 percent in 2019. It was also mentioned that this non performing loans ratio of the bank is below the industry average making Awash Bank to be less risky compared to the industry average.

4.2.1 The Credit Appraisal and Granting Process at Awash Bank S. CO.

A sound credit granting process requires assessing the creditworthiness of the obligors in order to screen out the preferred ones and reject unworthy creditors. In this regard the study asked respondents questions related with the credit appraisal and granting process at Awash Bank and responses are summarized and presented in table 4.3 below.

TABLE 4.3; EMPLOYEES OPINIONS TOWARDS CREDIT APPRAISAL &GRANTING PROCESS AT THE BANK

No.		Min	Max	Mean	Std. D.
1	The Bank conducts comprehensive Credit worthiness analysis properly before granting loan.	1	5	3.56	.797
2	The bank checks the borrower history before granting loans	2	5	3.72	.659
3	The bank properly assessed the customer financial ability to meet obligation	1	5	3.29	.949
4	Adequacy, marketability and enforceability of collateral requirement is properly evaluated and measured by professional personnel or expertise	2	5	3.61	.687
5	The bank has a clear established process for s amendment, renewal and re-financing of existing credits	1	5	3.13	.882
6	The banks credit granting and approval process establishes accountability of the decision makers	1	4	2.87	.838
	Average			3.36	0.802

Source: Own survey & SPSS output (2021)

Table 4.3 above presents results of respondents' opinion regarding the credit appraisal and granting process of the bank. In this regard, as presented in table 4.3 above, the first item sought respondents' opinion weather the bank conducts comprehensive Credit worthiness analysis properly before granting loan. The mean value of the item was 3.56, which implies respondents agree that the bank conducts worthiness analysis properly before granting loan.

Item 2 in table 4.3 above inquired the opinion of the respondents if the bank checks the borrower history before granting loans. The mean score regarding this was 3.72 which is above average and implies most of the respondents agree the bank checks the borrower history before granting loans. Similarly, Item 3 and 4 in table 4.3 above which have a mean value of 3.29 and 3.61 respectively, shows the bank properly assesses the customer financial ability and collateral requirement before granting loans.

According to table 4.3 above, the mean score was 3.13, with regard to the presence of clear established process for s amendment, renewal and re-financing of existing credits. This finding for item no. 6 shows that respondents' opinion is relatively favorable regarding the presence of clear established process for the amendment, renewal and re-financing of existing credits.

In contrast, the mean value for the last item in table 4.3 above was 2.87. This result shows that, respondents don't agree in the presence of credit granting and approval process that establishes accountability of the decision makers.

Furthermore, the average mean score of the set of statements regarding the credit appraisal and granting process of the bank, as presented in table 4.3 above, was 3.36. This result together with the above discussion shows that the bank considers important aspects like; borrowers history, financial condition and collateral offering before granting a loan. Several studies (Ayalew, 2011;Basel, 2008; Basu and Rolfes, 1995&Yong, 2003) made with regard to credit appraisal and granting process have stipulated that banks should consider customer's current financial condition, credit track record that discloses the character of a customer in meeting obligations as well as collateral value before loan disbursement.The above results show the Awash Bank follows most these principles of a sound credit appraisal and granting practices before granting loans. However, results also indicate there is a room for improvement in fostering an environment that creates ease to hold the decision makers accountable. The standard deviation for the set of statements presented in table 4.3 was less than 1.00 indicating that the perceptions of the respondents were similar.

Moreover, in the interview conducted, the department head has pointed out that there are occasions where some customers don't provide the necessary and full financial information, creating difficulties on appraising their loan requests. It was also mentioned that on few occasions some employees participate in unnecessary activities like bargaining with customer during the appraisal process. But it was also raised in the interview that the bank has its own department which is responsible to investigate such instances and takes corrective measures on such employees.

4.2.3 Credit Risk Monitoring Practices at Awash Bank S. CO.

Once a credit is granted, it is the responsibility of the bank to ensure that credit is properly maintained. According to Basel (2008) this includes keeping the credit file up to date, obtaining current financial information, sending out notices and follow-up and inspection. Accordingly, the study tried to assess the credit monitoring practice at the bank and results are presented in the following section.

TABLE 4.4; EMPLOYEES OPINIONS TOWARDS THE CREDIT MONITORING PRACTICE AT THE BANK

No		Min	Max	Mean	Std. D.
1	The Bank has a well structured documentation tracking system for credit and collateral files	1	5	3.49	.782
2	The bank regularly assesses if loan terms and conditions are being met	2	5	3.41	.793
3	The Bank monitors the business of clients after granting credits on regular interval basis	1	4	2.48	.724
4	The Bank regularly asses value and existence of Collateral coverage	1	5	2.96	.741
5	The bank periodically prepare credit quality reports for signaling credit quality	2	5	3.29	.736
6	The bank sends timely notices notifying customers their obligations	1	4	2.89	.604

No		Min	Max	Mean	Std. D.
1	The Bank has a well structured documentation tracking system for credit and collateral files	1	5	3.49	.782
2	The bank regularly assesses if loan terms and conditions are being met	2	5	3.41	.793
3	The Bank monitors the business of clients after granting credits on regular interval basis	1	4	2.48	.724
4	The Bank regularly asses value and existence of Collateral coverage	1	5	2.96	.741
5	The bank periodically prepare credit quality reports for signaling credit quality	2	5	3.29	.736
6	The bank sends timely notices notifying customers their obligations	1	4	2.89	.604
	Average			**3.08**	**.724**

Source; own survey & SPSS output (2021)

As it is presented in table 4.4 above, the first item inquired respondents' opinion about the presence of a well structured documentation tracking system for credit and collateral files at the bank. The mean value of the item was 3.49, which implies respondents agree that there is well structured documentation tracking system for credit and collateral files at the bank. Similarly, the second item presented to the respondents was to learn whether or not the bank regularly assesses loan terms and conditions.Respondents rated their agreement with mean value of 3.41 implying that the bank put regular effort to assess if borrowers are in line with the terms and conditions of their loan.

In contrast, table 4.4 shows that, respondents don't agreed that the bank regularly monitors the business of clients after granting credits; the bank regularly asses value and existence of collateral coverage; and that the bank sends timely notices notifying customers of their obligations. This was reflected with the mean results of 2.84, 2.96 and 2.89 for item 3, 4 and 6 respectively. This result shows that the banks effort to assess the business activities of clients after granting the loan, the collateral situation during the loan term and providing prior notices for loan customers to be below average.

Furthermore, the standard deviation for the set of statements presented in table 4.4 was less than 1.00 indicating that the perceptions of the respondents were similar. In addition, as presented in table 4.4 above, the average mean result of the set of statements was 3.08. This indicates that according to the respondents, the status of credit monitoring practice at Awash Bank is considered to be average.

In general,it is asserted that an effective and sound credit risk management process evolves sound monitoring practices intended to ensure credit is orderly and fully repaid. These includes maintaining up to date information on loan terms and conditions, regular reviews of customers' financial health, inspections on collaterals tied with loans and effective communication with clients (Basel, 2008 &Ganesan, 2000).The result in table 4.4 above showed credit monitoring activities at Awash Bank is considered to be average. Therefore, it can be implied that there is a room for improvement regarding the activities undertaken to monitor the status of the credit provisions provided by the bank.

In addition, in the interview carried out with the department head, it was asked about the challenges faced to monitor credit. The manager pointed out that customers' unwillingness to disclose financial conditions and failure of the customer to keep the necessary financial documents organized are the main challenges faced during the banks effort of inspection.

4.2.4 Credit Risk Mitigation Strategies and Tools at Awash Bank

It is stated that banks should utilizetechniques and scientific analytical tools that enable management to measure the credit risk inherent and reduce adverse outcomes. Thesemitigation strategies and toolsshould provide adequate information on the composition of the credit portfolio, including identification of any concentration of risk(Koch & MacDonald, 2003).In this regard the study asked respondents questions related with the credit appraisal and granting process at Awash Bank and responses are summarized and presented in table 4.5 below.

TABLE 4.5; EMPLOYEES OPINIONS TOWARDS THE CREDIT RISK MITIGATION STRATEGIES AND TOOLS

No		Min	Max	Mean	Std. D.
1	There is independent risk management policy and procedure from credit policy and procedure in the bank.	1	5	3.43	.763
2	The bank has appropriate internal risk scoring system that distinguishes high and low risk areas.	2	5	3.59	.725
3	The Bank employs risk based scientific pricing	2	5	3.23	.715
4	Proper credit limit is established by the Bank for particular economic sector, geographic region specific products, and a group of associated borrowers	2	4	3.39	.741
5	Adequate measures are put in place to recover non-performing loans	2	4	3.41	.793
6	The bank offers training for employees on credit risk management	1	4	2.91	.880
7	The bank offers customers sufficient training on loans usage	1	5	2.99	.884
		Average		**3.25**	**.786**

Source; own survey & SPSS output (2021)

Table 4.5 above shows opinions of respondents about the credit risk mitigation strategies and tools employed at the bank. The average mean score of the above statements was 3.25. This result reflects respondent employees believe the credit risk mitigation strategies and tools employed at the bank to be above average. Moreover, all items in table 4.5 above have a standard deviation of less than one. This shows the perceptions' of respondents to be similar.

As presented in table 4.5, the first item asked employees' opinion if from credit policy and procedure in the bank. The mean result of the item was 3.43 which show agreement with the proposed statement. Similarly, the respondents believe that the bank has appropriate internal risk scoring system that distinguishes high and low risk engagement areas. As it is reflected in the mean score value of 3.59 for item 2 in table 4.5 above. These results implied that AB employs an independent risk management function and use internal risk scoring system to distinguish high and low risk areas.

Respondent employees also agreed that the bank employs risk based scientific pricing and credit limit is established by the bank for different sectors, as it was indicated in the mean value of 3.23 and 3.39 respectively for the items. In addition, respondent employees believe that there are adequate measures in place to deal with non-performing loans, as shown with a mean value of 3.41 for the item. These results imply that according to respondent employees, Awash Bank utilizes risk scoring system and risk based pricing, which is in turn are helpful for mitigating risk faced by the bank. And according to Raghavan, (2003)and Thirupathiand Manoj (2013) utilizing a suitable risk scoring system, setting ceilings on aggregate exposure and maintaining effective framework for tracking and recoveringnon-performing loans are effective measure used to reduce credit risk.

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In contrast, according to table 4.5, the mean score values for the statements regarding the presence of trainings for employees on credit risk management and training for customers on loans usage were below 3. This result indicates respondent employees don’t believe there are sufficient trainings provided for employees and customers on credit risk management and loan usage.

Moreover, according to the response from the interview carried out, it was mentioned that the bank is speeding up its technological development to cope with the increasing internal and external changes that are taking place continuously. The manager mentioned how the latest computer technology which is owned by Indians called Omni Enterprise was implemented to assist the core banking system and hence improve its credit management practice.

CHAPTER FIVE

Summary of Major Findings, Conclusions and Recommendations

This chapter is intended to present the summary of major findings, draw conclusions from data analyzed and suggest recommendations on the possible gaps observed in line with the general objective.

5.1 Summary of Major Findings

This study was conducted with the main objective of assessing the credit risk management practice of Awash bank (AB). This study has assessed existing credit policies and guidelines, client appraisal and credit granting process, credit measurement and monitoring practice and the methods employed control and mitigate credit risk at Awash bank. The study used descriptive research design and the study was carried out through collecting data by questionnaires from the employees at the head office and with an interview that was conducted with the head of the credit and risk management department of the bank. To gather the necessary data the study distributed 88 questionnaires to be filled by the sampled employees of the bank. Among the distributed questionnaires 79 were correctly filled and returned.

Based on the findings from the questionnaire results obtained, majority of the employees (74.1%) at credit and risk management department of AB hold Bachelor's degree or above. Moreover, the information gathered using the questionnaires showed that most of the employees (89.8%) have above 5 years of work experience accumulated.

The findings in the study revealed that the majority of the employees agreed that there is a well-designed credit risk strategy and policy at the bank (Mean=3.70). The survey results in the study also showed that employees agree that that the credit policy and strategy at AB clearly indicate and recognizes areas of credit in which the bank engage in (Mean=3.59) and thecredit policy of the bank incorporates credit risks inherent in all products and activities on which the Bank engages in(Mean=3.53). In addition, according to the response from the interview conducted for the study, it was learned that the bank maintains a less risky asset composition when compared to the industry average of the country.

Results in the study found that respondent employees agreed that the bank conducts comprehensive credit worthiness analysis properly before granting loan(Mean=3.56),the bank properly assesses the customer financial ability before granting loan(Mean=3.29) and checks for collateral requirements before granting loans (Mean=3.61). However, the results in the study revealed that respondent employees disagreed with regard to the availability of credit granting and approval process that establishes accountability of the decision makers (Mean=2.89).

With regard to credit monitoring practices of the bank, results in the study showed that respondents disagreed that the bank monitors the business of clients after granting credits on regular interval basis (Mean=2.48) and the bank regularly asses value and existence of collateral coverage (Mean=2.96). In contrast, employees agreed that the bank has a well structured documentation tracking system for credit and collateral files (Mean=3.41) and that the bank regularly assesses loan terms and conditions (M=3.49).

The results presented in the study also showed that respondent employees believe that the bank uses appropriate internal risk scoring system (Mean=3.43) and that the bank employs risk based scientific pricing (Mean=3.23). But the respondents disagreed that the bank gives trainings for employees on credit risk management (Mean=2.91) and provides advice for customers on loans usage (Mean=2.89).

5.2 Conclusions

It is argued in the literature that appropriate credit risk environment mainly depends on a development of a comprehensive credit risk strategies and policies that can address the identification of existing and potential credit risk, the activities the bank engages in and credit portfolio concentration limits (Basel, 2008). The findings in the study revealed that that the existing credit policy of bank possess the valuable ingredients needed to sustain a healthy credit management. Results showed that there is a well-designed credit risk strategy and policy that clearly indicate and recognizes areas of credit engagement and the risks inherent in these engagements.

It is stated that bank’s should follow a thorough credit evaluation process to assess whether clients are credit worthy or not before granting loans. In order to properly evaluate loan requests banks should be able to determine the repayment ability of the potential borrower. This requires assessing the business and the financial position of the potential customer and the overall economic conditions (Kakuru, 2003). In relation with this, the results of the study showed that the bank considers important aspects like; borrowers history, financial condition and collateral.

Another aspect of a sound credit risk management process is a sound monitoring practice intended to ensure credit is orderly and fully repaid. This involves monitoring of the portfolio performance, conducting site visits, regular contact with clients and the reviewing of clients' files and documents. In this aspect, findings in the study showed there is a room for improvement with regard to monitoring activities undertaken at Awash Bank like; regularly inspecting the business of clients, assessing value and existence of collateral coverage and communicating with customers in order to be able to notify them of their obligations.

Credit risk management also involves building a capacity that is able to mitigate and transfer the risk in order to reduce losses. To achieve this risk management objective banks use tools and strategies through which credit risk is mitigated (Raghavan, 2003). With this regard the findings in the study raveled that Awash Bank uses appropriate internal risk scoring system, employs risk based scientific pricing and has an independent risk management function. But results also indicated a lack of trainings to develop current employees' capacity.

5.3 Recommendations

The study recommends the following points based on the findings;

Once credit is disbursed, the existence of a well developed constant monitoring process is absolutely imperative and forms a substantial part of the monitoring function in a bank. One method of carrying out this monitoring process is by inspecting the business of clients on regular interval basis after granting credits. The findings in the study showed there is a room for improvement with this regard at Awash Bank. Therefore, this study suggests the bank to undertake regular inspection that can enable the bank to compare the actual performance of the borrowers. This can be achieved by timely analysis of the financials accounts of loan customers and comparing it to the projections accepted at the time of appraisal of credit facilities. This helps the bank to timely identify accounts showing symptoms of strain and put them under constant monitoring.

Collateral verification is an important component of not only loan processing and approval process, but also the monitoring process of credit management. Findings of the study showed the efforts of Awash Bank to assess the value and existence of collateral coverage after loan disbursement to be below average. Therefore, the study suggests the bank to carry out regular inspections which allows it to document, verify, and monitor the collateral.

The bank should effectively use the potential of man powers especially loan officers in order to make an effective credit assessment. The management body of the bank should design adequate professional training scheme through providing off and on the job training, so that the risk management of the bank can be more efficient and effective.In addition, the Bank should strengthen its advisory role associated to create the necessary awareness on timely payments.

5.4 Area for Future Study Area

The current study relies primarily on a questionnaire to gather relevant information. This instrument is not bias-free; future studies can use other methods to fully explain the phenomenon under review. For instance, the credit risk management can be assessed by incorporating financial statement (secondary data) and calculating credit risk ratios.

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Annex 1

St. Mary University
School of Postgraduate Studies
(Questionnaire filled by employees of Awash Bank on Credit Risk Management Practices)

Dear Respondent,

I am Flagot Menberu, a post graduate student at St. Mary University. This questionnaire is prepared in order to conduct a study for the partial fulfillment of the requirements for the Award of a Master's Degree in Accounting and Finance at the University. The title of the research work is, *''Assessment of Credit Risk Management Practices in The Case of Awash bankS.Co.*'' Hence, to gather information, I kindly request your assistance in responding to the questions listed below. Any information you present will be kept absolutely confidential and will only be used for academic purpose. Your cooperation and prompt response will be highly appreciated.

NB

- Writing your name is not necessary
- Please put **"X"** for your choice in the box

Part I. General background of the employee

1. Sex/Gender/: Male (_____) Female (______)

2. Age (in year): 25 to 30 (____), 31to 35 (____), 36 to 40 (___), above 40 (____)

3. Level of education: TVET certificate (__), Diploma (___), Bachelor's Degree (__),

Master's Degree (_____) or others specify____________________________

4. Work experience; Below 5 yrs (_______),6-10 yrs (______),   11-20yrs (_______),

Above 20 yrs (_______)

Part 2 Questions related to the study

Answer the following questions and put "X" in the box that is given in each of the cell below

The values of scales are

5= strongly agree, 4= Agree, 3= Neutral, 2= Disagree, 1= strongly disagree

No	**Question**	**1**	**2**	**3**	**4**	**5**
Questions related to existing credit policies and guidelines						
1	The bank has well-designed credit risk Strategy and policy.					
2	There is credit policy and procedure with clearly stetted eligible criteria					
3	The existing credit policy of the Bank explicitly indicate general areas of credit in which the bank is prepared to engage					
4	The existing credit policy of the bank incorporates credit risks inherent in all products and activities on which the Bank engages in.					
5	The existing credit policy of the Bank incorporate sound andprudent credit portfolio concentration limits					
6	The credit policy of the Bank clearly defined appropriate levels of delegation of approval, and provision or write- off authorities					
7	The Bank has credit risk policy that clearly set out how bad credits are to be managed					
Questions related to client appraisal and credit granting process						
8	The Bank conducts comprehensive Credit worthiness analysis properly before granting loan.					

9	The bank checks the borrower history before granting loans					
10	The bank properly assessed the customer financial ability to meet obligation					
11	The bank has a clear established process for approving a new credits as well as amendment, renewal and re-financing of existing credits					
12	. Adequacy, marketability and enforceability of collateral requirement is properly evaluated and measured by professional personnel or expertise					
13	The banks credit granting and approval process establishes accountability of the decision makers					
Questions related to credit risk control and monitoring						
14	The Bank has a well structured documentation tracking system for credit and collateral files					
	The bank strictly monitors if loan terms and conditions are being met					
15	The Bank monitors the business of clients after granting credits on regular interval basis					
16	The Bank regularly asses value and existence of Collateral coverage	.				
17	The bank periodically prepare credit quality reports for signaling credit quality					
18	The bank sends timely notices notifying customers their obligations					
Questions related to overall credit risk mitigation strategies						
19	There is independent risk management policy and procedure from credit policy and procedure in the bank.					
20	The bank has appropriate internal risk scoring					

	system that distinguishes high and low risk areas.					
21	The Bank employs risk based scientific pricing					
22	Proper credit limit is established by the Bank for particular economic sector, geographic region specific products, and a group of associated borrowers					
23	Adequate measures are put in place to recover non-performing loans					
24	The bank offers training for employees on credit risk management					
25	The bank offers customers sufficient training on loans usage					

Annex 2

St. Mary University
School of Postgraduate Studies

Interview Questions

1. What trend is exhibited with regard to non performing loan and default rate?
2. What major challenges are faced in loan appraisal and granting process?
3. What are the main concerns regarding loan monitoring activities of the bank?
4. Does the bank utilize technological infrastructure that can help its risk mitigation strategies?