SCHOOL OF POSTGRADUATE STUDIES

DEPARTMENT OF ACCOUNTING AND FINANCE

ASSESSMENT OF THE PERCEPTION OF BANK EMPLOYEES ON FACTORS AFFECTING NON-PERFORMINGLOANS: A COMPARATIVE STUDY OF COMMERCIAL BANKOF ETHIOPIA & AWASH BANK S.c.

A Thesis Submitted to the School of Graduate Studies of St. Marry University in Partial Fulfillment of the Requirements for the MBA in Accounting and Finance

BY

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Statement of Declaration

I, Rahel Hailu, The under signed, declare that this thesis entitled: **"assessing the factors affecting non-performing loans: a comparative study of commercial bank of Ethiopia & awash bank s.c.**" is my original work. I have undertaken the research work independently with the guidance and support of the research advisor. This study has not been submitted for any degree or diploma program in this or any other institutions and that all sources of materials used for the thesis has been duly acknowledged.

Declared by

Name: Rahel Hailu

Signature: -------------------------

Department: -Accounting and Finance

Date: December, 2021 G.C

Dedication

This work is dedicated to my friends, my sisters and my Advisor Dejene Mamo (Ph.D.) the pillar of my hard work and vision in life, a teacher who embraced education and an icon in changing the young people's lives through dedication and love for teaching and impacting knowledge, Beyond this my Husband and my children's for their continuous encouragement and support during the study.

Certificate of Approval

School of Postgraduate Studies

St. Marry University

This is to certify that the thesis prepared by **Rahel Hailu**, entitled **"Assessment of the perceptions of Bank employees on factors affecting non-performing loans: a comparative study of commercial bank of Ethiopia & awash bank s.c.** "and submitted in partial fulfillment of the requirements for the of MBA in Accounting and Finance complies with the regulations of the University and meets the accepted standards with respect to originality and quality.

Name of Candidate: **Rahel Hailu**; Signature:________________Date:______________.

Name of Advisor: **DEJENE MAMO (PhD)** Signature:_________________Date:__________.

Signature of Board of Examiner`s:

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At long last, I need to precise my most profound much appreciated to those who energized me, which I did not specify their title, by giving all the essential back in my endeavor.

"MAY THE LORD BLESS YOU ALL"

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LIST OF ACRONYMS

AIB	Awash International Bank
CBE	Commercial Bank of Ethiopia
EAD	Exposure at default
ETB	Ethiopian Birr
GDP	Gross Domestic Product
IMF	International Monetary Fund
KYC	Know Your Customer
LGD	Loss given default
MIS	Management Information System
NBE	National Bank of Ethiopia
NPL	Non-Performance Loans
PD	Probability of default
RQ	Research Questions
VAR	Value at risk

ABSTRACT

The goal of the study is to assess factors that influence non-performing loans in the commercial banking sector, namely in public CBE and private awash banks in Home Office Level. The researchers focused at institutional and customer-specific factors that affect NPLs, as well as remedial techniques that can be applied to lower the amount of NPLs, in order to meet the "general and specific objectives." This study also employed the descriptive research design and a mixed research approach, using 181 credit staff members from the CBE and Awash banks in the Headquarter level as the primary source of data. Purposive sampling method were used to select the target banks in the study and the sample, on the other hand, was extended to credit employees using census sampling method. The sample, on the other hand, was confined to credit professionals. Descriptive statistics such as mean, frequency, and percentages were utilized to analyze the data. The study's findings revealed that bank-specific factors include as bank-specific factors affecting NPLs, bank size and performance, credit size, bad credit evaluation, poor loan terms, lack of aggressive credit collection mechanism, and inadequate nature of collateral were discovered. On the other hand, customer specific factors that can affect NPLs have included the borrower's unwillingness to pay back the loan and the customer's money diversion for unexpected purposes. As a result, the stakeholder is suggested to minimize the occurrence of loan default. Should create awareness for unwillingness customers to pay back the loan and the customer's money diversion for unexpected purposes, Should clearly & effectively communicating with lending officers regarding policies & procedure and ensure to discount future occurrences of credit risk or loss, strengthen its applicant screening criteria and due diligence assessment to select potential risk taking applicants, adopt appropriate pre and post credit risk assessments, Banks needs to ensure that borrowed funds are being used for the intended purpose through enhanced timely credit monitoring after the loan is being disbursed.

Keywords: ***Non-Performing Loans, Customer Specific Factors, Bank Specific Factors***

CHAPTER ONE

1. INTRODUCTION

The following section of the first chapter introduces the background of the study and which includes the discussion on the issues of none performing Loans and affecting factors in commercial bank of Ethiopia and Awash Bank s.c. It also tried to provide a glimpse of the bank industry under study and the motivation for doing this particular research.

1.1 Background of the Study

The importance of banks in today's economy is unprecedented, since banks are among the most important and largest contributors to any economy on the planet. Because of their power to mobilize savings and reinforce capital flows within the economy, financial institutions (FIs) and banks in particular are critical to any economy (Richard, 2011). In any economy, the financial intermediary function performed by banks drives investment and boosts production (Hardy, 2006).

Certainly, without banks, the global economy would undoubtedly collapse, owing to the fact that banks are the primary financial mediators between consumers and businesses. Guy (2011) asserts that the banking industry still forms the principal basis for financial intermediation in most countries in the globe. Nonetheless, for banks to offer the fundamental services they must possess the funds with which to do so; and the provision of loans offers the most crucial means by which banks obtain their revenues (Guy, 2011). Certainly, the principal reason why banks provide financial intermediation is to enable them to maximize their profits and to provide value to the shareholders.

Literature reveals there are a lot of challenges that can tackle loan management system of banks in Ethiopia such as, due to lax credit standard, poor portfolio risk management, or weakness in the economy; loan portfolio problems have historically been the major cause of bank loss and failures. (Wondimu, 2007).

According to Waweru and Kalani (2009), in their operation, banks and financial institutions, generally, do face tons of risks a number of which relate to the market and operating risks while others relate to liquidity and legal rules. However, non-performing loans pose perhaps the best risk to banks since it's at the very heart of banks revenue sources and profits (Karim, et al., 2013). a number of the main crises within the banking sector within the world including the good

Depression within the US within the 1930s to the recent liquidity crisis in 2010 within the US that affected the remainder of the planet are somewhat linked to bad or non-performing loans (Hardy, 2006).

Collins and Wanjau (2011) contend that the financial crisis is precipitated by the share and quantity of non-performing loans. This has been determined to be true for the developed also because the developing economies. Certainly, studies show that NPLs are responsible for East Asia's financial crises, also as those in Sub-Saharan Africa (Karim, et al., 2010). Non-performing loans, for instance, accounted for up to 75% of the asset portfolios of Indonesian banks that failed during the East Asian financial crisis (Collins and Wanjau, 2011). Furthermore, the surge in non-performing loans triggered the financial crisis in several of the sub-Saharan African countries within the 1990s (Onsarigo, et al., 2013).

Kenya's banking system, like that of the remainder of the planet, contributes significantly to the country's economic process (Onsarigo, et al., 2013). Consistent with Collins and Wanjau (2011), the banking industry in Kenya is comprised of the financial institution of Kenya, which is that the country's major regulatory authority, Non-Bank Financial Institutions, Commercial Banks, and Forex Bureaus. Consistent with Waweru and Kalani (2009), Kenya's banking sector consisted of 45 institutions in 2008, 43 of which were commercial banks and therefore the remainder was mortgage financing institutions.

The "Banking Act, under Cap 488 and Prudential Regulations" regulates the operations of the commercial banks in Kenya (Collins and Wanjau, 2011, p. 59). Of the 43 banking institutions in Kenya, 12 were foreign-owned while the remainders comprising some 43 banks were owned locally and of those, the govt had a big share. Privately-owned banks in Kenya as of 2008 numbered 28 (Collins and Wanjau, 2011).

Certainly, just like the remainder of the African countries and therefore the world, Kenyan banks have had their share of problems with non-performing loans (Onsarigo, et al. 2013). Indeed, within the aftermath of 1997 and 2008, the banks in Kenya experienced a pointy decline thanks to enormous NPLs resulting from inappropriate lending to land (Richard, 2011). Concerns have emerged regarding the negative effect that non-performing loans are having on the banking sector in Kenya and on the Kenyan economy generally (Collins and Wanjau, 2011).

However, the reports of the studies conducted between 2007 and 2008 indicated a decline in

NPLs in Kenya (Onsarigo, et al., 2013). it had been found that there was a 17.5% decline in NPLs between June 2007 and June 2008, from Ksh 70.7 billion to 58.3 billion, which was accredited to recoveries and write-offs (Onsarigo, et al., 2013). Nonetheless, while trends indicate a general decline in NPLs in Kenyan banks, the 2007 – 2008 post-election violence experienced within the country reversed the trend. There was a general increase within the level of NPLs by approximately Ksh 1 billion between December 2007 and June 2008 (from Ksh 57.2 billion to 58.3 billion) (Collins and Wanjau, 2011).

Generally, as Waweru and Kalani (2009), contend, the Kenyan economy has experienced a gradual decline for an extended time. This economic decline has affected the main sectors of the economy including the banking institutions or the commercial banks and other financial markets (Onsarigo, et al., 2013). The extent of NPLs in 1998 stood at Ksh 80 billion and in 2001, it had been estimated at 81.3 billion showing a gentle upsurge (Waweru and Kalani, 2009). These trends in Kenya are indicative of the importance of the management of loans which ensures that their possibility of NPLs is reduced to the minimum. However, the management of loans is merely feasible when it takes cognizance of the precipitating factors of NPLs (Guy, 2011).

1.2 Statement of the Problem

Non-performing loans affect the bank`s liquidity and profitability which are the most components for the efficiency of the bank. The extent of loan default increase within the banking industry reduces the likelihood of generating income to maximize the profitability of the banks. Again, a mismatch of maturities between asset and liability creates liquidity risk for the banks that deteriorate bank`s overall credit rating including its image or goodwill (Badar and Yasmin, 2013). Therefore, the determinants of NPLs should tend due consideration because of their argumentative effect on the survival of banks. The adverse effect of NPL is due to bank manager's hostile selection of its borrowers (Brownbridg 1998).

Increasing the extent of non-performing loans may cause very serious effects. For instance, it discourages the institution to refinance the defaulting client, which puts the defaulters once more into the vicious circle of low productivity. Therefore, an irregular investigation of the numerous aspects of loan defaults, source of credit, the aim of the loan, sort of loan, and condition of loan provisions etc., are of utmost importance both for policymakers and thus the lending financial institutions. Whether or not a default is random and influenced by unpredictable behavior or it's influenced by certain factors during a selected situation needs an empirical investigation. Such close observations would aid all financial institutions to control their credit program for the upper.

Most of the defaulters were found to be the inspiration explanation for laxity in management procedures, loan diversion, and unwillingness to repay loans, etc. because of such irregularities, lenders must lookout in following stringent norms predetermined and ensure in overcoming such risks and if not a minimum of reduce the danger of a loan default (Ahmmedet al., 2012).

The seeds of the present study are sowed in attempting to look out major influencing factors or bottlenecks that increase non-performing loans in both public and private banks of Ethiopia. It"s believed that the causes for non-performing loans would vary in depending on the bank size and performance, credit size, poor credit assessment, terms of credit, credit orientation, high credit growth, and risk appetite, and poor monitoring among others. To facilitate the present study, the causes of non-performing loans are categorized into two: bank-specific and customer-specific variables.

Bank failures include massive effects and costs not only to Banks but also to the economy as a whole. This, being the immediate reason of Banking crisis occurrences at various times indicates that assessment of non-performing loans and implementation of controlling mechanisms to avoid their occurrence could also be endless process that need to be improved from time to time. However, credit risk management is indeed awfully difficult and sophisticated task within the financial industry because of the unpredictable nature of the macroeconomic factors also as various microeconomic variables which are peculiar to the industry or specific to a bank (Garr, 2013).

In privies, most studies focused on determinants of non-performing loans in commercial banking industries in Ethiopia and also the other country have categorized the factors into bank-specific and macro-economic variable. There was no study conducted so far within the capital region on this issue, however, there was an attempt made on other regional and national levels.

Therefore, this study may prove critical in bridging the knowledge gap by identifying the factors that affect non-performing loans within the case of the commercial bank of Ethiopia and Awash Bank s.c. at home office level.

1.3 Objective of the Study

1.3.1 General Objective

The general objective of this study is ”Assessment of the perceptions of bank employees on factors affecting non-performing loans in commercial banking sector; between public and private banks in the selected area.

1.3.2 Specific Objectives

Based on the general objective, the study encompasses the following specific objectives to assess the factors affecting non-performing loans in case of commercial banks of Ethiopia & Awash bank s.c.

1. To assess institutional specific factors affecting non-performing loans in selected public and private banks
2. To examine customers specific factors affecting non-performing loan in selected public and private banks
3. To evaluate remedial practices implemented to reduce the level of non-performing in selected public and private banks

1.4 Research Questions

The study tried to answer the following questions:

1. What are institutional specific factors affecting non-performing loans in public and private banks in the selected area?
2. What are customers specific factor affecting non-performing loan in public and private banks in the selected area?
3. What are the remedial practices can be implemented to reduce the level of non-performing loans in public and private banks in the selected area?

1.5 Significance of the Study

According to Mugenda, A. G. and Mugenda, M. O. (1999), a study is conducted for a certain predetermined reason without which there will be no need for conducting or undertaking a study. Therefore, in deciding to conduct a study, a researcher must address several important questions such as; why is the research important? What value will the research add to the literature and who will benefit from the research? The current study is relevant. The study will be vital to many groups, however; the following three groups stand to benefit from the study exceptionally.

The Commercial Bank of Ethiopia and other Banks: - This study will be highly relevant and important to the Commercial Bank of Ethiopia and Awash Bank s.c and other banks in several ways. The study will identify the main factors that affect non-performing loans and hence create awareness upon the Commercial Bank of Ethiopia and Awash Bank management and the management of other banks of these factors.

By creating awareness of the factors that, affect non-performing loans, the study will thus inspire the banks to innovate ways of dealing with or avoiding non-performing loans. The study will also examine some of the mechanisms that have been implemented to deal with non-performing loans and evaluate their effectiveness.

This will be of importance to the banks in that it will facilitate their cognizance of the effective from the ineffective mechanisms. By appreciating the findings of the study, the banks can then implement new or improve on the existing mechanisms to reduce the level of non-performing loans.

The Government and the Policymakers: - This study is going to be crucial to government and therefore the policymakers therein it'll not only create cognizance among the policymakers of the impact of non-performing loans on banks but its effects on the economy and consequently on national stability. By acquainting themselves with the discussions and findings of this study, the policymakers are going to be ready to implement effective fiscal policies concerning credits and thus prevent the occurrence of non-performing loans within the economy.

Academicians and Researchers: - This study is going to be relevant to future researchers, because it can contribute literature vital for future research. Those that are going to be curious about researching non-performing loans are going to be ready to build their literature base by reading this study. Furthermore, the study is going to be important to future researchers because it may inspire them to hold out more studies to enhance on this study or to verify its findings.

By venturing into a neighborhood that's largely ignored by academicians, the study is going to be important in generating a refocus among scholars and researchers of the need for a conceptualization of things affecting non-performing loans.

1.6 Scope of the Study

The study focused principally on non-performing loans and particularly on the public and privet bank factors affecting non-performing loans; the institutional factors affecting non-performing loans; as well as the remedial mechanisms that have been implemented to manage non-performing loans. The researcher will rely mostly on secondary sources of information not dating older than 5 years for information to satisfy the qualitative aspects of the study such as the literature review. The survey targeted the credit staff members of the Commercial Bank of Ethiopia & Awash Bank located in Addis Ababa.

1.7 Limitation of the study

Like any other study, this study has its own limitations. The major limitation is that it is partly based on perceptions of the credit staffs of the case banks. As such, individuals‟ perceptions are not claimed to accurately measure the underlying reality that they are supposed to represent and also the focal point of the study was awash international bank and CBE. The Non- performing variables are diverse and complicated. Therefore, these studies were limited to the factors that affect non-performing loans in the case banks.

1.8 Organization of the Study

This study is organized in to five chapters. Chapter one presented the introduction of the study which includes background of the study, statement of problems, objective of the study, scope of the study, and significance of the study. Chapter two presents the literature review regarding the research area of the Factors affecting non-performing loans and therefore sets out the theoretical and empirical foundations for the research. In chapter three the study will address research methodology, data sampling, research design, and chapter four will provide detail data analysis and Discussions and the final chapter will make conclusions and possible recommendations.

CHAPTER TWO

LITERATURE REVIEW

2. 1. INTRODUCTION

This chapter reviews existing literature on the factors that affect non-performing loans. The literature review drew upon secondary materials that have been written around the research topic. The literature review mostly focused of literature that related to the three research questions namely; Institutional specific factors affecting non-performing loans; the customer specific factors affecting non-performing loans; and the remedial mechanisms that have been implemented in various banks to deal with the problem of non-performing loans.

2.2. Theoretical Review

2.2.1 Concepts of Non-Performing Loans

The concept of non-performing loans has been defined in several sorts of literature. Consistent with (Patersson and Wadman 2004), non-performing loans are defined as defaulted loans which banks are unable to take advantage of. They‟re loans which can't be recovered within the stipulated time that's governed by the laws of a rustic. consistent with commercial bank of Ethiopia's (NBE's) Directive no, SSB/43/2008, "non-performing loans" means outstanding credit facilities that are overdue for quite 90 days beyond the agreed-upon repayment period, non-performing loans are loans that are ninety or more days delinquent in payments of interest and/or principal or loans categorized under substandard, doubtful and loss as groupings of unpaid loans (NPL).

2.2.2 Non-Performing Loans

When banks are realizing on-time loan payments, the loans are said to be performing and therefore the banks become profitable (Guy, 2011). There’s empirical evidence that lending is that the mainstay of the banking system because the rents that the banks charge on the borrowed money is that the main source of their revenues (Babouček and Jančar, 2005). Because loans and advances are the foremost profitable ventures for commercial banks, banks are always willing to supply more loans to borrowers albeit this is often a adventure (Karim, et al., 2010).

Certainly, most of the time banks fail to understand returns against the loans that they issue out due to defaults. Such loans that haven't been paid over the stipulated time are said to be non-performing and are dangerous to the bank as they'll cause the last word collapse of the bank, the banking system, and therefore the entire economy (Beck, et al., 2006). Consistent with Fatemi and Fooladi (2006), non-performing loans are loans, which are unrecoverable within the time stipulated by the laws of the country or as agreed to by the bank and therefore the borrower at the time of provision. As such, the likelihood of obtaining income from such loans is uncertain. Non-performing loans have also been deemed as loans whose repayment period is quite 90 days.

Collins and Wanjau (2011), explain that in Kenya non-performing loans are the cash the bank or a financial organization has given to a private or a firm that has not been settled for a period exceeding 90 days. Non-performing loans also are referred to as non-performing assets within the banking lingo (Richard, 2011). the difficulty of non-performing loans has gained tons of attention in many countries round the world especially since the financial crises of 2007 – 2008, because it was believed to be the most explanation for failure of most banks during the crisis (Karim, et al., 2010).

Non-performing loans are so crucial to the bank because they will be wont to determine the banking industries‟ stability and permanency as a well the profitability of the bank (Sinkey, 2007). This is often because non-performing loans can reduce a bank‟s capital resource rendering the bank unable to grow or develop its business and therefore the result's the insolvency or liquidation of the bank (Babouček and Jančar, 2005).

Non-performing loans are potential risks to the banking system and therefore the economy because they need the potential to scale back banks‟ liquidity, cause credit expansion and permit the slump of the important sector (Babouček and Jančar, 2005). Furthermore, banks with high NPLs in their portfolio of investments will definitely realize a discount in their revenue earnings (Bessis, 2006).

2.2.2.1 Customer Specific Factors Affecting NPL

Kanimbla (2010) studied determinants of non-performing loans in Standard Charted Bank. He argued that long-duration granted for repayment of loans, the unwillingness of borrowers to pay back the loan, lack of business skills are the reasons for non-performing loans. Gaitho Edna

(2010) in his study the causes of non-performing loans in Kenyan banks, revealed that in the side of customer-specific factors like Bank clients started new businesses in which they had no experience, The simultaneous operation of too many kinds of business, The inappropriate use of the loan, Debtors conceal some vital data in their applications, Provision of poorly valued collateral or difficulties in recovery, all these factors were found to contribute to bad loans. Kwayu (2011) analyzed factors for the non-repayment of bank loans at the NBC Dodoma region in Tanzania. The attitudes of borrowers contributed to the non-repayment of loans are high. Carlo Msigwa(2013) studied Factors affecting non-performing loans in the Banking industry: A case of KCB Bank (Tanzania) Limited; Morogoro and Msimbazi Branches. The findings showed that diversion of funds for unnecessary expansion of business and speculations leading to investing in high-risk assets to earn high income and legal environment which reflects the availability or non-availability of foreclosure laws and ownership rights for both domestic and foreign investors have been factors influencing NPLs.

Stephen Laurent Isaac Mwakajumilo(2014) conducted to assess the impact of non-performing assets on the growth of the banking industry in Tanzania specifically NMB Bank. The findings revealed that the impact of non-performing assets facilitated by non-recovery of loans hence caused great harm to the economic framework and structure, loss of trust of dishonest, reduced customer ability in buying, legal issues.

2.2.2.2 Institutional or Bank-specific Factors Affecting Non-Performing Loans

(Richard 2011) observes that there are endogenous forces inherent in the banks institutional processes that influence the levels of NPLs. The bank specific factors affecting NPL to be identify as; bank size and performance, credit size (such as aggressive lending, compromised integrity in approval, rapid credit growth, bank great risk appetite), poor credit assessments, poor credit loan monitoring and loan supervision capacity, lenient/lax credit term, lack of aggressive credit collection police, inadequate nature of collateral are the major factors affecting non-performing loan in the side banks

Bank Ownership

The ownership of a bank is a fundamental determinant of that banks behavior and lending policies. According to Richard (2011), ownership of the bank influences the risk-taking behavior of that bank which further determines the level of non-performing loans that a bank would have.

It has been found that state owned banks are more disposed to engage in risky credit behaviors and therefore are more prone to NPLs (Guy, 2011).

This is because as the property of the state, state owned banks are often influenced by the government of the day to facilitate economic development (Babouček and Jančar, 2005). Thus, these banks are likely to offer credit to high-risk individuals or groups (most likely to default) and to fund riskier projects. Furthermore, these banks give a more promising credit terms to small and medium firms to facilitate the government's‟ need to fast-track economic development in the country. The result of this uninformed and politically inspired risk-taking facilitates the emergence of higher NPLs (Murumba, 2013).

Richard (2011) contends that the NPLs accumulation by state owned banks is much higher as compared to that of privately owned banks indicating that there is an association between bank ownership and the non-performing loans. Nkusu (2011) elucidates that the higher accumulation of NPLs is due to the fact that state owned banks also have a relatively weak recovery capacity vis-à-vis the banks that are privately owned. Certainly, the level of NPLs is seen to be lower in banks that are jointly owned by the state and private individuals or entities (Onyia and Oleka, 2000). Murumba (2013) asserts that the private-state interaction is influential in positively determining NPLs levels.

Insider Lending

It is the accepted code of conduct within the banking system in most jurisdictions round the world that when banks lend money to their clients, they provide them an equivalent terms and conditions as they normally loan to other borrowers (Nkusu, 2011). Thus, similar terms including interest rates, credit evaluation criteria and repayment terms applicable to other borrowers should apply to the staff also (Messai and Jouini, 2013). These loans emerge out of political pressure, the endeavor by the management to please the bank‟s employees, ownership of the bank and under-capitalization (Murumba, 2013).

Insider lending has the potential to cause the collapse of the bank (Nkusu, 2011). However, managers often defy the set regulations and offer better credit terms to their staff (Sinkey, 2007). Consequently, insider lending has been identified to be an influential factor determining the extent of non-performing loans for several banks (Brownbridge, 2007). Richard (2011) observes that insider loans are one among the key reasons for the failure of the many banks. the most reason why insider loans fail is due to aside from being issued under different terms than those given to outsiders; loans obtained from insider lending loans also are invested in speculative projects with high propensity for failure like land development (Messai and Jouini, 2013). Besides, the loans are often invested in huge extended projects that are less likely to get returns within the short-term. Brownbrigde (2007) observes that the failure of several banks in Kenya has been thanks to insider lending. The Kenyan banks are generous in extending large loans to bank‟s shareholders, directors and managers, loans which whose payment period are breached resulting in the increase in NPLs (Brownbridge, 2007).

These loans are invested in highly speculative ventures like land, which don't earn returns on investments first enough resulting in loan defaults. Brownbridge (2007), contends that the just about 90% of International Finance company‟s loan portfolio had been given to a minister. At an equivalent time, it had been found that up to 50% of Pan African Bank‟s (PAB) loan portfolio had been given to its chairman (Brownbridge, 2007). Other banks in Kenya including the Trade Bank became insolvent after having issued large loans to companies that were largely related to a number of its shareholders (Onsarigo, et al., 2013).

Lenient Credit Terms

The terms of credit should be as strict as possible to make sure that the borrowers‟ chances of defaulting are reduced the maximum amount as possible (Warue, 2013). Consistent with Lu, et al. (2011), when the banks have a practice of offering strict credit terms and abiding by them, the probabilities of default loan payment are reduced to a really great degree. The terms of credit are the conditions that the banks dictate to a possible borrower concerning monthly and total amount of credit, the possible maximum repayment time and therefore the rate lately repayment (Brownbridge, 2007).

It is important for banks to not be lenient or compassionate when setting and abiding by the terms of credit. Studies indicate that when banks and their managers are too lenient in setting credit terms, they facilitate the propensity of the borrowers to default payment (Sinkey, 2007).

In fact, when the credits terms are too lenient, the propensity of consumers to require loan is far higher and this might end in excessive lending which is an antecedent for NPLs (Khemraj and

Pasha, 2009). There are several elements, which influence the banks‟ leniency regarding the issuance terms of credit (Guy, 2010). Studies have indicated that a banks ownership determines to an excellent extent how it gives out loans to individuals and corporations (Nkusu (2011). Therefore, publicly owned banks are more lenient in providing loans to individuals, groups and banks, since the banks need to facilitate the government's‟ development plans (Richard, 2013). However, privately owned banks, which are driven by the profit instead of the national development agenda, are more susceptible to providing rather strict terms of credit to borrowers. Consequently, loans that are given under lenient credit terms are more likely to be defaulted upon than loans that are provided under very strict terms (Warue, 2013).

In essence, the amounts of NPLs for loans given under lenient terms of credit are greater than those given under stricter terms of credit. Furthermore, research has shown that the quantity of control given to the administrators and managers influence banks leniency in setting the terms of credit (Khemraj and Pasha, 2009). Accordingly, it's been found through studies that in banks where the managers and directors have tons of control, lenient terms of credit are attached to insider borrowing.

Therefore, other these sorts of loans are offered under terms that don't accrue real benefit to the bank but rather to the staff members who borrow internally (Messai and Jouini, 2013). Therefore, the propensity of loans offered under lenient terms to become non-performing loans through default by borrowers is extremely real.

High Interest Rates

Interest rates are the rent that the borrowers pay on money that they borrow from the bank or a financial organization (Collins and Wanjau, 2011). While standard practiced during a liberalized economy is to let the economic process dictate the interest rates, banks have intervened to line the interest rates citing several reasons (Onsarigo, et al., 2013). Consistent with Messai and Jouini (2013), interest rates influence the extent of NPLs especially within the case floating interest rates. A high rate of interest means the customer can pay more on top of the cash they borrow because the banks gain more from the cash they loan to clients.

As Collins and Wanjua (2011), observe, high interest rates make it hard for the borrowers to services their loans, which suggests that a rise within the levels of NPLs is that the result. as an example, the increase of high interest rates in Kenya before the 2007 and 2013 elections are suggested to having been the explanation for the rise in bad loans at this era because the borrowers became hard-pressed to service the loans (Onsarigo, et al., 2013). Data from the financial institution of Kenya are indicative of the increase of the worth of NPLs in March to Ksh 70 billion because the government and personal sector spending subsided thanks to the electioneering period a 14.1% increase from the Ksh 61.6 billion NPLs realized in 2012 (Onsarigo, et al., 2013).

Research has shown that there exists an association between the occurrence of NPLs and therefore the level of rates that banks charge on loans (Sinkey 2007). Banks placing higher interest rates on the loans that they issues are found to experience a high level of NPLs as compared to people who charge relatively lower rates. Consistent with Beck, et al., (2013), a surge in lending interest rates features a positive correlation with the rise within the level of NPLs. In fact, if the lending rates in Kenya is anything to travel by, then it's perceptible the rationale why the worth of NPLs held by Kenyan banks still rise.

It is observable that the banks in Kenya have hiked the quantity of interest rates that they charge on loans. Consistent with Onsarigo, et al., (2013), the present lending rates in Kenya are at their highest at 16.96 taking under consideration that the financial institution Rate is 8.5. This offers evidence on why the extent of non-performing loans within the country continues to rise considering the direct correlation between high interest rates and non-performing loans observed by Khemraj and Pasha (2009).

2.2.2.3 Remedial Mechanisms of Dealing with Non-Performing Loans

The impact of non-performing loans on any bank or economy are often devastating, it's therefore important that non-performing loans are controlled to make sure that the banks remain functional and profitable (Guy, 2011). Proper credit management is important to stop banks from taking unnecessary and excessive risks which will cause the buildup of NPLS (Brown brigde, 2007). Therefore, it's apparent that proper control and management of non-performing loans has positive results to the banks, firms and even to the overall economy. Miscarriages within the management of loans naturally cause a surge within the levels of non-performing loans (Richard, 2013). Following is an assessment of literature on the mechanisms which will be implemented to affect NPLs

Reduction of Interest Rates

Several studies have indicated that the reduction of interest rates has been used as a technique by several banks to deal with the difficulty of non-performing loans (Khemraj and Pasha, 2009). These follows perhaps from the belief of that higher interests‟ rates is one among the most causes of loan defaults by borrowers (Brown brigde, 2007). Consistent with Babouček and Jančar (2005), some banks have especially applied this strategy during times of depressions when borrowers are more likely to default loan payments. By reducing interest rates the banks also are ready to allow their customers to return the cash that they borrowed because the bank makes some little profit.

According to Messai and Jouini (2013), the reduction of interest rates on loan borrowed are crucial to banks in making limited profit in situations where they might have made great losses. Consequently, the amount of loan servicing has often increased whenever such measures are employed; loans that might not are serviced and would have accumulated.

Lu et al. (2011), observes that some banks have often adopted to the prevailing economic situations by allowing borrowers to pay relatively little interests sometimes of economic contraction and to pay the traditional rates under the credit terms once the economy improves. While this strategy has led to the lengthening of the repayment period it's actually encouraged the servicing of loans sometimes when borrowers would have defaulted (Lu, et al., 2011). The reduction of interest rates has been extended by banks to groups that are presumably to default or those considered as credit risky. Studies have shown that this has had a positive effect on the NPLs by lowering their levels (Beck, et al., 2013).

However, Brown Bridge (2007), contends that the reduction of interest rates by banks is usually forward looking is implemented to forestall future defaults. This practice is pinned on the logic that prime interest rates are detrimental to the economy thanks to the borrowers‟ propensity to default under such conditions (Bessiss, 2006). Hence, by reducing the interest rates, the banks facilitate economic process and therefore the payment of loans. This features a general effect of reducing the amount of NPLs held by Banks (Brown Bridge, 2007).

Enhancing Management and Risk Assessment

The benefits of risk management are currently being enjoyed by several banks round the world that have implemented strategies of handling risks concerning loans (Onsarigo, et al. 2013).

For instance, consistent with Warue (2013), in Kenya in 2003, the Cooperative Bank of Kenya realized as a pre-tax profit of Ksh 180.5 million, which was a 70% upswing from the Ksh 104.9 million realized within the previous year.

According to Warue (2013), this profitability was largely due to a sound risk assessment for loan advances also as an efficient credit recovery mechanism. This realization by the Cooperative Bank of Kenya of the importance of risk management is straightforward to fathom as long as studies have indicated that inadequacies in risk assessment procedures by banks including the ineffective credit management are identified as being among the leading causes of NPLs and bank failures (Farhan, et al. 2012).

Guy (2010), contends that credit assessment that banks have used include the assessment not only of client's credit worthiness but the viability also of the projects during which the funds are being requested for. It's apparent that banks have often refused to advance loans to borrowers who want to venture in businesses that they need no or little experience in (Onyia and Oleka, 2000).

Loan officials are at the middle or determining the credit worthiness of potential borrowers and extend loans to borrowers. Therefore, as a part of the danger management strategy, different banks have employed different strategies to make sure that the loan officials have sufficient knowledge of managing the associated risks (Brown Bridge, 2007). Several banks are providing their loan officials secondary training to make sure that they're well familiar with the risks that are related to loans especially the NPLs (Richard, 2013). Beck, et al., (2013), observe that banks have used such risk assessment criteria as specific limits and ration to raised affect the risks posed by non-performing loans.

Close Monitoring of Borrowers

The number of banks that lose their money because they lack an effecting mechanism of monitoring their borrowers is unprecedented (Warue, 2013). Lack of proper monitoring of how the funds acquired through loans has led to situations where such funds are not utilized well or they are invested in high-speculative ventures having little ability for generating funds in good time making borrowers incapable of servicing the loans (Karim, et al., 2013). In these situations, the loans become bad debt, which affect the issuing bank. Emerging from this trend therefore is the need to ensure that the loans are utilized promisingly through a close and effective monitoring of borrowers (Farhan, et al. 2012).

In fact, some studies suggest that ineffective monitoring mechanism for borrowers has a positive association with the accumulation of NPLs (Babouček and Jančar, 2005). Banks have implemented the monitoring of loan utilization by borrowers not only to see to it that the funds are put to proper use, but also to ensure that they are ready to deal effectively with any issue arising. In monitoring the loans, the banks have utilized contents of loan files to screen loans (Richard, 2011). Through an effective monitoring mechanism, banks are able to identify delinquent borrowers and effectively determine how to deal with these groups of borrowers (Onyia and Oleka, 2000).

Banks have also implemented regular ways of monitoring the quality of loans and implemented early warning systems that enable alert and enable bank managers to avoid potential stress (Babouček and Jančar, 2005). Consequently, banks have realized the need to accord their borrowers proper attention so that loan performance can be ensured. This facilitates repayment, as borrowers are more likely to pay since they consider themselves as obtaining proper attention from the bank (Richard, 2012).

The need for continued for monitoring of the borrowers is to accord banks means to assess whether the reasons for advancing the loans still hold and to confirm that the money is being used for the intended purpose (Fatemi and Fooladi, 2006). Furthermore, close monitoring of the borrower gives the bank an opportunity to assess the borrower’s character, to evaluate the borrower’s ability to pay the loan, the value of the collateral against the prevailing market conditions (Farhan, et al. 2013).

2.3 Empirical Review

This section presents evidence which identify the major factors of nonperforming loans. Many researchers have conducted a lot of study on determinants of nonperforming loans (NPLs), due to its significance for the bank"s failure. Accordingly, the first subsection, presents factors affecting nonperforming loans in cross countries. The second subsection discusses review of prior studies on factors of non-performing loans in Africa and the last empirical evidence in Ethiopia.

2.3.1. Cross Countries

Mwanza Nkusu (2011) analyzed the linkage between nonperforming loans and macroeconomic performance of 26 advanced economies from 1998 to 2009. In his study, only macroeconomic variables were introduced.

Specifically, GDP growth, unemployment, change within the house price level, change within the equity price level, inflation, nominal effective rate of exchange, policy rate of interest and credit to the private sector were included in his empirical specification. His findings revealed that a poor macroeconomic performance (Slower GDP growth, higher unemployment or decreasing asset prices) might be related to increasing non-performing loans in advanced economies.

Bock and Alexander Demyanets (2012) analyzed the determinants of bank asset quality in 25 emerging countries during 1996-2010, by examining only aggregate macroeconomic and credit indicators. Their findings present that GDP rate of growth, exchange rates and loan growth are the most determinants of non-performing loans within the examined countries.

Vasilikiet.al (2014) analyzed the Determinants of Non-Performing Loans the Case of Eurozone, their findings largely accept as true with bank-specific variables, the speed of non-performing loans of the previous year, the capital ratio and ROE appear to exert a strong influence on the non-performing loans rate. At an equivalent time, from macroeconomic perspective, debt, GDP and unemployment seem to be three additional factors that affect the NPL index, unveiling that the state of the economy of Eurozone countries is clearly linked to loan portfolio quality.

Ming-Chang, et.al (2016), study on Factors affect NPL in Taiwan banking system This study examines whether government policies have an impression on non-performing loans (NPL)ratio of domestic banks during dissimilar financial periods from 1994 to 2008 The influence variables within the NPL ratio include loan to deposit ratio, debt ratio, bank size (Asset), earnings per share , capital adequacy ratio (Basel ratio) and directors and supervisors shareholding ratio are the most cases for the occurrences of non-performing loans.

2.3.2. Empirical Studies in Africa

Gaitho Edna (2010) in his study the causes of non-performing loans in Kenyan banks, revealed that bank-specific factors like Lax procedures used for credit risk assessment, lack of trained lending personnel, Lack of aggressive credit collection methods, Banks negligence in monitoring performing loans, The speedy consideration in granting process, Insider lending and owner concentration and within the side of customer-specific factors like Bank clients started new businesses during which that they had no experience, The parallel operation of too many sorts of business, The inappropriate use of the loan, Debtors conceal some vital data in their applications, Provision of poorly valued collateral or difficulties in recovery, of these factors were found to contribute to bad loans.

Din'ohi (2011) who researched factors that increased the extent of non-performing loans at AKIBA full-service bank in Tanzania concluded that poor practicing of credit policies and procedures, unavailability of accurate information were positively associated with non-performing loans.

Monicah Wanjiru (2011) researched the causes of non-performing loans in Commercial Banks in Kenya, revealed that non-performing loans of economic banks in Kenya are positively correlated with the rate of inflation and non-performing loans are negatively correlated with real rate of interest and rate of growth in loans respectively. The macroeconomic independent variables also found that the non-performing loans were positively correlated to the rate of inflation. Further his concludes that non-performing loans are negatively correlated with real rate of interest and rate of growth in loans in Kenya.

Carlo Msigwa (2013) studied Factors affecting non-performing loans within the Banking industry: A case of KCB Bank (Tanzania) Limited; Morogoro and Msimbazi Branches. Their study is often expressed as factors affecting non-performing loans are the function of political lobbying and administrative pressure, private corruption/fraudulent practices, bank size and performance, credit culture, market changes, legal environment, individual's/entity's capacity, speculation, macro-economic factors, and internal and external factors.

The findings showed that diversion of funds for unnecessary expansion of business and speculations resulting in investing in high-risk assets to earn a high income and legal environment which reflects the supply or non-availability of foreclosure laws and ownership rights for both domestic and foreign investors are factors influencing NPLs.

Stephen Laurent Isaac Mwakajumilo(2014) conducted to assess the impact of non-performing assets on the expansion of the banking system in Tanzania specifically NMB Bank. The findings revealed that the impact of non-performing assets facilitated by non-recovery of loans hence caused great harm to the economic framework and structure, loss of trust of dishonest, reduced customer ability in buying, legal issues, lack of aggressive credit collection policy, poor credit assessment.

2.3.3 Empirical Studies in Ethiopia

Teshome Dula(2010) conducted on NPL and its Management during a full service bank in Ethiopia a case Dashen bank Mekelle area bank he concludes that Regarding the factors that cause nonperforming loan from the borrower side, the findings of the study show that lack of sufficient income, lack of proper education on the business area they engaged, lack of saving account, absence of sufficient infrastructure, lack of sufficient supervision from the bank, high consumption expenditure, and high-interest charge are the factors identified but lack of sufficient income(market problem), lack of proper education, lack of sufficient infrastructure and lack of sufficient supervision from the bank are the most problems. Also, some factors cause NPL from the financial institution side like Ineffective monitoring of loans, delayed authorization, and poor credit appraisal.

Anisa Umer(2015) conducted on the Determinants of Nonperforming Loan in Ethiopian Commercial Banks, Their study period covered from 2004 to 2013. Seven factors (four banks specific and three macroeconomic factors) affecting banks' nonperforming loans were selected and analyzed. Their results of balanced fixed effect panel data multivariate analysis showed that deposit rate, loan to deposit ratio and lending rate of interest had a positive and significant impact on banks' nonperforming loans.

According to the regression result, the lending rate of interest may be a vital determinant of nonperforming loans within the Ethiopian banking system. Cost efficiency had a negative and significant impact on banks' nonperforming loans. Bank solvency ratio and gross national product (GDP) rate of growth and rate of inflation had a negative and statistically insignificant impact on banks' nonperforming loans.

Arega Seyoum, et, al (2016) conducted on factors affecting non-performing loans of the event Bank of Ethiopia, Central Region. The result of the study shows that poor credit assessment and credit monitoring are the main causes for the occurrence of NPL in DBE. Credit size (includes aggressive lending, compromised integrity in approval, rapid credit growth, and bank's great risk appetite); high rate of interest, poorly negotiated credit terms and lenient/lax credit terms, and elongated process of authorization were bank-specific causes for the occurrence of nonperforming loans. On the opposite hand, the poor credit culture of consumers, lack of data of borrowers for the business they engaged in, willful default, loan diversion, and project management problems were identified because the major customer-specific causes of NPLs.

2.4. Conceptual Framework

Accordingly, based on the objective of the study, the following conceptual model has been framed. Nonperforming loans are affected by bank-specific and customer's specific factors as discus in the literature review part. Bank specific factors include Bank size and performance, credit size (such as aggressive lending, compromised integrity in approval, rapid credit growth, bank great risk appetite), poor credit analyses and assessment, poor credit monitoring and banks loan supervision capacity, poor credit condition, and lenient/lax credit terms, lack of aggressive credit collection system, inadequate nature of the collateral, On the other hand, customers specific factor like unwillingness of borrower to pay back the loan, customers funds diversion for unexpected purpose will be analyzed as factors affecting non-performing loans.

2.5 Summaries and Research Gap

There are lots of variables that affect the NPLs of banking sectors. During this study, the researcher focused on both bank-specific and customer-specific factors affecting non-performing loans of Commercial banks in Ethiopia. However, the variables that got more attention and were included during this thesis were Bank size and performance, credit size (aggressive lending, compromised integrity in approval, rapid credit growth, bank great risk appetite), poor credit analyses and assessment, poor credit monitoring and banks loan supervision capacity, poor credit condition, and lenient/lax credit terms, lack of aggressive credit collection system, inadequate nature of the collateral, the unwillingness of borrower to pay back the loan, diversion of funds for the unexpected purpose. Due to the above discussions, several studies were conducted on the determinants of non-performing loans.

Most of the previous studies focused on Bank specific and Macroeconomic determinates of NPL. Thus, on the knowledge of the researcher, there are still a limited number of literatures within the Ethiopian banking system. Following the above discussions, the bulk of the previous studies focused on similar Bank specific variables but during this study, the researcher finds the gap from empirical literature outside Ethiopia, is lack of aggressive credit collection policies are bank specific variables this variable cannot identified by previous studies in Ethiopia. Therefore, this study is anticipated to fill the gap by identifying the variable that causes the occurrence of nonperforming loans.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3. INTRODUCTION

This chapter outlines the approaches used in gathering information to obtain the relevant data for processing in order to achieve the objective of the study, how it was designed and presented. In addition, it illustrates the area of examination with regards to those discussed.

The research methodology describes the means used to collect data to address central research questions enumerated. The following part outlines the research design, the research method, and the population under study, the sampling procedure, and the process that was used to collect data. The reliability and validity of the research instrument are addressed. Ethical considerations pertaining to the research are also discussed.

3.1 Research Design and Approach

Research Design is a blueprint for fulfilling research objectives and answering research questions. In other words, it is a master plan specifying the method and procedure for collecting and analyzing the needed information (Adams, 2007, p 81). Descriptive research is aimed simply at describing phenomena and is not particularly concerned with understanding why behavior is the way it is (Adams, 2007, p 21). Descriptive study is chosen as it enabled the researcher to identify the factors affecting non-performing loans considered in this study.

According to Creswell (2014), the reason why the researcher selects mixed research approach is that the use of quantitative and qualitative approaches in combination provides a better understanding of research problems than either approach alone. According to Mark et al. (2009) mixing qualitative and quantitative approaches gives the potential to cover each method’s weaknesses with strengths from the other method. Kothari (2004) stated that, many researchers who use both approaches gain the best of both quantitative and qualitative research approaches. Therefore, based on these background statements the researcher initiated to use a combination of qualitative and quantitative (Mixed) approaches was used.

3.2. Population and Sampling Design

Population is the entirety of the individuals, items, events or objectives, which possess some unique characteristics that the researcher is interested in studying (Mugenda, A. G. and Mugenda, M. O., 1999). Sounders, et al., (2009) contend that it is from the population that the researcher draws a statistical sample for the survey. A population can also be conceptualized as the entirety of collected units upon which the study conclusions are drawn. The population for this study included the credit employees and related staff of the Commercial Bank of Ethiopia and Awash Bank S.c in operating Addis Ababa Head Quarter office. This population possessed the 3 relevant specific objectives that the research sought to assess. The population size was 191 individuals working with CBE and Awash Bank S.c. Table 3.1 is indicative of the sample size distributed.

3.2.1 Sample Design

To gather appropriate information that was relevant to the study the researcher was selected the Credit Related employee of Commercial Bank of Ethiopia and Awash bank S.C. head quarter as population. From the total population, by using judgmental sampling techniques the researcher takes Credit Related departments that are directly related to the subject matter. The reason why selected these two banks currently these two are the most progressive banks from private and government owned and the selected respondents are credit related employees because of related with the subject matter and supported to get adequate information comparing with others therefore the researcher used census sampling techniques.

3.2.2 Sample Size Determination

Determining sample size varies for various types of research designs and there are several approaches in practice. A general rule, one can say that the sample must be of an optimum size i.e., it should neither be excessively large nor too small (Kothari, 2004).

The target population number in this study consists of (148) from commercial bank of Ethiopia, and (43) From Awash Bank S.c. To obtain data from every credit member, Census sampling method was adopted to collect primary sources of data. (Kothari, 2004) explained that, it needs to be emphasized that when the universe is a small one, it is no use resorting to a sample survey. When all items are covered, no element of chance is left and highest accuracy is obtained.

Table 3.1 Sample Size Determination

No	List of Sample Banks	No of Credit Related Employees in Each Bank	Sample
1	Commercial Bank of Ethiopia	148	148
2	Awash Bank	43	43
	Total	**191**	**191**

Source; from CBE & Awash banks Human resource managements 2021

3.3 Type of Data and Method of Data Collection

3.3.1 Type and Source of Data

Both primary and secondary data sources were used in this research method. Regarding primary data collection, questionnaire and personal observation were employed to collect from respondents, and some management bodies, while review of literatures and banks annual report and different broachers, websites and related sources are used to collect secondary data. The primary sources include data gathered by distributing questionnaires and personal observation conducts with selected employees in addition to these unstructured discussions were employed as a tool for collecting data.

3.3.2 Data Collection and administration procedures

This study was utilizing a questionnaire to gather essential information. Questionnaires are important for studies since they gather data that is not straightforwardly discernible as they ask about sentiments, inspirations, mentalities, achievements and also encounters of people (Mellenbergh, 2008).

The study was used Likert scale to generate the questions in the questionnaire. The questionnaire was structured questions. The close-ended questions give more organized reactions to encourage substantial suggestions. The questionnaire addressed the three research objectives therefore it is sub-divided into two sections.

The researcher was engaging three research assistances to assist in conveyance of questionnaires to the focus on respondents. The researcher and research assistants administered the

Questionnaires to the respondents face to face. The questionnaires were distributed through drop and pick later method. However, where the respondents have time to fill the questionnaire as the research assistant are waits accord any assistance and clarification that he or she wants.

3.4 Data Analysis and Mode of Presentation

Data analysis consists of examining, categorizing, tabulating, or otherwise recombining the evidence, to address the initial proposition of a study (Yin, 1989). The researcher analyzed the data collected via questionnaires with qualitative and quantitative (mixed) research which is fundamentally interpretative i.e., the researcher interpreted the qualitative data. Thus, the analysis of interpretation of qualitative data combines to seek convergence among the results.

To analyze the collected data, since it is the most common user-friendly package by social scientists in recent years (Dawson, 2002; Singh, 2007), the researcher employed the Statistical Package for Social Sciences (SPSS) version 23 software.

To gather information through questionnaires, the Liker scale model (5-rating scale) was used by the researcher. After the data were entered into the SPSS software, to assess the reliability and consistency of the instrument, the Cronbach"s Alpha (α) analysis was conducted.

The analyzed data were describe and summarize by using the descriptive statistics methods particularly by measure of central tendency (mean) values, frequency, percentage. Then, the result of the study was presented by using various tables, charts and figures. The analyzed data were described and summarized by using the descriptive statistics methods particularly by measure of central tendency, frequency, and percentage. Then, the result of the study was presented by using various tables, charts and figures.

3.5 Ethical Consideration

Each Discipline will have its own ethical guidelines regarding the treatment of human research participants (Vander stop and Johnston, 2009). Research ethics deals with how to treat those who participate in the studies and how to handle the data after collection. in order to secure the consent to the study, the researcher was clearly communicating the purpose and the aim of the study and all information obtained from the respondents are treated with confidentiality without disclosure of the respondent's identity. Moreover, no information was modified or changed hence the information was presented as collected and all the literatures that collected for the purpose of this study are acknowledged in the reference list.

3.6 Reliability and Validity of the Instrument

The most important issue in the research is to consider the validity and reliability of the instrument used to collect the data. Validity refers to the degree to which the data collection method accurately measures what it was intended to measure or to extent to which research findings are about what they are claimed to be about, reliability refers to which your data collection techniques or analysis procedures were yield consistent findings (Saunders et al., 2007).in other words if a study has validity collects the appropriate data for the study. And a study has reliability if the same questions asked of a sample system the same findings.

Dunn (2001) also defines reliability as a measure's stability or consistency across time. The data reliability test is measured by using Cronbach"s Alpha. Cronbach's Alpha is also calculated as part of the reliability test to assess how valid the results is and should produce similar generalized results if the sample size were increase (Field, 2006).

The Alpha value is ranges from a maximum of 1.0 for a perfect score to minimum of zero, good measure of the alpha should be 0.70 or higher (Neuman, 2007). According to William and Barry (2010) scales exhibiting a coefficient alpha between 0.80 and 0.96 are considered to have very good reliability, between 0.70 and 0.80 are considered to have good reliability, and alpha value between 0.60 and 0.70 indicates fair reliability and when the coefficient alpha is below 0.60, the scale has poor reliability.

In terms of reliability, if the alpha value is less than 0.6, it is considered not acceptable, while the alpha value is over 0.6, the result (questionnaire) is acceptable (Hair et al, 2003). Because of the advantages using Cronbach"s alpha, the researcher used Cronbach"s alpha to test the reliability of the questionnaires.

To measure the consistency of the questionnaire particularly the Liker type scale, then reliability analysis is essential in reflecting the overall reliability of constructs, which it is measuring. To carry out the reliability analysis, Cronbach"s Alpha measure of scale reliability and a value greater than 0.70 is very acceptable.

According to the under listed table, the reliability analysis result of all variables revealed **0.985** and hereby the responses generated for all of the variables‟ used in this research were reliable enough for data analysis., even so for all components or items Cronbach‟s Alpha measure of scale reliability is greater than 0.70 and is very acceptable.

Table 3.2 Reliability Statistics For each and grand components

Reliability Statistics		
Cronbach's Alpha		N of Items
Regarding to institutional specific factors affecting non-performing loans	.979	33
Regarding to customers specific factors affecting non-performing loan	.960	4
Regarding to remedial practices implemented to reduce the level of non-performing	.943	10
With Total Variable	.985	47

Source: Questionnaire results (2021)

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

This chapter consists of two major sections. The first section highlights regarding the data that was gathered for the analysis in the chapter, the second section views an exhaustive discussion and analysis on data that was collected through using 181 questionnaires.

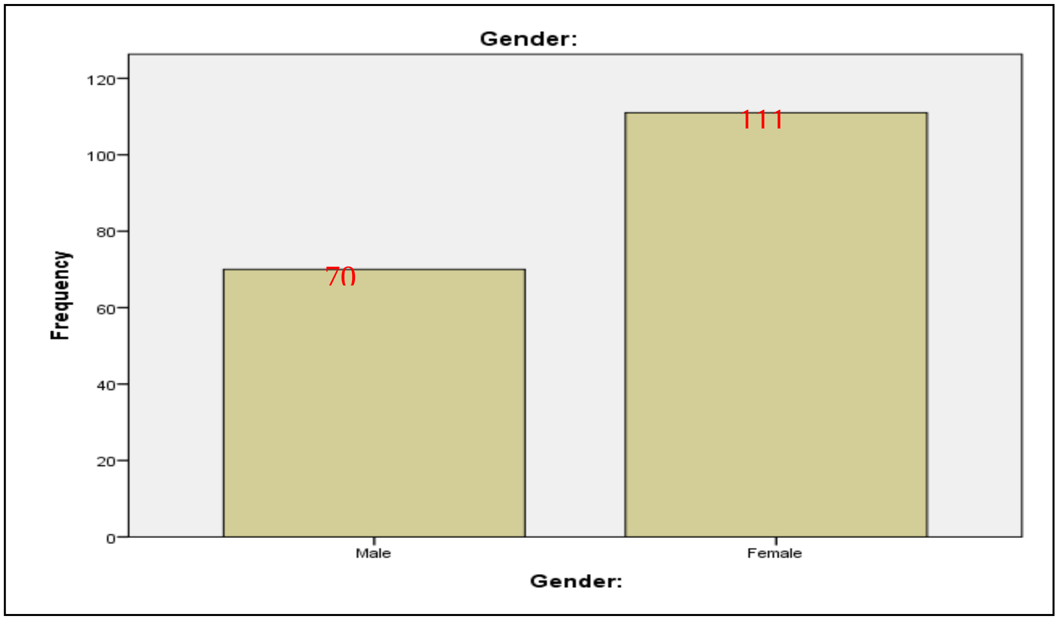
4.1. General information about Collected Data

Basically, the primary source of data gathering instrument, questionnaires distribution and collection, was considered in the study. The three-research assistants were assisted in conveyance and self-administered questionnaires were distributed to the selected banks and addressed to all respondents related to the subject matter.

In order to satisfy the adequacy and representativeness of the sample, all Loan Officer, Relation Ship manager, Credit Analyst, Recovery/monitoring officer, credit director and vice president who were assigned at home office level 191 in number, were assumed for filling the developed questionnaire. Accordingly, 181 questionnaires which consist of 141 from CBE and 40 From Awash Bank that were duly filled and collected were used for the analysis 94.7%.

4.2 General Information about respondents

Graph 4.1 Gender Classification



Source: spss Questionnaire results (2021)

4.2.1 Gender Classification

As indicate from the above graph 4.1 the gender mix of the respondents it could be summarized that 111 respondents having 61.3% were female and the remaining 70 male respondents shared 38.7% of the ratio. The analysis results reflected that respondents gender mix in these two banks were male and female and out of it, the lion share, 61.3%, was represented by female respondents.

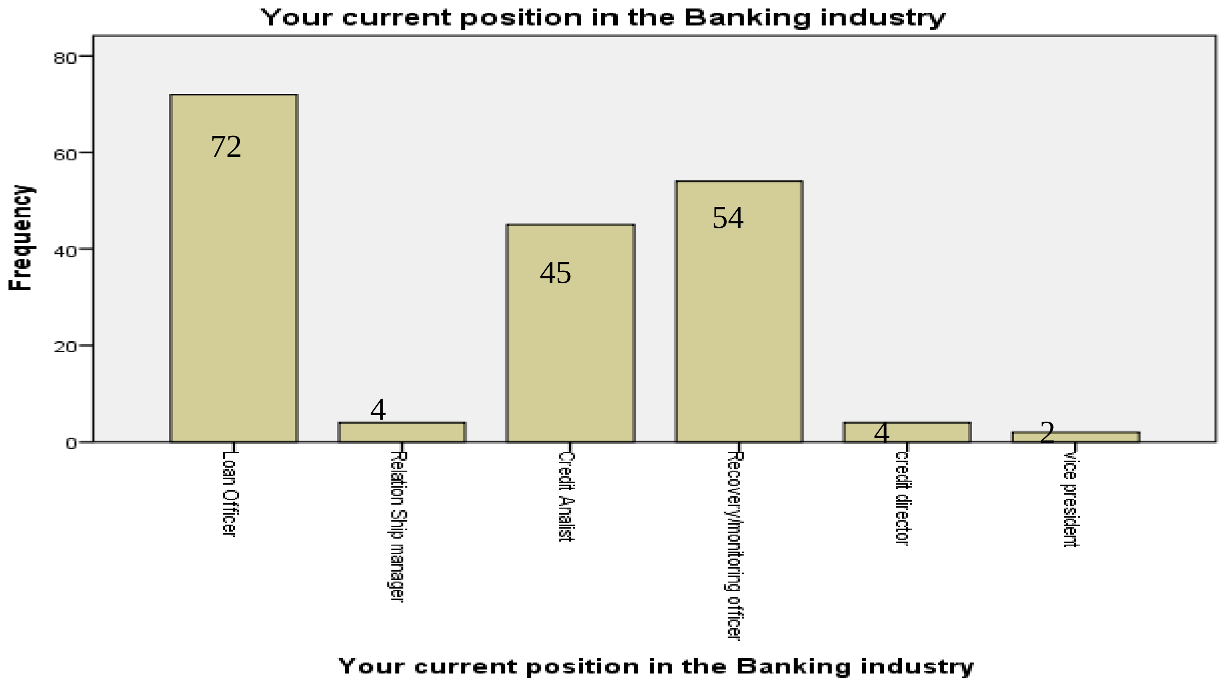
4.2.2 Classification of Respondents by Position in the Bank

Table 4.1 current position in the Banking industry

		Frequency	Valid Percent	Cumulative Percent
Valid	Loan Officer	72	39.8	39.8
	Relation Ship manager	4	2.2	42.0
	Credit Analyst	45	24.9	66.9
	Recovery/monitoring officer	54	29.8	96.7
	credit director	4	2.2	98.9
	vice president	181	100.0	

Source: spss Questionnaire results (2021)

Graph 4.2 Current positions in the Banking industry



Source: spss Questionnaire results (2021)

Graph 4.2 shows the results that were obtained when the respondents were asked to indicate their position in the Bank. 72 respondents (39.8%) indicated that they were loan officers while 4 respondents (2.2%) indicated that there were Relationship managers. 45 respondents (24.9%) indicated that they were credit analysts and 54 respondents (29.8%), 4 respondents (2.2%) and 2 respondents (1.1%) respondents indicated that they were loan monitoring officers, credit directors and Vice Presidents respectively.

4.2.3 Classification of Respondents by experience in Banking Industry

Table 4.2 Indicate your experience in the banking industry

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than 1 years	17	9.4	9.4	9.4
	1-5 years	63	34.8	34.8	44.2
	6-10 years	50	27.6	27.6	71.8
	11-15 years	35	19.3	19.3	91.2
	Above 15 years	16	8.8	8.8	100.0
	Total	181	100.0	100.0	

Source: spss Questionnaire results (2021)

Source: spss Questionnaire results (2021)

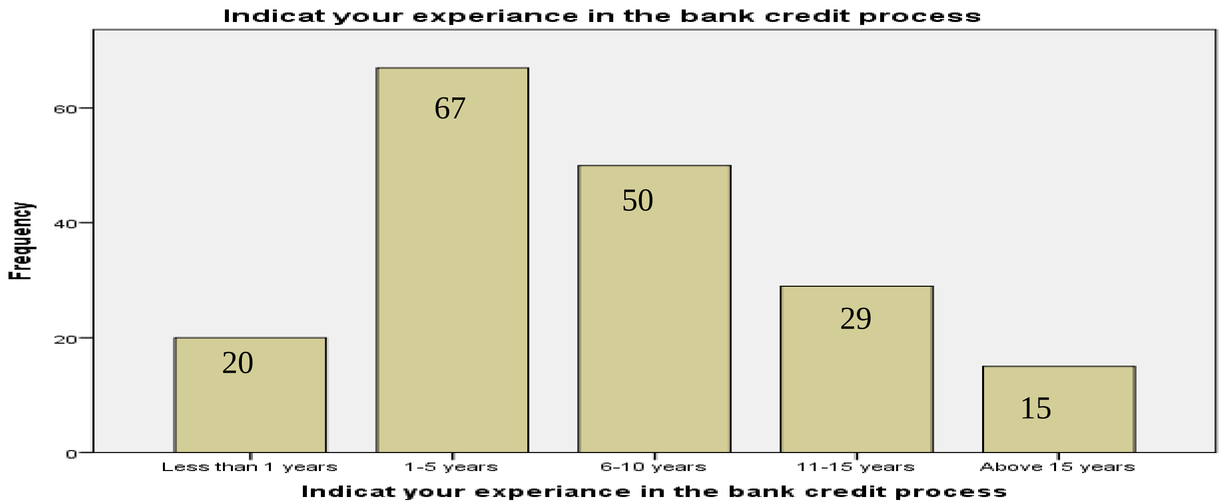
Table 4.2 shows the findings that the respondents were asked to indicate their level experience in the bank's industry. 17 respondents (9.4%) of the respondents indicated that they had less than a year's" experience while 63 respondents (34.8%) indicated that they had an experience of between 1 and 5 years. 50 respondents (27.6%) percent of the respondents indicated that they had an experience in the bank's industry and between 11 and 15 years are 35 respondents and 19.3% percent while the remaining 16 respondents (8.8%) are having above 15 years banking experience.

4.2.4 Respondents' Years of Experience in the Credit Process

Table 4.3 Indicate your experience in the bank credit process

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	less than 1 year	20	11.0	11.0	11.0
	1-5 years	67	37.0	37.0	48.1
	6-10 years	50	27.6	27.6	75.7
	11-15 years	29	16.0	16.0	91.7
	Above 15 years	15	8.3	8.3	100.0
	Total	181	100.0	100.0	

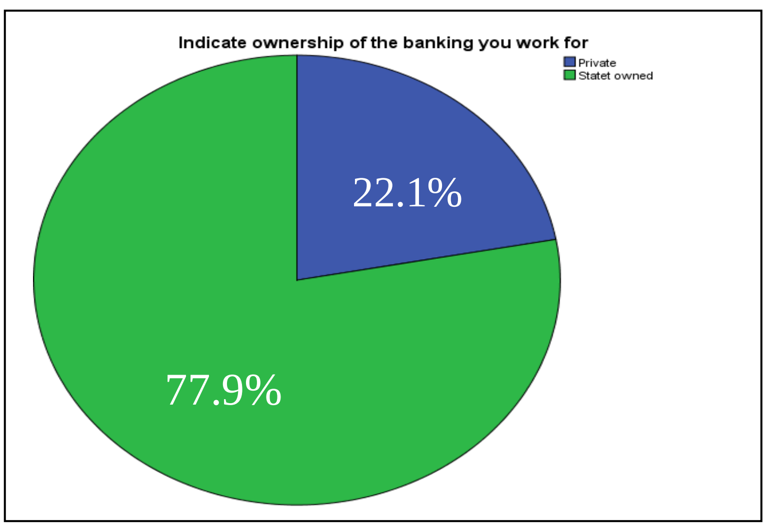
Source: spss Questionnaire results (2021)



Source: spss Questionnaire results (2021)

Table 4.3 shows the findings when the respondents were asked to indicate their level of experience in the bank’s credit process. 20 respondents (11%) percent of the respondents indicated that they have had less than a year’s‟ experience while 67 respondents (37%) indicated that they had an experience of between 1 and 5 years. 50 respondent (27.6) percent of the respondents indicated that they had an experience in the bank’s credit process of between 6 and 10 years. In addition to these 29 respondents (16%) have had between 11-15 years of banks credit experience. The rest of the respondents making up 15 (8.3%) of the respondents indicated that they had an experience of over 15 years.

4.2.5 Bank Ownership



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Source: spss Questionnaire results (2021)

Chart 4.1 4.5 Bank Ownership

The respondents were asked to identify the bank's owner. The responses received are represented in chart 4.1. Indicates 40 respondents (22.1%) say they work for another bank, which means privately owned, whereas 141 respondents (77.9%) say they work for C.B.E, which means publicly owned.

4.3 Results and Discussion

4.3.1 Descriptive Statistics regarding to institutional specific factors affecting non-performing loans in public and private banks in case of CBE & Awash Bank.

4.3.1.1 Bank Size and Performance

Table 4.3.1 Factors Indicating Bank Size and Performance

Items	Public Bank (CBE)		Private Bank (Awash Bank)	
	Level of Agreement	Mean	Level of Agreement	Mean
The bank"s lending policies always influences the lending decisions	78.1%	3.97	80%	4.38
With growth in banks size comes growth on NPL	42.6%	2.9	72.5%	3.8
Project appraising and selection officers and managers are qualified and skilled enough	85.1%	4.16	62.5%	3.85
Credit performers in the bank have autonomous power in appraising and selecting projects	78%	3.94	72.5%	4.18
Average Mean Value		14.97/4=3.74		16.21/=4.05

Source: spss Questionnaire results (2021)

The results shown in the above table are as follows: loan default rate, with growth in bank size comes growth in NPLs, bank lending policy always influences the landing decision, is directly related to bank size for the occurrences of loan default. According to these findings, the problem is worse in private banks than in state-owned banks in terms of average mean (3.74 & 4.05) However, project appraising and selection officers and managers are sufficiently qualified and skilled. Credit performers in the bank have autonomous power in appraising and selecting projects, which is directly related to bank size for the occurrences of loan default. Based on this results the problem is higher in public or state owned banks when compared with private owned bank in terms of mean value (4.14 & 3.94) and 85.1%, 78% respectively The result of this study is supported by (Taiwan, Hu, Li and Chu 2004), Bank size is negatively related to the rate of NPLs, which supports their argument that larger banks have more resources for determining the quality of loans.

4.3.1.2 Credit size

Table 4.3.2 Factors Indicating Credit size

Items	Public Bank (CBE)		Private Bank (Awash Bank)	
	Level of Agreement	Mean	Level of Agreement	Mean
Aggressive lending leads to large NPL volume/ratio	78%	3.94	75%	4.2
Lack of Compromised integrity in credit approval	42.6%	3.2	37.5%	3.88
Rapid credit growth	42.6%	3.2	70%	3.70
The Banks great risk appetite	78%	3.94	82.5%	4.43
Having large number of borrowers	56.8%	3.78	80%	4.33
Banks whose credit growth is rapid experience huge NPL level	21.3%	2.3	57.5%	3.08
Bank"s great risk appetite is cause for NPL	49.7%	3.47	85%	4.35
Compromised integrity in lending leads to loan default	56.8%	3.75	75%	4.23
Having large number of borrowers causes loan default	56.7%	3.86	75%	4.20
Loans default rate is directly related to banks" size	17.7%	2.2	50%	3.33
Loan default is not related banks ownership type (private/state owned	78.1%	4.01		4.45
Average Mean		37.65/11=3.42		44.18/11=4.01

Source: spss Questionnaire results (2021)

The above table shows the results of aggressive lending, a lack of compromised integrity in credit approval, rapid credit growth, and a high risk appetite on the part of the bank. Integrity has been compromised. Having a large number of borrower's leads to loan default, and the loan default rate is directly related to the size of the bank. This is a problem that is related to credit size for the occurrences of loan default. According to the findings, this cause is more prevalent in private banks than in state-owned banks in terms of average mean (3.42 & 4.01), respectively. This study's findings are supported by Keeton and Morris (1987), who found that commercial

Banks with a higher risk appetite tend to incur higher losses. This also leads to leniency. Salas and Saurina (2002) attribute the leniency to disaster myopia, herd behavior and agency problems that may tempt bank managers to lend excessively during boom periods of economic expansion.

4.3.1.3 Credit Assessment

Table 4.3.3 Factors Indicating Credit Assessment

Items	Public Bank (CBE)		Private Bank (Awash Bank)	
	Level of Agreement	Mean	Level of Agreement	Mean
Easily admitted borrowers usually default	56.7%	3.69	85%	4.45
Know Your Customer (KYC) policy of Banks lead to high loans quality	45.4%	3.45	80%	4.33
Good loan underwriting ensures loan Performance	85.1%	3.99	70%	4.10
Poor risk assessment would lead to loan Default	75.2%	4.13	67.5%	4.00
Average Mean		15.26/4=3.81		16.88/4=4.22

Source: spss Questionnaire results (2021)

In the above table, the outcomes show; Poor credit score analysis and Poor credit score risk evaluation is associated to poor credit evaluation this suggests the motives for the occurrences of non-performing loans. In this regard the hassle is higher in private bank when in contrast with nation owned bank in terms of Average imply 3.81 and 4.22 respectively.

The end results of this learn about is supported by (GaithoEdna,2010, Teshome dula, 2010, Wondimagegnehu. N, 2012)indicated that, Lax techniques used for credit score hazard assessment, terrible deposit appraisal and delayed mortgage approval and negative credit score risk evaluation and direct or significant impact for the occurrences of non-performing loans in business banks.

4.3.1.4 Inadequate nature of collateral

Table 4.3.4 Factors indicating inadequate nature of collateral

Items	Public Bank (CBE)		Private Bank (Awash Bank)	
	Level of Agreement	Mean	Level of Agreement	Mean
Collateralizing loans help protect loan default	77.4%	4.16	65%	3.9
Collateralized loans perform well	68.1%	3.91	62.5%	3.85
Most of the time non collateralized loans are Defaulted	71.6%	3.95	52.5%	3.55
Average Mean		12.02/3=4.00		11.3/3=3.76

Source: spss Questionnaire results (2021)

In the above Table, the output shows; Housing collaterals are related to inadequate nature of collateral in state owned banks. But in privet bank doesn't agree for the statement. It reflected in the average mean of 3.76 & 4.00 respectively. On the other hand commercial (business) collateral, agricultural land collateral, collateral location is reason for inadequate nature of collateral which causes loan default. These problems are almost equivalent in both banks.

This study is supported by (Gaitho Edna, 2010), the causes of non-performing loans in Kenyan banks, he reveled that poorly valued collateral or difficulties in recovery are factors contribute to bad loans.

4.3.1.5 Poor credit condition & bank loan supervision capacity

Table 4.3.5 Factors Indicating Poor credit condition & bank loan supervision capacity

Items	Public Bank (CBE)		Private Bank (Awash Bank)	
	Level of Agreement	Mean	Level of Agreement	Mean
Strict monitoring ensures loan Performance	76.6%	4.06	67.5%	4.03
Poorly assessed and advanced loans May perform well if properly monitored	42.5%	2.96	55.0%	3.38
Loan follow up is directly related to Occurrence of nonperforming loans	82.3%	4.18	62.5%	3.85
Banks with higher budget for loan monitoring have lower non-performing Loans	45.4%	3.34	67.5%	4.03
Average Mean Value		14.54/4=3.63		15.29/4=3.82

Source: spss Questionnaire results (2021)

As indicated in Table were obtained when the respondents were asked to indicate whether they agreed that Strict monitoring ensures loan performance, Poorly assessed and advanced loans may perform well if properly monitored, Loan follow up is directly related to occurrence of nonperforming loans, Banks with higher budget for loan monitoring have lower non-performing loans precipitated NPLs. The average mean value indicates 3.63 & 3.82 respectively agreed.

4.3.1.7 Lack of Aggressive Credit Collection system

Table 4.3.6 Factors indicating Lack of Aggressive Credit Collection system

Items	Public Bank (CBE)		Private Bank (Awash Bank)	
	Level of Agreement	Mean	Level of Agreement	Mean
Poor credit policies and procedure	85.1%	4.48	70%	4.23
No serious action will be taken against borrowers not to repay the loan	78%	4.25	72.5%	4.25
Length of repayment period	65.2%	3.63	72.5%	4.20
Any special terms such as seasonal dating and the collection period of the firm	66.7%	3.92	47.5%	3.68
Average Mean		16.28/4=4.07		16.36/4=4.09

Source: spss Questionnaire results (2021)

In the above Table, revealed that; Poor credit policies and procured, no serious action will be taken against borrowers not to repay the loan, length of repayment period, and any special terms such as seasonal dating and the collection period of the firm are related with lack of aggressive credit collection polices, this is also causes for NPLs based on the average mean value 4.07 & 4.09 Respectively. The finding shows higher in private bank when compared with state owned bank in terms of average mean 4.07 and 4.09 respectively.

This study is supported by (Gaitho Edna, 2010), Stephen Laurent and Isaac Mwakajumilo,2014) the causes of non-performing loans in Kenyan banks and Tanzania specifically NMB Bank reveled that Lack of aggressive credit collection methods are causes for NPLs.

4.1.2 Descriptive Statistics regarding to examine customers specific factors affecting non-performing loan in public and private banks in the selected area.

4.3.2.1 Indicating Unwillingness of Borrower to Pay Back the Loans

Table 4.3.7 Factors Indicating Unwillingness of Borrower to Pay Back the Loans

Items	**Public Bank (CBE)**		**Private Bank (Awash Bank)**	
	Level of Agreement	Mean	Level of Agreement	Mean
Lack of proper education in the business Area	78%	4.33	50%	3.63
Intentional (willful) defaults by borrowers	78%	4.33	52.5%	3.78
Lack of sufficient supervision from the Bank	82.3%	4.29	55%	3.70
Market condition	81.5%	4.33	55%	3.68
Average Mean		17.28/4=4.32		14.79/4=3.69

Source: spss Questionnaire results (2021)

In the above table, the output shows; Lacks proper education in the business area, intentional (wilful) defaults by borrowers, lack of sufficient supervision from the bank and market conditions are the major problems in both banks related to unwillingness of borrower to pay back the loans it was leads to the occurrences of loan default as we can see the average mean result.

The result of this study is supported by (Kanimbla, 2010) studied determinants of non-performing loans in Standard Charted Bank he argued that unwillingness of borrowers to pay back the loan, lack of business skills are the reasons for the occurrences of non-performing loans.

4.3.2.3 Factors Indicating Customers Fund Diversion

Table 4.3.8 Factors Indicating Customers Fund Diversion

Items	Public Bank (CBE)		Private Bank (Awash Bank)	
	Level of Agreement	Mean	Level of Agreement	Mean
Lack of proper monitoring	89.4%	4.67	60%	3.90
Ignorance of Lendin Terms and Conditions	75.1%	3.91	62.5%	3.88
Over financing	79.5%	4.21	65%	4.08
Under financing	51.8%	3.39	75%	3.93
Market condition	81.5%	4.33	55%	3.68
Anticipation of windfall profits in Other business areas	91.5%	4.57	60%	3.85
Average Mean		25.08/6=4.18		23.32/6=3.88

Source: spss Questionnaire results (2021)

In the above Table, the average mean value 4.18 & 3.88 respectively shows that; Lack of proper monitoring, ignorance of lending terms and conditions, over/ under financing, anticipation of windfall profits in other business areas are problems related to customers fund diversion these is also causes for the occurrences of NPLs in both banks.

The result of this study is supported by (Carlo Msigwa, 2013) studied Factors affecting non-performing loans in Banking industry: A case of KCB Bank (Tanzania) Limited; Morogoro and Msimbazi Branches. The findings showed that, diversion of funds for unnecessary expansion of business are the reason for loan defaults.

4. 2.3 Descriptive Statistics regarding to evaluate some of the remedial practices can be implemented to reduce the level of non-performing in public and private banks in CBE & Awash Bank.

4.3.3.1 Remedial mechanisms to deal with NPLs

Table 4.3.9 Remedial mechanisms to deal with NPLs

Items	**Public Bank (CBE)**		**Private Bank (Awash Bank)**	
	Level of Agreement	Mean	Level of Agreement	Mean
When banks ensure strict monitoring measures increases the chances of loan Performance	83.7%	4.42	55%	3.63
Providing collateralized loans reduces The chances of loan defaults	83.7%	4.40	52.5%	3.80
Allocation of more funds for loan Monitoring leads to lower non-performing loans	66%	3.77	50%	3.75
Improving or providing effective risk Assessment mechanisms Lead to Quality loans	87.2%	4.44	55%	3.73
Immediate transfer of NPL to (loan and advance under litigation	79.4%	4.11	55%	3.70
Average Mean		21.14/5=4.22		18.61/5=3.72

Source: Questionnaire results (2021)

In the above table, the output shows; In both banks ensure strict monitoring measures, adequate collateralized loan, allocation of more fund for loan monitoring, effective risk assessment and immediate transfer of NPL to loan under litigation are indicated the remedial measures to deal with NPLs as shown the average mean result 4.22 & 3.72 respectively.

The result of this study is supported by (Babouček and Jančar 2005, Guy 2011 and Onsarigo, et al., 2013) contends several strategies and measures have been exploited by banks in order to deal with NPLs. For instance conducting effective risk assessment before availing loans to clients has been cited as a fundamental mechanism of dealing with NPLs.

CHAPTER FIVE

SUMMARY CONCLUSION AND RECOMMENDATION

5.1 SUMMARY

The purpose of this study was to assess the factors that affect non-performing loans comparative study between Commercial Bank of Ethiopia and Awash International Bank at home office level. The study was guided by three research questions, namely; one, what are the customer specific factors that affect non-performing loans at the case banks? Two, what institutional or bank-specific factors affect non-performing loans at CBE and Awash International Bank? Three, what are some of the remedial practices can be implemented to reduce the level of non-performing loans at the case company?

The study adopted a descriptive research design. A descriptive research design is preferable in that it permitted a description of the factors affecting non-performing loans .The population of the study included 191 staff members currently working for the CBE &Awash Bank. These data collection instrument, open and close ended structured questionnaire was administered. The questionnaire was divided into two parts, the first part solicited general information while the second part asked questions relating to the three research questions.

When the respondents were asked to indicate their position in the Bank, 72 respondents (39.8%) indicated that they were loan officers while 4 respondents (2.2%) indicated that there were Relationship managers. 45 respondents (24.9%) indicated that they were credit analysts and 54 respondents (29.8%), 4 respondents (2.2%) and 2 respondents (1.1%) respondents indicated that they were loan monitoring officers, credit directors and Vice Presidents respectively.

The findings that the respondents were asked to indicate their level experience in the bank‟s industry. 17 respondents (9.4%) of the respondents indicated that they had less than a years‟ experience while 63 respondents (34.8%) indicated that they had an experience of between 1 and 5 years. 50 respondents (27.6%) percent of the respondents indicated that they had an experience in the bank‟s industry and between 11 and 15 years are 35 respondents and 19.3% percent while the remaining 16 respondents (8.8%) are having above 15 years banking experience.

The results shown in analysis part: loan default rate, with growth in bank size comes growth in NPLs, bank lending policy always influences the landing decision, is directly related to bank size for the occurrences of loan default. According to these findings, the problem is worse in private banks than in state-owned banks in terms of average mean (3.74 & 4.05) However, project appraising and selection officers and managers are sufficiently qualified and skilled. Credit performers in the bank have autonomous power in appraising and selecting projects, which is directly related to bank size for the occurrences of loan default. Based on these results the problem is higher in public or state owned banks when compared with private owned bank in terms of mean value (4.14 & 3.94) and 85.1%, 78% respectively.

As can see the results of aggressive lending, a lack of compromised integrity in credit approval, rapid credit growth, and a high risk appetite on the part of the bank. Integrity has been compromised. Having a large number of borrower's leads to loan default, and the loan default rate is directly related to the size of the bank. This is a problem that is related to credit size for the occurrences of loan default. According to the findings, this cause is more prevalent in private banks than in state-owned banks in terms of average mean (3.42 & 4.01), respectively. Lacks proper education in the business area, intentional (willful) defaults by borrowers, lack of sufficient supervision from the bank and market conditions are the major problems in both banks related to unwillingness of borrower to pay back the loans it was leads to the occurrences of loan default as we can see the average mean result.

5.2 CONCLUSION

The findings concluded that, in terms of institutional specific factors:

Bank size and performance are influenced by loan default rates, which increase as bank size increases, but so does the number of nonperforming loans (NPLs). Lending rules also influence lending decisions. Aggressive lending, a lack of compromised integrity in credit approval, rapid credit growth, and a bank's excessive or enormous risk appetite all contribute to credit size.

Poor credit assessment due to lenient/lax credit terms, poorly negotiated credit terms, and borrowers defaulting due to a lack of understanding of the credit terms. Poor credit terms and

Conditions due to lenient/lax credit terms, poorly negotiated credit terms, and borrowers defaulting due to a lack of understanding of the credit terms.

Inadequate nature of collateral due to residential, commercial, agricultural and collateral location, Lack of aggressive credit collection policies due to; Poor credit policies & procedure, no serious action will be taken against borrowers not to repay the loan, length of repayment period, any special terms such as seasonal dating & collection period of the firms.

The findings regarding to customer specific factors:-

the results concluded that; Customer fund diversion due to; Lack of proper monitoring, ignorance of lending terms, over & under financing, anticipation of windfall profits in other business areas. Unwillingness of borrower to pay back loan due to; Lack of proper education in the business area, intentional(willful) defaults by borrowers, luck of sufficient supervision from the bank, market condition.

Based on the above conclusion awash international Bank (private banks) are higher in related with the problem for the occurrences of NPLs when compared with Commercial Bank of Ethiopia or state owned banks.

5.3 Recommendation

In general to reduce the occurrence of loan default it suggests that, in state owned and private Banks in home office level;

- Should clearly & effectively communicating with lending officers regarding policies & procedure and ensure to discount future occurrences of credit risk or loss.
- Should strengthen its applicant screening criteria and due diligence assessment to select potential risk taking applicants.
- Should adopt appropriate pre and post credit risk assessments, Banks needs to ensure that borrowed funds are being used for the intended purpose through enhanced timely credit monitoring after the loan is being disbursed.
- Should prevent a sharp buildup of NPL in the future by ensuring that; - Avoiding excessive lending, Maintaining high credit standards/terms, closely monitor the rate of credit growth to prevent aggressive lending.

- Should consider some ways of controlling the chances of NPLs with monitoring how costumers repay loans before providing them with new loans.
- Finally, the stakeholders in the credit system including the banks & government must implement policies that will facilitate the minimization of the internal as well as external factors that precipitate NPLs.

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APPPENDIX I

Appendix II

St. Marry University
School of Postgraduate Studies
Department of Accounting and Finance
Questionnaire

***Rahel Hailu**, MBA in*
Accounting and Finance candidate
Telephone: +251911680025
***E-mail:** rahel272123@gmail.com*
Addis Ababa

Dear Sir/Madam:

The enclosed questionnaire is designed to gather information about **assessing the factors affecting non-performing loans: a case study of commercial bank of Ethiopia & awash bank s.c** The questionnaire has been sent to all Relationship manager, Credit analyst, Recovery/ monitoring officer, Credit Director, Vice president who are working in this Bank. The information you provide in response to the questionnaire will be used as part of the data needed for the study: The factors affecting non-performing loans.

The study is being conducted as part of the undersigned researcher„s study for the MBA in Accounting and Finance at St. Marry University, Department of accounting & finance.

The result of the study is expected to contribute to the understanding of factors affecting non-performing loans in the case bank and as well add value to the development of the profession in Ethiopia.

- **Please note that there is no need of writing your name on the questionnaire.**

I would also like to assure you that the information you provide will be treated as strictly confidential and your participation in this study is greatly valuable.

Your honest and thoughtful responses are highly appreciated.

Kind Regards,

PART ONE

Demographic Data of the Respondent

Please indicate the following by ticking (√) on the on the given spaces of the response Options:

1. . Gender:

    1) Male
    2) Female

2. Your current position in the Banking industry

    1) Loan Officer
    2) Relationship manager
    3) Credit analyst
    4) Recovery/ monitoring officer
    5) Credit Director
    6) Vice president.
    7) Other, please specify

3. Indicate your experience in the banking industry

    1) Less than 1 year
    2) 1-5 years
    3) 6-10 Years
    4) 11-15 year
    5) Above 15 years

4. Indicate your experience in bank credit processes

    1) Less than 1 year
    2) 1-5 years
    3) 6-10 Years
    4) 11-15 year
    5) Above 15 years

5. Indicate ownership of the Bank you work for

    1) Private
    2) Public

PART TWO

Remark: The following questions are Likert scale types and rate their extent to which you agree or disagree that the following statements best describe your Bank. Use 5-scale ratings whereby; 1=strongly Disagree, 2=Disagree, 3=Neutral, 4=Agree, 5=Strongly Agree

To notify your choice, you can write any one of the particulars given in the bracket (√)

Please indicate your degree of agreement or disagreement to the statements pertaining to **Bank size and Performance.**						
		1	**2**	**3**	**4**	**5**
2.1.1	The bank‟s lending policies always influences the lending decisions					
2.1.2	With growth in banks size comes growth on NPL					
2.1.3	Project appraising and selection officers and managers are qualified and skilled enough					
2.1.4	Credit performers in the bank have autonomous power in appraising and selecting projects					
Please indicate your degree of agreement or disagreement to the statements pertaining **to Credit size.**						
2.2.1	Aggressive lending leads to large NPL volume/ratio					
2.2.2	Lack of Compromised integrity in credit approval					
2.2.3	Rapid credit growth					
2.2.4	The Banks great risk appetite					

2.2.5	Having large number of borrowers					
2.2.6	Banks whose credit growth is rapid experience huge NPL level					
2.2.7	Bank"s great risk appetite is cause for NPL					
2.2.8	Compromised integrity in lending leads to loan default					
2.2.9	Having large number of borrowers causes loan default					
2.2.10	Loans default rate is directly related to banks" size					
2.2.11	With growth in banks size comes growth on NPL					
2.2.12	Loan default is not related banks ownership type (private/state owned					
Please indicate your degree of agreement or disagreement to the statements pertaining t**o credit assessment**						
2.3.1	Easily admitted borrowers usually default					
2.3.2	Know Your Customer (KYC) policy of banks lead to high loans quality					
2.3.3	Good loan underwriting ensures loan performance					
2.3.4	Poor risk assessment would lead to loan default					
Please indicate your degree of agreement or disagreement to the statements pertaining to **Inadequate nature of Collateral.**						

2.4.1	Collateralizing loans help protect loan default					
2.4.2	Collateralized loans perform well					
2.4.3	Most of the time non collateralized loans are defaulted					
Please indicate your degree of agreement or disagreement to the statements pertaining **to poor credit condition & bank loan supervision capacity.**						
2.5.1	Strict monitoring ensures loan performance					
2.5.2	Poorly assessed and advanced loans may perform well if properly monitored					
2.5.3	Loan follow up is directly related to occurrence of nonperforming loans					
2.5.4	Banks with higher budget for loan monitoring have lower non-performing loans					
Please indicate your degree of agreement or disagreement to the statements pertaining **to poor credit condition & Credit Terms**						
2.6.1	Borrowers default because they do not understand the credit terms well					
2.6.2	Poorly negotiated credit terms					
2.6.3	Lenient/lax credit terms					
Please indicate your degree of agreement or disagreement to the statements pertaining to **Lack of Aggressive Credit Collection system**						
2.7.1	Poor credit policies and procedure					
2.7.2	No serious action will be taken against borrowers not to repay the loan					

2.7.3	Length of repayment period					
2.7.4	Any special terms such as seasonal dating and the collection period of the firm					
Please indicate your degree of agreement or disagreement to the statements pertaining to Factors **Indicating Unwillingness of Borrower to Pay Back the Loans**						
3.1.1	Lack of proper education in the business area					
3.1.2	Intentional (willful) defaults by borrowers					
3.1.3	Lack of sufficient supervision from the bank					
3.1.4	Market condition					
Please indicate your degree of agreement or disagreement to the statements pertaining to actors indicating **remedial mechanisms to deal with NPLs**						
4.1.1	when banks ensure strict monitoring measures increases the chances of loan performance					
4.1.2	Providing collateralized loans reduces the chances of loan defaults					
4.1.3	allocation of more funds for loan monitoring leads to lower non-performing loans					
4.1.4	improving or providing effective risk assessment mechanisms leads to quality loans					
4.1.5	Immediate transfer of NPL to ALD (loan and advance under litigation)					
Please indicate your degree of agreement or disagreement to the statements pertaining to **Factors Indicating Customers Fund Diversion**						
4.2.1	Lack of proper monitoring					

4.2.2	Ignorance of lending terms and conditions					
4.2.3	Over financing					
4.2.4	Under financing					
4.2.5	Anticipation of windfall profits in other business areas					

If you have further comments on the bank specific factors affecting nonperforming loans in your bank please use the space below

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APPPENDIX II

SPSS (2021) Output for Commercial Bank of Ethiopia

The bank's lending policies always influences the lending decisions

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	23	16.3	16.3	16.3
	Neutral	8	5.7	5.7	22.0
	Agree	60	42.6	42.6	64.5
	Strongly Agree	50	35.5	35.5	100.0
	Total	141	100.0	100.0	

With growth in banks size comes growth on NPL

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	33	23.4	23.4	23.4
	Disagree	28	19.9	19.9	43.3
	Neutral	20	14.2	14.2	57.4
	Agree	40	28.4	28.4	85.8
	Strongly Agree	20	14.2	14.2	100.0
	Total	141	100.0	100.0	

Project appraising and selection officers and managers are qualified and skilled enough

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	3	2.1	2.1	2.1
	Disagree	8	5.7	5.7	7.8
	Neutral	10	7.1	7.1	14.9
	Agree	62	44.0	44.0	58.9
	Strongly Agree	58	41.1	41.1	100.0
	Total	141	100.0	100.0	

Credit performers in the bank have autonomous power in appraising and selecting projects

		Frequency	Percent	Valid Percent	Cumulative Percent

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	21	14.9	14.9	14.9
	Disagree	5	3.5	3.5	18.4
	Neutral	5	3.5	3.5	22.0
	Agree	40	28.4	28.4	50.4
	Strongly Agree	70	49.6	49.6	100.0
	Total	141	100.0	100.0	

Aggressive lending leads to large NPL volume/ratio

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	21	14.9	14.9	14.9
	Disagree	5	3.5	3.5	18.4
	Neutral	5	3.5	3.5	22.0
	Agree	40	28.4	28.4	50.4
	Strongly Agree	70	49.6	49.6	100.0
	Total	141	100.0	100.0	

Lack of Compromised integrity in credit approval

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	11	7.8	7.8	7.8
	Disagree	30	21.3	21.3	29.1
	Neutral	40	28.4	28.4	57.4
	Agree	40	28.4	28.4	85.8
	Strongly Agree	20	14.2	14.2	100.0
	Total	141	100.0	100.0	

Rapid credit growth

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	11	7.8	7.8	7.8
	Disagree	30	21.3	21.3	29.1
	Neutral	40	28.4	28.4	57.4
	Agree	40	28.4	28.4	85.8
	Strongly Agree	20	14.2	14.2	100.0

		Frequency	Percent	Valid Percent	Cumulative Percent
	Total	141	100.0	100.0	

The Banks great risk appetite

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	21	14.9	14.9	14.9
	Disagree	5	3.5	3.5	18.4
	Neutral	5	3.5	3.5	22.0
	Agree	40	28.4	28.4	50.4
	Strongly Agree	70	49.6	49.6	100.0
	Total	141	100.0	100.0	

Having large number of borrowers

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	13	9.2	9.2	9.2
	Disagree	8	5.7	5.7	14.9
	Neutral	40	28.4	28.4	43.3
	Agree	20	14.2	14.2	57.4
	Strongly Agree	60	42.6	42.6	100.0
	Total	141	100.0	100.0	

Banks whose credit growth is rapid experience huge NPL level

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	27	19.1	19.1	19.1
	Disagree	84	59.6	59.6	78.7
	Agree	20	14.2	14.2	92.9
	Strongly Agree	10	7.1	7.1	100.0
	Total	141	100.0	100.0	

Bank’s great risk appetite is cause for NPL

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	5	3.5	3.5	3.5
	Disagree	26	18.4	18.4	22.0

		Frequency	Percent	Valid Percent	Cumulative Percent
	Neutral	40	28.4	28.4	50.4
	Agree	38	27.0	27.0	77.3
	Strongly Agree	32	22.7	22.7	100.0
	Total	141	100.0	100.0	

Compromised integrity in lending leads to loan default

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	13	9.2	9.2	9.2
	Disagree	8	5.7	5.7	14.9
	Neutral	40	28.4	28.4	43.3
	Agree	20	14.2	14.2	57.4
	Strongly Agree	60	42.6	42.6	100.0
	Total	141	100.0	100.0	

Having large number of borrowers causes loan default

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	8	5.7	5.7	5.7
	Disagree	13	9.2	9.2	14.9
	Neutral	40	28.4	28.4	43.3
	Agree	10	7.1	7.1	50.4
	Strongly Agree	70	49.6	49.6	100.0
	Total	141	100.0	100.0	

Loans default rate is directly related to banks' size

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	42	29.8	29.8	29.8
	Disagree	69	48.9	48.9	78.7
	Neutral	5	3.5	3.5	82.3
	Agree	10	7.1	7.1	89.4
	Strongly Agree	15	10.6	10.6	100.0
	Total	141	100.0	100.0	

Loan default is not related banks ownership type (private/state owned

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	19	13.5	13.6	13.6
	Neutral	11	7.8	7.9	21.4
	Agree	60	42.6	42.9	64.3
	Strongly Agree	50	35.5	35.7	100.0
	Total	140	99.3	100.0	
Missing	System	1	.7		
Total		141	100.0		

Easily admitted borrowers usually default

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	20	14.2	14.2	14.2
	Disagree	11	7.8	7.8	22.0
	Neutral	30	21.3	21.3	43.3
	Agree	12	8.5	8.5	51.8
	Strongly Agree	68	48.2	48.2	100.0
	Total	141	100.0	100.0	

Know Your Customer (KYC) policy of banks lead to high loans quality

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	18	12.8	12.8	12.8
	Disagree	16	11.3	11.3	24.1
	Neutral	43	30.5	30.5	54.6
	Agree	13	9.2	9.2	63.8
	Strongly Agree	51	36.2	36.2	100.0
	Total	141	100.0	100.0	

Good loan underwriting ensures loan performance

		Frequency	Percent	Valid Percent	Cumulative Percent

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	1	.7	.7	.7
	Disagree	20	14.2	14.2	14.9
	Agree	79	56.0	56.0	70.9
	Strongly Agree	41	29.1	29.1	100.0
	Total	141	100.0	100.0	

Poor risk assessment would lead to loan default

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	8	5.7	5.7	5.7
	Disagree	14	9.9	9.9	15.6
	Neutral	13	9.2	9.2	24.8
	Agree	23	16.3	16.3	41.1
	Strongly Agree	83	58.9	58.9	100.0
	Total	141	100.0	100.0	

Collateralizing loans help protect loan default

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	1	.7	.7	.7
	Disagree	15	10.6	10.6	11.3
	Neutral	16	11.3	11.3	22.7
	Agree	38	27.0	27.0	49.6
	Strongly Agree	71	50.4	50.4	100.0
	Total	141	100.0	100.0	

Collateralized loans perform well

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	25	17.7	17.7	17.7
	Disagree	5	3.5	3.5	21.3
	Neutral	15	10.6	10.6	31.9
	Agree	8	5.7	5.7	37.6
	Strongly Agree	88	62.4	62.4	100.0
	Total	141	100.0	100.0	

Most of the time non collateralized loans are defaulted

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	25	17.7	17.7	17.7
	Disagree	5	3.5	3.5	21.3
	Neutral	10	7.1	7.1	28.4
	Agree	13	9.2	9.2	37.6
	Strongly Agree	88	62.4	62.4	100.0
	Total	141	100.0	100.0	

Strict monitoring ensures loan performance

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	17	12.1	12.1	12.1
	Neutral	16	11.3	11.3	23.4
	Agree	50	35.5	35.5	58.9
	Strongly Agree	58	41.1	41.1	100.0
	Total	141	100.0	100.0	

Poorly assessed and advanced loans may perform well if properly monitored

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	26	18.4	18.4	18.4
	Disagree	37	26.2	26.2	44.7
	Neutral	18	12.8	12.8	57.4
	Agree	37	26.2	26.2	83.7
	Strongly Agree	23	16.3	16.3	100.0
	Total	141	100.0	100.0	

Loan follow up is directly related to occurrence of nonperforming loans

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	25	17.7	17.7	17.7
	Agree	41	29.1	29.1	46.8

	Strongly Agree	75	53.2	53.2	100.0
	Total	141	100.0	100.0	

Banks with higher budget for loan monitoring have lower non-performing loans

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	4	2.8	2.9	2.9
	Disagree	50	35.5	35.7	38.6
	Neutral	22	15.6	15.7	54.3
	Agree	22	15.6	15.7	70.0
	Strongly Agree	42	29.8	30.0	100.0
	Total	140	99.3	100.0	
Missing	System	1	.7		
Total		141	100.0		

Borrowers default because they do not understand the credit terms well

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	1	.7	.7	.7
	Agree	60	42.6	42.6	43.3
	Strongly Agree	80	56.7	56.7	100.0
	Total	141	100.0	100.0	

Poorly negotiated credit terms

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	14	9.9	9.9	9.9
	Disagree	7	5.0	5.0	14.9
	Agree	40	28.4	28.4	43.3
	Strongly Agree	80	56.7	56.7	100.0
	Total	141	100.0	100.0	

Lenient/lax credit terms

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	3	2.1	2.1	2.1
	Disagree	18	12.8	12.8	14.9
	Agree	82	58.2	58.2	73.0
	Strongly Agree	38	27.0	27.0	100.0
	Total	141	100.0	100.0	

Poor credit policies and procedure

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	1	.7	.7	.7
	Neutral	20	14.2	14.2	14.9
	Agree	30	21.3	21.3	36.2
	Strongly Agree	90	63.8	63.8	100.0
	Total	141	100.0	100.0	

No serious action will be taken against borrowers not to repay the loan

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	11	7.8	7.8	7.8
	Neutral	20	14.2	14.2	22.0
	Agree	22	15.6	15.6	37.6
	Strongly Agree	88	62.4	62.4	100.0
	Total	141	100.0	100.0	

Length of repayment period

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	20	14.2	14.2	14.2
	Disagree	18	12.8	12.8	27.0
	Neutral	11	7.8	7.8	34.8
	Agree	37	26.2	26.2	61.0
	Strongly Agree	55	39.0	39.0	100.0

		Frequency	Percent	Valid Percent	Cumulative Percent
	Total	141	100.0	100.0	

Any special terms such as seasonal dating and the collection period of the firm

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	1	.7	.7	.7
	Disagree	17	12.1	12.1	12.8
	Neutral	29	20.6	20.6	33.3
	Agree	39	27.7	27.7	61.0
	Strongly Agree	55	39.0	39.0	100.0
	Total	141	100.0	100.0	

Lack of proper education in the business area

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	1	.7	.7	.7
	Disagree	9	6.4	6.4	7.1
	Neutral	21	14.9	14.9	22.0
	Agree	22	15.6	15.6	37.6
	Strongly Agree	88	62.4	62.4	100.0
	Total	141	100.0	100.0	

Intentional (willful) defaults by borrowers

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	1	.7	.7	.7
	Disagree	9	6.4	6.4	7.1
	Neutral	21	14.9	14.9	22.0
	Agree	22	15.6	15.6	37.6
	Strongly Agree	88	62.4	62.4	100.0
	Total	141	100.0	100.0	

Lack of sufficient supervision from the bank

		Frequency	Percent	Valid Percent	Cumulative Percent

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	5	3.5	3.5	3.5
	Disagree	20	14.2	14.2	17.7
	Agree	20	14.2	14.2	31.9
	Strongly Agree	96	68.1	68.1	100.0
	Total	141	100.0	100.0	

Market condition

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	1	.7	.7	.7
	Disagree	25	17.7	17.7	18.4
	Agree	15	10.6	10.6	29.1
	Strongly Agree	100	70.9	70.9	100.0
	Total	141	100.0	100.0	

when banks ensure strict monitoring measures increases the chances of loan performance

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	1	.7	.7	.7
	Disagree	9	6.4	6.4	7.1
	Neutral	13	9.2	9.2	16.3
	Agree	25	17.7	17.7	34.0
	Strongly Agree	93	66.0	66.0	100.0
	Total	141	100.0	100.0	

Providing collateralized loans reduces the chances of loan defaults

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	3	2.1	2.1	2.1
	Neutral	20	14.2	14.2	16.3
	Agree	35	24.8	24.8	41.1
	Strongly Agree	83	58.9	58.9	100.0
	Total	141	100.0	100.0	

allocation of more funds for loan monitoring leads to lower non-performing loans

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	28	19.9	19.9	19.9
	Neutral	20	14.2	14.2	34.0
	Agree	49	34.8	34.8	68.8
	Strongly Agree	44	31.2	31.2	100.0
	Total	141	100.0	100.0	

improving or providing effective risk assessment mechanisms leads to quality loans

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Neutral	18	12.8	12.8	12.8
	Agree	43	30.5	30.5	43.3
	Strongly Agree	80	56.7	56.7	100.0
	Total	141	100.0	100.0	

Immediate transfer of NPL to ALD (loan and advance under litigation)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	6	4.3	4.3	4.3
	Disagree	23	16.3	16.3	20.6
	Agree	32	22.7	22.7	43.3
	Strongly Agree	80	56.7	56.7	100.0
	Total	141	100.0	100.0	

Lack of proper monitoring

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Neutral	15	10.6	10.6	10.6
	Agree	17	12.1	12.1	22.7
	Strongly Agree	109	77.3	77.3	100.0
	Total	141	100.0	100.0	

Ignorance of lending terms and conditions

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	11	7.8	7.8	7.8
	Disagree	24	17.0	17.0	24.8
	Agree	37	26.2	26.2	51.1
	Strongly Agree	69	48.9	48.9	100.0
	Total	141	100.0	100.0	

Over financing

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	4	2.8	2.8	2.8
	Neutral	25	17.7	17.7	20.6
	Agree	50	35.5	35.5	56.0
	Strongly Agree	62	44.0	44.0	100.0
	Total	141	100.0	100.0	

Under financing

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	28	19.9	19.9	19.9
	Disagree	16	11.3	11.3	31.2
	Neutral	24	17.0	17.0	48.2
	Agree	19	13.5	13.5	61.7
	Strongly Agree	54	38.3	38.3	100.0
	Total	141	100.0	100.0	

Anticipation of windfall profits in other business areas

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	1	.7	.7	.7
	Neutral	11	7.8	7.8	8.5
	Agree	36	25.5	25.5	34.0
	Strongly Agree	93	66.0	66.0	100.0
	Total	141	100.0	100.0	

SPSS (2021) Output for AWASH Bank S.c

The bank's lending policies always influences the lending decisions

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	1	2.5	2.5	2.5
	Disagree	7	17.5	17.5	20.0
	Strongly Agree	32	80.0	80.0	100.0
	Total	40	100.0	100.0	

With growth in banks size comes growth on NPL

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	1	2.5	2.5	2.5
	Disagree	10	25.0	25.0	27.5
	Agree	14	35.0	35.0	62.5
	Strongly Agree	15	37.5	37.5	100.0
	Total	40	100.0	100.0	

Project appraising and selection officers and managers are qualified and skilled enough

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	1	2.5	2.5	2.5
	Disagree	14	35.0	35.0	37.5
	Strongly Agree	25	62.5	62.5	100.0
	Total	40	100.0	100.0	

Credit performers in the bank have autonomous power in appraising and selecting projects

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	11	27.5	27.5	27.5
	Strongly Agree	29	72.5	72.5	100.0
	Total	40	100.0	100.0	

Aggressive lending leads to large NPL volume/ratio

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	2	5.0	5.0	5.0
	Disagree	8	20.0	20.0	25.0
	Strongly Agree	30	75.0	75.0	100.0
	Total	40	100.0	100.0	

Lack of Compromised integrity in credit approval

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	10	25.0	25.0	25.0
	Agree	15	37.5	37.5	62.5
	Strongly Agree	15	37.5	37.5	100.0
	Total	40	100.0	100.0	

Rapid credit growth

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	2	5.0	5.0	5.0
	Disagree	10	25.0	25.0	30.0
	Agree	14	35.0	35.0	65.0
	Strongly Agree	14	35.0	35.0	100.0
	Total	40	100.0	100.0	

The Banks great risk appetite

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	2	5.0	5.0	5.0
	Disagree	5	12.5	12.5	17.5
	Strongly Agree	33	82.5	82.5	100.0
	Total	40	100.0	100.0	

Having large number of borrowers

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	3	7.5	7.5	7.5
	Disagree	5	12.5	12.5	20.0
	Strongly Agree	32	80.0	80.0	100.0
	Total	40	100.0	100.0	

Banks whose credit growth is rapid experience huge NPL level

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	10	25.0	25.0	25.0
	Disagree	7	17.5	17.5	42.5
	Agree	16	40.0	40.0	82.5
	Strongly Agree	7	17.5	17.5	100.0
	Total	40	100.0	100.0	

Bank's great risk appetite is cause for NPL

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	1	2.5	2.5	2.5
	Disagree	5	12.5	12.5	15.0
	Agree	7	17.5	17.5	32.5

	Strongly Agree	27	67.5	67.5	100.0
	Total	40	100.0	100.0	

Compromised integrity in lending leads to loan default

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	1	2.5	2.5	2.5
	Disagree	9	22.5	22.5	25.0
	Strongly Agree	30	75.0	75.0	100.0
	Total	40	100.0	100.0	

Having large number of borrowers causes loan default

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	2	5.0	5.0	5.0
	Disagree	8	20.0	20.0	25.0
	Strongly Agree	30	75.0	75.0	100.0
	Total	40	100.0	100.0	

Loans default rate is directly related to banks' size

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	5	12.5	12.5	12.5
	Disagree	10	25.0	25.0	37.5
	Neutral	5	12.5	12.5	50.0
	Agree	7	17.5	17.5	67.5
	Strongly Agree	13	32.5	32.5	100.0
	Total	40	100.0	100.0	

Loan default is not related banks ownership type (private/state owned

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	4	10.0	10.0	10.0
	Disagree	2	5.0	5.0	15.0
	Strongly Agree	34	85.0	85.0	100.0
	Total	40	100.0	100.0	

Easily admitted borrowers usually default

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	4	10.0	10.0	10.0
	Disagree	2	5.0	5.0	15.0
	Strongly Agree	34	85.0	85.0	100.0
	Total	40	100.0	100.0	

Know Your Customer (KYC) policy of banks lead to high loans quality

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	3	7.5	7.5	7.5
	Disagree	5	12.5	12.5	20.0
	Strongly Agree	32	80.0	80.0	100.0
	Total	40	100.0	100.0	

Good loan underwriting ensures loan performance

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	12	30.0	30.0	30.0
	Strongly Agree	28	70.0	70.0	100.0
	Total	40	100.0	100.0	

Poor risk assessment would lead to loan default

		Frequency	Percent	Valid Percent	Cumulative Percent

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	1	2.5	2.5	2.5
	Disagree	12	30.0	30.0	32.5
	Strongly Agree	27	67.5	67.5	100.0
	Total	40	100.0	100.0	

Collateralizing loans help protect loan default

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	2	5.0	5.0	5.0
	Disagree	12	30.0	30.0	35.0
	Strongly Agree	26	65.0	65.0	100.0
	Total	40	100.0	100.0	

Collateralized loans perform well

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	1	2.5	2.5	2.5
	Disagree	14	35.0	35.0	37.5
	Strongly Agree	25	62.5	62.5	100.0
	Total	40	100.0	100.0	

Most of the time non collateralized loans are defaulted

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	1	2.5	2.5	2.5
	Disagree	18	45.0	45.0	47.5
	Strongly Agree	21	52.5	52.5	100.0
	Total	40	100.0	100.0	

Strict monitoring ensures loan performance

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	13	32.5	32.5	32.5
	Strongly Agree	27	67.5	67.5	100.0
	Total	40	100.0	100.0	

Poorly assessed and advanced loans may perform well if properly monitored

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	1	2.5	2.5	2.5
	Disagree	17	42.5	42.5	45.0
	Agree	10	25.0	25.0	70.0
	Strongly Agree	12	30.0	30.0	100.0
	Total	40	100.0	100.0	

Loan follow up is directly related to occurrence of nonperforming loans

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	1	2.5	2.5	2.5
	Disagree	14	35.0	35.0	37.5
	Strongly Agree	25	62.5	62.5	100.0
	Total	40	100.0	100.0	

Banks with higher budget for loan monitoring have lower non-performing loans

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	13	32.5	32.5	32.5
	Strongly Agree	27	67.5	67.5	100.0
	Total	40	100.0	100.0	

Borrowers default because they do not understand the credit terms well

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	13	32.5	32.5	32.5
	Strongly Agree	27	67.5	67.5	100.0
	Total	40	100.0	100.0	

Poorly negotiated credit terms

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	9	22.5	22.5	22.5
	Neutral	5	12.5	12.5	35.0
	Strongly Agree	26	65.0	65.0	100.0
	Total	40	100.0	100.0	

Lenient/lax credit terms

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	6	15.0	15.0	15.0
	Neutral	5	12.5	12.5	27.5
	Agree	2	5.0	5.0	32.5
	Strongly Agree	27	67.5	67.5	100.0
	Total	40	100.0	100.0	

Poor credit policies and procedure

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	7	17.5	17.5	17.5
	Neutral	5	12.5	12.5	30.0
	Strongly Agree	28	70.0	70.0	100.0
	Total	40	100.0	100.0	

No serious action will be taken against borrowers not to repay the loan

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	6	15.0	15.0	15.0
	Neutral	5	12.5	12.5	27.5
	Agree	2	5.0	5.0	32.5
	Strongly Agree	27	67.5	67.5	100.0
	Total	40	100.0	100.0	

Length of repayment period

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	6	15.0	15.0	15.0
	Neutral	5	12.5	12.5	27.5
	Agree	4	10.0	10.0	37.5
	Strongly Agree	25	62.5	62.5	100.0
	Total	40	100.0	100.0	

Any special terms such as seasonal dating and the collection period of the firm

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	6	15.0	15.0	15.0
	Neutral	15	37.5	37.5	52.5
	Agree	5	12.5	12.5	65.0
	Strongly Agree	14	35.0	35.0	100.0
	Total	40	100.0	100.0	

Lack of proper education in the business area

		Frequency	Percent	Valid Percent	Cumulative Percent

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	7	17.5	17.5	17.5
	Neutral	13	32.5	32.5	50.0
	Agree	8	20.0	20.0	70.0
	Strongly Agree	12	30.0	30.0	100.0
	Total	40	100.0	100.0	

Intentional (willful) defaults by borrowers

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	6	15.0	15.0	15.0
	Neutral	13	32.5	32.5	47.5
	Agree	5	12.5	12.5	60.0
	Strongly Agree	16	40.0	40.0	100.0
	Total	40	100.0	100.0	

Lack of sufficient supervision from the bank

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	5	12.5	12.5	12.5
	Neutral	13	32.5	32.5	45.0
	Agree	11	27.5	27.5	72.5
	Strongly Agree	11	27.5	27.5	100.0
	Total	40	100.0	100.0	

Market condition

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	6	15.0	15.0	15.0
	Neutral	12	30.0	30.0	45.0
	Agree	11	27.5	27.5	72.5

	Strongly Agree	11	27.5	27.5	100.0
	Total	40	100.0	100.0	

when banks ensure strict monitoring measures increases the chances of loan performance

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	5	12.5	12.5	12.5
	Neutral	13	32.5	32.5	45.0
	Agree	14	35.0	35.0	80.0
	Strongly Agree	8	20.0	20.0	100.0
	Total	40	100.0	100.0	

Providing collateralized loans reduces the chances of loan defaults

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Neutral	19	47.5	47.5	47.5
	Agree	10	25.0	25.0	72.5
	Strongly Agree	11	27.5	27.5	100.0
	Total	40	100.0	100.0	

allocation of more funds for loan monitoring leads to lower non-performing loans

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	4	10.0	10.0	10.0
	Neutral	16	40.0	40.0	50.0
	Agree	6	15.0	15.0	65.0
	Strongly Agree	14	35.0	35.0	100.0
	Total	40	100.0	100.0	

improving or providing effective risk assessment mechanisms leads to quality loans

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	6	15.0	15.0	15.0
	Neutral	12	30.0	30.0	45.0
	Agree	9	22.5	22.5	67.5
	Strongly Agree	13	32.5	32.5	100.0
	Total	40	100.0	100.0	

Lack of proper monitoring

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	6	15.0	15.0	15.0
	Neutral	10	25.0	25.0	40.0
	Agree	6	15.0	15.0	55.0
	Strongly Agree	18	45.0	45.0	100.0
	Total	40	100.0	100.0	

Immediate transfer of NPL to ALD (loan and advance under litigation)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	7	17.5	17.5	17.5
	Neutral	11	27.5	27.5	45.0
	Agree	9	22.5	22.5	67.5
	Strongly Agree	13	32.5	32.5	100.0
	Total	40	100.0	100.0	

Ignorance of lending terms and conditions

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	4	10.0	10.0	10.0

		Frequency	Percent	Valid Percent	Cumulative Percent
	Neutral	11	27.5	27.5	37.5
	Agree	11	27.5	27.5	65.0
	Strongly Agree	14	35.0	35.0	100.0
	Total	40	100.0	100.0	

Over financing

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	4	10.0	10.0	10.0
	Neutral	10	25.0	25.0	35.0
	Agree	5	12.5	12.5	47.5
	Strongly Agree	21	52.5	52.5	100.0
	Total	40	100.0	100.0	

Under financing

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	6	15.0	15.0	15.0
	Neutral	4	10.0	10.0	25.0
	Agree	17	42.5	42.5	67.5
	Strongly Agree	13	32.5	32.5	100.0
	Total	40	100.0	100.0	

Anticipation of windfall profits in other business areas

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	14	35.0	35.0	35.0
	Neutral	2	5.0	5.0	40.0
	Strongly Agree	24	60.0	60.0	100.0
	Total	40	100.0	100.0	