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DEPARTMENT OF ACCOUNTING AND FINANCE

Assessment of Credit Risk Management Practices of Awash Bank S.C.

BY

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Addis Ababa, Ethiopia

S.M.U

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APPROVED BY BOARD OF EXAMINERS

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Declaration

I, Elizabeth Adane Temesgen, declare that this thesis is my original work, prepared under the guidance of my advisor ZENEGNAW ABIY (PhD). All sources of materials used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree.

Elizabeth Adane Temesgen ______________________

Signature

ENDORSEMENT

This thesis has been submitted to St Mary University, School of Postgraduate studies for examination with my approval as a university advisor.

ZENEGNAW ABIY (PhD) __________________________________

Advisor Signature

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All things are due to the Almighty GOD for granting me the power, courage and wisdom to finish my study Thank you GOD. I would like to take the opportunity to thank all those people who have contributed to this work over the of time period. First and foremost, I would like to express my deep sense of gratitude and appreciation to my advisor Zenegnaw Abiy (PhD), for his critical review, relevant advice and valuable comments. Furthermore, I offer my regards to all of you who supported me in any respect in completing my graduate Study. Finally, I am heartily thankful for the Awash Bank employees who have cooperated in filling the questionnaire data and who have contributed by sharing their experiences to document case studies for the study. May God bless you!

Acronyms and Abbreviations

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

ABSTRACT

Investment, trade, and other commercial operations depend heavily on credit. Poor credit management practices affect the banking industry's bottom line, making credit management and maintenance a prevalent issue. The study's goal is to evaluate Awash Bank's methods for managing credit risk. Descriptive research design and a mixed research approach were used to carry out the study in order to meet this purpose. Using a basic random sampling technique, 125 employees are proportionally chosen as the sample from the 182 target population. 12 boards of directors, 14 members of executive management, 33 members of senior management, 112 departments responsible for credit and risk management, and 12 regional office directors make up the sample. Using structured and semi-structured questionnaires, primary data were gathered from bank workers. To aid in the analysis of the data, descriptive statistics including frequency, percentage, mean score, standard deviation, and graphs were used together with SPSS Version 20.0. The results of this study show that the environment for credit risk management, the credit-granting process, the credit-administration process, and the controls methods used by AB are all good. On the other hand, the discovery demonstrates the bank's lack of adequate financial research, due diligence, and leveraged loan agreements, as well as its failure to test and validate new leading retirees. Additionally, the senior management of the bank uses their subjective judgment. This analysis revealed that Awash Bank's credit risk management practices were good when compared to the NBE norms and Basel Committee credit risk management principles. According to the study's findings, Awash Bank should test and validate new leading retirees in accordance with NBE guidelines and Basel Committee credit risk management principles. The bank should also promote female employees during the hiring process and in the work place. Bank senior management must free themselves from subjective judgment during the loan preparation and processing by creating the pertinent criteria that are utilized to create common judgment. The study recommended that the Bank exercise due caution while handling certain leveraged cre dit.

Key words: *Credit Risk Management Practice, Basel principles, Awash Bank,*

1. CHAPTER ONE

1.1. Background of the Study

The main goal of every banking organization is to increase profits in order to maintain stability and growth. In accordance with the laws and regulations of each country, banks were founded with the purpose of lending, borrowing, issuing, exchanging, receiving deposits, safeguarding, or handling money. One of the bank's primary activities is credit extension. Lenders use such savings to provide loans for their customers, which is a significant source of revenue for the banks themselves. Loan interest and associated fees account for the majority of these banks' earnings (Sahlemichael, 2009).

Banks generate the majority of their income through the production of credit, but the process of making loans puts their institutions at a significant risk of default for both lenders and borrowers, which can result in serious financial problems, including bankruptcy. Credit risk results from the borrower's failure to perform and may also be caused by the borrower's inability or reluctance to carry out earlier obligations in a contractually required manner or by the borrower's failure to meet financial obligations within the anticipated time frame. The likelihood of a bank going bankrupt increases in direct proportion to how risky a person's credit is. As a result, there are risks involved and a chance that you could lose the value of your deposit (E. Hailu, 2018; A. M. Shaik,. & Pasha, 2017; Sk & CH, 2018).

Due to insufficient credit risk control mechanisms, several organizations, including Sanderson Banking System, Haven Standard Chartered Bank, First Georgia Local Bank, and others, failed or experienced financial difficulties during the 2008 crisis, which followed the US free market economy. The system was characterized by large amounts of private lending, hazardous lending, and significant credit dominance in specific industries, in addition to other issues (The Economist Magazine, September 7, 2013 edition).

This history demonstrates how critical credit management, or lending practices, are for banks to pay special attention to in order to lower the risks involved. Credit management describes lending that includes everything from contacting potential borrowers to recovering their funds. The banking side of the financial industry refers to activities including accepting loan applications, evaluating loans, sanctioning loans, and monitoring and recovering bad loans (Tole & Jabir, 2019). Banks also greatly benefit from a sound and comprehensive credit strategy and credit process. It enables the consistent handling of loan-related concerns, as well as the reduction of risk and confusion. It enables officials to handle loan concerns uniformly, prevent misunderstandings, and streamline the administration of a loan application process. Increased accountability in bank loans is a positive policy (Jiménez et al., 2012).

The management of credit risks is highly valued by institutions because it is crucial to the lending application process. By maintaining creditworthiness exposure with the goal of protecting the company from the detrimental consequences of loan risk, it maximizes credit risk return on investment (Tibebu, 2011). Any commercial bank's long-term success depends on effective credit risk management, which is a crucial part of a comprehensive risk control plan (Basel Committee on Banking Supervision, 2004).

Mekonnen, S. (2018) claims that credit administration activities aid banks in choosing the best borrowers as well as the right lending strategies, programs, undertakings, and businesses. Assuring proper protection is a crucial stage in credit authorizations. Security, however, is more than simply a consideration. The ongoing requirement for banker analysts to undertake analysis remains one of the major issues.

Lenders can determine if a client can successfully return the bank's loan on stipulated repayment terms and schedules or not using fundamentals of credit lending, such as the debtor's liquid assets and borrower honesty. A bank's operational risk as well as the risk of bank insolvency and depositor default must be effectively managed (Osborne 2012; Jiménez, G. et al. 2012).

Since improved credit risk management increases bank profitability, credit management is one of the key concerns facing banks that worries many stakeholders. The researcher was inspired to conduct this investigation by the significance of credit risk management and its effect on performance. Therefore, the purpose of this study is to evaluate the methods used in the Awash Bank case to control credit risk in the Ethiopian banking sector.

1.1.1 Background of Awash Bank

Awash Bank (AB) was founded on February 13, 1995, by 486 founding shareholders with a paid-up capital of Birr 24.2 million. Licensed on November 10, 1994, it started banking operations on February 13, 1995. Awash Bank was named after the popular river "Awash" which is the most utilized river in the country especially for irrigation and hydroelectric power. The bank at present operates a paid-up capital of birr 8.1 billion and over 4369 shareholders as of June 2021 (Awash Bank Annual Report, 2020/21).

The number of shareholders and total assets increased to over 5745 and Birr 183.3 billion, respectively, as of the end of the fiscal year ended 30 June 2022. Awash Bank remains the leading private commercial bank in Ethiopia, trailing only the Commercial Bank of Ethiopia (Awash Bank, 2021) . Not only in Ethiopia According to an African business review survey to rank Africa's Top 100 Banks in 2022 Awash Bank is ranked 91st level (African business,. 2022).

For the fiscal year ending June 30, 2022, the most important financial and non-financial highlights of the bank show, the total deposit, including the L/C margin and the IFB deposit, is 152 billion. Loans and advances totaled 129.2 billion Birr. The bank's total income was 20.6 billion Birr. The bank's total expenses were Birr 13.2 billion as of the end of the fiscal year. As of June 30, 2022, the profit had reached Birr 7.45 billion. The total amount of foreign currency was USD 1.25 billion. The total deposit customer base increased to 7.8 million, and the branch network reached 725 (Annual Report for the Fiscal Year Ending 30 June 2022)

The total outstanding loans and advances extended to different sectors of the economy reached Birr 129.2 billion at the end of June 2022. All sectors of the economy have benefited from the loans and advances availed by the Bank. Accordingly, loans and advances extended to domestic trade and services accounted for the lion's share (23 percent), followed by export (21 percent), building & construction (18 percent), import (13 percent), manufacturing (12 percent), personal loans (8 percent), staff loans and transport (3 percent each), and other sectors (0.4 percent) (Annual Report for the Fiscal Year Ending 30 June 2022). This study assesses credit risk management policy and practice of the bank and the policy environment and ways of alleviating credit risk.

1.2. Statement of the Problem

Credit is the backbone of investment, trade, and other business activities. Credit management and maintenance is a common problem in the banking sector as poor credit management techniques hurt the banking industry's business. A notably significant risk that must be addressed by lawmakers to ensure the efficient functioning of banks is default risk (Indiael & and Dickson, 2013).

Furthermore, Babar and Zeb (2011) point out that since banks are the backbone of economic stability and smooth functioning of most countries, they can also be a source of economic crisis. Campbell (2011) shows how Creditworthiness flows in the financial system for a long time before becoming a source of financial pain in the financial system. The developed, developing, and underdeveloped economies encountered the majority of the economic crisis as well as the decline is rooted in instability in the banking sector(Tole & Jabir, 2019).

The global financial and economic crises of 2008 revitalized the need for enhancing the credit risk management system and caused a surge of academic works and policy discussions across developed and developing countries. In this respect, Exogenous and Endogenous factors were identified from a single-country perspective: (Manaba, et al, 2015; Zhang, et al, 2016; Abid, et al, 2014) and cross countries perspective: (Castro, 2013; Dimitrios, et al, 2016; Nikolaidou & Vogiazas, 2017), in which many of these studies focused their case on developed counties.

Several research on the subject of credit risk in Ethiopia were conducted to date. Among them, some of the researches are conducted on determinants of credit risk management (Ataklti, 2015; Tamrat, 2016; Tole & Jabir, 2019; VENI², 2015). The studies conducted on the impacts and effects of credit risk management and suggested a structured method to manage risk through risk assessment and developing strategies by screening and monitoring long-term customer relationships, credit rationing, and collateral requirements(Dereje, 2022; Endashaw, 2021; Engdawork, 2014; Hiwo, 2021; Marian, Alina, & Roberta, 2010; Raphael, 2017; Shmendi, 2019; Zelalem). Others Also Conduct A Study On The Risk Management Practice(Abiy, 2021a; Ariam, 2021; Endalkachew, 2018; Fekadu, 2015; Fikadu, 2016; M. F. Flagot, 2021; Gedefaw, 2019; Hable, 2018; Hirut, 2019; Meti, 2021; Misba, 2017; Mulu Melak, Sewasew Tekeste, Hamelmal

Teshome, & Ayele, 2021; Selamawit, 2018; A. M. Shaik, . & Pasha, 2017; A. M. P. Shaik, . & Mintesinot, 2017; Tedros, 2021; Teshome, 2015).

Despite the fact that various studies have been conducted in the area of credit management practices, the majority of the studies have mainly focused on the topic of implementing banking policies and procedures. In addition, studies have focused on bank default rates or the number of bad loans. On the other hand most the previous study in the same topic were not considering the board of directors and Regional office directors as sample their questionary were not cover them.

In addition to this, the researcher has reviewed various research related to assessments of credit risk management practices most of these are unpublished except (A. M. Shaik, . & Pasha, 2017; A. M. P. Shaik, . & Mintesinot, 2017; Teshome, 2015). Even from unpublished research's only four researches were conducted in cause of Awash Bank (Abiy, 2021a; M. F. Flagot, 2021; MISBA, 2017; Tedros, 2021). There for conducted sound research that were able to show of credit risk management practices of Awash Bank is an incredible task.

However when the researcher looking at the private banks credit risk management practices the bank which comes first to our mind is Awash Bank, because according to Tedros, (2021) Awash Bank is the pioneer and largest bank in the banking industry starting from 2014 up to now in every parameter that a single bank may measure. Awash Bank remains the leading private commercial bank in Ethiopia and ranked 91st level in Africa (African business 2022). Therefore, conducting research on this bank on the mentioned title may represent the rest of private banks instead of selecting the followers.

In addition there is credit risk problem in Awash Bank. The NPLs ratio as at June 30, 2020 stood at 1.7% and as of June 30, 2022 1.2%, which was much lower than the NBE's 5% benchmark. (Awash Bank Annual reports, 2021/2022). Although the bank's NPL ratio is below the required threshold for NBE (i.e., 5%), and there has been change in the ratio in the past years, small changes in the NPL ratio have a sizable impact on the performance of the bank. Therefore every effort will be made to keep it as low as feasible. To make specific recommendation, needs to assess the problem why the bank NPL ratio of the bank is below the required ceiling of NBE. This NPL

Needs study to answer why the reason to be continuous by assessing risk management practice of the bank.

Furthermore study conducted in Awash Bank results are inconsistent. According to Abiy(2021) NPL increasing time to time due to the current political and contagious diseases, lack of continuous follow up and proper risk assessment, Lack of the existence of proper and clear guidelines in managing credit, lack the enough top managements support improved. He recommend an improved and innovation on new ways of dealing with borrowers is necessary for banks to be able to recover their loan. Flagot (2021) also reveals that there is Problem monitoring process by regularly inspecting the business clients after granting credits.

On contrary Tedros (2021) on his study reals that banks is in a good position in terms of the credit risk management practice and in following the credit risk management system and standards so as to have strong credit management. Similarly Flagot (2021) also stats that there is Well-designed credit risk strategy and policy, good level of credit appraisal and granting process i.e. checks borrowers history, financial condition and collateral requirements before granting loans, appropriate internal risk scoring system, employs risk based scientific pricing and has an independent risk management function. This inconsistency need to Agee and to have similar result in one bank.

The above-mentioned gap, contradictions and the problems related with the increase of NPL, Provision and the ever increase of concentration risk by the bank motivates the researcher to assess the credit risk management practice of Awash Bank and fill the lacuna existing in the local literature.

1.3. Objective of the Study

1.3.1. General objective

The general objective of this research was to assess Awash Bank's credit risk management practices.

1.3.2. Specific objectives

Based on the general objective, the following specific objectives are framed:

- To assess credit risk environment of Awash Bank;
- To assess credit granting process of Awash Bank;
- To examine credit administration process of Awash Bank;
- To evaluate controls techniques of Awash Bank over credit risk.

1.4. Research questions:

This study seeks to answer the following questions in hunt of the specific objectives:

- How does Awash Bank establish an appropriate credit risk environment;
- To what extent Awash Bank operate under a sound credit-granting process;
- To what extent Awash Bank maintain an appropriate credit administration process;
- How does Awash Bank ensure adequate controls over credit risk?

1.5. Significance of the study

Because credit is the cornerstone of the banking company's revenue generation, the study's findings are expected to just be useful to those with similar goals and seeking information on credit risk management issues.

Explicitly, the survey is expected to help policymakers, credit rating and processing managers, credit portfolio managers and credit risk management departments of Awash Bank by communicating relevant information to help improve their credit risk management practices. This helps the bank by pointing out which areas of bad debt-related problems exist. It helps officers and analysts for doing what is expected of them as professionals in loan processing and becoming an important part of a banking organization.

The research helps for other commercial banks and the National Bank of Ethiopia to identify the credit risk management practice of banks. As a result, the required policies and practices for risk management were be put in place.

Furthermore, the study were provide useful information to those who wish to conduct an extra study on credit risk management practices and used this research as a secondary source of information.

1.6. Limitation of the study

The study is limited only to Awash Bank and excludes other private and government commercial Banks. Moreover, the study is conducted only on Awash Bank credit administration, credit appraisal, credit analysts and risk management department found at Head office and because of time constraint and other resource limitation the result of the study may not be generalized to other banks. Therefore, since it is difficult to address all employees in the bank, the study delimit itself only sample respondents from top management and credit activity and risk management area of Awash Bank who reside in Addis Ababa.

1.7. Scope of the study

This study was conduct only with the head office staff involved in the processing of customer credit applications, analysis and evaluation, credit monitoring, and portfolio management as well as such as credit risk management activities at Awash Bank in the period of 2020-2023. In addition, the issue of credit risk is a broad area of study, the present study focuses on only assessing credit risk management practices of Awash Bank mainly on credit analysis and assessment, credit monitoring and management, credit risk management and related fields at the headquarters to collect information related to the field of study. Therefore, the study were limited to the credit processing activities and credit risk management practices of Awash Bank. Other banking activities were mentioned in this study.

1.8. Organization of the Paper

This study is organized into five chapters and divided into subsections. The first chapter covers the study's introduction, which includes the study's background, issue statement, objectives, and definition of the study's significance. The layout of the research. A review of related literature, including a critical analysis of related works from various works of literature, was covered in the second chapter. The design and methodology for research was covered in the third part. The fourth chapter is devoted to the analysis and interpretation of the data and the final chapter were deal with conclusions and recommendations.

CHAPTER TWO

2. LITERATURE REVIEW

2.1. THEORETICAL LITERATURE REVIEW

Risk and Banking Risks

Banking risks and risks can be defined in different ways. Banking risk, business risk, ordinary life risk, or any other type of risk is likely to occur in the future and has unexpected effects on the recipient (Lalon, 2015). Organizations are exposed to many different types of risk. These include risks related to (a) the business environment, (b) laws and regulations, (c) operational performance, (d) the reputation of the organization, and (e) financial risks. These financial risks are related to a company's financial performance, essentially the risk of financial loss (and in some cases financial gain) and take many different forms. These include currency risk, interest rate risk, credit risk, liquidity risk, cash flow risk, and funding risk. The extent of these risks varies from organization to organization. A company that operates internationally is exposed to a higher currency risk than a company that only operates nationally; a bank generally carries a higher credit risk than most other companies etc. (Margaret Woods and Kevin Dowd, 2008). Compared to other types of activities, banking has the most potential risks, especially in today's ever-changing competitive environment. Risks are now much more complex as the same activity can contain many risks (Lalon, 2015)

Definition and Concepts of Bank Credit Risk

Credit comes from the Latin word credere, meaning trust. There is a definite trust conclusion when a seller passes his to a buyer who has promised to pay later, there is a clear trust implication that payment was made by the agreed date (Hirtle & Lopez, 1999) Credit risk is the risk taken by the bank if the borrower (customer) fails to meet its obligations when due or due. Credit risk can be described much more simply as the possibility that a bank's counterparty or borrower was to meet its obligations on the terms agreed. (Zergaw, 2019). Basel (2001) defines credit risk as the possibility that, due to various circumstances, borrowers were not repay part or all of their loans. It also states that higher bank credit risk was lead to an unexpected financial crisis and lower credit risk will reduce the chances of a crisis as this division of the bank will make a big profit.

According to Chan-Lau and Ong (2006) Credit risk includes both the possibility that the borrower will not be able to repay the balance of the loan on time and the possibility that the borrower's creditworthiness will deteriorate, leading to an economic downturn. Credit risk arises when one of the counterparties to a transaction fails to pay in full when the amount is not paid or at a later date, which may result in the bankruptcy of the counterparty. According to (Maria, CARACOTA, OPREA, & SCRIECIU, 2011) credit risk is the delay in one's obligations arising from the contractual financial obligations specified in the payment term by the counterparty. Credit risk refers to the likelihood that a borrower or lender will default on its obligations because of a predetermined contractual arrangement during the credit approval process that adversely affects the borrower's working environment.

Credit risk is also known as default risk, operational risk, or counterparty risk. A bank exists not only to take deposits but also to extend credit facilities and is therefore inevitably exposed to credit risk. More than any other risk, the performance of banking businesses depends on the accurate assessment and effective management of credit risk, which is perhaps the main risk they face (Cebenoyan & Strahan, 2004) According to (Muluneh, 2019) credit risk is the extent to which the value of debt securities and derivatives fluctuates due to changes in the fundamental creditworthiness of counterparties and borrowers. De (Godlewski, 2006) fine credit risk as the loss incurred when borrowers refuse or are unable to pay their debts in full and on time.

Credit Risk Exposures in Banks

I. On-Balance Sheet Exposures

Loans

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

Nonperforming Loan Portfolio

Suto (2003) defines loan defaults as those that are not producing revenue. Loans are frequently classified as default risk when the principal or interest is past due and is not paid for 90 days or more. Therefore, the nonperforming loan portfolio is a crucial indicator of the bank's vulnerability to credit risk and the caliber of its financing choices.

Debt Securities

Credit risk is present in banks' conventional business of investing in debt securities in addition to lending. Debt securities are debt instruments, such as bonds, notes, certificates of deposit, and other types of debt obligations, that are issued by quasi-governmental organizations, governments, and big corporations to generate capital. In general, the issuer pledges to make regular coupon payments throughout the duration of the instrument and to repay the stated principal at maturity. However, there is always a chance that the issuer will go out of business, which could harm banks by costing them interest or even capital (Flagot, 2021).

II. Off-Balance Sheet Exposures

Some of the off-balance sheet credit exposures are:

Derivatives Contracts

Banks may sell derivatives and serve as counterparties in transactions with customers in exchange for a commission or claim. When banks increase their positions in derivative contracts, there is a good chance that contingent credit risk will be involved. Risk will emerge because the counterparty may fail to fulfill its payment obligations in order to reduce current and future losses, leaving the banks unprotected and compelled to replace the contract at the current interest rates and costs. Even though contracts are held directly with the exchange and margining requirements, trading in options, futures, or other comparable contracts may expose banks to reduced credit risk(Saunders & Cornett, 2008).

Guarantees and Acceptances

A bankers' acceptance is a commitment by a bank to pay the face value of a bill of exchange when it matures, whereas a bank guarantee is an assurance from the bank that the debtor's obligations will be fulfilled (Basel,2008). According to Basel (2008), since guarantees and acceptances are commitments to support a third party, they should be viewed as direct credit substitutes, with credit risk that is comparable to that of a loan to the final borrower or to the drawer of the instrument. In this respect, it is obvious that these off-balance sheet activities involve a full exposure to risk.

Interbank Transactions

Banks primarily use wire transfer systems, such as the Clearing House Interbank Payments System, to transmit wholesale payments (CHIPS). Only at the end of the day are the provisional funds or payments signals sent over the CHIPS network settled. As a result, when a significant fraud is found in a bank's books during the day, it may result in an instant shutdown. As a result, the counterparty bank may not receive the promised payments and may not be able to fulfill its payment obligations to other banks, leaving it in a dire situation.

According to Saunders and Cornett (2006), "banks are exposed to a within-day, or intraday, credit risk that does not show on its balance sheet," which needs to be carefully managed, is the key characteristic of the aforementioned type of settlement risk in interbank transactions.

Loan Commitments

A loan commitment is a formal offer made by a lending bank that states clearly the conditions under which it commits to lend a company a specific maximum amount at a specific interest rate over a specific time frame. Setting the interest rate or formula rate on a loan commitment involves contingent credit risk in this action. According to Saunders and Cornett (2006), banks frequently add a risk premium based on their current evaluation of the borrower's creditworthiness, and since the premium is set before the downgrade, they are exposed to dramatic declines in the borrower's creditworthiness in the event that the borrowing firm runs into trouble during the commitment period.

Process of Credit Management

Credit is reflected in more than 80% of financial organizations' balance sheets. Because of this, banks need to exercise caution in credit management. Therefore, it is crucial to employ excellent credit management techniques. The weakness of the credit risk management system is the source of many bad debts (JEBESSA, 2020). Establishing precise requirements that a customer must meet in order to be approved for a proposed loan deal is an essential part of good credit management. A financial institution's ability to be successful depends on effective credit management practices, as noted by (Basu & Rolfes, 1995). credit analysis, credit approval and follow-up are the three basic phases that make up credit management in general. The latter is the post-depreciation method while the first two are the prepayment method. As per the list above, basic bank loan management includes the following tasks:

Credit Application

The first step in the credit management process is the credit application. A loan application is required regardless of the loan amount or goal. Although applicants think these are simple requests, they need to understand the importance of the record. Detailed information on the applicant can be found in the registration documents. The information includes, among other things: name, address, home address, age, telephone number, marital status, number of dependents, level of education, hometown, type of business, place of business, number of years of operation, reason for the loan, the loan amount, the repayment period, the promised loan amount and the guarantor. For purposes of this document, financial institutions may take legal action against borrowers who fail to pay their debts. As this is the first phase of the credit management process, any mistake made at this point will have a major negative impact on the entire process (Basu & Rolfes, 1995).

Credit Assessment

To conduct a risk assessment and determine the risks involved, the necessary information is collected about a potential borrower and projects in other areas. Financial institutions check this carefully before granting loans. In addition, this serves to determine whether the planned project can be carried out. In addition, it allows the technical, financial and economic feasibility of the project to be carried out to be assessed. In this way, the risk associated with a loan can be reduced. The risk of default that arises when a borrower fails to repay a loan taken out with a financial institution is known as credit risk. An accurate assessment of the client will help determine their financial situation and their ability to repay the loan on time. This is an important aspect of the loan application process. You could say it's the lifeblood of a solid credit account. The data transmitted by the applicant on the loan application form is collected, checked, and processed. This facilitates the assessment of the applicant's creditworthiness and reduces challenges between the borrower, who acts as an intermediary, and the financial organization, which acts as a trustee. Credit management procedures and standards set by lenders govern the credit evaluation process(Flagot, 2021).

Credit Monitoring

Credit monitoring is an essential part of the financing process. Financial institutions have a great duty to keep their assets in good standing and to pay all interest and principal owed on time. Even though adequate security measures are taken during credit evaluation and approval, a financial institution needs to be vigilant. A financial institution may not be able to take the corrective actions needed to stop and reduce bad debts at the institution if early warning signs are not identified. In order to act quickly, a financial institution needs to set up a reliable and efficient credit monitoring system to keep an eye on borrowers' accounts from different perspectives. An excellent credit rating can alleviate the concerns, annoyances and hardships of financial institutions (LEGESSE, 2017).

Credit Recovery /workout process/

There is no denying that any credit organization inevitably encounters customers who either default on their payments or fail to pay them at all. To deal with these situations, companies record an allowance for bad debts on their books. If despite all attempts by the lender to negotiate a debt settlement, an agreement cannot be reached, the loan must be treated as a collection matter. Time. The recovery of an amount owed from a defaulting customer is known as credit recovery. To put it simply, the repayment of loans is the repayment of the man’s debt (Abiy, 2021).

Credit Risk Management

Credit risk is one of many factors that significantly affect the stability of the banking system. This risk often referred to as counterparty risk, can cause difficulties for the bank if not managed appropriately. Credit management is an ever-changing field that requires a certain level of a long-term strategy to allocate funds across a variety of areas, reduce risk and maximize return on just the money invested (Pasha & Mintesinot, 2017).

In addition to ensuring the optimal point of loan and advance scores and their successful management, the aim of credit supervision is also to maximize the performance of assets and minimize NPL assets. Only proper credit analysis will shed light on the possibility of credit losses from real business factors and uncover possible remedies for this troubling situation to keep it under control (Rana Al. Mashruf, 2013). Credit risk management provides a framework to understand the impact of credit risk on the bank's profitability by maximizing the bank's risk-adjusted return by keeping credit risk within acceptable limits (Altman, 2006). Studies also indicate that in the current business climate and credit risk management policies, efficient credit risk management practices are essential to the long-term performance of the banking industry. Inefficient use of resources will lead to a serious resource problem in the banking sector. According to S.N. Singh (2021) credit risk management includes all management tasks such as credit risk identification, measurement, tracking and control.

Credit Risk Measurement

Measuring risk is always an important step in the risk management process, but Fabozzi, Focardi, and Kolm (2006) suggests that it can be challenging to calculate credit risk because of the dearth of historical data, the diversity of the involved borrowers, and the variety of default reasons. The three categories of techniques for calculating bank credit risk—credit rating, credit scoring, and credit modeling—are described in the sections that follow.

Credit risk rating; Based on the subject's financial history, present assets, and liabilities, credit scores are used to evaluate a subject's creditworthiness and forecast the likelihood of default. Credit risk ratings can, according to the (Robertson & Thornton, 1998) represent not only the likelihood or seriousness of losses, but also the variability of losses over time. Internal and external credit scores are linked to banks' assessments of their credit risk. A number, alphabet, or symbol is used by the Credit Risk Rating Framework as the main summary measure of the hazards related to credit risk.

Credit Rating System; Credit scoring methods, as (Grygiel & Rogowski, 2009) points out, can be found in most types of credit analysis and share the same concept with credit ratings. The credit scoring system determines a score for each predefined factor, which is combined to predict the probability of loss and the speed of recovery.

In both univariate and multivariate banking, there are two different kinds of accounting-based credit scoring systems, according (Edward I. Altman, 1989). The former can be used to compare prospective borrowers' various key accounting ratios to industry or group norms, whereas the latter combines and calculates key accounting variables. if greater than this ratio weighted to create a credit risk score or a default measure. a reference that rejects the loan application or further review for the applicant.

2.1.1. General Principles of Sound Credit Risk Management in Banking

Despite the specific approaches that may vary among banks, reviewing the credit risk management general principles can help to paint a clearer picture of how banks handle credit risk management. The following four areas are covered by a few of the fundamentals of good practices for managing bank credit risk as stated in publications by the Basel Committee (2008) and others:

Establishing an Appropriate Credit Risk Environment

Clarifying credit risk and creating an overarching credit risk strategy and policy are the two main requirements for creating a suitable credit risk environment. Effective credit risk management for banks is based on identifying the current and potential credit risk that is present in the goods and services they provide and the operations they carry out. This requires a thorough knowledge of both their credit risk characteristics and lending practices. The bank's credit risk management process is also built on the creation of objectively focused credit risk strategies and policies for all credit-granting activities. An explanation of the types of credit a bank is ready to extend, the target market, and the essential elements of the credit portfolio should all be included in a credit risk strategy, according to this statement (Basel, 2008).

According to Saunders (2005), these strategies should take into account the bank's risk tolerance as well as the amount of return it hopes to accomplish by accepting various credit risks. A bank's credit risk strategy should consider credit quality, earnings, and growth goals, according to (Menberu, 2021) research. Every bank, regardless of size, has been stated to be in business to be profitable; as a result, it is necessary to establish an acceptable risk-reward ratio for its business, taking into consideration its costs capital.

While credit policies, which cover matters like portfolio composition, valuation events, property classifications, etc., serve as a representation of a bank's credit risk management mindset as well as the guidelines under which credit risk should be controlled (Hennie 2003).

Designing and implementing written policies and procedures related to recognizing, measuring, monitoring, and controlling credit risk is a key component of secure and sound banking, claims Boating (2004). Additionally, creating a favorable credit environment denotes the development of a strong credit culture within the bank, which is the implicit knowledge among staff members of the lending environment and proper behavior for the bank.

Operating under a Sound Credit Granting Process

Banks need a formal procedure for assessing and approving credit transactions, according to the (Supervision & Settlements, 2000), in order to keep a healthy credit portfolio. The proper management must approve the request by the bank's written policies. There should be a transparent audit procedure that shows the approval process was followed and that names the individual(s) and/or committee(s) that provide input and decide on credit.

Establishing clear credit granting parameters and credit risk ceilings is essential to a successful credit-granting process because they allow for the evaluation of borrower creditworthiness and the selection of the most qualified candidates. In this respect, banks have historically concentrated on the five Cs assessment of a borrower's creditworthiness. According to Boating (2004), these five Cs are:

The first one is Character. This refers to personal characteristics of the borrower such as honesty, willingness, and commitment to repay debt. Borrowers who show a high level of integrity and commitment to repaying their debts are considered creditworthy. The second one is Capacity. This also refers to the ability of borrowers to contain and service debt based on the success or failure of the venture in which the credit facility is used. Borrowers who have demonstrated successful business performance in the past are also considered favorable for credit facilities. The third is Capital. This refers to the borrower's financial situation. Borrowers with a reasonable amount of financial assets over their financial liabilities are considered favorable for credit facilities. The fourth one is Collateral. These are assets, usually movable or immovable property, that are pledged in exchange for the performance of an obligation. Buildings, inventory, and account receivables are examples of collateral. Borrowers with a greater number of assets to pledge as collateral are viewed favorably for credit facilities. The last Condition. This refers to the economic situation or condition that existed at the time the loan application was made. Borrowers find it difficult to obtain credit during times of recession.

Maintaining an Appropriate Credit Administration, Measurement and Monitoring Process

Credit administration is a critical component in ensuring a bank's safety and soundness. It is the bank's responsibility to ensure that credit is properly maintained once it has been granted. This includes maintaining an up-to-date credit file, obtaining current financial information, sending out notices, and preparing various documents such as loan agreements, follow-up and inspection reports (Basel, 2008).

As Gajera, Vyas, and Patoliya (2013) pointed out, credit management can play an important role in a bank's success because it influences the creation and maintenance of a safe credit environment. and frequently avoids the organization's culpability. As a result, banks should never overlook the efficacy of their credit management activities. Next, when it comes to credit risk measurement in banks, banks must use effective methods to assess the credit risk inherent in both individual borrowers and portfolios. credit, which will be explained in greater detail later. The final axis in this discipline is credit risk monitoring, which is unquestionably essential in banks' risk management processes.

Ensuring Adequate Controls over Credit Risk

According to (Robertson & Thornton, 1998) each agent whose responsibilities are connected to the granting of credit must have a credit limit established to ensure appropriate credit control. A large shareholder loan is an example of a significant related party transaction that may need to be reported to banking regulators. Significant related party transactions are subject to board approval (except conflicting board members).

The establishment of various credit checks is the key to ensuring appropriate credit risk management in banks. Regular credit reviews can confirm that the credit given fits with the credit policy and can provide an unbiased evaluation of the property's quality (Basel, 2008).

2.1.2. Tools of Credit Risk Management

The following is a list of the instruments and methods used in credit risk management:

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

Review/Renewal: A multi-tiered Credit Approving Authority, constitution-wise delegation of powers, higher delegated powers for better-rated customers, a discriminatory schedule for review/renewal, hurdle rates and Bench marks for new exposures, and periodicity for renewal based on risk rating, among other things, are established (Gajera et al., 2013).

Risk Rating Model: Create a comprehensive risk scoring system ranging from six to nine points. Clearly define rating thresholds and review ratings regularly, preferably at half-yearly intervals. Rating migration must be mapped to calculate the expected loss (Gajera et al., 2013).

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

Portfolio Administration The need for credit portfolio management stems from the need to maximize the benefits of diversification while minimizing the potential negative impact of concentration of exposures to a single borrower, sector, or industry. Set a quantitative ceiling on aggregate exposure to specific rating categories, distribute borrowers across industries and business groups, and conduct rapid portfolio reviews. The current framework for tracking non-performing loans around the balance sheet date does not reflect the overall loan book quality. A proper and ongoing system for identifying credit weaknesses well in advance should be in place. Begin steps to maintain desired portfolio quality and integrate portfolio reviews into the credit decision-making process (Thirupathiand Manoj, 2013).

Loan Review Mechanism This should be done independently of credit operations. It is also known as a Credit Audit because it includes a review of the sanction process, compliance status, risk rating review, detection of warning signs, and recommendation of corrective action to improve credit quality. It should target all loans above a certain threshold, ensuring that at least 30% to 40% of the portfolio is subjected to a loan review mechanism at least once a year to ensure that all major credit risks embedded in the balance sheet have been tracked. This is done to improve the quality of credit administration (Raghavan, 2003).

2.2. Empirical literature

There have large number of empirical studies in the area of credit risk management with the pace of changing environment in the Ethiopian banking system. (Abiy, 2021a; Ariam, 2021; Atakelt, 2015; Awash Bank, 2021; Dereje, 2022; Emmanuel Ikpe, Nse Abasi, Ebenezer, & Ime, 2018; Endalkachew, 2018; Endashaw, 2021; Engdawork, 2014; Ethiopia, 2010; Fekadu, 2015; Fikadu, 2016; M. F. Flagot, 2021; Floyd, 2003; Gedefaw, 2019; Hable, 2018; E. Hailu, 2018; M. T. Hailu & Sankar; Hirut, 2019; Hiwo, 2021; Indiael & And Dickson, 2013; Kajirwa & Katherine, 2019; Kidane, 2020; Marian Et Al., 2010; Mboto, Atseye, & Doris Jane Matthew & Nkamare, 2022; Meti, 2021; Misba, 2017; Moses, 2012; Raphael, 2017; Sahlemichael, 2009; Selamawit, 2018; A. M. Shaik, . & Pasha, 2017; Shmendi, 2019; S. N. Singh, 2021; Sk & Ch, 2018; Tamrat, 2016; Tedros, 2021; Temesgen, 2019; Tesfaye; Teshome, 2015; Tibebu, 2011; Tilahun & Dugasa, 2014; Tole & Jabir, 2019; Tsion, 2021; Worku, 2016; Yeshimebet, 2020; Yohannes, 2016; Zelalem). The following attempt was made to summarize the main finding of some studies in the area of risk management in commercial banks.

Brown and Moles (2011) Conducted a research and states that, The Banks are exposed to various risks related to such a facility due to their high reliance on the process of creating credit and the existence of a significant demand for credit.

Alebachew (2015) on his study concluded that the bank needed a procedure that was established to approve credit amendments, renewals, and refinancing in his paper titled "A review of credit risk management policies and practices at NIB International". Additionally, the researcher calls for the development of a credit monitoring system to check on the consistency of all credit approvals carried out by the Bank's written guidelines and to the Bank's suitability.

In his research, Atakelt, (2015) discovered that the three major risk categories that banks encounter most frequently are credit risk, liquidity risk, and organizational risk. Financial Statement Analysis came in first among the three commonly used risk detection techniques, followed by audit, physical inspection, and internal communication. The research further confirmed that four aspects of Basel's credit risk management principles account for a sizable amount of variation in Ethiopian commercial banks' credit risk management practices. Furthermore, it was discovered that the most significant factors influencing the degree of credit risk management practice were creating an appropriate credit risk environment and making sure there were sufficient controls over credit risk. Finally, it has been determined that there are negligible differences in the concepts and practices of credit risk management between public and private commercial banks.

In his paper titled "Assessment of Credit Risk Management Practice in Commercial Bank of Ethiopia," (Gebrewahid, 2016) discovered that there were differences in the roles and responsibilities of the board of directors with regard to the credit risk management process, a lack of accurate, reliable, and consistent information/database system, a lack of a variety of risk controlling techniques, and a lack of departmental integration.

In a related study Legesse (2017) evaluated the credit risk management practices of the same bank (the Commercial Bank of Ethiopia) and discovered that the board of directors and management of the Commercial Bank of Ethiopia properly exercised their authority to oversee credit risk management, kept up with the most recent credit risk management trends, applied a combination of various risk management techniques, and had competent staff. Additionally, the outcome demonstrates how Commercial Bank Ethiopia recognizes, assesses, and evaluates credit risk throughout the processes. Similar study were conducted by on assess credit risk management system in Ethiopian banking industry of some private and government commercial banks (A. M. Shaik, . & Pasha, 2017).

Hable (2018)reports that in her study assessment of United Bank S.C's credit management practice, she discovered that there was a lack of credit follow-up by branches, a lack of an information system to support the bank's credit risk grading system, branches' disregard for the bank's credit policy and procedure when using their discretionary lending limit, a borrower's full default, a lack of knowledge on how to use the loan, a fund diversion for an unauthorized purpose, and center Additionally, the banks' credit policy and procedure is favorable.

Reddy (2021) conduct a study on the title "credit risk management practice in the banking sector in Ethiopia". The study reveals that the banks are better to evaluate the payback culture and ability of borrowers rather than relying on collateral. The researcher recommends the banks to tailor manual according to their banks complexity,

S. N. Singh (2021) conduct a study in Dashen Bank of Mettu Branch in Ethiopia with the aim of this study is to assess credit risk management tools and technique that are being used in the bank and to what extent the current performance of the bank is supported by proper credit risk management policy, procedure and strategy. From the findings the study concludes that the bank has well organized credit policy that counter to credit risk they are exposed to and it also conclude that the bank has good credit granting practice and uses suitable credit risk assessment tools and techniques including loan follow-up, risk identification, measuring, evaluating, monitoring and controlling mechanism.

Flagot (2021) Conduct research in cause of Awash Bank Using simple random sampling technique select credit and loan department employees head office collect primary & secondary data using questionnaires by descriptive statistical tools. The result of his study shows there is Problem monitoring process by regularly inspecting the business of clients after granting credits. The study also reveals that there is Well-designed credit risk strategy and policy, good level of credit appraisal and granting process, includes that checks borrower's history, financial condition and collateral requirements before granting loans, appropriate internal risk scoring system, employs risk based scientific pricing and has an independent risk management function.

(Abiy, 2021a) assess by collecting primary & secondary data from credit risk management and related directorates using simple random sampling technique by questionnaires analysis though Descriptive statistics. The result of his study shows that NPL increasing time to time due to lack of continuous follow up and proper risk assessment and the current political and contagious diseases. bank's procedure was not effective in reducing the NPL status and it needs to be improved. Based on the findings, the paper recommends that in ensuring the existence of proper and clear guidelines in managing credit, the top managements support is less and needs to be improved. He Also, recommended innovation on new ways of dealing with borrowers is necessary for banks to be able to recover their loan.

(Tedros, 2021) assess by selecting 60 sample purposive sampling technique and collect primary and secondary and use Analysis Descriptive statistics. The study result shows that regard to disclosing what best CRM practices Awash Bank has missed and it was found that the bank highly depends on collaterals instead of the repayment capacity of the counterparty, there is also no continuous checkups on testing the competence of their staffs and similarly they have poor understanding of concentration risks. He also stats that bank is in a good position in terms of the credit risk management practice and in following the credit risk management system and standards so as to have strong credit management. However, the study also concluded that the bank has weakness: for instance, absence of training for employees on credit risk management strategy, policy and procedures and applying on diversification of credit exposures.

2.2.1. Summary and Literature Gap

Despite the fact that various studies have been conducted in the area of credit management practices, the majority of the studies have mainly focused on the topic of implementing banking policies and procedures. In addition, studies have focused on bank default rates or the number of bad loans. On the other hand, most the previous study in the same topic the researcher questionnaires prepared not consider the board of directors and Regional office directors.

In addition to this, the researcher has reviewed more than 18 research papers from the internet which is related to this paper and no published research were related to the Awash Bank and only two (Abiy, 2021b) Flagot, 2021) unpublished papers were conducted in Awash Bank.

However, when we are looking at the private banks credit risk management practices the bank which comes first to our mind is Awash Bank, because it is the pioneer and largest private bank in the country according to the Awash Bank annual report 2018/19 page 3 (AB, 2019). On top of that Awash Bank is also continued to be a leader bank in the banking industry starting from 2014 up to now in every parameter that a single bank may measure. (Tedros Zewdu 2021). Awash Bank remains the leading private commercial bank in Ethiopia, trailing only the Commercial Bank of Ethiopia. Not only in Ethiopia According to an African business review survey to rank Africa's Top 100 Banks in 2022 Awash Bank is ranked 91st level (African business 2022). Therefore, conducting research on this bank on the mentioned title may represent the rest of private banks instead of selecting the followers.

Furthermore, study conducted in Awash Bank (Abiy, 2021b) Flagot, 2021 results are inconsistent. The findings showed that there is a well-designed credit risk strategy and policy that clearly indicate and recognizes areas of credit engagement and the risks inherent in these engagements. The findings also indicated there is good level of credit appraisal and granting process at the bank that checks borrowers history, financial condition and collateral requirements before granting loans. results also indicated there is a room for improvement with regard to monitoring activities undertaken at Awash Bank (F. M. Flagot, 2021). On the contrary Abyot study indicate there is credit risk problem in Awash Bank. to this fill this inconsistency further study in Awash Bank is needed.

The above-mentioned gap and the problems related with the increase of NPL, Provision and the ever increase of concentration risk by the bank motivates the researcher to assess the credit risk management practice of Awash Bank.

Therefore, this research assesses the overall credit risk management practice of the bank against its credit risk and portfolio management policy, NBE rules and procedures, and Basel parameters of credit risk management principles.

CHAPTER THREE

3.1. Research Design.

A descriptive investigation the qualities of the variables that were of interest in the circumstance were identified and described using design. Descriptive research focuses on current situations, contexts, practices, continuing procedures, perceived outcomes, or emerging trends. Examining the current situation at the time of the study is the main objective of descriptive research (Bramble, 1997). In this regard, the credit risk management policy and guidelines of Awash Bank were examined using basic descriptive research methods, in accordance with the National Bank of Ethiopia's credit risk management guidelines.

3.2. Research Approach

The researcher employed pragmatic paradigms that claimed the problem mattered more than methodologies and that all approaches were used to comprehend the situation. In this study, the pragmatic paradigm is used since it provides the philosophical foundation for mixed-method studies.

This study employed a mixed research design. The study's notation is quant + qual, and it consists mostly of quantitative surveys supplemented with qualitative data. To support the quantitative data, the qualitative data is gathered. Sequential explanatory is the name given to this form of mixed research methodology (Creswell, 2009).

3.3. Population and Sampling Technique

The total group of individuals, occasions, or objects of interest that the researcher seeks to study makes up the population. As of July 2022, Awash Bank employed 17,259 people across its 725+ branches. Employees of the bank who interact with the credit and loan division at the head office make up the population for this study. Because all head office level departments in Ethiopia monitor or approve credit rules, policies, credit assessments, and credit approval processes, the study concentrates on the head office. The researcher also employed Regional office directors to measure effectiveness at the regional level.

3.4. Sample Procedure and Sample Size

To choose the sample, the researcher is performing a preliminary survey. Therefore, 182 employees—12 board members, 14 executive managers, 33 senior management members, 112 directors of the credit and lending department, and 12 directors of regional offices—make up the study's target group. The researcher does not intend to divide the sample into several groups after the initial survey. Additionally, the employee in the aforementioned categories will respond similarly in the corresponding group. This leads to the use of a random sampling approach to obtain a smaller sample.

There are various ways to calculate the sample size. A researcher can do demographic research with the necessary level of precision using the Slovins formula. The Slovins formula provides the researcher with an indication of the sample size that must be used to guarantee results that are reasonably accurate. The formula makes a 5% error tolerance and a 95% confidence level assumption. J.J. Tejada and J.R.B. Punzalan (2012).

Equation 1 $n = \frac{N}{1+Ne2}$

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

$$n = \frac{182}{1 + 182 * 0.05 * 0.05}$$

n= 125

As a result, 125 personnel from 12 boards of directors, 14 executive managements, 33 senior management members, 112 departments of credit and risk management, and a total of 125 research participants were proportionally selected.

	a	b	c	d
participants	Total number	% of the total (a/182)	Total sample $= \frac{182}{1 + 182 * 0.05 * 0.05}$	The sample size for each area(b*c)
The board of directors,	12.	0.07	125	8
Executive management,	14.	0.08	125	10
Senior management members,	33.	0.18	125	23
credit and risk management department,	112.	0.62	125	77
Regional office directors,	11.	0.06	125	8
Total	182.	1.00	125	125

Table 1 Sampling frame

3.5. Method of Data Collection, Sources, and Research Instruments

The researcher employed both primary and secondary data in this investigation. To get firsthand accounts of the bank's credit and risk management practices, it is critical to collect information only from personnel. As a result, the workers selected from this cohort act as the primary source of information. Information regarding the Bank's NPLs that it used and obtained from the Awash Bank head office is included in its annual report. For information on earlier study on this topic, the pertinent literature, which mostly consists of books, journals, newsletters, and bank credit and risk policies, was reviewed.

A structured and semi-structured questionnaire created by Tedros (2021) and based on the Basel Committee's guidelines for credit risk management and the NBE Risk Management Guideline (2010) was used to collect data from the workforce. Both closed-ended and open-ended questions are included in semi-structured questionnaires. Open-ended inquiries have some drawbacks because they require the respondent to provide an original response. In contrast, closed-ended questions only allow for a predetermined set of responses from the respondent (Zinkmund, 2003).

There are two sections to the inquiry. The respondents' demographic traits are the main topic of the first part. The five factors in this section are gender, age, the number of years spent working at Awash Bank, the job held currently, and salary range. Research topics are covered in the second section which was rated on a Likert scale of 1 to 5 points. These are general questions about the bank’s credit and risk management practices. The following is how respondents were asked to rate their degree of agreement with a particular statement. 4 "agree," 5 "strongly concur," 3 "don't know," 2 "disagree," and 1 "totally disagree" were the responses. Categories and subcategories have been used to group the pieces.

In order to get answers to prepared open-ended questions, the study also conducted an interview with the department head at the corporate headquarters. The interview questions were created to learn more about the bank's practice of credit risk management. Since it directly affects credit management, the head of the department responsible for managing credit portfolios is picked for an interview. This study used an interview method since it allows for follow-up questions to help respondents understand.

3.6. Data Analysis

Based on the study's research subjects, data were acquired utilizing a questionnaire and document analysis. Data from the sample were collected using the specified instrument, and then an analysis was performed to answer the study objectives. SPSS 26.1.0 software is utilized for data processing. To examine the unprocessed data collected from questionnaires, descriptive statistics like frequency, percentage, and mean were used.

Ethical Consideration

Participants in the study contributed informed respondents. Responses to the questionnaire are recorded, and strict confidentiality is maintained at all times. In order to safeguard their privacy, users were asked not to include their names. For the research's secondary data, both official and unpublished sources from the Bank were consulted.

CHAPTER FOUR

4 Discussion and Analysis

According to the methodology and literature review sections of this research, the parameters used to analyze the subject under study are the Basel Credit Risk Assessment (2021) and the NBE Risk Management Guidelines (2010). Researchers also received access to loans disbursed in 2021/22 in order to learn more about banks' existing credit risk management techniques and to study the range of credit concerns reported annually. Data was analyzed using SPSS 26.1.0 to assess banks' credit risk management practices. The analysis used the descriptive statistical methods (frequency, mean scores, graphs, standard deviations, and percentages).

4.1. Summary of Survey Respondents

There were given 125 sets of structured and semi-structured questionnaires. In the end, only 25 of them were returned since the respondent voluntarily skipped filling out the form. As can be seen in the table below, 100 questionnaire sets, or 80.0% of the total replies, were thus viable (complete) for additional analysis.

Table 2 Summary of survey carried out.

Parameters	**Values**
Number of questionnaires distributed	125
Number of questionnaires not returned	25
Number of questionnaires were incomplete (invalid)	0
Number of responses	100
Percentage of responses were valid for analysis (%)	80.0%

Source: Own Survey, (2023)

4.2. Analysis of Background of Respondents

The reader is only intended to receive information about all respondents in this area of the study. For this course, 125 employees were chosen as the sample, and they were all given the opportunity to complete the four key survey questions.

Table 3 Background of the respondents

Background of the respondents	Category	Frequency	Percent
sex	Male	67	66.3
	Female	33	32.7
	Total	100	100.0
Educational level	First Degree	46	45.5
	2nd Degree	53	52.5
	PHD	1	1.0
	Total	100	100.0
How long have you worked at Awash Bank?	Under 1 year	4	4.0
	1 – 5years	17	16.8
	5 – 10years	42	41.6
	Over 10 years	37	36.6
	Total	100	99.0
Your experience in credit field is	Under 1 year	1	1.0
	1 – 5years	33	32.7
	5 – 10years	29	28.7
	Over 10 years	37	36.6
	Total	100	99.0

Source: Own Survey, (2023)

According to the preceding table, men made up 66.3% of the respondents while women made up 33.7%. As a result, there aren't as many men and women working as loan officers as there are women. This suggests that the bank does not give men and women equal employment opportunities. The public would not generally accept such a bank. Additionally, compared to their male counterparts, loans handled by female loan officers are less likely to become problematic. In banking, gender does appear to matter (Behr, Madestam, & Beck, 2009).

Relative to respondents' educational backgrounds, the table above again shows that those with a first degree made up 45.5% of respondents, those with a second degree or higher made up 52.5%, and those with a PhD made up 1%. This shows that the bank has a knowledgeable staff that will eventually be able to offer the bank top-notch work in the credit industry and other essential positions.

As was previously mentioned, 4% of respondents had less than five years' experience working for Awash Bank, 16.8% had experience there between one and five years, 41.6% had experience there between five and ten years, and 36.6% had experience there for more than ten years. This finding implies that most respondents have a lot of experience, which makes it easier for them to understand how credit risk management works.

Similarly, 1% of respondents reported having experience in the credit industry, 32.7% reported having experience in the sector for 1 to 5 years, 28.7% reported having experience in the sector for 5 to 10 years, and 36.6% reported having experience working in the sector for more than 10 years. This finding implies that most respondents have a lot of experience, which makes it easier for them to understand how credit risk management works. This demonstrates that the majority of credit process employees are dependable and happy with the rewards provided by the banks. Though further research is necessary to determine why this is happening, it is believed that from the perspective of credit risk management, maintaining skilled personnel in the credit department

4.3. Statements Related with the Establishment of an Appropriate Credit Risk Environment

In this part, NBE and Basel recommendations were compared to the Awash Bank's present credit risk management practices. In order to compare the information gathered from respondents with four essential elements of the Basel Principle for Management of Credit Risk (August 2021) and the NBE's Credit Risk Management Guideline Revised in 2010, the data was reviewed. The bank's credit risk environment, the credit-granting procedure, credit risk management, and control over credit risk are these four elements. As a result, the survey's first objective was to learn respondents' thoughts on the bank's present credit policies and criteria. Participants in the study were asked questions regarding the subject in order to accomplish this, and their responses are aggregated and displayed in the table below.

Table 4 Respondents Answer on establishment of an appropriate credit risk environment

		Frequency	Percent
Board of directors are exercising their power properly to oversee the credit risk management policy of AB.	Strongly disagree	4	4.0
	Disagree	3	3.0
	Neutral	1	1.0
	Agree	36	35.6
	Strongly agree	56	55.4
	Total	100	99.0
Management is exercising their power properly to oversight the credit risk management practice of AB.	Strongly disagree	1	1.0
	Neutral	7	6.9
	Agree	34	33.7
	Strongly agree	58	57.4
	Total	100	99.0
There is continuous review and update credit risk management techniques in AB.	Strongly disagree	12	11.9
	Disagree	5	5.0
	Neutral	22	21.8
	Agree	37	36.6
	Strongly agree	24	23.8
	Total	100	99.0
There is proper identification of Credit Risk inherent in all activities of our bank	Strongly disagree	12	11.9
	Disagree	8	7.9
	Agree	46	45.5
	Strongly agree	34	33.7
	Total	100	99.0
There is common understanding about Credit Risk Management Strategy, Policy and Procedures across the bank.	Agree	77	76.2
	Strongly agree	23	22.8
	Total	100	99.0
Credit Risk management strategy, Policies and Procedures are consistently applied in all Credit product and activities of the bank.	Strongly disagree	6	5.9
	Disagree	9	8.9
	Neutral	4	4.0
	Agree	25	24.8
	Strongly agree	56	55.4
	Total	100	99.0
The credit policy of the bank has helped a lot in containing possible credit risk in AB.	Agree	42	41.6
	Strongly agree	58	57.4
	Total	100	99.0

Source: Own Survey, 2023

According to the information in the table above, regarding the pre-identified factor of whether the board of directors is correctly exercising its authority to oversee credit risk management or not, respondents strongly agreed in a rate of 55.4%, agreed in a rate of 35.6%, highly disagreed in a rate of 1.0%, and severely disagreed in a rate of 4.0%. The outcome shows that the board of directors is properly using their authority to oversee credit risk management. Which means that the board should approve and routinely (at least yearly) assess the credit risk strategy as well as important credit risk policies. The board must play a crucial role in managing the bank's credit-granting and credit risk management operations, according to the Basel Principles for Management of Credit Risk (effective in August 2021).

On the pre-identified criteria of whether the management is properly using their authority to oversee credit risk management, 1.0% strongly disagree, 6.9% neutral, 33.7% and agree, and 57.4% strongly agree. We can infer from this that the majority of respondents (57.4%) strongly believe that the management is using its authority to oversee credit risk management in a proper manner. As stated in the Basel Principle for Management of Credit Risk (august 2021) this implies that the management of Awash Bank is responsible for putting into practice the credit risk strategy approved by the board and for developing policies and procedures for identifying, measuring, monitoring, and controlling credit risk.

According to the respondents, 11.9% strongly disagree, 5.0% disagree, 21.8% neutral, 36.6% agree, and 23.8% strongly agree with the statement that credit risk management procedures should be regularly examined and updated. This suggests that more than 50% of respondents concur that credit risk management strategies are regularly examined and modified.

The same favorable response was noted for accurately identifying the credit risk that is present in all of Awash Bank's products and activities. The results show that 45.5% agree and strongly agree, 7.9% disagree, 11.9% disagree, and 33.7. The majority of respondents disagreed, 45.5% agreed, and 33.7 strongly agreed, implying that all of Awash Bank's products and activities properly identify the credit risk that is inherent in them. All products and operations carry some level of credit risk, which banks should identify and manage. Before introducing or engaging in new products and activities, banks should make sure that those risks are subject to suitable risk management procedures and controls and have received prior Board or appropriate committee approval. According to this outcome, the bank managed credit risk in compliance with Basel Principles in August 2021. According to Basel Principle 3 for the Management of Credit Risk, banks should recognize and control credit risk that is present in all operations and products. Before introducing or engaging in new products and activities, banks should make sure that those risks are subject to suitable risk management procedures and controls and have received prior Board or appropriate committee approval. Basel Principle for Credit Risk Management (due in August 2021).

22.2% strongly disagree and 76.2% disagree with the bank's credit risk management strategy, policy, and processes as a whole. This suggests that there is a problem in reaching a consensus. This suggests that there is effective communication on the credit risk strategy and rules throughout the financial organization. The bank's strategy to managing and granting credit is not fully understood by all key people.

More than half of respondents, or 24.8% and 55.4%, agreed or strongly agreed that the bank's credit risk management strategy, policies, and processes are consistently applied to all of its credit products and activities. This suggests that the bank's credit products and activities follow a consistent credit risk management strategy, policies, and processes.

Similar to how the bank's credit policy has significantly contributed to containing potential credit risk in AB, the respondent's response indicates that 41.6 and 57.4 agree and strongly agree, respectively. This shows that the bank's credit policy has been very helpful in containing potential credit risk in AB.

The bank's board of directors and management are thus behaving actively in terms of exerting their authority and accepting responsibility. The respondents also answer favorably when it comes to regularly evaluating and upgrading credit risk management approaches, identifying credit risk, and reaping the benefits of credit policy. As a result, the majority of participants overall responded favorably to the creation of a suitable credit risk environment at Awash Bank.

4.4. Statements related with a sound credit granting process

The foundation for an efficient credit risk management method, which identifies feasible and creditworthy clients, is a sound credit issuing process.

Table 5 Respondents answer on operating under a sound credit granting process.

		Frequency	Percent
There is credit policy and procedure with clearly stated credit granting criteria in the bank	Disagree	3	3.0
	Agree	23	22.8
	Strongly agree	74	73.3
	Total	100	99.0
There is optimal diversification of credit exposure to different economic sectors.	Neutral	4	4.0
	Agree	66	65.3
	Strongly agree	30	29.7
	Total	100	99.0
There is optimal diversification of credit exposure to different geographical area.	Strongly disagree	2	2.0
	Agree	43	42.6
	Strongly agree	54	53.5
	Total	100	99.0
The bank checks continuously the borrower history before granting loans.	Disagree	11	10.9
	Agree	48	47.5
	Strongly agree	41	40.6
	Total	100	99.0
Credit granting approval process establishes accountability for decision taken.	Agree	65	64.4
	Strongly agree	35	34.7
	Total	100	99.0
There is independent risk management policy and procedure from credit policy and procedure in your Bank.	yes	64	63.4
	no	36	35.6
	Total	100	99.0
The bank properly establish a comprehensive credit limit in the bank.	yes	53	52.5
	no	47	46.5
	Total	100	99.0
The bank properly assessed the customer ability to meet obligation.	Agree	51	50.5
	Strongly agree	49	48.5
	Total	100	99.0

Source: Own Survey, 2023

The previously mentioned table demonstrates that the bank's credit policy and procedure includes clearly established credit-granting criteria. Responses included 73.3% strongly agree, 22.8% agree, and 3% disagree. This result shows that the method for obtaining AB credit is clearly defined as 73.3% of respondents highly agree. In other words, the criteria determine who is eligible for credit, how much credit they may get, what kinds of credit are accessible, and the terms and conditions under which the credit should be given. In accordance with Basel Principle For Management Of Credit Risk's Fourth Principle, Banks should act in accordance with reliable, clearly stated credit-granting standards. A clear indication of the bank's target market, a complete understanding of the borrower or counterparty, the goal and structure of the credit, and the source of repayment should all be part of these criteria. Basel II Principles for Credit Risk Management (2021). This Basel concept is incompatible with the practice of AB.

Regarding diversifying its credit to various economic sectors and geographical areas, it was discovered that 4% of respondents were neutral, 66.3% agreed, and 29.7% highly agreed. This demonstrates that the bank has reached its ideal level of diversity.

10.9% of respondents disagree, 40.6% strongly disagree, and 47.5% agree that the bank has an appreciable practice of verifying the borrower's past before giving a loan. The remark, which implies that the bank checks applicants' histories before giving loans, was almost universally accepted.

50.5% of respondents agree, and 48.5% strongly agree, that the bank correctly evaluated the customer's capacity to meet its obligations. This means that the bank will consider a borrower's ability to repay a loan.

Likewise, when it comes to accepting responsibility for decisions made during the credit-granting approval process, 64.5% agree and 34.7% strongly agree. This demonstrates that the credit department is taking ownership of the decision made about the credit-granting approval procedure.

The bank has autonomous risk management policy and practice, according to the 63.4% yes and 35.6% no respondents. This indicates that the bank is well-positioned to reduce its risk since 63.4% of respondents said the bank has independent risk management policies and procedures.

In accordance with Basel Principle For Management Of Credit Risk's Fifth Principle, In order to aggregate various types of exposures in a comparable and meaningful way, both in the banking and trading book and on and off the balance sheet, banks should establish overall credit limits at the level of individual borrowers and counterparties, as well as groups of connected counterparties (2021). This Basel concept is incompatible with the practice of AB. In general, the examination shows that the bank has a reliable method for giving credit.

4.5. Statement related to maintaining an appropriate credit administration process

The fundamental post-approval activities of the credit risk management process that aid in the early detection of errors include administering credit documentation correctly, regularly checking on borrower status, loan terms and conditions, and collateral coverage, as well as maintaining up-to-date credit files and ongoing repayments. The primary components for monitoring, reporting, and controlling risks are management information systems and internal risk ratings.

Table 6 Respondents Answer on maintaining an appropriate credit administration.

		Frequency	Percent
The bank has well-structured documentation tracking system for credit process.	Agree	52	51.5
	Strongly agree	48	47.5
	Total	100	99.0
The bank has well-structured documentation tracking system for collateral files.	Strongly disagree	1	1.0
	Neutral	1	1.0
	Agree	70	69.3
	Strongly agree	28	27.7
	Total	100	99.0
The Bank's credit review unit is independent.	Strongly disagree	2	2.0
	Disagree	1	1.0
	Neutral	6	5.9
	Agree	21	20.8
	Strongly agree	70	69.3
	Total	100	99.0
The bank regularly undertake stress testing on overall credit Portfolio.	Strongly disagree	24	23.8
	Disagree	32	31.7
	Agree	22	21.8
	Strongly agree	22	21.8
	Total	100	99.0
The bank monitor continuously the business of client after granting credit on regular bases	Disagree	8	7.9
	Neutral	6	5.9
	Agree	71	70.3
	Strongly agree	15	14.9
	Total	100	99.0
The bank quantify its credit risk at	Disagree	2	2.0
	Neutral	8	7.9

individual level.	Agree	39	38.6
	Strongly agree	51	50.5
	Total	100	99.0
The bank quantify its credit risk at portfolio level	Disagree	1	1.0
	Neutral	1	1.0
	Agree	70	69.3
	Strongly agree	28	27.7
	Total	100	99.0
There is effective system of reporting risk data among relevant staffs of our bank.	Disagree	3	3.0
	Agree	81	80.2
	Strongly agree	16	15.8
	Total	100	99.0
There is effective system of practice of communicating risk data among relevant staffs of our bank.	Disagree	3	3.0
	Neutral	7	6.9
	Agree	17	16.8
	Strongly agree	73	72.3
	Total	100	99.0
The bank's Credit risk management system and practice has been integrated with appropriate Management Information Systems.	Strongly disagree	7	6.9
	Disagree	5	5.0
	Agree	53	52.5
	Strongly agree	35	34.7
	Total	100	99.0
There is a well-structured internal risk rating system in AB.	Disagree	7	6.9
	Neutral	3	3.0
	Agree	52	51.5
	Strongly agree	38	37.6
	Total	100	99.0

Source: Own Survey, (2023)

According to the data in the table above, respondents agree (51.5%) or strongly agree (47.5%) that the bank has well-organized documentation for the credit procedure and collateral files (69.3% agree & 27.7% strongly agree). This suggests that the bank has good documentation for the credit process and for collateral files, i.e. that the bank maintains the credit file to date, obtains up-to-date financial information, sends renewal notices, and prepares various papers such as loan agreements.

Regarding the bank's ongoing monitoring of the client's business after extending credit on a regular basis, respondents give the following responses: 7.9% strongly disagree, 5.9% neutral, 70.3% agree, and 14.9% highly agree. In order to reduce credit risk, this instructs AB to conduct portfolio stress tests and customer business monitoring on a regular basis. It implies that banks treat such parties fairly when extending credit to them and that the quantity of credit extended is appropriately monitored.

However, respondents who frequently perform stress tests on their entire credit portfolio had a negative reaction, with respective rates of 23.8% strongly disagree and 31.7% disagree. It suggests that the bank is not performing stress tests on its whole loan portfolio.

The table above also reveals that in regards to the independence of the bank's credit evaluation section, respondents 20.8% agree and 69.3% strongly agree. This clearly demonstrates the independence with which credit administration is carried out. This indicates that the bank manages the administration of the credit portfolio and the independent assessment of the credit approval procedure as part of its credit-granting duties. According to Basel (2021), senior management must also make sure that the bank's management and credit-granting operations are periodically evaluated internally and independently.

50.5% of respondents strongly agreed with the statement that banks should be able to measure their credit risk at the individual level, while 38.6% agreed. Respondents' opinions on how the bank measures its credit risk at the portfolio level are as follows: 1.0% disagree, 1.0% neutral, 69.3% agree, and 27.7% strongly agree. This indicates that banks have methods for calculating the risk associated with exposures to specific borrowers or counterparties. Banks with the ability to discover specific sensitivities or concentrations by conducting product- and portfolio-level analyses of credit risk. Banks are required to have a system in place for tracking the health of specific credits, including determining whether provisions and reserves are sufficient in compliance with the Central Bank's standards. Basel Principle For Management Of Credit Risk, Principle 9, on Credit Risk Management. This Basel concept is incompatible with the practice of AB.

Similar to this, the poll found that 15.8% of respondents strongly agreed, 80.2% agreed, and 3.0% disagreed with the existence of an effective system for reporting risk data among key staff members of our bank. This suggests that AB's relevant staff members have access to a good, efficient mechanism for reporting risk data.

Similar results were obtained in regards to our bank's successful approach of disseminating risk data among relevant workers, who responded by disagreeing 3.0%, being neutral 6.9%, agreeing 16.8%, and strongly agreeing 72.3%. This suggests that AB's relevant staff members have access to an efficient system for sharing risk information.

Additionally, the respondent also provided a response to the bank's routine credit risk assessment monitoring and had a well-designed internal risk rating system since they agreed with 52.5% of the time and strongly agreed with 34.7% of the time, 51.5% of the time, and 37.6% of the time. The majority of respondents rated this statement as agreeing or strongly agreeing, which suggests that the financial institution regularly monitors its internal risk rating system and conducts credit risk assessments.

In accordance with Basel Principle For Management Of Credit Risk's 10th principle In order to manage credit risk, banks should create and implement an internal risk rating system. The rating system needs to be compatible with the size, complexity, and nature of a bank's operations (2021). This Basel concept is incompatible with the practice of AB.

highly disagree 6.9%, disagree 5.0%, agree 52.5%, and highly agree 34.7% when it comes to the bank's credit risk management system and practice being connected with suitable management information systems. It suggests that AB has a management information system that offers sufficient details on the make-up of the credit portfolio, including the identification of any risk concentrations.

Bank management must be able to assess the credit risk present in all on- and off-balance sheet activities through the use of information systems and analytical procedures. Principle 10 of Basel Principle For Management Of Credit Risk (2021) states that the management information system shall offer enough information on the composition of the credit portfolio, including identification of any risk concentrations. This Basel concept is incompatible with the practice of AB.

4.6. ***Statement related with ensuring adequate controls over credit risk***

		Frequency	Percent
Awash Bank periodically prepares credit quality report for warning sign loan loss in any portfolio.	Disagree	7	6.9
	Neutral	4	4.0
	Agree	70	69.3
	Strongly agree	19	18.8
	Total	100	99.0
Customers are often given sufficient training on loan usage.	Disagree	3	3.0
	Agree	29	28.7
	Strongly agree	68	67.3
	Total	100	99.0
Adequate measures are put in place to recover nonperforming Loans.	Strongly disagree	1	1.0
	Disagree	2	2.0
	Neutral	2	2.0
	Agree	68	67.3
	Strongly agree	27	26.7
	Total	100	99.0
The bank’s top managements have strong commitment toward Controlling default risk.	Disagree	5	5.0
	Agree	64	63.4
	Strongly agree	31	30.7
	Total	100	99.0
Bank establish management information systems that enable management to measure the credit risk inherent in all on- and off-balance sheet activities in AB.	Neutral	3	3.0
	Agree	70	69.3
	Strongly agree	27	26.7
	Total	100	99.0
Bank establish analytical techniques that enable management to measure the credit risk inherent in all on- and off-balance sheet activities in AB.	Neutral	2	2.0
	Agree	12	11.9
	Strongly agree	86	85.1
	Total	100	99.0
Does the bank have loan recovery policy, procedure and techniques?	yes	91	90.1
	no	9	8.9
	Total	100	99.0
If your answer yes for above question, is that The bank loan recovery policy, procedure and techniques are clearly set out how credits problem are to be managed.	yes	95	94.1
	no	5	5.0
	Total	100	99.0
Awash Bank has appropriate criteria for credit classification.	yes	79	78.2
	no	21	20.8

	Total	100	99.0
Awash Bank has appropriate criteria for credit writes off.	yes	73	72.3
	no	27	26.7
	Total	100	99.0
Awash Bank has appropriate criteria for credit provisioning.	yes	68	67.3
	no	32	31.7
	Total	100	99.0

Table 7 Respondents Answer on ensuring adequate controls over credit risk.

Source: Own Survey, (2023)

According to the Awash Bank's preparation of credit quality reports for warning signs of loan loss in any portfolio, a substantial percentage of employees (69.3%) agreed with the notion, and 18.8% strongly agreed. 4.0% and 6.9% of the respondents overall indicated they were unsure and disagreed, respectively. This demonstrates that AB prepares good quality reports on a regular basis, even though they are not at their finest.

The majority of staff (67.3%) strongly agreed that clients receive enough training on loan usage, while 28.7% also agreed and 3.0% disagreed. The majority of respondents concur that AB provides enough training on loan usage.

It is demonstrated that when proper steps are put in place to recover non-performing loans, 67.3% of respondents agreed and 26.7% strongly agreed. According to the respondents, sufficient actions are taken to recover nonperforming loans.

Regarding the bank's top management's steadfast dedication to reducing default risk, 5%, 63%, and 30% of the workforce indicated they disagreed, agreed, and strongly agreed with the concept, respectively. This demonstrates that the senior management is devoted to restoring NPLS even if there is still more work to be done as several respondents expressed disapproval.

The respondents indicated their agreement with the establishment of management information systems by the bank to enable management to assess the credit risk present in all on- and off-balance sheet activities in AB, respectively, by 69.3% agreeing, 26.7% strongly agreeing, 11.9

agreeing, and 85.1 strongly agreeing. This demonstrates management's capacity to gauge the credit risk present in every activity undertaken by AB, both on and off the balance sheet.

As shown in the above table, 91 (90.1%) of banks have loan recovery policies, procedures, and techniques, while 8 (8.9%) do not. This result suggests that banks do have loan recovery policies, procedures, and techniques.

In addition, they answered 95 (94.1) in favor of yes and 5 (5.0%) against no to the question of whether or not policies, procedures, and management strategies are clearly outlined for how credit problems are to be handled. According to the respondents, the bank has loan recovery policies, procedures, and techniques that distinctly outline how credit issues are handled.

According to the respondent's 78.2% yes and 20.8% no responses about the proper credit classification criteria. This confirms that the bank uses proper credit classification criteria.

When asked whether the appropriate conditions for credit writes off and credit provisioning were met, 72.3% said "yes" and 26.7% said "no." It demonstrated the fantastic performance of this concept on Awash Bank's suitable provisioning and write-off criteria.

In summary of the primary data results (qualitative and quantitative)

Table 8 In summary of the primary data results using mean scores value

	N	Minimum	Maximum	Std. Deviation
Credit risk environment of AB	100	3.43	4.86	0.34875
Credit granting process of AB	100	3.83	4.83	0.23023
Credit administration process of AB	100	3.70	5.00	0.27605
Controls techniques of AB over credit risk	100	2.30	3.00	0.16422

The mean scores ranged from 1 to 1.80, and were categorized as very poor (strongly disagree), poor (disagree), 1.81-2.60, fair (neutral), good (agree), and very good (strongly agree) by Lule-Mert E. (2016). The minimum and maximum response values in this study for each variable were one and five, respectively. The frequency of 406 and 94 yes and no responses for a yes-no question is calculated by adding the number of respondents multiplied by 100. The meaning of the mean value is identical to that previously mentioned.

The average score for AB's credit risk environment is 3.43. 3.4 to 4.20 is a good (agree) range for the mean scores in 2016, according to Lule-Mert E. This suggests that AB has a favorable environment for credit risk. This is implied by the answer to the open-ended question. The bank has a carefully thought-out credit risk strategy and policy in place, and its top management creates sound credit policies and procedures that enable the evaluation, monitoring, and control of credit risk. The bank has defined Portfolio Mix and Limits for a single counterpart, set of connected counterparties, sector, area, and product.

The average score for AB's credit-granting procedure is 3.83. The 2016 mean scores vary from 3.4 to 4.20, which is good (agree), according to Lule-Mert E. This suggests that AB's credit-granting procedure is effective. Despite not having established exposure limits (both on and off the balance sheet), the bank has a clearly defined process for approving new credit, amendments to existing credit, renewals of existing credit, and refinancing of existing credit, and approval is made in accordance with guidelines and at the appropriate level of management, according to the open-ended results regarding the credit granting process. Also under strict supervision is non-arm's-length lending (exceptionally approved Loans). The bank has clear requirements for giving credit to borrowers in terms of length, sum, and loan classifications.

Similar to credit management, the average score for AB is 3.70. The 2016 mean scores vary from 3.4 to 4.20, which is good (agree), according to Lule-Mert E. This suggests that the credit administration mechanism in AB is effective. The value and presence of the collateral are routinely evaluated, and the banks have policies for accepting collateral and evaluation methods, according to the bank's open-ended survey results. The bank has a structure in place for acting quickly to fix credit problems; the bank's workout department is independent of its credit origination department.

The mean score for controls over credit risk in AB is 2.30. (2016) mean ratings vary from 2.61-3.40, fair (neutral), according to Lule-Mert E. This suggests that the respondent is unsure of whether or not AB employs effective controls for credit risk. However, the respondent's single-statement response suggests that AB has effective controls over credit risk. Since it is a direct response to the Lule-Mert E.-set parameter, the researcher chose to use the single statement response rather of the mean score. Using an internal risk rating system, the bank has good control over credit risk, according to the qualitative data analysis of open-ended questions. The respondent also claims that while assessing a person's bank credit and portfolio took into account how the economy would develop in the future.

In addition, the responder identified the following issues in response to the question "What are the worst credit risk management practices by Awash Bank?" For instance,

- The lack of testing and validation of new leading retinues.
- The absence of proper financial analysis and due diligence.
- Subjective judgment on the part of the bank's senior management.
- Failure to proceed with leveraged credit arrangements with enough caution.

CHAPTER FIVE

5 *Summary, Conclusions and Recommendation*

The thesis' main objective was to assess Awash Bank's credit risk management practices. This chapter is divided into three parts. It begins with a discussion of the key conclusions drawn from the research's findings following the analysis and interpretation of the data, and then it moves on to recommendations made to address the issues that were discovered. As a result, the researcher presents the key findings in this chapter in relation to the research objectives, draws conclusions, and makes recommendations based on the secondary data acquired and the results of the data analysis.

5.1. Summaries of major findings

According to the respondent's background information, the bank is in a strong position in terms of having experienced personnel and qualified manpower because all employees who work on credit and risk-related issues have a BA degree or above, and the majority of employees are men.

According to the report, men made up 66.3% of the respondents. As a result, there aren't as many men and women working as loan officers as there are women.

More over half of the employees of AB (52.5%) have a second degree, according to the data in chapter four. This implies that the bank has a skilled workforce that can ultimately offer the bank top-notch work in the credit industry and other vital occupations.

According to the study's findings, 41.6% of respondents had experience working at Awash Bank there for between 5 and 10 years, while 36.6% have experience working there for more than 10 years. This finding implies that the majority of employees have a wealth of experience that makes it simple for them to understand credit risk management procedures.

Likewise, 28.7% of people have experience working in the credit industry for between five and ten years, while the remaining 36.6% have more than ten years' worth of experience. This finding implies that most respondents have a lot of experience, which makes it easier for them to understand how credit risk management works. This demonstrates that the majority of credit process employees are dependable and happy with the rewards provided by the banks.

The average finding in relation to The average score for the AB credit risk environment is 3.43. The 2016 mean scores vary from 3.4 to 4.20, which is good (agree), according to Lule-Mert E. This suggests that AB has a favorable environment for credit risk. According to this assessment, the board of directors is correctly using its power to keep an eye on AB's credit risk management procedures. This conclusion is further supported by the open-ended questioner response.

In a similar vein, the average score for AB's credit-granting process is 3.83. The 2016 mean scores vary from 3.4 to 4.20, which is good (agree), according to Lule-Mert E. This suggests that AB's credit-granting procedure is effective. This conclusion is further supported by the open-ended questioner response.

Concern with the credit administration process is 3.70 for AB responder. The 2016 mean scores vary from 3.4 to 4.20, which is good (agree), according to Lule-Mert E. This suggests that the credit administration mechanism in AB is effective. This conclusion is further supported by the open-ended questioner response.

The mean score for controls over credit risk in AB is 2.30. Scores vary from 2.6 to 3.40, fair (neutral), according to the mean. This suggests that the respondent is unsure of whether or not AB employs effective controls for credit risk. However, the researcher used the single statement response result, which suggests that there are good Controls strategies of excess credit risk in AB from the respondent's single statement response as discussed above. This conclusion is further supported by the open-ended questioner response.

5.2. Conclusions

Based on the study's findings, the following conclusions on the list of specific objectives have been obtained. As compared to NBE standards and other international credit risk management conventions like The Basel Committee, it is first discovered that the bank is making significant efforts to close any gaps in credit risk management practice procedures. There are several areas that the bank should prioritize highly, such as maintaining an adequate credit administration, measurement, and monitoring process, even though exciting outcomes in their favor were found in this regard.

The majority of participants reacted favorably to the bank's ability to create an environment that is suitable for credit risk. Because of this, the Bank must keep moving forward by promoting internal consistency in its credit risk management strategy, policy, and practices and by applying it consistently to all of its products.

This study suggests that the Bank's credit-granting process and high-risk management standards have a substantial impact on its risk management system. As a result, the Bank must keep growing through promoting the diversification of its credit exposure to other industries and regions.

In terms of having sufficient criteria for credit categorization, provisioning, and write-off, the bank maintains a reasonably adequate level of credit risk management by keeping actual risk levels at or below its risk tolerance and appetite.

Finally, the study's findings show that Awash Bank either disregards or violates some best practices, such as failing to test and validate new leading retirees, failing to conduct sufficient financial analysis and due diligence, subjecting the bank's senior management to subjective judgment, and failing to proceed with leveraged credit arrangements with sufficient caution, similarly putting a lot of attention on credentials instead of gauging someone's aptitude.

5.3. Recommendations

The researcher sent the Awash Bank the following recommendation based on the paper's primary findings and conclusions mentioned above.

First and foremost, the bank's management needs to continuously promote female employees during the hiring process and in the workplace to increase the proportion of men and women working in credit and risk-related sectors.

Second, in order to implement a successful credit risk management strategy within the bank, the Awash Bank should validate and test new leading retirees in accordance with NBE standards and Basel Committee credit risk management principles.

Thirdly, the bank must ensure, during the loan preparation and processing, that sufficient analysis is done to enable an informed assessment to be made regarding the project's financial viability and long-term sustainability, and that the borrowers' financial and project management systems are, or will be, sufficiently robust to ensure that funds are used for the intended purpose and that controls will be in place to support monitoring and supervision of the project.

Fourthly, by creating the pertinent criteria that are utilized to make common judgments, Bank's senior management should be liberated from subjective judgment.

Furthermore, the Bank should exercise adequate caution when utilizing certain leveraged credit arrangements. Leveraged arrangements, such as some buyout or debt restructuring tactics, or arrangements incorporating customer-written options, typically add concentrated credit risks to the bank's credit portfolio and ought to only be employed with financially stable clients.

Last but not least, this study's evaluation of Awash Bank's credit risk management practices against the NBE guidelines and Basel Committee credit risk management principles revealed that while they are generally good, more work needs to be done for the Bank to have truly exceptional credit risk management practices.

Area for Future Study Area

The current study uses descriptive statistics to evaluate the effectiveness of corporate risk management. Future research will be done on the determinant elements affecting credit risk management performance; this instrument is not intended to recommend banks for credit risk management performance.

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APPENDAX Questionnaire

ST MARY'S UNIVERSITY

SCHOOL OF POSTGRADUATE STUDIES

DEPARTMENT OF ACCOUNTING & FINANCE

(Questionnaire Filled By Employees Of Awash Bank On Credit Risk Management Practices)

Dear Respondent,

I am Elizabeth Adane, a post graduate student at St. Mary University. This questionnaire is designed to gather valuable information regarding the "Assessment of Credit Risk management practice of Awash Bank's" for partial fulfillment of the requirements for Master's Degree In Accounting & Finance. The data collected will be used only for study purpose. Thus, your ideas and comments are highly honored and kept confidential. Writing your name is not required and please put your choice as per the instruction. You are also kindly requested to write your opinion on the space provided for the questions that demands your additional view.

Thank you in advance for your information
Elizabeth Adane

Part One: Background Information

1. Sex

□ Male □Female

2. Educational level

□ 1. First Degree □ 2. Second Degree □ 3. PHD □ 4. other

3. How long have you worked at Awash bank?

□1: Under 1 year □2:1 – 5 years □3: 5 – 10 years □4: Over 10 years

4. Your experience in credit field is:

□1: Under 1 year □2: 1 – 5years □3:5 – 10years □4: Over 10 years

Part Two: Assess Awash Bank credit risk management practice by Basel committee credit risk management principles and NBE Risk management guideline (2010)

I. Statements designed to assess the establishment of an appropriate credit risk environment for credit risk management practice in AB.

Please mark to indicate to which degree you agree with the following statements where, 1 – Strongly disagree, 2 – Disagree, 3 –Neutral, 4 – Agree, 5 – Strongly agree.

	Questions	1	2	3	4	5
1.	Board of directors are exercising their power properly to oversight the credit risk management practice of AB.					
2.	Management are exercising their power properly to oversight the credit risk management practice of AB.					
3.	There is continuous review and update credit risk management techniques in AB.					
4.	There is proper identification of Credit Risk inherent in all activities of our Bank					
5.	There is common understanding about Credit Risk Management Strategy, Policy and Procedures across the Bank.					
6.	Credit Risk management strategy, Policies and Procedures are consistently applied in all Credit product and activities of the bank.					
7.	The credit policy of the bank has helped a lot in containing possible credit risk in AB.					

Please write if there are any problems related to establishment of an appropriate credit risk environment for credit risk management practice in AB.

II. Statements designed to assess the operation of under a sound credit granting process for credit risk management practice in AB

Please mark to indicate to which degree you agree with the following statements where, 1 – Strongly disagree, 2 – Disagree, 3 –Neutral, 4 – Agree, 5 – Strongly agree

	Questions	1	2	3	4	5
1.	There is credit policy and procedure with clearly stated credit granting criteria in the bank.					
2.	There is optimal diversification of credit exposure to different economic sectors.					
3.	There is optimal diversification of credit exposure to different geographical area.					
4.	The bank checks continuously the borrower history before granting loans.					
5.	Credit granting approval process establishes accountability for decision taken.					
6.	The bank properly assessed the customer ability to meet obligation.					

1. There is independent risk management policy and procedure from credit policy and procedure in your Bank. A. Yes B. No
2. The bank properly establishes a comprehensive credit limit in the bank. A. Yes B. No

Please write additional a problem related to credit granting process for credit risk management practice in AB

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III. Statement related to maintaining an appropriate credit administration process.

Please mark to indicate to which degree you agree with the following statements where, 1 – Strongly disagree, 2 – Disagree, 3 –Neutral, 4 – Agree, 5 – Strongly agree

	Questions	1	2	3	4	5
1.	The bank has well-structured documentation tracking system for credit process.					
2.	The bank has well-structured documentation tracking system for collateral files.					
3.	The Bank's credit review unit is independent.					
4.	The bank regularly undertake stress testing on overall credit Portfolio.					
5.	The bank monitor continuously the business of client after granting credit on regular bases					
6.	The bank quantify its credit risk at individual level.					
7.	The bank quantify its credit risk at portfolio level					
8.	There is effective system of reporting risk data among relevant staffs of our bank.					
9.	There is effective system of practice of communicating risk data among relevant staffs of our bank.					
10.	The bank's Credit risk management system and practice has been integrated with appropriate Management Information Systems.					
11.	There is a well-structured internal risk rating system in AB.					

Please write if there is any problems related to maintaining an appropriate credit administration, measurement and monitoring process.

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IV. Statement related with ensuring adequate controls over credit risk

Please mark to indicate to which degree you agree with the following statements where, 1 – Strongly disagree, 2 – Disagree, 3 –Neutral, 4 – Agree, 5 – Strongly agree.

	Questions	1	2	3	4	5
1.	Awash Bank periodically prepares credit quality report for warning sign loan loss in any portfolio.					
2.	Customers are often given sufficient training on loan usage.					
3.	Adequate measures are put in place to recover nonperforming Loans					
4.	The bank's top managements have strong commitment toward Controlling default risk.					
5.	Bank establish management information systems that enable management to measure the credit risk inherent in all on- and off-balance sheet activities in AB.					
6.	Bank establish analytical techniques that enable management to measure the credit risk inherent in all on- and off-balance sheet activities in AB.					

1. Does the bank have loan recovery policy, procedure and techniques? A. Yes B. No
2. If your answer yes for above question, is that The bank loan recovery policy, procedure and techniques are clearly set out how credits problem are to be managed. A. Yes B. No
3. Awash Bank has appropriate criteria for credit classification. A. Yes B. No
4. Awash Bank has appropriate criteria for credit writes off. A. Yes B. No
5. Awash Bank has appropriate criteria for credit provisioning. A. Yes B. No

Please write if there is any problems related with ensuring adequate controls over credit risk.

Part Three: Statement designed to see what Awash Bank lack most against the best practice /bench mark/ for management of credit risk.

Please give short answers to the following questions

1. What do you think are the best credit risk management practices by Awash Bank?
   a) _
   b) _
2. What do you think are the worst credit risk management practices by Awash Bank?
   a) _
   b) _
3. What would you recommend to improve Awash Bank's credit risk management practices?
   a) _
   b) _
4. Please write if you have any valuable suggestion and comment about the Bank' credit risk management practices

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Thank you for your cooperation!!