ST. MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIES

ASSESSMENT OF CREDIT RISK MANAGEMNT PRACTICES; THE CASE OF ABAY BANK S.C

BY

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JUNE, 2023
ADDIS ABABA, ETHIOPIA

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Advisor:-MOHAMMED SEID (Ass.prof)

A THESIS SUBMITED TO ST. MARY'S UNIVERSITY SCHOOL OF GRADUATE STUDIES IN PARTIAL FULFILMENT OF THE REQUREMENTS FOR DGREE OF MASTERS OF BUSINESS ADMINSTRATION IN ACCOUNTING AND FINANCE.

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ENDORSEMENT

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

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St. Mary University	**Addis Ababa June 2023**

STATEMENT OF DECLARATION

I, the undersigned, declare that that this thesis is my original work, prepared under the guidance of Mohammed Sied (Ass.prof). All sources 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 nay higher learning institution for the proposed of earnings any degree.

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Name	Signature	Date

St. Mary's University, Addis Ababa, Ethiopia

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ACRONYMS/ABBREVATIONS

NBE - National Bank of Ethiopia

AB - Abay bank

CRM - Credit risk management

SC - Share Company

CF - Capital funds

CD - Credit disbursement

RAROC- Risk adjusted return on capital

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ABSTRACT

Credit risk management has become an important topic for financial institution; especially due to the fact the business sector of financial service is associated with situations of uncertainty. The turmoil of the monetary enterprise emphasis the significance of effective risk management procedures. The aim methodology, major findings, conclusion and recommendation of this look at the study is to examine the practice of credit risk management in Abay bank. In order cope with this goal, the examine focused credit and loan department employees who presently work at head office of the bank and collected primary data. The primary data were collected through questionnaires. The study distributed 81 questionnaires, from which 65 questionnaires have been successfully filled and returned. The collected data was analyzed the use of descriptive statistical tools. The finding showed that there is credit risk policy and procedures, credit risk strategy are effectively communicated through the organization and practical loan processing and appraisal activities of at the bank. Furthermore, the study showed that Abay bank uses appropriate internal risk scoring system, employees scientific pricing, credit limit established by the bank, adequate measure put in place to recover non-performing loans, and training of employees on credit risk management functions. But results also indicated there is a room for approving with reference to monitoring activities undertaken at Abay bank. In line with findings of the study, it becomes advised to the financial institution to enhance its monitoring system through regulatory analyzing the business of customers after granting credits.

Key words: *Credit, risk, management, appraisal, measuring and monitoring, Abay bank, Ethiopia.*

CHAPTER ONE

INTRODUCTON

This chapter shows the general idea of the whole thesis. It covers the background of the study, statement of the problem, research questions, and objectives of the study, significance of the study, the scope of the study and organization of the study.

1.1 Background of the study

Among the bank's core activities, lending is one of its core business areas. Nevertheless credit creation is the main source of income for banks and this activity is very extensive both lenders and borrowers are at risk. Risk that counter parties do not meet requirements contractual obligations after the due date can significantly impair a smooth process how banking works (Pasha and Bayush, 2017).

Credit services to consumers ability to borrow money to meet financial needs. both at the individual level and at the family level, Loan assistance and loan assistance to cover own expenses that otherwise could not have been achieved companies fund themselves. And the banks want the money so they lend it and they choose borrowers monitor their performance carefully and closely. This creates the following platform a healthy and efficient economy. In addition, banks can easily lower by diversifying their loans the risks you face. This makes bank a deposit safer and further facilitates banking transactions. Deposits, hence more loans (Encarta, 2009). Still, credit issues carry potential risks coordinated action for the dignified management of packages can be easily initiated and convened.

Credit creation is a major source of income for banks. Maximum bank loan and the most obvious source of credit risk. Credit risk continues to be dominant cause problems for the bank and can seriously jeopardize the smooth functioning of the bank work. Banks and their supervisors can therefore learn useful lessons from the past experience. Among the risks faced by banks, credit risk is a major concern for most banks authorities and banking supervision. This is because credit risk is the easiest and most exposed risk likely to lead to bank failure (Conford A., 2000).

Banks play an important role in the economy of many countries. you are the most important an intermediary between those who have surpluses (depositors) and these individuals and companies (creditors) that have viable projects but need funds for investment. There is a bank Features at least the following borrow money, secure personal deposits, send money pay locally or globally and act as a payment agent. Banks face many challenges in their operations types of risk the nature and degree of risk a bank is exposed to depend on many factors. Of factors such as scale, business complexity, and volume Market, liquidity, operational, compliance/legal/regulatory and reputation risks of all risks credit risk is believed to adversely affect profitability and growth. credit management Also known as credit management, it is a dynamic area with specific criteria for long-term planning funds should be spread across different areas to minimize risk and maximize returns Reduce investment capital by increasing collections, lowering borrowing costs and granting more credit Developing creditworthy customers and competitive credit terms.

According to Mekonnen, S. (2018), effective credit management practices give banks choice the right kind of loan proposal/project/venture/business and the right kind of borrower. Ensuring adequate protection is one of the most important aspects of the credit approval process. However, protection is not the only consideration. Banking Professional Responsibilities analyze remains one of the main themes. Lending Principle Similar to Borrower Principle liquidity and integrity allow lenders to assess whether customers can repay favorable bank loans as per negotiated terms and repayments time schedule. In order to improve the financial literacy of borrowers, it is important to control credit lender transaction process to prevent potential financial crisis.

Loans are the main product that banks sell to their customers and are their credit accounts majority of the bank's annual turnover. It's also true that bank loans are just as profitable as they are profitable risky For example, bank loans are volatile and subject to economic policy and economic changes general economy. It is therefore important for banks to formulate their lending policies in this way associated risks are mitigated; additionally, banks benefit greatly from sound. Comprehensive credit process and credit policy. This allows authorities to handle credit issues ensure consistency, prevent misunderstandings, and facilitate the credit process. Sound politics leads to lending transparency (Jimenez, Ongena, Peydró, & Saurina, 2012).

Accordingly, the study tries to assess the credit management practice of Abay bank

1.2 Statement of the problem

Financial institutions have faced challenges over the years for a variety of reasons credit standards continue to be the main cause of severe banking problems Borrowers and counter parties, poor portfolio risk management, or lack of awareness of change in the event of economic or other circumstances leading to deterioration of the creditworthiness of Bank counter parties (Saunders and Cornett, 2006).

Banks are generally thought to have credit, markets, liquidity, operations and compliance (legal) regulatory and reputation risks known to be adversely affected by credit risk profitability and growth. The success of most commercial banks therefore rests on their track record in credit management to justify risk to an acceptable level (Hagos, 2010). Remember that the importance of credit management cannot be overstated and maintaining a good credit history management requires talented people and a solid credit rating Policies and Procedures. If the credit is properly managed it increases bank profitability and future sustainability. But if this doesn't happen, this poses the biggest threat to banks survival (Koch&MacDonald, 2003 and Singh, 2013).

According to Edward (2006), good credit risk management focuses on correct identification, risk assessment and prioritization followed by coordinated economic application resources to minimize, monitor and control the likelihood and impact of adverse events or maximize the realization of opportunities. In contrast, poor credit management practices it reduces the lending capacity of banks by making loans default more frequently. Deny that too access to credit for new applicants as it directly magnifies the problem of bank cash flow management Proportionate to increasing disability problems. That is, it can disrupt the normal flow Banks must remain in a sustainable credit market to prepare for capital outflows. Again, the bank's attorney fees if the loan goes through the settlement phase and a lawsuit is filed. That's why the uniqueness of any bank, whether private or public, large or small, lies in the way it is managed credit Risk (Bagchi, 2006).

To the researchers' knowledge, very little research in this area has been conducted in Ethiopia credit risk management. Studies by Tibebu (2011) and Girma (2011) Credit risk management and its impact on profitability. Another study by Solomon (2013) evaluated Techniques and Practices of Credit Risk Management at NIB International Bank S.C. However, most of the literature on this subject was produced in the Ethiopian context focuses on some aspects of credit management such as performance, profitability and credit exposure instead of assessing credit risk management.

Thus, researcher tries to fill that gap and contribute to the literature by giving addressing problem credit risk management Abay bank. Moreover, the previous investigation did not include Abay Bank, the profitability private bank. Bank with the highest lending activity among private banks operating in country. As a result, this study aims to fill a knowledge gap by Bank credit risk management practices.

1.3 Research questions:

In pursuit of the specific objectives, this study seeks to answer the following questions:

- What credit collection techniques are adopted in the management of credit in Abay bank?
- What components are considered in the bank's customer appraisal and credit granting process?
- What mechanisms are used to measure and monitoring credit Abay bank?
- What are methods are employed to control and mitigate credit risk at Abay bank S.C.?

1.4 Objectives of the study

1.4.1 General objectives

The general objective of the study is assessment the credit risk management practices in Abay bank and evaluate its performance.

1.4.2 The specific objectives of this study

- To identify credit collection techniques that adopted in the management of credit in Abay bank
- To assess the customer appraisal and credit granting process at Abay bank S.C.
- To assess the mechanisms used by to measured and monitoring credit risk Abay bank
- To examine methods employed control and mitigate credit risk at Abay bank S.C.

1.5 Significance of the study

Since credit is the back bone of bank industry in generating income, the outcome of the study will help policy maker, loan processing and credit appraisal department, credit administration department and credit risk management department by forwarding relevant information from outcome of the study in order to improve their credit risk management practice. Moreover, the study also have importance for other Ethiopian banks policy makers by providing empirical data that help in improving or formulating the policy environment for credit risk management practice of the banks. Also the research will be input for further study in the area of credit risk management practice.

In addition to this, it will help to minimize the causes and problems associated with nonperforming loans. It also will help as a preliminary study for others who are more interested in this area. This is very important to create and build up quality loans and credit valuable customers. The result of this study will enrich and update the knowledge of the reader on the loan and advance process of Abay Bank and to see how the process they develop is used as a measure of their success. It would help the officers and analysts to be aware of what is expected from them as professional in managing the loan and advance process. Furthermore, provide the basis for planning and the result of this study would enable the concern government body to see the loan and advance of the bank and its legal implications.

1.6 Scope of the study

This study was conducted only on Head office staffs that have been involving in customers' credit request handling process, analysis & appraisal, credit follow up & portfolio management and credit risk management activities at Abay bank. Since it is difficult to address all concerned employees in the head office and selected branch, the study delimits itself only sample respondents. In addition, the issue of credit risk is a broad area of study, the present study focuses on only assessing credit risk management policies and practices in Abay bank excluding other area of Bank risks such as operational, interest rate, liquidity risks etc. The focus of the research is assessment of credit risk management policies of Abay Bank and the researcher mainly focuses on credit analysis & appraisal, credit follow up & management, credit risk management and related area at head office in order to gather relevant information about the area of study. Therefore, the study is limited to the credit processing activities and credit risk management practice of Abay Bank. Other operations of the bank are not the subject matter of this research.

1.7 Organization of the Research Report

This study comprises five chapters. Chapter one provides information on background of the study, general and specific objective, research question, and significance, and definition of terms, scope of study and statement of the problem. Chapter two reviews literature by different authors and theoretical and empirical studies on issues related to the study. Chapter three deals with method of the research, research design, target population, sampling and data collection method. In chapter four findings, analysis and discussion will be present, chapter five the last chapter is discussion of the conclusion and recommendation of the study.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1 Theoretical Literature

Banks' fundamental commercial enterprise is to collect capital from people with surplus and redistribute it to the ones that want it for one of kind functions at a better price. In this context, a profitability willpower process with a unique degree of risk will becomes important operation (Turgut, 2018).

In order to offer the budget had to facilitate the commercial sector as well as the industry, lending, is one of the specifically crucial roles of the banks. However, this significance of lending is not best because of social duty to offer the wishes of credit to specific sectors. As the interest income on business loans had been continually more than those on investment, lending is the most profiting activity. This makes it in want of right management because it is the principal source of income to the banks and usually it represents one of the core assets of the banks.

2.1.1 Definition and concepts of credit

The word 'credit' was derived from Latin word 'credo' which means 'I believe' or I trust', this refers to a trust or trust in another person according to Newanyanwu, (2010). The time period a credit implies restoring faith or accepts as a true with in any other. In different words, which means of credit may be described as a contractual deal in which a borrower now gets a few fee and has the same opinion to pay off the lender at a few later date (Elijah, 2019).

Credit or loans as defined by National Bank of Ethiopia means any financial asset of a development finance institution arising from a direct or indirect advance of funds (i.e. Unplanned overdraws, loan syndication involvement, the acquisition of loans from another lender, etc.) or pledge by a development finance institution to advance funds to a person who is bound by the person's obligation to repay the funds, either on a specified date or on demand, usually with interest (NBE, 2012).

Risk is one of the maximum critical properly signs Bank's overall performance amongst many different factors that may be associated with the evaluation of monetary institutions (Pastor, 1999).

2.1.2. Types of Risks in Banking

Mester, 1992 coated in his study, as banks are involved in both traditional activities – collecting cash from depositors and lending it to the borrowers, and buying and selling activities, they arrive to face distinctive types of risks. Some of those risks are mentioned as follows.

- **Credit risk**

Credit risk is the risk of debt default which could cease end result from the lack of ability of a borrower to make the bills necessary. The risk is that of the lender in the first resort which involves lost principal and interest, harms to money flows, and advanced charge of collection. There can be three types of this level of risk.

a. Credit default risk: - is the risk of springing up from a debtor being not likely to pay it loan duties in complete or the debtor is more than ninety days beyond due.
b. Concentration risk: - is a risk related to any single publicity or organization of exposures with the capacity to provide massive sufficient losses to threaten a bank's center operations.
c. Country risk: - is the risk of losses due to the freezing of foreign currency payments via way of means of a sovereign nation or if it defaults on its responsibilities; this type of risk is carefully connected to the macroeconomic overall performance and political balance of the country.

- **Liquidity risk**

This type of risk arises because of the difficulty of solvency. As it's known banks collect deposit from their clients promising to pay an interest on the quantity and provide mortgage to different clients the collected cash with the aid of using charging more. The banks owe money to their depositors. Insolvency is created while the banks end up not able to pay the cash they owe to their depositors. Liquidity risk occurs whilst banks face inadequate liquid assets to fulfill the money wishes or withdrawal in their depositors and mortgage demands.

- **Default risk**

When financial institution control has an extensive cash of bad loans in their credit account, or while its portfolio investments considerably decline in cost and generate a intense capital loss, solvency troubles can be caused. Massive withdrawals commonly arise through financial institution runs, and this directly impacts the banks' ability to remedy their troubles and meet their obligations.

2.1.3. What is Credit Risk?

As established by the Basel Committee on Banking Supervision (2001), credit risk is the probability of partial or entire lack of super loans because to credit events (Default risk). It also can be characterized because the capacity that, according with the agreed phrases, a contractual party will fail to satisfy its obligations. Credit risk is likewise called default risk, overall performance risk or counterparts risk in distinctive ways.

The Basel accord additionally said the credit risk is the risk of loss that can be up due to any party's failure to conform to the terms and situations of any monetary contract, by and large the failure of the entity to make the required payments on loans. Credit risk is an economic publicity due a Bank's dependence some other party (Counterparts) to carry out and duty as agreed (National Bank of Ethiopia, 2010).

Banks lend to the debtors at a rate of interest better than the rate of interest they pay to their depositors. The banks generate their profits from the distinction among the two. Even though lending cash and collecting deposits – the conventional banking activities are the primary activities for banks, they're also involved in buying and selling activities (Mester, 1992)

The position banks play as an intermediary in the process of presenting monetary offerings is producing many sorts of risks for the banks. Most of these risks are existent on their stability sheet activities which for this truth consist of the risks which have relation with the bank's conventional and buying and selling activities. The author elaborates that the idea of risk management begins off evolved with the purpose at the back of the handling of risks. Maximizing the wealth of the shareholders' is one of the basic management principles.

However, the mismanagement of the risks that take place in the commercial enterprise and losses which are incurred from the activities that affect the fundamental precept can and could without delay have an affect the livelihood of the bank.

Credit risk can be reduced by ways such as;

- Efficiency of workers in the banking credit: crucial training on financial analysis of the customer and the know-how of computer usage in the analysis process in addition to the moral and physical incentives provision will help the workers become efficient. And so, the bank must have department that is responsible for the management of banking risk.
- Loan diversification by the loan time duration, purpose of the loan and the banking sector to reduce credit risk
- Insurance and guarantees and the lives of borrowers through various insurance companies.

Therefore, the following five elements of the resolution (a credit-based model of 5C's) have been formulated to study the credit client (Al-abedallat, 2016).

i. **Character**: this is essentially intended to examine the popularity the patron has or his/her paying ability. It may be traced from the credit records of the customer and additionally from the reputation in the market in which he/she operates.

ii. **Capacity**: that is the ability of the customer to be granted a mortgage and it is far primarily based totally at the economic analysis of the monetary statements, cash flows and additionally the legal form of the customer.

iii. **Capital**: that is primarily based totally at the capital of the corporation size, sales, money flow and marketplace percentage of the customer.

iv. **Collateral:** This enables in decreasing credit risk as in if the customer defaults the collateral could be the first shape of repayment for the mortgage. It could be in forms of Cash insurance, personal guarantee, land, vehicle, building or securities.

v. **Conditions:** all of the phrases of settlement approximately the credit containing the amount of loan, interest rate, guarantees, repayment schedule and all the necessary legal measures must be agreed upon by both parties and signed. (Musa et al., 2012)

2.1.4. Credit Risk Management

According to Singh (2013) credit risk management consists of all management function consisting of identification, measurement, monitoring and manage of the credit risk exposure. The author in addition indicated that for long time fulfillment of banking region effective credit risk management practice is a vital issue in the current business environment and bad credit risk management policy will create critical supply of crisis in the banking industry.

According to Atakelt (2015) Credit risk management practice outline because the technique of reading and renewing Credit risk management files and practice continuously in real Credit granting technique, Credit management and monitoring and risk controlling manner with appropriate Credit risk environment, information and identity of risk so as to limit the detrimental impact of risk taking activities and the effectiveness of credit risk management process is dependent on unique variables along with right software of pleasant Risk management files, Staff quality, Credit culture, devoted top management bodies, enough training program, right organizational structure ,enough stage of internal Control and Performance of intermediation function. This shows that credit risk management consists of one of a kind problems including growing and imposing appropriate credit risk strategy, coverage and manner, correct identifications of risk, best credit granting procedure, credit management, monitoring and reporting process determining and controlling the frequency and methods of reviewing credit policy and coverage and method and placing authority and duty clearly. Besides he stated that through setting up appropriate credit risk environment, suitable level of credit limit, pleasant credit granting process, proper monitoring and controlling credit risk and optimizing risk go back of a financial institution credit risk management develop credit performance.

Cebenoyan & Strahan (2004) take a look at empirically how energetic management of credit risk the use of mortgage deal impacts capital structure, lending, profits, and risk of banks. They discover that banks which can be Active in the loan sales market maintain much less capital and make more risky loans than other banks. They finish that advances in credit risk management improve credit accessibility alternatively than lower risk in the banking system.

The management of credit risk has turn out to be a key goal for all monetary establishments across the world. The intention of credit risk management is to maximize a bank's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters Basel (1999).

According to Anuj A (2011) through designing and imposing a Credit Risk Framework, Performing a Credit Risk Assessment, Building Credit Risk Scoring Models and Credit Risk Reporting manipulating panel and Forecasting Loan Loss we can construct powerful credit risk management and he additionally trust that most effective credit risk management focuses on processes, culture, people and organization because we are working with them.

"Credit risk management includes both preventive and curative measure. Preventive measure comprise risk assessment , risk measurement , and risk pricing , early warning system to pick signal of future default in advance and undertake better credit portfolio diversification. The curative measure aim at minimizing post sanction loan losses through steps such as securitization, derivative trade, risk sharing and legal enforcement" (Jain, 2014, p3)

2.1.5 Process of Credit Management

More than 80% of monetary organization‟ stability sheet is associated with credit score. For this purpose banks have to take a cautious care while handling credit score. The manner of credit score control begins with correctly assessing the credit-worthiness of the consumer base and his/her business viability. This is finished via way of means of searching in to mortgage packages cautiously that's a part of the mortgage methods. This is specifically essential if the agency chooses to increase a few sort of credit score line or revolving credit score to sure customers. Hence, right credit score control is putting specific standards a client ought to earlier than receiving the proposed credit score arrangement. Basu and Rolfes (1995) suggest that the achievement of an economic organization is constructed on a right and quality credit score control methods. As part of the assessment procedure, credit score control additionally calls for figuring out the whole credit score line so as to be prolonged to a given client. Several elements are used as part of the credit score control system to assess and qualify a patron for the receipt of a few shapes of industrial credit score. This consists of accumulating statistics at the capacity customer's current financial condition, which includes the contemporary credit score track file that discloses the character of a client in assembly duties in addition to as collateral value. As an end result the author discusses the unique approaches that may be hired in every of those regions with the only purpose of inspecting the existing mortgage control system of economic of organization in particular bank. A susceptible credit score risk control device is the motive for plenty none acting loans (Nishiru and al, 2001).

2.1.5.1 Credit Application

The credit score software is the number one step with inside the credit score control manner. Regardless of the length and cause of the mortgage, mortgage software is required. Though it can seem as simple inquiries to the candidates they need recognize the significance of the report. The utility files comprise element data approximately the applicant. The fact among different matters include: call of the applicant, address, residential address, age, phone wide variety, marital status, range of dependents, educational background, hometown, the sort of commercial enterprise, enterprise location, quantity of years in commercial enterprise, motives for the mortgage, quantity required, the reimbursements period, protection pledge if any and guarantors. It is the content material of this file which monetary establishments can take any legal motion in opposition to a borrower who defaults. Since that is the preliminary level of the credit score control procedure any mistake devoted at this degree is going an extended way to negatively have an effect on the entire method. A mortgage defaulter can break out legal punishment if the content material of the mortgage software shape isn't always well established. Hence the want to assess the current mortgage utility paperwork to make sure that they're well dependent to shield the credit score unions. (Abdou, & Pointon, 2011).

2.1.5.2 Credit Assessment

This is the system for collecting the important records on a capability borrower and initiatives in deferent to behavior risk evaluation workout to decide the related risk. This is cautiously carried out through the monetary establishments earlier than supply any loans. This is likewise executed to check the viability of the proposed task to be undertaken. This as properly allows to have looked at the technical viability, the monetary viability and the monetary viability of the undertaking to be undertaken. The risk related to the mortgage may be decreased through doing the above. Credit risk simply means the risk of default as a result of a borrowers‟ failure to repay the loan taken from a financial institution.

Appropriate evaluation of a client determines the monetary state of affairs and additionally enables to degree functionality of the client to pay off the mortgage while due. This includes the authentication of number one and collateral protection supplied via way of means of the patron for you to be trusted whilst the compensation of the mortgage turn in to difficult. This is a essential factor in the credit score procedure. It is stated to be the pulse of a wholesome credit portfolio. This includes collecting, analyzing and processing data as furnished with the aid using the applicant on the credit software form. This enables to examine the applicants‟ credit worthiness and enables to lessen the problem among debtors as a retailers and the monetary organization because the principal. The lending organization loans control techniques procedures and directives control the mortgage assessment procedures. The query that need to be spoke back earlier than whatever else is whether or now no longer the debtors have the economic ability to pay off the mortgage, that is, pay off the credit while due with the appropriate interest rate. The factors underlying the evaluation of a borrower should be based on the credit assessment principles of the financial institution which is the basic principles of lending which is also used by the financial institution , it is also known as the 5 C‟s which is Character, Capacity, Capital, Collateral and Conditions (Matovu and Okumu,1996).

The disparity with inside the mnemonics pertains to the essential precept of comparing the capacity of having credit score repaid. Credit Appraisal as a consequence ascertains the risks related to lending functions in monitory establishments. This is a sign that if the credit score evaluation isn't well executed with the aid of using the credit score union, the risk related to the credit score will now no longer be identified. It is typically carried out by the educated body of workers of the credit score branch of the establishments that are engaged in presenting credit score to their customers. In the prevailing case, technique utilized in credit hazard evaluation and appraisal has been studied to pick out the numerous parameters and ranges in credit score evaluation; appraisal and disbursement procedures exist in the economic organization. It is meant to make sure movements which creditors take which facilitate reimbursement or lessen compensation possibly problems. This records approximately the riskiness of the borrower makes the monetary organization to take remedial moves like inquiring for collateral, shorter period of reimbursement, excessive interest rates and other kinds of payment (Stiglitz and Karla, 1990) .When a monetary organization does now no longer do it well, its overall performance is incredibly affected. Edminster (1980) careworn the significance of credit score evaluation while he found that its abandonment frequently resulted into numerous banks the use credit score card to method.

The variables we have, according to Hunte (1996) brought the length taken to method mortgage applications, credit score revel in, part of collateral protection to the mortgage accepted. It became installed that lengthy waited time frame meditated scarcity of credible of credit score records required to make knowledgeable credit score selections and availability of budget for onward lending. This in flip ends in a larger risk, extra intense credit score rationing and low compensation rates. Hunte (1996) additionally realized that clients with mortgage revel in confirmed the functionality to control the loans higher for this reason excellent debtor for the economic organization. A much less borrower who isn't skilled has much less capacity to address an enterprise mortgage and consequently isn't credit score worthy (Devaney, 1984; Robinson, 1962; Hunte, 1996). This indicates that there are massive risks related with first time debtors on account that the mortgage officer has scanty facts on their credit score statistics and little expertise on their ability to pay off the mortgage whilst due. When an economic group does now no longer do it well, its overall performance is surprisingly affected. DeYoung, R., Gron, A., Torna, G., & Winton, A. (2015) harassed the significance of credit score evaluation while he found that its abandonment regularly resulted into numerous Banks the using of credit score card to method.

The variables we have, according to Hunte (1996) delivered the time it takes to system mortgage applications, credit score revel in, and a part of collateral safety for a mortgage that has been accredited. It turned into set up that the lengthy wait duration represented a loss reliable credit score facts had to make knowledgeable credit score selections, in addition to the provision pricing range for in addition lending. This in flip results in a larger risk, extra severe credit score rationing and low reimbursement rates.

2.1.5.3 Credit Disbursement

After an applicant has been cautiously assessed and it's been set up that the applicant meets the credit score requirements. The credit score officer and the credit score committee signal the loan software shape to signify that they have got given their approval. This authorizes the Bank to disburse finances to the applicant. The act of giving or paying cash to clients who've been accessed and accredited for credit score is called as credit disbursement (CD). After all of the assessments had been finished and approval has been granted, disbursement guarantees that cash is made to be had to the customer (Duga, H., 2021).

Until budget is dispensed to the certified customer, the evaluation procedure guarantees that the safety and different required documentations are authenticated. If the mortgage pay-out manage is weak, the mortgage control manner's effectiveness will suffer, and it'll be undermined and misused by the unscrupulous team of workers the organization. (Duga, H., 2021).

This are crucial with inside in the clients refuse to pay due to the fact the monetary group may be correctly secured and could have legal backing to insure that the mortgage may be retrieved. This will assist monetary establishments improve their economic circumstance through decreasing their allowance for bad debts. Once the credit score utility satisfies all of the Bank's credit score conditions, an intensive a complete evaluation is accomplished to decide if the software complies with the organization's conditions, then approval is given for disbursement to the applicant. Financial organization has awesome approach of disbursing loans to its participants which isn't the same as how different monetary establishments do. The credit score disbursement may be crediting the mortgage amount to the customer's account or it is far performed segment with the aid of using section for task kind (Hassan, 2002).

2.1.5.4 Credit Monitoring

Credit Monitoring is a quintessential a part of lending activity. Financial establishments have a great duty to hold the high-satisfactory of the belongings and to get better the interest and primary due in time. Though good enough precaution are taken in the course of evaluation and approval of a mortgage, a monetary organization must be extra vigilant. Unless early caution alerts are captured, an economic organization won't be capable of take right remedial measures to arrest and decrease bad debt with inside the group. An economic group desired to install region a totally sound and effective credit score tracking gadget system for looking the borrower's account from diverse angles for prompt action. In line with Robinson (1962) and Anjichi (1994), most of the agonies, frustrations and misery economic establishments may be decreased via way of means of accurate credit score tracking and comply with up process.

An excellent supervision facilitate keep a very good mortgage. It can be by visiting the borrowers' locations of enterprise to study the overall situation. Insufficient preservation is frequently an early signal of economic misery. A monetary organization can adjust its personal lending rules in addition to mortgage monitoring procedures. Furthermore, maintaining track of deposits trend and deposits balances gives a clue to the existing scenario of the customer. Monitoring of mortgage centers given to clients is a vital project in making sure that the task from which compensation can be made is successful. Huppi and Feder (1990) found out that green tracking ends in excessive retrieval of loans via way of means of revealing probably dangers (like mortgage diversions) and reminding defaulters of their obligations in the direction of the lending institution, as a result calling for redoubling of efforts in the route of mortgage repayments. Monitoring of credit score centers has been directed characteristically on making sure compensation while there are signs of defaults for reimbursement of interest and main installments.

2.1.5.5 Credit Recovery (training session process)

It is a pain reality that any lending business enterprise will enjoy clients who will default on bills or failure to just accept at all. This is why economic establishments make provision in their books for bad and unsure debt to cowl those eventualities. If the lender has made each effort to barter an amicable compensation settlement and has been unwilling, it'd be suitable to keep in mind the mortgage as a healing matter. This is especially obvious in economic establishments; especially in which the establishments offer offerings which are ongoing instead of one-time. The series of a mortgage amount sum from a purchaser in default is referred to as mortgage restoration. In simple terms, mortgage recuperation refers back to the pay returned of the foremost mortgage amount sum plus interest.

Financial establishment want to be aware about loans which can be susceptible to now no longer being paid return (also called as NPL or non-performing loan).Collections branch of the Bank will begin contacting the person mortgage defaulter's risk of non-compensation to a suitable level. In general, credit reviews are primarily based totally at the on the mortgage officer's subjective evaluation or judgmental evaluation technique. Credit evaluation is largely default hazard evaluation. A mortgage officer attempts to assess a borrower's ability and willingness to repay (Odonkor, 2018).

2.1.6. Credit Risk Monitoring and Control

Credit hazard managers have the project of ensuring that credit score rating hazard is nicely quantified, monitored, and managed. Credit risk control need to therefore ensure that upcoming activities or variation that could jeopardize the integrity of the loan portfolio and the economic organizations ability to counteract them are properly recognized. Banks should to have an effective framework for evaluate and reporting in location to ensure that credit score rating are nicely recognized and assessed, and that controls are in place to restriction the threat.

Credit manipulate consists of maintain ordinary contact with borrowers, cultivating an environment of agree with borrowers simply so banks can be consider solution providers, cultivating an organizational culture that enables borrowers sooner or later point of difficult time and assists them in any way possible to overcome challenges, meticulous monitoring of the country of the borrower's industrial company through their economic group debts, and periodic re-exam of the borrower's credit score rating reviews, further to calling and visiting borrowers, retaining updated credit score rating file for borrowers, and checking borrowers past credit score rating on an ordinary basis. Credit risk monitoring is an important tool that lets commercial bank detects lapses and capacity defaulters early on, in further to verifies if risk control strategies are effective in order to decrease non-performance loan publicity (Al-Tamimi, 2007).

Credit risk manage is the technique of continuously monitoring individual credit, in conjunction with off-stability sheet exposures to obligatory, in further to the monetary groups entire credit score portfolio. Banks need to installation a system that permits them to show the credit score rating portfolios first-rate on an everyday basis and take corrective motion as speedy as any deterioration happens. A monetary group might in all likelihood use this form of device to determine if loans are being serviced consists with facility situations; the adequacy of reserves, the overall risk profile is inner mange's risk tolerances, and regulatory compliance. Setting up an experienced and effective credit score rating monitoring system would possibly allow senior manage to preserve truck of the overall tremendous of the complete credit score rating portfolio further to its trends (Aebi et al, 2012).

As a result, control would be possibly fine-truck or compare its credit strategy/coverage previous to struggling an important setback. The financial institution's credit policy coverage ought to consist of specific procedural recommendations for credit policy risk monitoring. It ought at least outline roles and obligations of these in charge of credit score risk monitoring, in addition to the evaluation procedures and strategies (for individual loans and the overall portfolio), the frequency of monitoring, the periodic examination of collaterals and mortgage covenants, the frequency of website online visits, and the identity of any loan deterioration (SBP, 2012).

2.1.7 Factors Influencing Effectiveness of Credit Risk Management practices

Loans that represent a big percentage of the belongings in maximum banks' portfolios are particularly illiquid and show off the very best credit risk (Koch and MacDonald, 2000). The concept of uneven statistics argues that it can be not possible to differentiate appropriate debtors from bad borrowers which can also additionally result in unfavorable choice and ethical risk issues. Adverse choice and ethical risk have led to large accumulation of non-acting accounts in banks (Bester, 2001).

2.1.7.1 Credit Risk Management Process

According to Basel (2004), the control of credit risk in banking enterprise follows the manner of risk identity, measurement, assessment, monitoring and manipulate. It involves identity of ability risk elements, estimate their consequences, monitor activities uncovered to the diagnosed risk elements and installed in location manipulate measures to save you lessen the undesirable effects. This method is implemented in the strategic and operational framework of banks.

2.1.7.2 Risk – Adjusted Performance Measures

Several risk-adjusted overall performance measures had been proposed (Heffernan, 2002). The measures, however, attention on hazard-go-back trade-off, which consist of measuring the risk inherent in every interest or product and rate it as consequence for the capital, required to aid it. This does now no longer clear up the difficulty recuperating loan-able amount. Effective device that guarantees reimbursement of loans by through debtors is important in handling uneven recorded issues and in reducing the extent of mortgage losses, therefore the long-time period achievement of any banking organization (Basel, 2004).

2.1.7.3 Credit Risk Management Practices

Effective credit score control involves entails setting up the right credit score hazard environment; running under a valid credit granting technique; keeping the right credit administration that includes monitoring technique in addition to good enough controls over credit risk (Basel, 2004). It calls for pinnacle control to make sure that there are right and clean tips in dealing with credit risk, that is, all pointers are nicely communicated during the organization; and that all of us concerned in credit risk control apprehended them. Considerations that shape the foundation for sound credit risk control gadget include: coverage and strategies (guidelines) that genuinely define the scope and allocation of a financial institution credit centers and the way wherein a credit score portfolio is managed, that is, how loans are originated, appraised, supervised and collected (Basel, 2004; Price Waterhouse, 2001). Screening debtors is an activity that has extensively been encouraged by, among others (Derban, Binner and Mullineux, 2005). The recommendation has been extensively placed to apply in the banking zone in the shape of credit evaluation. According to the uneven data theory, a group of dependent records from prospective debtors becomes important in carrying out powerful screening.

2.1.7.4 Assessment of Borrowers

The evaluation of debtors may be done thru using of qualitative in addition to quantitative techniques. One important venture the using of qualitative models is their subjective nature (Bryant, 2001). However, debtors attributes assessed thru qualitative models may be assigned numbers with the sum of the values comparison to a threshold. This approach is termed as “credit scoring”. The method can’t most effective reduce processing charges however additionally reduce subjective judgments and feasible biases (Bluhm, Overbeck and Wagner, 2003). The rating structures if significant need to sign modification in predicted degree of mortgage loss. Chijoriga (2000) concluded that quantitative models make it feasible to, among-st others, numerically establish which elements are crucial in explaining default risk, compare the relative level of importance of the elements, enhance the pricing of default risk, be extra capable of display out awful mortgage applicants and be in a higher role to calculate any reserve had to anticipated destiny mortgage losses.

2.1.7.5 Clearly Established Credit Approval Process

Clearly hooked up to method for approving new credits and increasing the prevailing credit has been found to be very vital whilst handling credit risk (Heffernan, 2002). Further, monitoring of debtors is vita as modern and capacity exposures change with each the passage of time and the actions in the underlying variables and also are very crucial in dealing with ethical risk problem (Derban et al., 2005).

Monitoring involves, amongst others, common touch with debtors, developing an environment that the financial institution may be visible as a solver of issues and relied on adviser; broaden the way of life of being supportive to debtors on every occasion they’re recognized to be problems and are striving to cope with the situation; monitoring the go with the drift of borrower's enterprise through the financial intuition's account; ordinary evaluation of the borrower's reviews in addition to an on-site visit; updating borrowers credit files and periodically reviewing on the debtors score rating assigned at the time the credit was granted (Donaldson, 2000).

2.1.7.6 Credit Management Tools

Tools like covenants, collateral, credit score rationing; mortgage securitization and mortgage syndication have been utilized by banks in growing the sector in controlling credit losses (Greenbaum and Thakor, 2000).

2.1.7.7 Credit Management Staff and Information Technology

It has additionally been found that high-quality credit control staffs are essential to make certain that the intensity of information and judgment wanted is constantly available, for this reason correctly dealing with the credit in the bank (Koford and Tschoegl, 2001).

2.1.8. Tools of Credit Risk Management

The devices and tools, through which credit risk control is carried out, are detailed below:

i. **Exposure Ceilings**: Prudential Limit is related to Capital Funds – say 15% for individual borrower entity, 40% for a set with extra 10% for infrastructure initiatives undertaken by the group, Threshold restrict is constant at a stage decrease than Prudential Exposure; Substantial exposure, that is the sum overall of the exposures past threshold restrict need now no longer exceed 600% to 800% of the Capital Funds (CFs) of the bank (i.e. six to eight times) (Raghavan, 2003).

ii. **Review/Renewal**: Multi-tier Credit Approving Authority, charter sensible wise delegation of powers, Higher delegated powers for better-rated customers; discriminatory time agenda for evaluate/renewal, Hurdle rates and Bench marks for clean exposures and periodicity for renewal primarily based totally on risk score rating, and so on forth are formulated (Thirupathiand Manoj,2013).

iii. **Risk Rating Model**: Set up complete risk scoring gadget on a six to nine factor scale. Clearly outline rating thresholds and review the ratings periodically ideally at half yearly intervals. Rating migration is to be mapped to estimate the expected loss (Thirupathiand Manoj, 2013).

iv. **Risk based scientific pricing:** Link mortgage pricing to predicted loss. High-risk category debtors are to be priced high. Build ancient statistics on default losses. Allocate capital to absorb the sudden loss. Adopt the Risk Adjusted Return on Capital /RAROC/ framework (Raghavan, 2003).

v. **Portfolio Management** The want for credit score portfolio control emanates from the necessity to optimize the advantages related with diversification and to lessen the capacity detrimental impact of attention of exposures to a selected borrower, region or industry. Stipulate quantitative ceiling on combination publicity on precise rating categories, distribution of debtors in various industry, commercial enterprise organization and behavior speedy portfolio critiques. The present framework of tracking the non-acting loans across the ability sheet date does now no longer sign the fine of the entire mortgage book. There must be a proper & ordinary on-going device for identity of credit weaknesses nicely in advance. Initiate steps to keep the preferred portfolio first-rate and integrate portfolio critiques with credit score decision-making process (Thirupathiand Manoj, 2013).

V i. Loan Review Mechanism this ought to be completed impartial of credit score operations. It is also referred as Credit Audit covering review of sanction process, compliance status, and evaluation of risk rating, and select out of caution indicators and advice of corrective movement with the goals of enhancing credit excellent. It ought to goal all loans above sure cut-off limit making sure that as a minimum 30% to 40% of the portfolio is subjected to mortgage assessment mechanism in a year so as to make sure that everyone primary credit risks embedded in the stability sheet had been tracked. This is finished to result in qualitative development in credit administration (Raghavan, 2003).

2.1.9. Other Techniques for Mitigating Credit Risks

The closing step for any type of hazard control is to mitigate and switch the risk in order to avoid or lessen losses. Credit risk mitigation approach discount of credit risk in a publicity through a safety internet of exact and realizable securities together with third-party authorized guarantees/insurance (Raghavan, 2003).

Banks use some of strategies to mitigate the credit risks to which there exposed. Exposures can be collateralize through first precedence claims, in entire or in component with money or securities, mortgage publicity can be assured with the aid of using a third-party, or a financial institution might also additional purchase a credit by-product to offset divers' styles of credit risk. Additionally banks may additionally internet the loans owned to them in opposition to deposits from the equal counter-party.

The diverse credit risk mitigation equipment laid down through Basel Committee (2000) is as follows:

i. **Collateral (tangible, marketable) securities**: to assist numerous lending agreements for lowering credit score hazard.

ii. **Guarantees**: a transaction wherein protection is obtainable for summery charge undertakings. It creates a non-accessory, summery duty to the beneficiary.

iii. **Credit derivatives**: Credit by-product is a tool designed to segregate marketplace hazard risk from credit risk and to permit separate buying and selling of credit risk. Credit derivatives permit an extra efficient allocation and pricing of credit risk. Credit derivatives are privately negotiated bilateral contracts that permit customers to control their publicity to credit risk.

   For example, a financial institution involved that one in every of its clients might not be able to capable of pay off a mortgage can shield itself in opposition to loss through moving the credit risk to some other party at the same time as maintaining the mortgage on its books. This mechanism may be used for any debt device or a basket of units for which a goal default rate may be determined.

iv. **On-balance-sheet netting**: A netting settlement nets the amounts to be exchanged between counterparties, which lessen the credit score publicity. For banks, netting agreements are mostly carried out to inter-bank transactions, consisting of bilateral bills netting, multilateral charge structures with internet agreement and master derivative agreements.

2.2. Empirical studies

Different researchers were conducted on this area of studies in different financial institutions. Yang Wang, (2013) find out that the key principles in credit risk management are establishment of a clear structure, allocation of responsibility and accountability, processes have to be prioritized and disciplined, responsibilities should be clearly communicated and accountability assigned on his research title Credit Risk Management in Rural Commercial Banks in China.

Atkilti (2015) in his study find out that Credit risk, liquidity risk and operational risk are the three important types of risks the banks mostly facing. The three widely used Risk identification method were identified and ranked as Financial Statement Analysis firstly and followed by audit and physical inspection and then internal communication. The study further confirmed that four aspects of Basel's Credit risk management principles explain a significant level of variation on Credit risk management practice of Ethiopian commercial banks. Furthermore, establishing an appropriate Credit risk environment and Ensuring adequate Controls over credit risk were found to be the most influential variables on level of Credit risk management practice. It is finally observed in significant difference between public and private commercial banks in all aspect of Credit risk management principles and practice.

Girma (2011) point out on his study credit risk management and its impact on performance in Ethiopian commercial banks that the default ratio of any bank in Ethiopia depends on credit risk management quality of the institution.

Solomon (2013) studied credit risk management practice of Nib International Bank of Ethiopia and in his assessment the researcher come across that factors lead to wrong decision making and increase NPL level of the bank are concentration of credit in few sector and borrower, collateral as number one technique of credit risk management, absence of credit risk model of credit portfolio, lesser attention for MIS and advisory service to customers and absence of proper follow up.

Tibebu (2011) examined that credit risk management and profitability of commercial banks in Ethiopia. Find out that Both nonperforming loan ratio and capital adequacy ratio has a negative impact on profitability‘s of commercial banks in Ethiopia. He also state that the impact level of nonperforming loan ratio is negative which means, a single unit increase in nonperforming loan ratio leads in (.594077) decrease of profitability of commercial banks of Ethiopia.

Tesfaye (2012) study factors influencing the level of credit risk in the Ethiopian commercial banks. The study find out that quantity of risk and quality of risk management related variables has got much influence on the credit risk level of banks. Nevertheless, risk direction related measures, which are mostly external focus, have limited influence on credit risk. More specifically the variation in the effect of stock and flow measures entails banks to further enhance mostly two of Basel principles: operating under a sound credit granting process and maintaining an appropriate credit, administration, measurement and monitoring process.

Akotey J.O. (2012) the study has examined the credit risk management of selected rural banks in Ghana and has discovered that credit risk management plays a significant and dynamic role in the business of rural banking. The researcher find out sampled ruler commercial banks have poor credit risk management practices and hence the high levels of the non-performing loans in their loans portfolios. Despite the high levels of the NPLs, their profit levels keep rising as an indication of the transfer of the loan losses to other customers in the form of large interest margins. Therefore the findings indicate a significant positive relationship between non-performing loans and rural banks' profitability informative that, there are higher loan losses but banks still earn profit.

Bajpaiet.al. (2015) The researcher find out that BPR Ltd has a credit management system however it needs to be reviewed and adopted more to current Rwandan environment. The researcher also indicated that there is a direct relationship between credit risk management and profitability of commercial banks and recommended that BPR Ltd should review and improve its credit policy and adopt it to Rwandan market and context and BPR Ltd should provide continuous training and bring up to date its staffs.

2.3 Literature Gap

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

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

This chapter deals with the research methodology of the study. Research design, Research approach, source of data, sample size and sampling procedures, data collection instrument, ethical consideration and data analysis techniques are discussed.

3.1 Research design

A study design provides an overview of the study and provides a framework for the study the collections and conceptual structures in which research is conducted are Collection and analysis of research-related data (Kothari, 2004). That's the plan Demonstrates selected approaches and research strategies to obtain valid and reliable data The research goal has been achieved and the research problem has been solved. Researchers Quantitative and qualitative (mixed) study design.

(Creswell, 2003) argues that mixed designs is less well known than quantitative or quantitative design collect and analyze both forms of data in a qualitative strategy, or a single study. He also argued that all methods have limitations and therefore research believe there is inherent bias Individual methods can neutralize or offset the prejudices of other methods. Therefore, mixed design triangulates the data source for reliable results.

This research is used to descriptive study design. This approach is used to determine and allows describes the properties of variables that are of interest in context. For descriptive research, It has the advantage of a detailed explanation and is perfect for analyzing the problem. So this design It is considered very important for this study as it helps clarify the points discussed.

3.2 Research approach

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

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

3.3. Target Population, Sample size and sampling procedures

3.3.1. Target Population

Abay bank has more than 455 branches; of these branches 120 are located in Addis Ababa as of January 2023. For this study the population comprises employees in the credit and loan department at the head office locate around Kazanchis. The study targets the head office because setting credit guidelines, polices, credit assessment and approval process of the credit under the authority or pass through the approval of head office level department for all district in Addis Ababa. In according to the preliminary survey, there are more than 481employes working at different departments at the head office. These employees at the head office 101 are currently working at the credit and risk management department. Consequently, the target populations of the study are the 101 employees currently working at the credit and risk department at the head office.

3.3.2. Sample size and Sampling Procedures

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

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

Where: n=Sample size,

N=Population size and

e=margin of error

$$n = \frac{101}{1+101(0.05)2}$$

n=81

As mentioned above, there are 101 employees currently working at the credit and risk management department. Consequently, the target populations of the study were the 101 employees currently working at the credit and risk management department at the head office. As a result of the total sample size selected and number of participants in the study will be 81 employees working at the credit and risk management department selected randomly.

3.4. Method and Instrument of Data Collection

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

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

3.4.1. Primary Data

It constitutes a very important instrument of data collection. And it contained close ended questions as well as questions which open ended in nature. The questions that are close ended offer the respondents the opportunity to choose from answers provided whereas the open-ended questions allow the respondents to give their answers. This technique helps to maintain the focus of the work on its primary objectives. The questionnaires for the purpose of this study are distributed at head office. The open-ended questions allowed free responses from the respondents without providing or suggesting any structure for the responses.

Interview

Management and non-management concerned to the use credit risk management that was directly involved and it was a mechanism through which oral information were collected from an individual. It was a verbal interaction between the person seeking information (interviewer) and the person supplying the information (interviewee). Therefore members are interviewed that are management members and financial analysis.

Questionnaire

A questionnaire is defined as a document containing questions and other types of items designed to solicit information appropriate to analysis (Babbie, 1990). A questionnaire is equally used in survey research, experiments, and other modes of observation. A questionnaire should allow us to collect the most complete and accurate data in a logical flow. In this study, structured questionnaires were used to draw informatization from selected employees (81) who were deliberately selected from the Bank.

3.4.2. Secondary Data

Secondary data collected from unpublished material of Abay Bank S.c he credit policies and procedures manual, credit management manual and published audited credit financial statement of the recent and consecutive five year (2018-2022) of Abay. Also books journals, thesis and related materials used. The researcher used both interview and questioner especially employees working in department of credit management and it will be collect through different method of data collection. In this study, both primary and secondary source of data was collected. On the other hand, the researcher used bank brusher's bank website and other source where the secondary data collected.

3.5. Ethical Consideration

Informed consent of the respondents will be obtained from research participants. The information collected from the respondents through interview and questionnaires was treated with strict confidentiality. To keep anonymity of the respondents, they were asked not to write their name.

The secondary data used in the research was taken from official published and unpublished sources of the Bank.

3.6. Data Analysis Method

The study analyzed the data collected from respondents through questionnaire by using SPSS version 20.0 software. The study presented the data from primary source by using descriptive statistics and tables which are expressed in the form of frequency, percentage, mean and standard deviation. Narration was used to analyze the data from the interview conducted.

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION

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

4.1. Response rate and demographic characteristics of the respondents

4.1.1 Response rate

As stated in the previous chapter the study took a sample size of 81 employees who work in credit and risk management department of the bank. Thus, eighty one questionnaires were given to the relevant employees of the organization. Of which 65 questionnaires were correctly filled in and returned which makes a response rate. This response rate was good enough to make conclusions for the study.

4.1.2 Demographic characteristics of the respondents

The first section of the questionnaire comprised of questions about demographic information of the respondents. If covered gender, age, educational level, work experience and Monthly gross salary in the Bank. The subsequent tables show the demographic characteristics of the respondents.

In general which means the financial institution has human resources that may work energetically and competitively as the same time as additionally know-how the banks mission and goals. The financial industry is sensitive and risky by nature, necessitating the using of skilled and expert human resource who may be responsible, trustworthy and constant liable for the financial management this is prudent.

Table 1: Demographic characteristics of respondents

	Frequency(n)	Percent (%)
Gender of Respondents		
Male	49	75.4
Female	16	24.6
Total	**65**	**100%**
Age of Respondents		
18-25 years	4	6.2
26-30 years	2	3.1
31-35 years	35	53.8
36-40 years	15	23.1
41-45 years	6	9.2
>45 years	3	4.6
Total	**65**	**100%**
Educational of Respondents		
Diploma	-	-
Degree	55	84.6
Master's degree	10	15.4
Total	**65**	**100%**
Year of Service Abya bank		
<1 year	-	-
1-3 years	4	6.2
4-6 years	8	12.3
7-9 years	30	46.2
>10 years	23	35.4
Total	**65**	**100%**
Monthly Salary		
15,001-20,000	5	7.7
20,001-25,000	8	12.3
25,001-30,000	4	6.2
30,001-35,000	20	30.8
>35,000	28	43.1
Total	**65**	**100%**

Source: Questionnaire Results, 2023

As it is show on the table 1 above, majority of the respondents that is (75.4%) are male while (24.6%) are female workers. Generally this reveals that the majority of the workers in the credit department of the bank were male. It can be concluded that the participation of the females was low in working in credit department from the bank as compared to males which further indicates from this analysis; one could conclude that males are a majority respondents or participants for this study.

Furthermore, about the majority of respondents belong to the age group of 31-35 years consisting of (53.8%) of the total respondents. In addition this, (23.1%) of respondents were of age of group between 36-40 years, (6.2%) of the respondents were of age group 18-25 years, (4.6%) of respondents were of age group greater than 45 years and (4.2%) of the respondents were of age group 41-45 years, while the remaining (3.1%) of the respondents are between 26-30 years of the age group. This can tell that the bank is dominated by an age group of employees who are in their younger age of working with better know-how of risk, its consequence, and the need for risk management.

Regarding the respondents qualification as indicated on above table 1, (84.6%) of respondents are undergraduate degree holder and the rest (15.4%) of the respondents are postgraduate degree holder. The research tries to identify the respondents by their educational level in order to know the qualification of the respondents to analyses the weather their response are necessity.

Regarding years of service in Abay bank, the largest portion of the respondents (46.2%) fall under the category of 7-10 years of working experience, followed by (35.4%) which fall under the category of more than 10 years of working experience, (12.3%) under 4-6 years, and (6.2%) under 1-3 years of banking experience, this indicate that the majority of the respondents (81.6%) of them are highly experienced staffs with greater than 7 years of bank experience.

Regarding monthly income, from the above table 1 we can observe that comparatively the majority 28 of the respondents are earning greater than birr 35,000 per month which accounts for (43.1%) of the sample. The second largest is 20 respondents of the study are earning between birr 30,001-35,000 salary group which is (30.8%) of the sample followed by 8(12.3%) earning between birr 20,001-25,000, 5(7.7%) between 15,001-20,000 and the remaining 4(6.2%)

respondents earns between 25,001-30,000. This implies that almost all salary groups of the bank have been included and researcher was not face difficulties to generalize it's for all salary groups.

4.2 Presentation and analysis of the finding of the study

This study was conducted with the main objectives of assessing the credit risk management practice of Abay bank. This study has assessed credit collection techniques, client appraisal and credit granting process, mechanisms are used to measure and monitoring credit and methods are employed to control and mitigate credit risk at Abay bank. As stated in the research methodology, likert scale was used to measure the respondents' perception towards credit risk management practice Abay bank. The data collected is analyzed by using descriptive statistics such minimum, maximum, mean and standard deviation.

4.2.1 The credit collection techniques are adopted in the management at Bank

Credit collection Techniques are the essential strategies telephone cells, personal visit, reminder letter, using collection agencies and legal action (shao and yeager, 2007). With this, the first sought to set up the review of the study respondents concerning the credit collection techniques at the bank. To achieve the study requested respondents questions associated with the problem and the response are summarized and presented table 2 below.

Table 2: Credit collection Techniques at Abay bank

	Min	Max	Mean	Std. D.
The bank has credit risk policy, guidelines and procedures that explain objectives and principles of credit risk management process	1	5	3.54	.686
Credit risk strategy and policies are effectively communicated throughout the organization.	1	5	3.62	.784
The Bank have strategies for granting credits focus on who, how and what should be done at the branch and corporate division levels while assessing borrowers	1	5	3.72	.992
The credit and risk policies and procedures exactly comply with regulations of national bank	1	5	3.43	.706
The practical loan processing and appraisal activities of the department offices comply with the bank credit policy and procedures	2	5	3.77	1.057
Average			**3.62**	**.845**

Source: Questionnaire Results, 2023

As show the table 2 above, regarding the credit collection techniques in Abay bank, the respondents were asked about whether the bank has credit policy, guidelines and procedures that explain the objectives and principle of credit risk management process. The mean value for the items 3.54. Indicates that respondents believe that the credit policy, guidelines and procedures does exist in the bank.

Item 2 table inquired the opinion of the respondents if the risk strategy and policies are efficiently communicated throughout organization, the mean score is 3.62 which is implies that the most respondents agree it is communicated efficiently.

According to table 2 above, the mean score was 3.72, with regard to the presence of the bank have strategies for granting credits focus on who, how and what should be done at the branch and corporate division levels while assessing borrowers. This finding for items no. 3 shows that respondents opinion positive regarding presence of strategies for granting credits focus on who, how and what should be done at the branch and corporate division levels while assessing borrowers.

As shown above in the table 2, respondent also agreed with the statement the credit and risk policy and procedures exactly complies with regulations of national bank's this was reflected in the 3.43 mean score value item 4 in table 2 above. This implies the banks policy and procedures is following regulations of the national bank of Ethiopia. Furthermore as shown in table 2, respondent also agreed with the statement the practical loan processing and appraisal activities of the department office comply with the bank credit policy and procedures. The mean value of the item was 3.77, which implies respondents agree that the practical loans processing and appraisal activities of the department offices comply with the bank credits policy and procedures. In addition, the overall means score for the above items, which inquire about credit collection techniques at the bank, is 3.62. In general, from this and the result presented in table 2 above, it can be implied that the existing credit collection of the bank the valuable ingredients needed to sustain a health credit management. The above end result and dialogue indicates that those requirements are met with inside credit collection techniques the bank presently has.

Moreover, in the interview conducted, the department head has pointed out that there are occasions were the banks poor risk identification and remedial action taking affects the collection process, not assigning the right person at the right position, the unlimited rescheduling of additional loan, lack of independent follow-up unit, not using results for improvement, weak collateral in case project defaults and weak support branch project follow up.

4.2.2 The credit appraisal and granting process at Abay bank

A sound credit score granting methods calls for assessing the creditworthiness of the obligors so as to display screen out the desired ones and reject unworthy creditors. In the regard the look at Abay bank and response are summarized and presented in table 3 below.

Table 3: Credit appraisal and granting process at the bank

	Min	Max	Mean	Std. D.
The bank conducts comprehensive credit worthiness analysis properly before granting loan	2	5	3.78	.820
The bank checks the borrower history before granting loans	1	5	3.75	.830
The bank properly assessed the client financial ability to meet obligation	1	5	3.09	1.465
Adequacy, marketability and enforce-ability of collateral requirement is properly evaluated and measured by professional personnel or expertise	1	5	3.71	1.042
The bank has a clear established process for approving a new credits well as amendment, renewal and re-financing of existing credits	2	5	3.63	.741
The bank credit granting and approval process establishes accountability of the decision makers	1	5	3.51	1.174
Average			**3.58**	**1.012**

Source: Questionnaire Results, 2023

As shown on table 3 above, Credit appraisal and granting process of the bank, the respondents were asked about whether the bank conducts comprehensive credit worthiness analysis properly before granting loan. The mean score value of the item was 3.78, which indicates respondents highly agreed that the bank conducts worthiness analysis properly before granting loan.

Item 2 in table 3 above inquired the opinion of the respondents if the banks the borrowers history before granting loans. The mean score regarding this was 3.75 which is above average and implies most of the respondents agree the bank checks the borrower's history before granting loans. Resemblance, item 3 and 4 in t able 3above which have mean value of 3.09 and 3.71 respectively, assess the customers' financial ability and collateral requirement before granting loans.

As shown above in table 3, the mean score value was 3.63, with the regard to the presence of clear established process for approving a new credits well as amendment, renewal and re-financing of existing credits. Indicates that respondents believe/agree regarding the presence of clear established process for the amendment, renewal and refinancing of existing credits.

According to table 3 above, the mean score value for the last item was 3.51. The result shows that, respondents strongly agree in the presence of credit granting and approval process that the establishes accountability of the decision makers.

Furthermore, the common imply rating of the set of statement concerning the credit appraisal and granting process of the bank, as presented in table 3 above, was 3.58. this end result collectively with the above dialogue suggests that the bank considers vital factors like, borrowers history, financial situation and collateral providing earlier than granting a loan. Several studies (Ayalew 2011; Bard, 2008 Basu and Rolfes, 1995 & yang, 2003) made with reference to credit score appraisal and granting technique have stipulated that banks must recollect consumer's present day monetary situation, credit score track document that discloses the character of a clients in assembly responsibilities as properly collateral value before loan disbursement. The above results shows the Abay bank follows most these principles of a sound credit appraisal and granting practice before granting loans. However, results additionally imply there may be a room for development in fostering surroundings that creates ease to keep the decision makers accountable. The standard deviation for the set of the statement presented in table 3, was less than 1.00 and other side more than 1.00 indicating that the respondents were not similar.

In addition, with inside the interview conducted, the department head has mentioned that there are events wherein a few clients don't offer the important and complete monetary information, creating problems on appraising their credit requests. It changed into additionally stated that on few occasions some employees participate in useless activities like bargaining with customer at some point of the appraisal process. But it changed into additionally raised in the interview that the bank has its own department that is accountable to research such times and take corrective measure on such employees.

4.2.3 The credit measuring and monitoring at Abay bank

Once a credit score is granting, its far the duty of the financial institution to make certain that the credit score is properly maintained. Accordingly to Basel (2008) this consists of keeping the credit file to date, obtaining present day monetary information, sending out notices and follow-up and inspection. Accordingly the study tried to assess the credit measuring and monitoring at the bank and outcomes are offered in the following section.

Table 4: The credit measuring and monitoring at Abay bank

	Min	Max	Mean	Std. D.
The Bank has a well-structured documentation monitoring system for credit and collateral files	2	5	3.60	.766
The Bank monitors the business of clients after granting credits on regular interval basis	1	5	2.89	.937
The Bank regularly asses value and existence of Collateral coverage	1	5	3.11	.921
The bank periodically prepare credit quality reports for signaling credit quality	2	4	3.48	.640
The bank sends timely notices notifying customers their obligations	1	5	2.98	.960
Average			**3.21**	**.845**

Source: Questionnaire Results, 2023

As show on table 4 above, the firs respondents' opinion about the presence of well-structured documentation monitoring system for credit and collateral files at the bank. The mean score value of items was 3.60, which implies respondents strongly agree that there is well structured documentation monitoring system for credit and collateral file at the bank.

In contrast, table 4 shows that respondents don't agreed that the bank monitors the business of clients after granting credits and the bank sends timely notices notifying customers their obligations. This was reflected with the mean result of 2.89 and 2.98 for items 2 and 5 respectively. This result shows that the bank effort to assess the business activities of clients after granting the loan and providing prior notices for loan customers to below average.

According to above in table 4, the means score value 3.11, with the regard to the presence of regularly assess value and existence of collateral coverage. Indicates that respondents agreed regarding the presence of the regularly assess value and existence of collateral coverage.

As shows above in table 4, the mean score value for the no 4 item was 3.48. The result shows that, respondents strongly agree in the presence of the bank periodically prepare credit quality reports for signaling credit quality.

In addition, the standard deviation for the set of statements presented in table 4 less than 1.00 indicating that the perceptions of the respondents were similar. Furthermore, as presented in table 4 above, the average mean result of the statements was 3.21. This indicates that according to respondents, the status of credit measuring and monitoring at Abay bank in considered to be average.

The result in table 4 above showed credit measuring and monitoring activities at Abay bank is considered to be average. Therefore, it can be applied that there is a room for improvement regarding the activities undertaken a monitor the status of the credit provision provided by the bank.

In addition, with inside the interview performed with the department head, it turned in to request approximately the challenge credit tracking activities of the bank. The manager mentioned that the customers unwillingness to reveal monitory situations and failure of the client to maintain vital financial file prepared are the main challenges situation confronted all through the banks attempt of inspection.

4.2.4 Credit Risk Monitoring Practices at Abay bank S.C

It is said that banks have to utilize methods and scientific analytical tools that enable control to measure the credit score threat inherent and decrease detrimental results. These mitigation techniques and tools should offer good enough facts at the composition of the credit score portfolio, along with the identify of any attention of risk (Koch & MacDonald, 2003). In this regard the study asked respondents question related with the credit risk control and mitigation strategies tool at Abay bank and response are presented in table 5 below.

Table 5: Credit risk monitoring practices at Abay bank

	Min	Max	Mean	Std. D.
There is independent risk management policy and procedure from credit policy and procedure in the bank.	1	5	3.48	.903
The bank has appropriate internal risk scoring system that distinguishes high and low risk areas.	2	5	3.51	.986
The Bank employs risk based scientific pricing	2	5	3.42	.967
Proper credit limit is established by the Bank for particular economic sector, geographic region specific products, and a group of associated borrowers	1	5	3.32	.903
Adequate measures are put in place to recover non-performing loans	2	5	3.52	.850
The bank offers training for employees on credit risk management	1	5	2.97	1.015
The bank offers customers sufficient training on loans usage	1	4	2.92	.853
Average			**3.31**	**.925**

Source: Questionnaire Results, 2023

As shows on table 5 above, the first respondent's opinion about the presence of the independent management risk policy and procedures in the bank. The mean score value of the item was 3.48 which shows agreement with the proposed statement. Similarly, the respondents agree that the bank has appropriate internal risk scoring system that distinguishes high and low risk areas. As it is reflected in the mean score value of 3.51 for item 2 in tables 5 above. These result implied that Abay bank employees and independent risk management function and use internal risk scoring system to distinguish high and low risk areas.

According to above in table 5 above, the mean score value 3.42, with the regard to the presence of the bank employees risk based scientific pricing, indicate that respondents agreed regarding the presence of bank employees risk based scientific pricing.

As shows above in table 5, the mean score value for the no 4 item was 3.32, the result shows that, respondent agree in the presence of the credit limits is established by the bank. In addition, respondent employees believe that there are adequate measures in place to deal with non-performing loans, as shows with a mean value of 3.52 for the item. These results imply that according to respondent employees, Abay bank utilizes risk scoring system and risk based pricing, which is turn are helpful for mitigating risk faced by the bank.

In contrast, according table 5, the mean score values for the statements regarding the presence of training for employees on credit risk management (CRM) and training for customers on loans usage were below 3. This result indicates respondents employees don't agree there are sufficient training's provided for employees and customers on credit risk management and loan usage.

Table 5, above shows opinions the respondents of respondents about the credit risk control mitigation strategies tools employed at the bank. The average mean score of the above statement was 3.31. These results reflect respondents employees believe the credit risk control and risk strategies tools employed at bank to be above average. Moreover, all items in table 5 above a standard deviation of almost 86% less than one. This shows the perceptions of respondents to be similar.

Moreover, in line with the reaction from the interview carried out, it turned into stated that the bank is rushing up its technological improvement to cope with the increasing internal and external modifications which can be taking area continuously. The manager stated how the latest computer technology that is owned through Indians referred to as Omni Enterprise become carried out to help the core banking system and enhance improve its credit management practice.

4.2.5 Credit risk management guidelines and policies in Abay bank

Crdit risk management and policies are imperative and good credit management requires the establishment of sound credit risk policies and guidelines (Koach and Mac.Donald, 2003). As discussed on table 2 above analysis of the questioner on the banks policy, guidelines and procedures of credit risk management, it is showed in the following separated table that guidelines and policies does exist in Abay bank.

Table 6: Guideline, policy and procedures

	Min	Max	Mean
The bank has credit risk policy, guidelines and procedures that explain objectives and principles of credit risk management process	**1**	**5**	**3.54**

In table 6, the respondents were asked if the bank has policy, procedures or guidelines for the credit risk management. The mean value of the analysis indicate that most respondent agree with the existence of guidelines and procedures in the bank. This respondents aids the company credit risk management because, the organizations personnel are bound by the organizations guidelines or policies. Organizational structure and procedures are most effective when design functions fit their surroundings and impact on the strategies of the organization (Hunter, 2002). The respondents agree that their organization have a documented guideline or policy for credit risk management.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

Introduction

In this chapter, major findings are going to be summarized and subsequent conclusion, recommendations are forward in relation to literature's reviewed to suggest the better credit risk and management practice for Abay bank.

5.1 Summary

This study was conducted with the primary goal of assessing the credit risk management practice of Abay bank (AB). This observe has assessed credit collection techniques are adopted n the management, customer appraisal and credit granting process, the credit measuring and monitoring and the method are employed to control and mitigate credit risk at Abay bank. The study used descriptive research design and the have look at become accomplished thru gathering information through questionnaires from the employees at the head office and with an interview that was conducted with the head office the credit and risk management department of the bank. To collect the essential data the study distributed 81 questionnaires to be stuffed through the sampled employees of the bank. Among the distributed questionnaires 65 have been effectively filled and returned.

Based on the findings from the questionnaire result obtained, the bank has young and qualified credit staffs and they are at productive stage of below 35. Majority (53.8%) of the respondents are in the age below 35 years. And the majority (81.6%) of the respondents has above 7 years of banking experience. In addition to this, majority of the employees (84.6%) at credit risk and risk management department of bachelor's degree and (15.4%) of master's degree. Moreover, almost all salary range are included in the study which respondents the population perfectly. Generally, the result regarding credit staff age and banking experience shows that the bank is in a good position in terms of productive staff. Other key findings of the study are:

The results presented in the study also showed the respondents employees agreed that the bank has credit risk policy, guidelines and procedures that obligation that explain objectives and principles of credit management process mean=3.54 and the bank have strategies for granting focus on who, how and what should be done at the branch and corporate division levels while assessing borrowers mean=3.72. In addition, majority of employees agreed that there is the practical loan processing and appraisal activities of the department offices comply with the bank credit policy and procedures mean=3.77.

The result study found that the respondents majority of the employees agreed that the bank conducts comprehensive credit worthiness analysis properly before granting mean=3.78**,** the bank properly assessed the clients financial ability to granting loan mean=3.09 and checks for collateral requirements before granting loans mean=3.71**.** However, the results in the study revealed that respondents employees agreed with regard to the availability of credit granting and approval process that establishes accountability of the decision makers mean=3.51.

with regard to credit measuring and monitoring of the bank, results in the study showed that respondents disagree that the bank monitors that the bank monitors the business of clients after granting credits on regular interval basis mean=2.89 and the bank sends timely notices notifying customer their obligations mean=2.98. In addition, employees agreed that the bank was well structured documentation tracking system for credit and collateral files mean=3.60. And the bank periodically prepare credit quality reports for signaling credit quality mean=3.48.

The results presented in the study also showed the respondents employees agreed that the bank uses appropriate internal risk scoring system mean=3.51 and the bank employees risk based scientific pricing mean=3.42 and but the respondents disagreed that the bank gives training's for employees on credit risk management mean=2.97 and the bank offers customers sufficient training on loans usage mean=2.92**.**

5.2 Conclusion

The banking industry in general, is the bank bone for the growth and development of a country. Its argued with inside the literature that suitable credit score that surroundings especially relies upon on a improvement of a complete credit risk strategies techniques and rules that could deal with identity of present and capacity credit risk, the activities the financial institution engages and credit portfolio concentration limits (Basel, 2008). The findings, with inside the look at found out that the present credit coverage of financial institutions own the precious components had to maintain a healthy credit management. Result showed that there is bank credit risk policy and guidelines and the practical loan processing and appraisal activities of the bank and recognizes areas of credit engagement and risk inherent in these engagement.

It is stated that the banks have to observe an intensive credit score assessment method to evaluate whether customers are credit score worth or now no longer earlier than granting loans. In order to well compare loan request bank must be capable of the potential borrower. This request assessing the commercial enterprise and monetary role of the ability client and the overall financial conditions (kakuru, 2003). In relation with this, the effects of the look at confirmed that the financial institution considers vital factors like; debtors history, monetary situation and collateral.

Credit risk management additionally includes building a potential this is capable of mitigate and switch the risk in order to reduce losses. To acquire this risk management goal banks use tools and techniques thru which credit risk mitigate (Roghavan, 2003). with this regard the findings in the study raveled that Abay bank make suitable risk scoring system, employees risk based scientific pricing and has independent risk management function but effects also indicated s lack of training's to increase modern employees potential.

5.3 Recommendation

Based on the findings and conclusions of the study, the following recommendations are forwarded which are aimed at improving the credit management of the bank.

Once credit is disbursed, the existence of a well-developed constant monitoring process is absolutely imperative and forms a substantial part of the monitoring function in a bank. One method of carrying out this monitoring process is by inspecting the business of clients on regular interval basis after granting credits. The findings in the study showed there is a room for improvement with this regard at Abay Bank. Therefore, this study suggests the bank to undertake regular inspection that can enable the bank to compare the actual performance of the borrowers. This can be achieved by timely analysis of the financial accounts of loan customers and comparing it to the projections accepted at the time of appraisal of credit facilities. This helps the bank to timely identify accounts showing symptoms of strain and put them under constant monitoring. Collateral verification is an important component of not only loan processing and approval process, but also the monitoring process of credit management. Findings of the study showed the efforts of Abay Bank to assess the value and existence of collateral coverage after loan disbursement to be below average. Therefore, the study suggests the bank to carry out regular inspections which allows it to document, verify, and monitor the collateral.

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

Regular training programmed for credit staff in areas such as credit appraisal, risk management and financial analysis should be frequent as knowledge and technology in those are changing fast. Effective training modules must be designed to advance the knowledge and skills of Credit staff so as to improve the quality of credit appraisal.

Noting the importance of attractive, convenient, and flexible credit policies and procedures in assisting loan creation and growth, the bank's top management needs to periodically follow up on its credit policies and procedures, incorporating the feedback of clients and employees, and then credit officers should find out from customers exactly what kind of facilities they want, to prevent them from giving out the wrong facilities, which in turn would make it difficult for customers to pay back the loan. In other words, customers should be certain of the amount they need before requesting the facility.

5.4 Limitation of the Study

Since the research topic involves a sensitive issue (credit), there will be limitation in getting information that is confidential to the bank. Additionally, time and budget will also be major constraints. So as to this, all the existing problems regarding risk management in banks cannot be covered. In addition to this, since the study is conducted in a single organization it will be hard to make generalization. Because of time and budget limitations, the research will be limited to only cover the credit risk management practice of only one private bank namely Abay bank.

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ANNEX 1: Questionnaire

ST. MARY UNIVERISTY

School of business and public administration

Department of Accounting and Finance

A questionnaire to fill by employees

Dears Respondents,

I am a postgraduate student of St. Mary University. I am currently undertaking a research thesis on assessment of credit risk management in Abay bank. Please recall that you are selected as a possible participant because you are employee of Abay bank. Your participation in the study is completely voluntary. The research work is for academic purpose only. Any information obtained in connection with the study will remain strictly confidential. Your honest and true opinion will be valuable for this research thank you in advance for your participation.

Israel Adinew **Mobile: 0910224236**
Email**:** ***adereisrael@gmail.com***

Part 1: Demographic Information of the research

Instruction: Please fill the answer by putting **"**√**"** mark.

1. Gender: Male ☐ Female ☐

2. Age: 18-25 ☐ 26-30 ☐ 31-35 ☐ 36-40 ☐ 41-45 ☐ >45 ☐

3. Year of service in Abay Bank: < 1 year ☐ 1-3 Years ☐ 4-6 Years ☐ 7-9 Years ☐ >10 Years ☐

4. Educational

1. High school graduate ☐
2. Diploma ☐
3. Degree ☐
4. Master's degree ☐
5. Doctorate ☐

5. Monthly gross salary in Birr: < 15,000 ☐ 15,001-20,000 ☐ 20,001-25,000 ☐ 25,001-30,000 ☐ 30,001-35,000 ☐ >35, 000 ☐

Part 2: Questions Related to Credit Policy and Credit Risk Management Practice:

Using the scale given below, please tick √ the number in each phrase that best represents the extent to which you agree with the given phrase. Before you start, quickly read through the entire list to get a feel for how to rate. Remember there is no right or wrong answer, and your honest opinion is critical to success of the study

1= "Strongly Disagree" 2 = "Disagree" 3 = "I don't know" 4 = "Agree" 5= "Strongly Agree"

1. Credit collection techniques

No	Items	1	2	3	4	5
1	The bank has credit risk policy, guidelines and procedures that explain objectives and principles of credit risk management process					
2	Credit risk strategy and policies are effectively communicated throughout the organization.					
3	The Bank have strategies for granting credits focus on who, how and what should be done at the branch and corporate division levels while assessing borrowers					
4	The credit and risk policies and procedures exactly comply with regulations of national bank					

5	The practical loan processing and appraisal activities of the department offices comply with the bank credit policy and procedures					

2. Client appraisal and credit granting process

No	Items	1	2	3	4	5
6	The Bank conducts comprehensive Credit worthiness analysis properly before granting loan.					
7	The bank checks the borrower history before granting loans					
8	The bank properly assessed the client financial ability to meet obligation					
9	The bank has a clear established process for approving a new credits as well as amendment, renewal and re-financing of existing credits					
10	Adequacy, marketability and enforce ability of collateral requirement is properly evaluated and measured by professional personnel or expertise					
11	The banks credit granting and approval process establishes accountability of the decision makers					

3. Mechanisms are used to measure and monitoring credit

No	Items	1	2	3	4	5
12	The Bank has a well-structured documentation monitoring system for credit and collateral files					
13	The Bank monitors the business of clients after granting credits on regular interval basis					
14	The Bank regularly asses value and existence of Collateral coverage					
15	The bank periodically prepare credit quality reports for signaling credit quality					
16	The bank sends timely notices notifying customers their obligations					

4. **Methods are employed to control and mitigate credit risk**

No	Items	1	2	3	4	5
17	There is independent risk management policy and procedure from credit policy and procedure in the bank.					
18	The bank has appropriate internal risk scoring system that distinguishes high and low risk areas.					
19	The Bank employs risk based scientific pricing					
20	Proper credit limit is established by the Bank for particular economic sector, geographic region specific products, and a group of associated borrowers					
21	Adequate measures are put in place to recover non-performing loans					
22	The bank offers training for employees on credit risk management					
23	The bank offers customers sufficient training on loans usage					

ANNEX 2

ST. MARY UNIVERISTY

School of business and public administration

Department of Accounting and Finance

Interview Questions

1. What are the main challenges for credit collection in Abay bank?
2. What major problems are faced in credit appraisal and granting process?
3. What are the major concerns regarding credit tracking activities of the bank?
4. That the bank use technological infrastructure that may help its risk privation strategies?

Thank you for your cooperation!