Accounting and Finance Department

AN ASSESSMENT OF CREDIT RISK MANAGEMENT PRACTICE: THE CASE OF DASHEN BANK S.C

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Under Guidance of Kiros Habtu (PhD)

July 2023 GC

Addis Ababa,

Ethiopia

ASSESSMENT OF CREDIT RISK MANAGEMENT PRACTICE: THE CASE OF DASHEN BANK S.C

Thesis submitted to ST. MARY'S University school of graduate studies in partial Fulfillment of the requirements for the Award of Master of Science Degree in Accounting & Finance

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APPROVED BY BOARD OF EXAMINERS

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Statement of Declaration

I, NATNAEL ELIAS, hereby certify that the thesis titled "Assessment of Credit Risk Management Practices: The Case of Dashen Bank" is an original work of mine. I did everything on my own, following the research advisor's advice and recommendations. And neither to ST.MARY'S University nor any other University has ever presented it.

Declared by:-NATNAEL ELIAS

Signature _________________

Date _____________________

Confirmed by: Kiros Habtu (PhD)
Signature _________________

Date _____________________

ST.MARY'S University

June, 2023

Addis Ababa Ethiopia

Statement of Certification

This is to certify that, **NATNAEL ELIAS** carried out his research work on the topic entitled "**ASSESMNET OF CREDIT RISK MANAGEMENT PRACTICE: THE CASE OF DASHEN BANK S.C.**"Is original work and is suitable for submission for the award of Masters of Science degree in Accounting & Finance?

Advisor: **Kiros Habtu (PhD)**

Signature _________________

June, 2023

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Abstract

An important aspect that must be controlled is credit risk. Credit risk is the chance that a borrower or counter party won't fulfill their responsibilities under the terms set forth in the contract. One of the most important hazards for every commercial bank is credit risk. Credit risk results from a borrower's failure to perform. Bank authorities and banking regulators are quite concerned about the credit risk that banks are exposed to. This is due to the credit risk, which can quickly and almost certainly cause a bank to fail. It is not easy to manage credit risk; careful thought and procedures are required for detecting, measuring, controlling, and minimizing credit risk. The evaluation of Dashen Bank's credit risk management is the main goal of this study. In this study, the researcher chose study participants by using a straightforward random selection procedure. Both primary and secondary data were utilized in this investigation. Primary data were gathered by asking respondents in the credit risk management and allied directorates at the head office to fill out questionnaires. Tables, percentages, and other descriptive statistics were utilized to analyze and present the data. This is a result of inadequate ongoing follow-up, inadequate risk assessment, and present political conditions. Additionally, the bank's process needs to be modified because it was ineffective in lowering the NPL status. Based on the findings, the article suggests that the top management's assistance is insufficient and needs to be increased in order to ensure the availability of appropriate and clear standards for managing credit. Additionally, new approaches to interacting with debtors must be developed if banks are to be able to recoup their loans.

Key words: Credit risk, credit risk management practice, credit policy and procedure, Non-performing loans

CHAPTER ONE

INTRODUCTION

1.1Background of the Study

Credit provision is one of the key businesses of banks and one of their primary activities. Although creating credit is the primary source of income for banks, both lenders and borrowers face significant risks in this activity. The possibility of a trading partner not carrying out their contractual duty by the deadline or at any time subsequently can seriously jeopardize a bank's commercial operations (Pasha&Bayush,2017).

The ability for individuals to borrow money to meet their financial needs is one way that loan services invariably help the economy. Loans can be used to finance personal or household needs that one would otherwise not be able to afford, as well as to assist businesses finance their operations. Banks carefully select their clients and keep a close eye on their performance because they want to recover the money they lent. In turn, this establishes the framework for a robust and effective economy. Additionally, banks can readily reduce the risk they must take by diversifying their loan portfolio. These, in turn, increase the safety of bank deposits, stimulate more bank deposits, and hence encourage additional loans (Encarta, 2009). However, concerns about loan-related potential dangers can readily arise, which calls for a coordinated effort to ensure a suitable administration of the package.

The main source of income for banks is the generation of credit. The biggest and most evident source of credit risk is bank loans. Since exposure to credit risk is still the main cause of issues for banks and can seriously jeopardize the operation of a bank's business. As a result, banks and their regulators ought to be able to learn something from the past. The majority of bank authorities and banking regulators are quite concerned about the credit risk that banks confront. This is due to the fact that bank collapse can easily and is most likely to be caused by credit risk (Conford A., 2000).

Many nations' economies rely heavily on banks to function. They serve as the primary go-betweens between those who have extra cash on hand (depositors) and those who have feasible initiatives but need funding for their investments (creditors). Banks do at least the following tasks: lending money, protecting customer deposits, remitting money locally or internationally, and acting as a paying agent. Banks operate under a variety of hazards, and the nature and extent of those risks rely on a variety of variables, including the bank's size, the complexity of its business operations, volume, etc. These include risks related to credit, markets, liquidity, operations, compliance with laws and regulations, and reputation. Credit risk is one of the hazards that is thought to have the worst effects on profitability and growth. Credit management, also known as credit control, is a dynamic industry where a certain level of long-term planning is required to allocate funds in a variety of fields, minimize risk, and maximize return on investment by increasing collection, lowering credit costs, extending more credit to deserving customers, and developing competitive credit terms.

According to Mekonnen, S. (2018), effective credit management procedures enable banks to pick the appropriate loan proposals, projects, ventures, and businesses, as well as the appropriate borrower. One of the most important steps in the loan approval process is ensuring enough protection. Protection is important, but it's not the only consideration. One of the key challenges is still the duty of bank experts to do analysis. Credit lenders can determine if a customer would be able to economically repay the Bank loan in accordance with the stipulated terms and circumstances and repayment schedule by using credit lending principles such the borrower's liquidity and integrity. In order to improve both borrowers' financial literacy and lenders' transactional procedures and avert possible financial catastrophes, credit regulation is crucial.

The most significant products that banks offer to their customers are loans, which also generate the majority of the bank's annual earnings. It's also true that bank loans carry risk in addition to their financial rewards. For instance, changes in economic policy and the state of the economy as a whole have an impact on and fluctuate with bank loans. Therefore, it is essential that banks create their loan rules in a way that lowers the risk attached to them. A solid and thorough credit procedure and loan policy also considerably benefits banks. It helps officials to handle loan issues consistently, avoid misconceptions, and simplify the credit application procedure. Transparency in lending activities is a result of good policy (Jiménez, G., Ongena, S, &Saurina, J., 2012).

In light of this, the study will attempt to evaluate the credit management strategy used by Dashen Bank.

1.2Background of the Organization

Privately held Dashen Bank S.C. was founded in 1995 and has a capital of Birr 14.9 million. In compliance with the National Bank of Ethiopia's "licensing and supervision of banking business proclamation no. 84/1994" to engage in commercial banking activities. On September 20, 1995, the bank received a license from the National Bank of Ethiopia, and on January 1, 1996, it began conducting regular business. Currently, the bank employs more than 4000 people to run its head office in Addis Ababa and 400 area banks (branches) established inside and outside of Addis Ababa, 26 of which are housed in the bank's own building. It currently has more than ETB 4 billion in paid up capital. Currently, Dashen Bank has 780 merchants with POS around the nation and 400+ ATM machines. (17th Annual Report of Dashen Bank for the Year 2013)

Dashen Bank offers a variety of commercial banking services, such as:

- ✓ To provide stable, high-quality domestic and international financial services to the growing private sector.
- ✓ To broaden and diversify commercial banking offerings in response to escalating consumer expectations.
- ✓ To contribute to the nation's economic and social growth
- ✓ To do business sustainably and profitably.
- ✓ To mobilize all deposit kinds (savings, demand, time, hybrid, savings plus, modified youth savings, interest plus bonus, student, and current account protection scheme) and pay interest on interest-bearing accounts.
- ✓ To offer loans and advances to its clients, including finance for long-term projects and investments.
- ✓ To provide services for domestic and international money transfers.
- ✓ To offer services in international banking, including:
    - • Importing activities
    - • Exporting activities
    - • Manages transactions involving foreign currencies, such as the buying and selling of foreign currency notes.
    - • Visa and MasterCard withdrawals.
    - • Keeping a non-resident account active.

- ✓ To offer foreign currency deposit services to Ethiopian nationals and foreigners of Ethiopian ancestry. To offer consumers guidance on banking, finance, and investments.

1.2. Statement of the Problem

Studies show that excellent credit management is a key factor in a bank's continued profitability and financial stability, whereas declining credit quality is the most common reason for subpar financial performance (Das & Das, 2007; Kessey, 2015; Lalon, 2015). The main cause of issues for banks worldwide is still credit risk exposure. As a result, Banks must have pertinent, empirically-based knowledge gleaned from past experience. They should be acutely aware of the need to measure, manage, and control credit risk as well as to make sure they have enough capital to protect themselves from these risks and that they are fairly reimbursed for the ones they take (Kessey, 2015).

Credit management is a crucial component of lending, thus without it, good loans run the risk of defaulting. It is also important to note that credit management is crucial and that effective credit management necessitates hiring qualified staff and establishing adherence to strong credit policies and procedures. If the loan is properly managed, it will boost the bank's future profitability and viability.But failing to do so would pose the biggest danger to their existence (Koch & MacDonald, 2003). More than 85% of a bank's liability comes from deposits made by customers, making banking by its very nature extremely sensitive (Sounders, Cornett, 2005 cited in Sahlemichael M. 2009). These deposits are used by banks to create credit for their borrowers, which is actually a source of income for the majority of banks.

Numerous researches on the subject of credit risk have been conducted to far. Studies on credit risk management's application (Afande, 2014), its significance (Das & Das, 2007), the evaluation of credit risk management policies and practices (Luy, 2010), and the difficulties of operationalizing credit risk management policies (Kessey, 2015) are a few of these. Although many banks have risk management policies and plans, the results of the many research show that their execution is not always successful.

In the example of Dashen Bank, Abdi's (2018) review of the bank's financial performance reveals that it did not get better between 2015 and 2017. On the other side, Feyisa (2016) pointed out that inadequate loan evaluation practices, ineffective manpower usage, a lack of credit management revision, and borrowers' refusal to provide complete information are affecting Dashen Bank's loan recovery performance.

In addition, a review of the Bank's non-performing loans (NPL) reveals that, as of June 2020/21, 1.9%, or about birr 1.67 billion, of the bank's total loans and advances of birr 87.5 billion, fell into the NPL category. (Annual reports of Dashen Bank, 2021). Despite the fact that the bank's NPL ratio is below the minimum level for NBE (i.e., 5%), there has been no improvement in the ratio, and even small changes in the NPL ratio have a major impact on the performance of the bank.

According to the bank's annual report for the years 2017–18 through 2020–21, the NPL ratio increased from 1% to 1.9%. A study on credit risk management is necessary due to the dynamic nature of credit risk over time, the presence of unresolved issues with Dashen Bank's credit risk management, such as how effectively the bank's credit risk management policy is implemented, and the lack of improvement in the bank's NPL over time. Therefore, this study looks into Dashen Bank's credit risk management practices and policies.

1.3. Research questions:

In order to meet its unique goals, this study is attempted to respond to the following queries:

1. What credit collection tactics are used in Dashen Bank's management of credit?
2. What aspects of Dashen Bank's credit risk management are relevant to its effectiveness?
3. How did the Bank's credit policy contribute to lowering the NPL status of loans in the past?
4. What methods does the bank employ to monitor and measure credit risk?

1.5. Objective of the Study

1.5.1. General objective

Investigating Dashen Bank's policies and methods for managing credit risk is the main goal of this study.

1.5.2. Specific objectives

The following specific objectives are developed based on the overall goal:

1) To determine the credit collecting techniques used in Dashen Bank's credit management
2) To evaluate the elements that influence Dashen Bank's credit risk management's efficacy.
3) To look at the credit procedure of the Bank assisting to reduce the NPL status loans in the past.
4) To identify the techniques used by the bank for credit risk measurement and monitoring.

1.6. Significance of the study

Since credit is the banking industry's main source of revenue, the study's findings should be applicable to individuals with similar goals who are looking for information on credit risk management-related topics. By providing pertinent information that will help them improve their credit risk management practices, the investigation is specifically expected to assist policy makers, the credit processing and assessment directorate, the credit portfolio management department, and the credit risk management department of Dashen Bank.

As a result, the study is anticipated to produce the following advantages.

The study aims to identify the key variables that influence credit management practice. This will assist the Bank by highlighting the locations that have non-performing loan issues.

Understanding what will be expected of them as professionals in handling loans and advance deliveries, which are a crucial aspect of the Bank's operations, will aid the officers and analysts. The results of the study also help by making the knowledge required for sound and informed decision-making available.

Dashen Bank will receive information from the study to help it assess its exposure to credit risk. As a result, the requisite procedures & policies will be put in place to mitigate those risks. Additionally, the study will be a useful source of secondary data for individuals who wish to conduct further research on the topic of credit risk management techniques and who use it as such. Additionally, it will serve as a guideline for academics who are interested in the topic to develop it further.

1.7. Scope of the study

Only employees of Dashen Bank's head office who have participated in the examination and evaluation of credit requests from customers, credit follow-up and portfolio management, and credit risk management will be the subject of this study. Since it is challenging to speak with every affected employee at the headquarters and chosen location, the study only includes sample respondents. Additionally, because the topic of credit risk is so broad, the current study solely evaluates the credit risk management methods and policies at Dashen Bank, leaving out other types of bank risks like operational, interest rate, and liquidity concerns. In order to gather pertinent data for the study, the researcher focuses primarily on credit analysis & appraisal, credit follow-up & management, credit risk management, and related areas at head office. The research will assess the credit risk management policies of Dashen Bank. As a result, the investigation will be restricted to Dashen Bank's credit processing activities and credit risk management procedures. The focus of this study will not be on the bank's other businesses.

1.8. 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 Dashen bank.

1.9. Organization of the Paper

The organization of the research thesis is explained to readers in this portion of the paper. The examination of credit risk management policies and procedures is being the thesis' main focus. Background information on the research problem, the reasons behind it (the research problem), study objectives, research questions, significance, and research scope are all included in the first chapter. The rules and procedures of credit risk management will be briefly reviewed in the second chapter along with pertinent literature. The third chapter will concentrate on the research technique. It covers the research design, sample method, data instruments, data collection process, ethical concerns, and data analysis methods. The fourth chapter is giving an analysis of the data that was gathered and an interpretation of that analysis. Finally, summaries of the key findings, the conclusions, and potential recommendations are presented in the fifth chapter.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

Introduction

The literature on credit risk, credit risk management strategies, and credit risk management policies is reviewed in this chapter. The chapter offers theoretical, empirical, and conceptual literature, with a focus on Dashen Bank's history and important theoretical concepts.

2.1. Theoretical literature

2.1.1. Risk and Banking Risks

Risk can be defined in a variety of ways. Risks in the banking industry, risks in trade, risks in daily life, or any other sort of risk are what could potentially occur in the future and have an unforeseen effect on risk beneficiaries. In comparison to other company sectors, the banking industry is far more vulnerable to dangers, particularly in current dynamic marketplace. Banks don't just take deposits and issue loans anymore. Instead, they work in a highly profitable sector that is seeing tremendous innovation, pushing them to develop more and more value-added services to provide to and better please clients. Since multiple dangers might be associated with a single behavior today, risks have become much more complicated (Lalon, 2015).

2.1.2. Bank credit risk and risk management

Credit risk has reportedly been the most significant management concern for banks, according to Tsai et al. (2016). For banks, which take on financial risks in exchange for rewards at the core of their operations, the effectiveness of credit risk management, whether it is good or bad, counts a lot. Due to deterioration and other variables from the entrepreneurs (such as entanglements between businesses), the borrower or the business counterparties are unable to fulfill the obligations of their contracts in credit risk, which increases the risk of contract violation and financial loss.

Generally speaking, credit risk can be separated into two categories: lending risk, also known as issuer risk and counterparty risk, based on various settings and behaviors. When bond issuers or borrowers fail to make payments as agreed or when their credit ratings decline, a lending risk arises those results in a financial loss. The debt credit circumstances of borrowers and bond issuers are frequently connected with lending risk or issuer risk, as is the degree of risk sensitivity of the financial instruments. Counterparty risk, which can be further broken down into settlement risk and pre-settlement risk, is the second credit risk. The danger of counterparties failing to execute their contractual obligations in a timely manner and resulting in the loss of equality is known as settlement risk.

A key element of the safe and sound management of all licensed financial institutions is the management of credit risk. According to Bank of Jamaica (2005), effective credit risk management entails carefully regulating and minimizing credit risks across a range of dimensions, including quality, concentration, currency, maturity, security, and kind of credit facility.

A comprehensive credit risk management program necessitates identifying existing or potential credit risks to which the institution is exposed in conducting its business activities and developing and implementing sound and prudent credit policies to effectively manage and control these risks. The specifics of credit risk management will vary among institutions depending on the nature and complexity of their credit functions and portfolios.

2.1.3. Credit Risk Management Policies

The development and implementation of clearly defined policies, formally established in writing, that set out the credit risk philosophy of the institution and the parameters under which credit risk is to be controlled, as well as the identification of the existing and potential risks inherent in an institution's credit products and credit activities, form the basis of an effective credit risk management program. The institution's willingness to take on credit risk is outlined in the credit risk philosophy, which differs depending on the nature and complexity of the business, the scope of other risks taken, the institution's capacity to absorb losses, and the minimum expected return appropriate for a given level of risk (The Bank of Jamaica, 2005).A much more complex financial environment, marketing considerations, and pressures for higher profitability have led to the development of novel credit instruments and credit-related strategies. For control and reporting requirements, concentration restrictions, and risk/reward returns, it is possible to calculate the aggregate exposures to counterparties by measuring the risks associated with each credit transaction. The framework for lending is established by credit policies, which also represent the credit culture and moral principles of an organization. Policies must be communicated promptly, executed across all organizational levels using the proper processes, and frequently amended in light of evolving conditions in order to be effective (The Bank of Jamaica, 2005).

Credit policies must include, at the very least: a credit risk philosophy that determines how much credit risk the institution is willing to take on; general credit areas where the institution is prepared to engage or is prohibited from engaging; clearly defined and appropriate levels of delegation of approval; provision or write-off authorities; and sound and prudent portfolio concentration limits. The development and application of credit policies must take place within the framework of a credit risk management system that guarantees the highest level of ethical conduct in all credit dealings (The Bank of Jamaica, 2005).

The explanation of credit policy provided by Kessey, (2015) is comparable. According to Kessey, credit policies include, among other things, the credit risk philosophy dictating how much risk the institution is ready to take. This refers to the general credit categories in which the institution is willing to engage or is prohibited from engaging. Credit policies, once more, set the guidelines and structure for efficient management of the credit portfolio. When credit policies are properly applied, financial institutions are able to maintain high standards for credit underwriting. Additionally, it helps the institutions evaluate, track, and manage credit risk. Once more, it addresses the appraisal of new business possibilities as well as how to recognize, manage, and collect difficult credits. This suggests that a framework for credit policy must be developed for addressing risk.

2.1.4. The Credit Process

The evaluation of the borrower's creditworthiness, or capacity and willingness to repay the loan, is the first step in the credit process (Bearing Point, 2006). The credit officer's evaluation of the borrower's current and anticipated financial condition, the borrower's resilience to stress, the borrower's credit history and a positive correlation between past and anticipated repayment capacity, the ideal loan structure, including loan amortization, covenants, reporting requirements, and the underwriting elements, as well as the amount, quality, and type of collateral pledged by the borrower, should all be found by the examiner.

The first step in this procedure is to gather, analyze, and evaluate the data needed to assess the borrower's creditworthiness before granting credit from the bank. The credit officer suggests a loan structure for approval once the credit analysis is finished and it has been established that the borrower is an acceptable risk. This loan structure maintains the borrower's strengths and guards against any vulnerability that has been found. The process is completed with the assessment of a risk rating for the approval (or rejection) of the credit and loan. The parameters for this process are established by the bank's credit policy, lending criteria, and processes, which determines the bank's appetite for risk and whether it is cautious or aggressive. The approved lending reasons, loan types, and industries to which the bank is willing to lend, as well as the kinds of information the lender is obligated to gather and examine, should be defined in the credit policy and criteria. All bank credit personnel will operate within the framework, requirements, and tolerance limitations established by the policy and standards. As the lender engages in lending operations such as analysis, underwriting, and monitoring, s/he must be aware of the bank's credit risk management system and his/her position in it.

2.1.5 Process of Credit Management

Credit accounts for more than 80% of a financial institution's balance sheet. Banks should use caution when handling credit because of this. Accurately determining the creditworthiness of the customer base and his or her business viability is the first step in the credit management procedure. This is accomplished by thoroughly reviewing loan applications, which is a step in the loan process. This is crucial if the business decides to give select consumers access to a credit line or revolving credit. Therefore, providing clear requirements for a customer to achieve in order to be granted the proposed credit arrangement constitutes appropriate credit management. According to Basu and Rolfes (1995), an effective and efficient credit management procedure is the foundation for a financial institution's performance. Credit management also include figuring out the total credit line that will be offered to a specific consumer as part of the evaluation procedure. In order to assess and qualify a customer for the acceptance of some type of commercial credit, a number of parameters are employed as part of the credit management process. This entails compiling information on the potential client's present financial situation, including the client's recent credit history, which reveals the client's history of upholding obligations, as well as the worth of the collateral. In order to examine the current loan management technique of financial institutions, particularly banks, the author analyzes the various procedures that can be used in each of these domains. Numerous non-performing loans are caused by a poor credit risk management system, according to Nishiru and colleagues (2001).

2.1.5.1 Credit Application

The initial step in the credit management process is the credit application. Regardless of the loan's amount or goal, a loan application is necessary. The applicants should understand the significance of the paper even though the questions may seem straightforward to them. Detail information on the applicant is included in the application documents. Name of the applicant, address, residential address, age, telephone number, marital status, number of dependents, educational background, hometown, business type, location, number of years in business, reasons for the loan, amount needed, repayment period, security pledge (if any), and guarantors are just a few of the details that are included. Financial institutions may pursue legal action against a borrower who defaults based on the terms of this agreement. Given that this is the first step in the credit management process, any mistake made at this stage has a significant negative impact on the entire process. If the information on the loan application form is poorly organized, a defaulter may avoid legal consequences. Therefore, it is necessary to assess the structure of the current loan application forms to ensure that the credit unions are protected. (2011) (Abdou, H. A., &Pointon, J.).

2.1.5.2 Credit Assessment

This process is used to gather the data about potential borrowers and projects so that a risk assessment exercise may be carried out to ascertain the related risk. The financial institutions carefully consider this before making any loans. Additionally, this is done to determine whether the proposed project can actually be carried out. The technical, economic, and financial viability of the project under consideration are also examined with the aid of this. By doing the preceding steps, the risk associated with the loan can be decreased. Credit risk is the simple term for the risk of default brought on by a borrower's inability to repay a loan obtained from a financial institution.

An appropriate evaluation of a customer helps to gauge their financial status and ability to repay a loan when it's due. This entails verifying the legitimacy of the customer's primary and collateral security, both of which will be used as backup in the event that loan repayment proves challenging. This is a key aspect of the credit application process. It is regarded as the lifeblood of a sound credit portfolio. This entails gathering, studying, and processing the data that the applicant submitted on the credit application form. This facilitates the evaluation of applicants' creditworthiness and lessens challenges that may arise between borrowers acting as agents and the financial institution acting as the principal. The loan evaluation procedures are controlled by the lending institution's loan management policies and guidelines. Whether or not the borrowers have the financial means to repay the loan, that is, to repay the credit when due with the proper interest rate, must be determined before anything else. The criteria used to evaluate a borrower should be based on the basic lending principles used by financial institutions, known as the 5 Cs, or Character, Capacity, Capital, Collateral, and Conditions (Matovu and Okumu, 1996). These principles are used to assess a borrower's creditworthiness. Another time, mnemonics like CCCPPARTS (Character, Capital, Capability, Purpose, Person, Amount, Repayment, Terms, and Security), PARSER (Person, Amount, Repayment, Security, Expediency, Remuneration), and CAMPARI (Character, Ability, Margin, Purpose, Amount, Repayment, Insurance/Security) were used to review loan applications.

The difference in the mnemonics is related to the underlying idea of assessing the likelihood of receiving credit repayment. Thus, credit appraisal determines the risks related to lending activities in financial organizations. This suggests that the credit risk will not be discovered if the credit union's credit evaluation is not conducted correctly. The trained personnel of the credit department of the institutions involved in offering credit to their clients often carry it out. To identify the many factors and stages in credit assessment, the method utilized in the current case's credit risk assessment and appraisal has been investigated. Appraisal and disbursement processes are present in the financial institution. It aims to ensure that lenders take steps that simplify payments or lessen the likelihood of repayment issues. This knowledge of the borrower's riskiness prompts the financial institution to take corrective 14 measures, such as requesting collateral, shortening the repayment period, charging higher interest rates, and accepting different forms of payment (Stiglitz and Karla, 1990).A financial institution's performance is significantly impacted when it executes it poorly. Edminster (1980) emphasized the value of credit analysis when he noted that when it was abandoned, various institutions would frequently handle credit cards instead. Hunte (1996) added the length of time needed to process loan applications, credit history, and a portion of collateral security to the loan granted to the variables we already had. It was determined that the prolonged wait time was due to a lack of reliable credit information needed to make informed credit judgments and the availability of money for further lending. As a result, there is a higher risk, stricter credit rationing, and lower payback rates. Hunte (1996) came to the conclusion that consumers who had previously taken out loans shown a greater ability to manage their debts, making them more reliable customers for the financial institution. Unexperienced borrowers are less capable of managing a business loan and are hence less creditworthy (Devaney, 1984; Robinson, 1962; Hunte, 1996). This demonstrates that first-time borrowers carry significant risks because the loan officer has limited knowledge of their credit histories and their capacity to repay the loan when due. A financial institution's performance is significantly impacted when it executes it poorly. DeYoung, R., Gron, A., Torna, & Winton (2015) emphasized the significance of credit analysis when they noted that its abandonment frequently led to multiple Banks processing utilizing credit cards. According to Hunte (1996), the factors we have include the time it takes to process loan applications, credit history, and a portion of collateral protection for loans that have been granted. It was determined that the protracted waiting period was due to both a lack of the trustworthy credit information needed to make wise credit decisions and the availability of cash for additional lending. As a result, there is a higher risk, stricter credit rationing, and lower payback rates.

2.1.5.3 Credit Disbursement

Once a candidate has undergone a thorough evaluation and it has been determined that they meet the criteria for credit. The loan application form is signed by the credit officer and the credit committee to show that they have approved it. This permits the Bank to pay the applicant with funds. Credit disbursement is the act of giving or paying money to clients who have applied for and been granted credit. Disbursement ensures that funds are made accessible to the client after all assessments have been completed and approval has been given (Duga, H., 2021).

The evaluation procedure ensures that the security and other necessary documents are confirmed before money are dispersed to the qualifying consumer. The effectiveness of the loan management process will suffer if the loan pay-out control is poor, and the organization's dishonest employees will undermine and abuse it. (Duga, H., 2021).

This is significant because it ensures that the financial institution is appropriately protected and has legal support to ensure that the loan will be recovered in the event that the consumer refuses to pay. By reducing their allowance for bad loans, this will assist financial institutions in improving their financial situation. The credit application is approved for disbursement to the applicant once it has been determined that it meets with all of the Bank's credit requirements. This analysis is rigorous and comprehensive. Financial institutions have unique loan disbursement procedures that set them apart from other financial organizations. For project-type loans, the credit disbursement may be made entirely at once by crediting the loan amount to the customer's account or in stages. (K. Hassan, 2002)

2.1.5.4 Credit Monitoring

Credit monitoring is a crucial component of the loan process. Financial organizations have a big obligation to keep their assets in good condition and pay out any owed interest and principal on schedule. Even though sufficient safety measures are performed during loan assessment and approval, a financial institution needs to be more watchful. A financial institution may not be able to take the necessary corrective actions to stop and reduce bad debt in the institution if early warning signals are not recognized. A financial institution must set up a very reliable and efficient credit monitoring system to keep an eye on the borrower's account from a variety of viewpoints in order to take quick action. According to Robinson (1962) and Anjichi (1994), a competent credit monitoring and follow-up process can alleviate a lot of the pain, annoyances, and suffering financial institutions experience. A good loan can be kept up with careful management. It can involve going to the debtors' places of business to assess the overall situation. Poor upkeep is frequently a precursor to financial difficulty. Both the loan monitoring methods and the financial institution's own lending policies are subject to change. Additionally, monitoring deposit trends and balances can provide insight into the client's current situation. In order to guarantee the success of the project from which payback will be made, it is crucial to monitor loan facilities provided to consumers. Huppi and Feder (1990) found that effective monitoring increases loan recovery by alerting borrowers to potential threats (such as loan diversions) and reminding them of their 16 obligations to the lending institution. This calls for increased efforts to be made to ensure loan repayments. When there are indications of missed payments for interest and principal, monitoring of credit facilities has historically focused on assuring payback.

2.1.5.5 Credit Recovery (work out process)

Unquestionably, any loan organization will encounter clients who will fall behind on payments or refuse to accept anything at all. Financial institutions account for subpar and speculative debt to cover such occurrences because of this. It would be reasonable to view the loan as a recovery concern if the lender made every effort to negotiate a cordial repayment deal but was recalcitrant. This is particularly clear in financial institutions, especially when those organizations offer continuing services rather than one-time services. Loan recovery is the process of recovering money from a client who has defaulted on a loan. Loan recovery, put simply, is the repayment of the principle loan amount plus interest.Loans that are at risk of not being repaid (also known as NPL or non-performing loans) must be disclosed to financial institutions.The Bank's collections division will start contacting each loan defaulter when the likelihood of non-repayment has decreased to a manageable level. Credit assessments are typically based on the subjective assessment or judgmental assessment technique of the loan officer. Default risk analysis is simply credit analysis. The ability and willingness of a borrower to repay is assessed by a loan officer (Odonkor, A. A., 2018).

2.1.6 Credit Analysis and Appraisal

According to Golin, J., and Delhaise, P. (2013), credit analysis entails determining a borrower's capacity to repay a loan in a timely manner. This is done to make sure that only creditworthy borrowers receive loans that can be repaid on time. The type and size of the loan heavily influence the type and breadth of analysis needed, but the overarching goal is to place good loans so that everyone wins and achieves their objectives. The most popular method for reducing a loan request's credit risk is credit analysis. The first phase in the credit management process is credit analysis.

The five C's of credit are frequently used by credit analysts at banks to narrow their emphasis on the most important aspects of an applicant's credit worthiness. Five C's of credit were identified by Disemadi, H. S. (2019). Character, capacity, capital, condition, and collateral are some of them.

Character According to Gatimu, E. M. (2014), it is the extent of the borrower's capacity to repay the loan. If the borrower is unable to repay the loan, the future debt payback is useless. Character is how the borrower presents themselves in terms of accomplishing a certain objective and adopting a responsible approach to using the borrowed money. A person's responsibility, truthfulness, seriousness of intent, and intention to repay are all crucial components of character assessment.

Capacity It displays the borrower's ability to repay the debt. Earnings are a reliable measure of one's ability to repay loans. For a poor farmer, for instance, the ability can be assessed by looking at the potential discretionary income. That is the amount of money left over after covering necessities like food and clothing. Given that it has a significant impact on discretionary money, the average family size should be taken into account. A family of three can have more discretionary income than a family of six because the overall income, which appears to be constant, is shared by a large number as the family size increases. The borrower's current debt load is another element that may determine the borrower's capacity (Pulley, R.V., 1989).

Capital The motivation underlying an ownership stake determines the business's success. Banks must make sure that the venture's owners bear a fair share of the risk; as a result, the quantity of capital must be assessed to make sure that the party with an ownership interest bears this risk. The customer's net worth, home equity, and other assets should be taken into account in this situation (Bodenhorn, H. 2002).

Condition Bodenhorn, H. (2002) asserts that environmental factors have an impact on borrowers. Lack of rain, for instance, is one aspect of climate change that affects the agricultural industry. Farmers are significantly impacted by drought, hail, and irregular rainfall. Such risk in terms of successful crops, animal sales, etc. is directly related to a farmer's capacity to repay their obligations. The market for the commodity is another element that affects farmers' capacity to pay back their debts. For instance, if other regions of the nation are productive, the price of agricultural products would fall, which will negatively impact the farmer's cash flow. All circumstances that may have an impact on the borrower in the future should be considered before the loan is approved. If such things are not taken into account, especially if the loan portfolio is concentrated in a few areas, bankruptcy may result.

Collateral is the property that serves as insurance against potential loan default. Anything valuable and easily marketable is acceptable. The five Cs of bad debt, as defined by Golden and Walker (1993), are items to watch out for in order to assist avert issues. Complacency, Carelessness, Broken Communication, Contingency, and Competition are a few of them.

When a bank's credit objectives and procedures are unclear, loan issues can result. This is a breakdown in communication. Loan policies should be clearly stated and upheld by management, and loan officers should immediately notify management of any difficulties with current loans. A contingency is when a lender has a propensity to minimize or disregard potential default scenarios. Instead of upholding the Bank's own

Competition credit rules, it includes imitating competitors' actions. Various lending tools and procedures are used by the bank while conducting credit analysis (Alemarga, E., Tekalign, H., &Abera, 2014).

Credit/Concentration/ limit: - Credit limitations are one of the tools that financial organizations employ to control their lending portfolio. One of the most popular strategies used by financial organizations to manage their credit procedures and lower lending risks is setting credit limits. The need of using the credit limit method to prevent any credit risk that could endanger the institution's financial situation is demonstrated by Moges, M. (2016).

Affordability: -Due to heightened regulatory scrutiny and rising interest rates, lenders need to reevaluate their affordability standards in advance of changes. All lending institutions should thoroughly evaluate consumers' appropriateness and affordability if they wish to grow credit while lowering risk. Some consumers are faced with insufficient disposable incomes as lending organizations attempt to balance growth with risk; the current state of affairs has forced lending institutions to use a better credit process. When the economy isn't getting better, failing to create an effective credit management procedure could put strain on customers and lenders. The ability of a consumer to pay for current and future loans, both new and ongoing, is determined by their affordability. According to Lin, C., Ma, Y., Malatesta, &Xuan (2011), when determining a borrower's affordability, it is their lack of cash flow, not their assets, that leads to loan default in institutions.

Risk assessment model: -The Risk Assessment Model is internal rating software designed to help a bank or financial institution evaluate a borrower for credit. This complies with the Basel II Accord's need for internal rating-based processes.

Credit scoring/credit risk grading: -This mathematical approach is used to predict the likelihood that a loan would go into default, become overdue, or be in arrears (Loretta 1997). This approach is widely recognized as the most effective way to evaluate a customer's creditworthiness.

Arrears intervention: -Lending institutions use the legal term "arrears" to refer to the amount of a loan that has not been repaid, that is past due, or that has been missed in accordance with the agreed-upon loan terms. According to Finlay Seudib, E. N., Dassah, F. T., and Adjei (2008), pressure should be used to loan defaulters in the early stages of the default in order to remind them of their commitments to the institution. In agreement with Finlay's claim, Swanton, T. B., Gainsbury, S. M., and Blaszczynski (2019) compel financial organizations to incorporate effective communication processes while collecting past-due debt from clients.

2.1.7 Non-Performing Loan

Banks' main source of revenue comes from loans and advances. A bank aims to maximize its profit much like any other commercial entity. A bank will lend as much of its capital as it can because loans and advances are the most profitable assets. However, banks must exercise caution regarding the security of such advances (Radha.M, et al, 1980). Bankers naturally attempt to strike a balance between the issues of maximizing profit through lending and managing risk of loan default since it would affect profit and subsequently the very capital. Therefore, a bank must exercise caution when making loan advances because there is a higher risk that could result from a loan default. Non-performing loans are described as "loans or advances whose credit quality has deteriorated such that full collection of principal and/or interest in accordance with the contractual repayment terms of the loan or advances in question" (NBE, 2008) under the Ethiopian banking business directive. Furthermore, it states that:

... Loans or advances with pre-established repayment schemes are nonperforming when principal and/or interest are due and unpaid for 90 (ninety) consecutive days or more past the planned payment date or maturity (NBE, 2008). In addition to the 20 categories of non-performing loans listed above, overdrafts and loans or advances without a predetermined repayment plan are also considered non-performing when:

The debt exceeds the borrower's approved limit for 90 (ninety) consecutive days or more. Interest is due and unpaid for 90 (ninety) consecutive days or more. For overdrafts, either

1. The account has been inactive for 90 (ninety) consecutive days or

2. Deposits are insufficient to cover the interest capitalized during 90 (ninety) consecutive days.

2.1.8. Factors Influencing Effectiveness of Credit Risk Management practices

The majority of assets in most banks' portfolios are loans, which are extremely illiquid and have the biggest credit risk (Koch and MacDonald, 2000). According to the notion of asymmetric information, it may be impossible to discern between good and bad borrowers, which could lead to issues with moral hazard and adverse selection. In banks, there has been a significant buildup of non-performing accounts as a result of moral hazard and adverse selection (Bester, 2001).

2.1.8.1 Credit Risk Management Process

Basel (2004) asserts that the process of risk identification, measurement, evaluation, monitoring, and control is followed in the banking industry while managing credit risk. It entails the identification of potential risk factors, the estimation of their impacts, the observation of activities exposed to the identified risk factors, and the implementation of control measures to avoid or lessen the negative outcomes. Within the strategic and operational framework of banks, this procedure is used.

2.1.8.2 Risk – Adjusted Performance Measures

It has been suggested to use a variety of risk-adjusted performance measures (Heffernan, 2002). The measures, however, put a greater emphasis on the risk-return trade-off. These include assessing the level of risk that each activity or product entails and charging it appropriately for the capital needed to support it. The problem of recouping the loanable sum is not resolved by this. A successful system that guarantees borrower repayment of loans is essential for addressing asymmetric information issues, lowering the number of loan losses, and ensuring the long-term survival of any financial organization (Basel, 2004).

2.1.8.3 Credit Risk Management Practices

Establishing a suitable credit risk environment, working under a reliable credit granting procedure, and maintaining a suitable credit administration that includes a monitoring mechanism and adequate controls over credit risk are all necessary for effective credit management (Basel, 2004). It is up to top management to make sure that there are appropriate and understandable guidelines for managing credit risk, that is, that all guidelines are effectively conveyed throughout the firm. The policy and strategies (guidelines) that clearly define the scope and allocation of a bank credit facility and the way a credit portfolio is managed, that is, how loans are originated, appraised, supervised, and collected, form the basis of a sound credit risk management system (Basel, 2004; Price Waterhouse, 2001). The practice of screening potential customers has been strongly advocated, among others (Derban, Binner, and Mullineux, 2005). In the financial industry, the recommendation has been frequently applied to credit evaluation. According to the asymmetric information theory, gathering trustworthy information from potential borrowers is essential for carrying out a thorough screening.

2.1.8.4 Assessment of Borrowers

Both qualitative and quantitative methods can be used to evaluate potential borrowers. The subjectivity of qualitative models is a significant barrier to their use (Bryant, 2001). However, numbers can be assigned to borrower traits evaluated by qualitative models, and the sum of the values can be compared to a threshold. "Credit scoring" is the name given to this method. In addition to reducing processing costs, the technique also lessens subjective evaluations and potential biases (Bluhm, Overbeck, and Wagner, 2003). If the rating systems are useful, they should indicate changes in the anticipated degree of loan loss. Chijoriga (2000) came to the conclusion that quantitative models allow for a variety of tasks, including numerically determining which factors are significant in explaining default risk, evaluating the relative degree of significance of the factors, improving the pricing of default risk, being better able to screen out unsuitable loan applicants, and being in a better position to determine any reserve needed to cover expected future loan losses.

2.1.8.5 Clearly Established Credit Approval Process

When controlling credit risk, it has been shown that having a well-defined process for authorizing new loans and extending current ones is crucial (Heffernan, 2002). Monitoring of borrowers is also crucial for addressing the moral hazard issue because actual and potential exposures change over time and in response to changes in the underlying factors (Derban et al., 2005).

Among other things, monitoring entails keeping in touch with borrowers frequently, fostering an environment where the bank can be seen as a trusted adviser and problem-solver, cultivating a culture of support for borrowers whenever they are identified as having problems and are working to resolve them, keeping track of the flow of borrowers' business through the bank's account, routinely reviewing borrowers' reports as well as an on-site visit, and updating borrowers.

2.2. Empirical evidence of the study

Numerous studies on various facets/problems of credit risk have been conducted to far. For instance, Afande (2014) examined the practice of credit risk management in Kenyan commercial banks. The study found that commercial banks in Kenya use a variety of credit risk management techniques, including credit rationing, loan securitization, loan syndication, demanding collateral in addition to other strategies, and thorough loan appraisal.

The following results were collected from a study by Kessey (2015) that looked at credit risk management techniques in Ghana's banking sector: processes and issues. The bank has defined policy guidelines on credit risk management, and a senior manager is in charge of overseeing their execution, according to some of the study's significant findings.

But the analysis revealed that there were several implementation issues with the credit risk policies, which led to the bank's loan portfolio's poor quality. It is also advised that the bank's risk management procedures be evaluated often.

Another study by Chen and Shuping (2012) on the small and medium enterprise (SME) credit management of commercial banks in Lianyungang City similarly produced its own conclusions. Investigators have discovered that the risk management strategy and operational approach that are best suited to meet the credit needs of SMEs are still in their infancy. As a result, Lianyungang Commercial Bank had an excessive amount of bad debts and dead loans, which had a significant negative impact on the capital operations of commercial banks and the local economy. As a result, commercial banks in Lianyungang City are required to oversee and manage the entire small- and medium-sized firm lending process.

Abdus (2004) conducted an empirical analysis of Bahrain's commercial banks' credit (loan), liquidity, and profitability performance from 1994 to 2001. For measuring credit, liquidity, and profitability performances, nine financial ratios (return on asset, return on equity, cost to revenue, net loans to total asset, net loans to deposit, liquid asset to deposit, equity to asset, equity to loan, and non-performing loans to gross loan) were used. By using these financial metrics, the study discovered that the liquidity performance of commercial banks did not match that of the Bahraini banking sector. In comparison to the banking business, commercial banks are relatively less profitable, less liquid, and riskier. The findings of this article regarding asset quality or credit performance were not conclusive.

Hagos (2010) looked at Wegagen Banks' credit management. The primary goal of the study was to assess the effectiveness of Wegagen Bank's credit management in the Tigray Region in contrast to National Bank's requirements in comparison to its credit policy and procedures. The investigation's findings included the following: the problems preventing loan growth and rising loan clients' complaints on the bank about the valuation of properties offered as collateral, lengthy loan processing, amount of loans processed and approved, loan period, and discretionary limits affecting credit management performance.

According to the available literature, numerous research about credit risk management on commercial banks overseas and in Ethiopia have been conducted. However, there has been a growth in loan requests from investors to commercial banks in the country as a result of diverse and intensified investments made in the nation during the past 10 years or more. Additionally, due to the increasing demand for loans, commercial banks are very busy opening branches all throughout the nation.

These circumstances have produced a setting where commercial banks are exposed to credit management risks. Sahlemichael (2009) explored the recently emerging issues in credit risk management process that commercial banks in Ethiopia experience. Loans are growing in size while at the same time; bad loans have increased significantly over the past few years.

2.3 Conceptual Framework

A conceptual framework is an analytical tool that can be used in a variety of situations. It is employed to classify concepts and arrange ideas. It is crucial for arranging tools used in empirical research. According to Miles and Huberman (1994), a conceptual framework outlines the major topic to be examined, the factors, constructs, or variables, and the presumptive relationships among them in either visual or narrative style (both highly desired) (P. 18). The creation of conceptual framework serves the only objective of giving research findings meaningful context. Credit management is the focus of the investigation.

The study's objective is to evaluate Dashen Bank's credit risk management procedures. The goals of the study include evaluating the degree to which the bank's credit risk management practices are in line with its credit risk management policies and procedures, identifying bank-specific factors that affect these practices, and examining the mechanisms the bank employs to manage credit risk. The main focus area and study scope are therefore summarized in the conceptual framework that follows.

Figure 2.1 Conceptual framework of the study

Source: Researcher own construction

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

Introduction

The study's research technique is covered in this chapter. The discussion covers research approach and design, data sources, sample size and sampling methods, data gathering tools, ethical issues, and data analysis methodologies.

3.1 Research Design and Approach

In order to collect quantitative data, the study used a quantitative strategy that included a descriptive and cross-sectional research design. In order to identify and be able to characterize the features of the variables of interest in a situation, descriptive research is carried out. Conditions or relationships that exist; prevalent behaviors; held ideas, points of view, or attitudes; ongoing processes; impacts that are being felt; or emerging trends are all topics of descriptive research. Analysis of the situation as it stood at the time of the study is the primary goal of descriptive research (Bramble, 1997). Descriptive research will assist in analyzing the current credit risk management policy and practice of Dashen Bank by using the credit risk management guidelines of the Ethiopian National Bank as a benchmark.

3.2. Population, Sample Size and Sampling Technique

3.2.1 Population

The complete group of individuals, occasions, or interesting objects that the researcher seeks to study is referred to as the population. The study's population consists of head office employees who work as credit and risk directors, business segment directors, credit analysts, relationship managers, credit portfolio follow-up managers, and estimation officers. There are 62 personnel in the head office, including 1 director of credit analysis, 1 director of risk and compliance, 4 risk and compliance officers, 4 segment directors, 32 relationship managers, 2 managers of credit portfolio management & follow up, 10 credit analysts, and 8 estimation officers.

3.2.2 Sample size

The researcher utilized one of the various methods for calculating sample size, one created by Carvalh (1984), to decide how many respondents to include in the study. In light of the manageable population, a large sample size was chosen in the study.

Table 3.1 Carvalh sample size determination

Population	Low	Medium	High
51-90	7	16	28
91-150	12	28	32
151-280	16	32	50
281-500	28	50	80
501-1200	32	80	125
1201-3200	50	125	200
3201-10000	80	200	315
10001-35000	125	315	500
35001-45000	200	500	800

Source: Carvalh 1984

As seen in the table, the study's total population of 62 falls within the range of 51 and 90, making 28 the larger sample size. "Descriptive research typically uses larger samples," according to Singh (2006, p. 6); "it is sometimes recommended that one should select 10-20% of the accessible population for the sample." As a result, this study chose 28 participants from a total of 62, using more than the limit, or 45.16% of the population.

3.2.3 Sampling technique

By employing a simple random selection procedure, questionnaires were distributed to the entire group in order to offer every employee an equal chance.

3.3 Method of Data Collection, Sources and Research Instruments

It is essential to collect data only from workers in order to acquire their direct opinions on the bank's credit and risk management practices. Consequently, the personnel chosen for this group have been the primary source of primary data.

Demographic information, including gender, age, service year, educational background, and the like, was thus directly gathered from employees via a questionnaire. Additionally, questions about the research problem were primarily collected using questionnaires.

Data on earlier research projects in the field were examined in the relevant literature, namely in books, journals, bulletins, and the bank's credit and risk policy. In particular, information about the Bank's non-performing loans (NPLs) is collected from its annual report.

The researcher distributed questionnaires. Questionnaires were the main research tool used in this study. There are two sections to the questionnaire. The respondents' demographic features were discussed in the first section. The five components that make up this section are gender, age, the number of years of bank employment, the present job, and income ranges.

The research questions were discussed in the second section. On a Likert scale with five points, 24 items were created. Respondents were asked to select how much they agreed or disagreed with a particular statement. 4 "Agree," 3 "I don't know," 2 "Disagree," 5 "Strongly agree," and 1 "Strongly Disagree." There were both categories and subcategories for the things. These are general inquiries on the credit and risk management policies of the bank.

3.6. Data Analysis

Data was gathering using a questionnaire and document analysis based on the study's research topics. After the sample's data is gathered using the designated instrument, analysis was done to find the answers to the study questions? With SPSS software, data analysis was carrying out. As a result, descriptive statistics such as frequency, percentage, and mean was utilized to assess the primary data obtained through questionnaires.

3.5. Ethical Consideration

Participants in the study acquired the respondents' informed permission. Survey responses were used to gather information, which was handled in strict confidence. The responders were requested not to include their names in order to maintain their confidentiality. The Bank's official published and unpublished sources were the primary source of the secondary data used in the study.

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION

Introduction

The data gathered via questionnaire is given and examined in this chapter. By using descriptive statistics to examine the data, the study questions were answered. As methods for data analysis, frequency, percentage, means, and standard deviation were used. 28 Bank workers were given the questionnaire at the Bank's headquarters. One respondent, though, did not send the survey back. As a result, 27 questionnaires—roughly 96.4% of the total given questionnaires—were ultimately used. The sample is well-represented by this response rate.

4.1. Demographic characteristics of the respondents

Demographic questions about the respondents were asked in the questionnaire's first part. Sex, age, marital status, educational attainment and specialization, employment history, and present position within the Bank were all covered. The demographic details of the respondents are displayed in the following tables.

Table 4.1: Summary of respondent’s demographic data

		Frequency	Percent	Cumulative Percent
Gender	Male	16	59.26%	59.26%
	Female	11	40.74%	100.00%
	Total	27	100.00%	
Age in years	20 – 25	1	3.70%	3.70%
	26 – 30	6	22.22%	25.92%
	31 – 35	10	37.04%	62.96%
	36 – 40	9	33.33%	96.30%
	41 – 45	1	3.70%	100.00%
	Total	27	100.00%	

	3 -6yrs	3	11.11%	14.81%
	7 -10yrs	9	33.33%	48.14%
	>10yrs	14	51.86%	100.00%
	Total	27	100.00%	
		Frequency	Percent	Cumulative Percent
Monthly salary	<15,000	0	0%	0%
	15,001 – 20,000	3	11.11%	11.11%
	20,001 – 25,000	4	14.81%	25.92%
	25,001–30,000	2	7.41%	33.33%
	30,001 – 35,000	8	29.63%	62.96%
	>35000	10	37.04%	100%
	Total	27		
Current position	Business segment directors	2	7.41%	7.41%
	Credit analysis& appraisal Director	1	3.70%	11.12%
	Risk & compliance officers	2	7.41%	18.53%
	Relationship Manager	13	48.12%	66.66%
	Credit Portfolio Management And follow up Managers	1	3.70%	70.36%
	Credit Analyst	5	18.52%	88.89%
	Estimation officer	3	37.04%	100.00%
	Total	27	100.00%	
	<1 year	0	0.00%	0.00%
	1 -3yrs	1	3.70%	3.70%

Source: Questionnaire, 2023

Table 4.1 shows that 15 of the 27 respondents (59.26%) are men, and the remaining 11 (40.74%) are women. The sample appears to be reasonably representative, according to these results. In terms of respondents by age group, the group with the most respondents is made up of 10 respondents, of which 10 (37.04%) fall under the age category of 31 to 35, followed by 9 (33.33%) respondents who fall under the category of 36 to 40, 6 (22.22%), respondents who fall under the category of 25 to 30, and 1 (3.70%) respondents who fall under the age categories of 20 to 25 and 41 to 45. According to this, the majority of responses, or 17 (62.96%), are young people with productive ages under 35.

In terms of years spent working for Dashen Bank, 14 respondents (51.86%) have the most experience, followed by 9 respondents (33.33%) with 7 to 10 years of experience, 3 respondents (11.11%) with 3-6 years, and 1 respondent (3.7%) with 1 to 3 years of banking experience. This shows that 23 respondents, or 85.19%, are highly experienced employees with more than 7 years of banking experience. In terms of monthly income, the aforementioned table shows that, in comparison, 10 of the respondents—or 37.04% of the sample—earn more than birr 35,000 per month. The second largest group is made up of 8 study participants who make between Birr 30,001 and 35,000.00 a year, or 29.63% of the sample. This group is followed by 4 participants who make between Birr 20,001 and 25,000, 3 participants who make between Birr 15,001 and 20,000, and the final two participants who make between Birr 25,001 and 30,000. This suggests that nearly every salary group employed by the bank has been taken into account and that it was not difficult for the researcher to generalize his or her findings to all wage groups.

According to the respondents' current positions, relationship managers make up the largest group of respondents (13(48.12%) of the total respondents), followed by credit analysts (5(18.52%), estimation officers (3(11.11%), segment directors (2(7.41%), risk & compliance officers (2(7.41%), and credit analysis director & (1(3.70%).a single (3.70%) Director of Credit Portfolio Management and Follow-Up According to the outcome, the poll covered every post that was open in the credit and risk-related fields.

4.2. Descriptive Analysis

Table 4.2 what credit collection strategies are adopted in the management of credit in Dashenbank?

The bank has credit risk		Frequency	Percent	Cumulative Percent
	Strongly agree	21	77.78%	77.78%

policy, guidelines and procedures that explain objectives and principles of credit risk management process	Agree	5	18.52%	96.30%
	I don't know	1	3.70%	100.00%
	Disagree	0	0.00%	100.00%
	Strongly disagree	0	0.00%	100.00%
	Total	27	100.00%	**Mean=4.74**
				S.D=0.526
Credit risk strategy and policies are effectively communicated throughout the organization		Frequency	Percent	Cumulative Percent
	Strongly agree	12	44.44%	44.44%
	Agree	9	33.33%	77.78%
	I don't know	1	3.70%	81.48%
	Disagree	3	11.11%	92.59%
	Strongly disagree	2	7.41%	100.00%
	Total	27	100.00%	**Mean=3.96**
				S.D=1.285
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		Frequency	Percent	Cumulative Percent
	Strongly agree	8	29.63%	29.63%
	Agree	12	44.44%	74.07%
	I don't know	2	7.41%	81.48%
	Disagree	4	14.81%	96.30%
	Strongly disagree	1	3.70%	100.00%
	Total	27	100.00%	**Mean=3.81**
				S.D=1.145
The credit and risk policies and procedures exactly comply with regulations of national bank		Frequency	Percent	Cumulative Percent
	Strongly agree	9	33.33%	33.33%
	Agree	13	48.15%	81.48%
	I don't know	3	11.11%	92.59%
	Disagree	2	7.41%	100.00%
	Strongly disagree	0	0.00%	100.00%
	Total	27	100.00%	**Mean=4.07**
				S.D=0.874
The practical loan		Frequency	Percent	Cumulative Percent
	Strongly agree	5	18.52%	18.52%

processing and appraisal activities of the department offices comply with the bank credit policy and procedures	Agree	10	37.04%	55.56%
	I don't know	3	11.11%	66.67%
	Disagree	7	25.93%	92.59%
	Strongly disagree	2	7.41%	100.00%
	Total	27	100.00%	**Mean=3.33** **S.D=1.271**

Source: Questionnaire, 2023

The respondents were questioned if the bank has credit risk policy, rules, and procedures that define aims and principles of credit risk management process, as stated on table 4.2, addressing the credit collection tactics used in the management of credit in Dashen bank. In light of this, the majority of respondents—21 (77.78%) strongly agree and 5 (18.52%) agree—state that the bank has credit risk policies, guidelines, and procedures that outline the goals and guiding principles of the credit risk management process. Only 1 (3.70%) of the respondents, however, are unsure whether the bank has credit risk policies, rules, and procedures that outline the goals and guiding principles of the credit risk management process. The result of the total sum and the mean value of 4.74 and standard deviation 0.526 shows that the bank has credit risk policies, guidelines, and processes that clarify the goals and tenets of the process of managing credit risk.

In terms of whether credit risk strategy and policies are effectively communicated throughout the firm, the majority of respondents—12 (44.44%) strongly agree and 9 (33.33%) agree—say that they are. Contrarily, 3 respondents (11.11%) disagree, and 2 respondents (7.41%) strongly disagree, that the organization's strategies and policies are successfully communicated. The final respondent, 1 (3.70%), was not aware of the problem. The overall outcome and the mean score of 3.96 and standard deviation 1.285 show that the organization's credit risk strategy and procedures are effectively conveyed.

The following query concerned whether the Bank had credit-granting strategies that put an emphasis on who, how, and what needed to be done at the branch and corporate division levels while evaluating debtors. In this regard, 12 respondents—44.44% of the total respondents—agree, and 8 respondents—29.63%—strongly agree—that the Bank's credit-granting strategies center on whom, how, and what should be done when evaluating borrowers at the branch and corporate division levels. In contrast, 4 respondents (14.81%) and 1 (3.70%) strongly disagree that the Bank has credit-granting strategies that concentrate on who, how, and what should be done when evaluating debtors at the branch and corporate division levels. The remaining 2 responders (7.41%) are completely unaware of the problem. The whole result shows that the bank has credit-granting strategies that center on who, how, and what should be done when evaluating borrowers at the branch and corporate division levels, as the mean value of 3.81 and standard deviation 1.145 assures.

The majority of respondents, 13 (48.15%), agree that credit and risk policies and processes exactly correspond with national bank rules, and 9 (33.33%) of the respondents strongly agree with this statement. In contrast, 2 (7.41%) of the respondents disagree, stating that the national bank's regulations aren't followed by the policies and processes. The remaining 3 responders (11.11%) are ignorant of the problem. However, the overall outcome and the mean score of 4.07 and standard deviation 0.874 show that the credit and risk policies and procedures precisely adhere to national bank requirements.

The final question in this section asked about the department offices' actual loan processing and appraisal activities in accordance with bank credit policies and procedures. In this regard, 10 out of the 27 respondents (37.04%) and 5 (18.52%) highly agree that the department offices' practical loan processing and appraisal operations adhere to the bank's credit policy and procedures. However, 7 respondents (25.93%) disagree, and 2 respondents (7.41%) strongly disagree, indicating that the department offices' actual loan processing and appraisal operations don't adhere to bank credit policy and procedures. The remaining 3 responders (11.11%) are completely unaware of the problem. The majority of respondents believe that the department offices' actual loan processing and assessment operations comply with the bank credit policy and procedures, as shown by the mean value of 3.33 and standard deviation 1.271 and the total sum of their responses.

Table 4.3 what are the factors that relates to the effectiveness of credit risk management in Dashen Bank?

		Frequency	Percent	Cumulative Percent
Appropriate credit environment is established through policy and strategies that clearly outline the scope and allocation of bank	Strongly agree	8	29.63%	29.63%
	Agree	12	44.44%	74.07%
	I don't know	2	7.41%	81.48%
	Disagree	5	18.52%	100.00%
	Strongly disagree	0	0.00%	100.00%
Credit facilities	Total	27	100.00%	**Mean=3.85** **S.D=1.064**
An appropriate credit		Frequency	Percent	Cumulative Percent
	Strongly agree	8	29.63%	29.63%

administration that involves monitoring process as well as adequate control over credit is maintained	Agree	11	40.74%	70.37%
	I don't know	4	14.81%	85.19%
	Disagree	3	11.11%	96.30%
	Strongly disagree	1	3.70%	100.00%
	Total	27	100.00%	**Mean=3.81**
				S.D=1.111
Top management supports to ensure that there are proper and clear guidelines in managing credit		Frequency	Percent	Cumulative Percent
	Strongly agree	5	18.52%	18.52%
	Agree	3	11.11%	29.63%
	I don't know	4	14.81%	44.44%
	Disagree	9	33.33%	77.78%
	Strongly disagree	6	22.22%	100.00%
	Total	27	100.00%	**Mean=2.70**
				S.D=1.436
Reliable information is collected from prospective borrowers in accomplishing effective screening		Frequency	Percent	Cumulative Percent
	Strongly agree	8	29.63%	29.63%
	Agree	10	37.04%	66.67%
	I don't know	5	18.52%	85.19%
	Disagree	3	11.11%	96.30%
	Strongly disagree	1	3.70%	100.00%
	Total	27	100.00%	**Mean=3.78**
				S.D=1.121
The Bank has high quality staff with required depth of knowledge		Frequency	Percent	Cumulative Percent
	Strongly agree	15	55.56%	55.56%
	Agree	9	33.33%	88.89%
	I don't know	2	7.41%	96.30%
	Disagree	1	3.70%	100.00%
	Strongly disagree	0	0.00%	100.00%
	Total	27	100.00%	**Mean=4.41**
				S.D=0.797
All credit risk		Frequency	Percent	Cumulative Percent
management guidelines	Strongly agree	4	14.81%	14.81%
are properly	Agree	5	18.52%	33.33%

communicated in the organization and everybody involved in credit risk management understands them	I don't know	2	7.41%	40.74%
	Disagree	9	33.33%	74.07%
	Strongly disagree	7	25.93%	100.00%
	Total	27	100.00%	**Mean=2.63**
				S.D=1.445
Supportive technologies and equipment are utilized in credit analysis, monitoring and control to make the task easy and to keep track on trend of credits with in the portfolio		Frequency	Percent	Cumulative Percent
	Strongly agree	9	33.33%	33.33%
	Agree	11	40.74%	74.07%
	I don't know	4	14.81%	88.89%
	Disagree	3	11.11%	100.00%
	Strongly disagree	0	0.00%	100.00%
	Total	27	100.00%	**Mean=3.96**
				S.D=0.980

Source: Questionnaire, 2023

The respondents were questioned regarding the elements that pertain to the efficiency of credit risk management at Dashen Bank, as stated on table 4.3. The initial query was whether policies and strategies that explicitly define the scope and distribution of bank credit facilities produce an appropriate credit environment. In this regard, the majority of respondents, 12 (44.44%), agree, and 8 (29.63%) strongly agree, that policies and initiatives that clearly define the scope and distribution of bank lending facilities help create a favorable credit climate. Contrarily, 5 respondents (18.52%) argue that policies and strategies that explicitly define the scope and distribution of bank lending facilities have not helped to develop a sound credit environment. The remaining 2 respondents, or 7.41%, are unsure of how established the credit climate is. The overall outcome and mean score of 3.85 and standard deviation 1.064 demonstrate that the credit environment is firmly in place thanks to strategies and policies that specify the range and distribution of bank lending facilities.

The maintenance of suitable credit administration, which includes monitoring procedures and sufficient control over credit, was the topic of the following query. Most of the 11 (40.74%) of the respondents concur, with 8 (29.63%) of them strongly concurring, that appropriate credit administration entails a monitoring mechanism as well as adequate credit control. However, 3 (11.11%) of the respondents disagree, and 1 (3.70%) strongly disagree, that maintaining a proper credit administration system—one that includes a monitoring procedure and adequate control over credit—is a terrible practice. The remaining 4 respondents (14.81%) are unsure whether the upkeep of credit administration is good or not. The total sum result and mean value of 3.81 and standard deviation 1.111 demonstrate proper credit administration, which includes a monitoring procedure and adequate credit control.

The second query concerned the senior management's commitment to establishing appropriate and unambiguous rules for credit management. Therefore, 6 out of 27 respondents (22.22%) strongly disagree and 9 out of 27 respondents (33.33%) believe that top management support is insufficient to ensure that there are appropriate and clear instructions in credit management. On the other hand, a substantial percentage of respondents—5 (18.52%) strongly agree and 3 (11.11%) agree—believe that there should be proper and unambiguous rules for managing credit. The remaining 4 responders (14.81%) are not aware of the problem. The overall results of the respondents show that, as the mean value of 2.70 and standard deviation1.436 also demonstrates, the top management's assistance is insufficient to ensure the establishment of suitable and clear standards for managing credit.

The majority of lenders are concerned with gathering trustworthy data from potential borrowers in order to complete efficient screening. Ten respondents (37.04%) agree, and eight (29.53) strongly agree, that trustworthy information is gathered from potential borrowers in order to carry out efficient screening. However, 3 respondents (11.11%) and 1 (3.70%) strongly disagree that prospective borrowers' information is not gathered for effective screening. The remaining 5 respondents (18.52%) are unsure of whether or not information is gathered from borrowers for efficient screening purposes. The overall outcome and 3.78 mean value and standard deviation 1.436 show that accurate data is gathered from potential borrowers in order to complete effective screening.

15 respondents, or 55.56% of the total, strongly agree that the Bank has high-quality employees with the necessary depth of knowledge, and 9 respondents, or 33.33 percent, also agree with this statement. Contrarily, 1 respondent (3.70%) disagrees that high-caliber personnel with the necessary depth of knowledge are not properly incorporated in the department. The remaining 2 respondents, or 7.41%, are not aware of the problem. The whole result shows that the Bank has highly qualified employees who possess the necessary depth of knowledge, as indicated by the mean value of 4.41 and standard deviation 1.121.

The final question was whether or not all credit risk management policies were effectively communicated inside the organization and were understood by everyone involved in credit risk management. As a result, the majority of respondents, 9 (33.33%), disagree, and 7 (25.93%) strongly disagree, that the organization's credit risk management staff are the only ones who are aware of the standards and that they are not well communicated. However, 5 respondents (18.52%) agree, and 4 respondents (14.81%) strongly agree, that the organization's guidelines are well conveyed and everyone is aware of them. Only 2 responders (7.41%) are unaware of the problem. The overall result and mean value of 2.63 and standard deviation 0.797 indicate that there is a problem with effectively distributing policies throughout the firm and ensuring that everyone involved in credit risk management is aware of them.

In order to make the process simple and maintain track of the trends of the portfolio's credits, the final question in the section asked whether supportive technologies and equipment are used in credit analysis, monitoring, and control. Therefore, supported technologies and equipment are used in credit analysis, monitoring, and control to make the process simple and to keep track of the trend of credits within the portfolio, according to 11 (40.74%) of respondents who agree, and 9 (33.33%) who strongly agree. In contrast, 3 respondents (11.11%) disagree, while the remaining 4 respondents (14.81%) are ignorant of the problem. The median value of 3.96 and standard deviation 0.980 shows that credit analysis, monitoring, and control use supportive technology and equipment to make the process simple and keep tabs on the portfolio's credit trends. Supportive tools and technologies like updated software and finished databases are helpful in credit research, monitoring, and control since they make it simple to track the trends of the portfolio's credits.

Table 4.4 how was the credit procedure of the Bank helping in reducing the NPL status loans?

		Frequency	Percent	Cumulative Percent
The NPL percentage of the bank's credit is increasing time to Time.	Strongly agree	15	55.56%	55.56%
	Agree	9	33.33%	88.89%
	I don't know	2	7.41%	96.30%
	Disagree	1	3.70%	100.00%
	Strongly disagree	0	0.00%	100.00%
	Total	27	100.00%	**Mean= 4.41** **S.D=0.797**
Lack of continuous follow up and proper risk assessment is the		Frequency	Percent	Cumulative Percent
	Strongly agree	8	29.63%	29.63%
	Agree	11	40.74%	70.37%
	I don't know	3	11.11%	81.48%

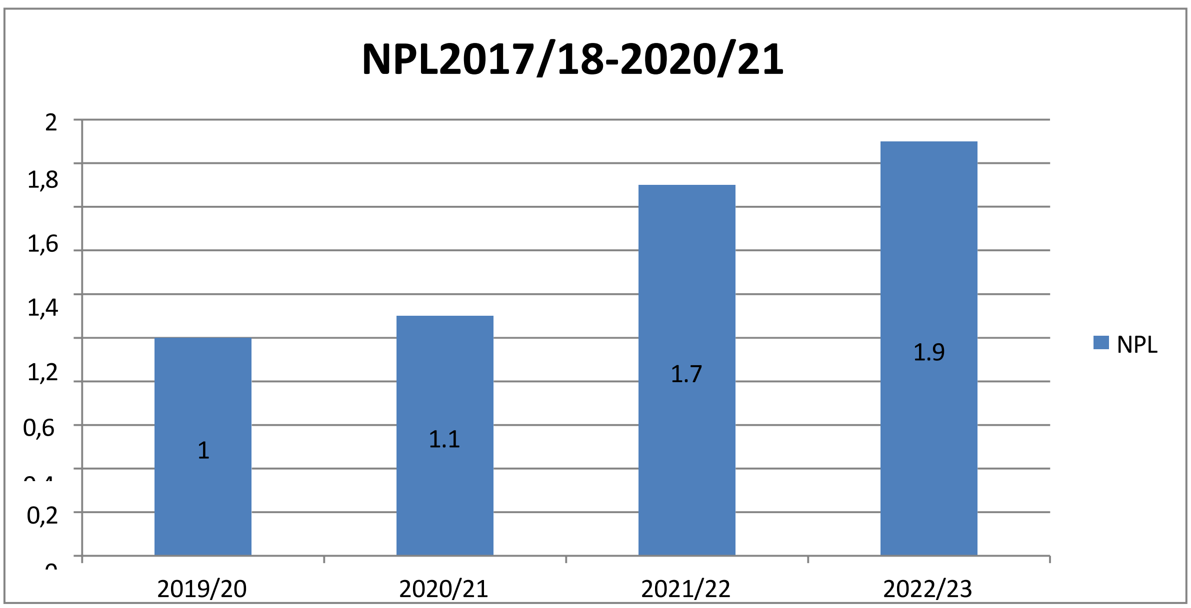
main cause of NPL %age increment	Disagree	4	14.81%	96.30%
	Strongly disagree	1	3.70%	100.00%
	Total	27	100.00%	**Mean= 3.78**
				S.D=1.155
Mistake on estimation of collateral and evaluating the borrower's financial report is another cause of NPL %age increment		Frequency	Percent	Cumulative Percent
	Strongly agree	3	11.11%	11.11%
	Agree	4	14.81%	25.93%
	I don't know	6	22.22%	48.15%
	Disagree	9	33.33%	81.48%
	Strongly disagree	5	18.52%	100.00%
	Total	27	100.00%	**Mean= 2.67**
				S.D=1.271
Current political Is the main factors for NPL increment		Frequency	Percent	Cumulative Percent
	Strongly agree	15	55.56%	55.56%
	Agree	8	29.63%	85.19%
	I don't know	0	0.00%	85.19%
	Disagree	1	3.70%	88.89%
	Strongly disagree	3	11.11%	100.00%
	Total	27	100.00%	**Mean= 4.15**
				S.D=1.322
The bank's procedure was effective in reducing the NPL status		Frequency	Percent	Cumulative Percent
	Strongly agree	5	18.52%	18.52%
	Agree	1	3.70%	22.22%
	I don't know	4	14.81%	37.04%
	Disagree	10	37.04%	74.07%
	Strongly disagree	7	25.93%	100.00%
	Total	27	100.00%	**Mean= 2.52**
				S.D=1.424
Reviewing and amendment of the bank's procedure is not necessary for NPL		Frequency	Percent	Cumulative Percent
	Strongly agree	2	7.41%	7.41%
	Agree	4	14.81%	22.22%
	I don't know	1	3.70%	25.93%
	Disagree	13	48.15%	74.07%

related issues	Strongly disagree	7	25.93%	100.00%
	Total	27	100.00%	**Mean= 2.30**
				S.D=1.235

Source: Questionnaire, 2023

The first question posed to the respondents was if the percentage of non-performing loans (NPLs) in the bank's credit was steadily rising, as shown in table 4.4. In this regard, the majority of respondents—15 (55.56%) and 9 (33.33%)—strongly concur that the NPL proportion of bank credit is steadily rising. Regarding the NPL rise, only one responder (3.70%) is in disagreement. The final 2 (7.41%) responders are in the dark about the subject. The overall result and the mean value of 4.41 and standard deviation 0.797 demonstrate that the bank's credit NPL percentage is steadily rising.

Additionally, according to the bank's annual reports (fcy 2019/20 to 2022/23), the ratio of non-performing loans (NPLs) has been rising, as depicted in the chart below.



Source: Dashen bank annual report 2019/20 to 2022/23

The next query concerned whether or not the absence of consistent follow-up and accurate risk assessment was the primary reason for the increase in NPL% age. Accordingly, the majority of respondents, 11 (40.74%), agree, and 8 (29.63%) strongly agree, that a lack of effective risk assessment and consistent follow-up is the primary reason for the increase in the NPL percentage. However, 4 (14.81%) of the respondents disagree, and 1 (3.70%) strongly disagree, that the lack of effective risk assessment and ongoing follow-up is the primary factor in the increase in NPL percentage. The remaining 3 respondents (11.11%) were asked whether improper risk assessment and lack of ongoing follow-up were the primary causes of the increase in NPL percentage. The overall result and 3.78 mean value and standard deviation 1.155 show that improper risk assessment and ongoing follow-up are the primary factors contributing to the increase in NPL% age.

The other concern is whether an error in estimating the value of the collateral or in assessing the borrower's financial report contributed to the increase in NPL% age. As a result, 9 (33.33%) of the respondents disagree, and 5 (18.52%) of the respondents strongly disagree, that incorrect collateral estimation and financial report evaluation are not further causes of the NPL% age rise.4 responses (14.81%), however, concur. 3 (11.11%) respondents firmly concur that incorrect collateral estimation and evaluation are other causes of the NPL %age rise. financial statement of the borrower. The remaining 6 (22.22%) respondents are unsure if the problem is another factor contributing to the increase in NPL% age. The overall result demonstrates that 51.85% of the respondents, as shown by the 2.67 mean and standard deviation1.271, do not disagree that errors in estimating collateral and evaluating the borrower's financial report are not to blame for the increase in NPL% age.

The other question was if the main causes of the increase in NPL were current political events. In this regard, 8 out of 27 respondents (or 29.63%) and 15 out of 27 respondents (or 55.56% of the total) strongly concur that the current political climate is the main causes of NPL growth. On the other hand, 3 (11.11%) of the respondents strongly disagree, and 1 (3.7%) disagrees, that the current political climate is the main causes of the NPL rise. However, the majority of respondents (85.19%) concur that the current political climate is the main causes of the NPL increase. The concept is also supported by the mean value of 4.15 and standard deviation1.322.

The plurality of respondents, 10 (37.04%), disagree that the bank's approach was effective in reducing the NPL status, and seven respondents (25.93%) strongly disagree. On the other hand, 1 respondent (3.70%) and 5 respondents (18.52%) strongly believe that the bank's process was successful in lowering the NPL status. The remaining 4 responders (14.81%) are unsure of the situation. The combined response from the respondents shows that the bank's method did not successfully lower the NPL status. The 2.52 mean and standard deviation 1.424 a result further suggests that the bank's method of lowering the NPL status was ineffective.

The final query in this part concerned whether or not the bank's procedure needed to be reviewed and altered in light of NPL-related concerns. As a result, 13 respondents (48.15%) disagree, and 7 respondents (25.93%) strongly disagree, indicating that the bank's procedure needs to be reviewed and modified for NPL-related issues. However, 2 (7.41%) strongly agree and 4 (14.81%) respondents believe that the procedure does not need to be changed for NPL-related issues. The total result and mean value of 2.30 and standard deviation1.235 indicate that the bank’s procedure needs to be reviewed and modified for NPL-related issues.

Table 4.5 what kind of mechanisms used by the bank for credit risk measuring and monitoring?

		Frequency	Percent	Cumulative Percent
The bank frequently contact with borrowers	Strongly agree	8	29.63%	29.63%
	Agree	10	37.04%	66.67%
	I don't know	3	11.11%	77.78%
	Disagree	5	18.52%	96.30%
	Strongly disagree	1	3.70%	100.00%
	Total	27	100.00%	**Mean=3.70** **S.D =1.203**
The bank creates an environment that it can be seen as a solver of problems and trusted advisor		Frequency	Percent	Cumulative Percent
	Strongly agree	8	29.63%	29.63%
	Agree	11	40.74%	70.37%
	I don't know	3	11.11%	81.48%
	Disagree	4	14.81%	96.30%
	Strongly disagree	1	3.70%	100.00%
	Total	27	100.00%	**Mean=3.78** **S.D=1.155**
The bank monitors the flow of borrower’s business through the		Frequency	Percent	Cumulative Percent
	Strongly agree	7	25.93%	25.93%
	Agree	9	33.33%	59.26%
	I don't know	3	11.11%	70.37%
	Disagree	5	18.52%	88.89%

bank's account	Strongly disagree	3	11.11%	100.00%
	Total	27	100.00%	**Mean=3.44**
				S.D=1.368
The bank regularly reviews borrowers reports as well as an onsite visit		Frequency	Percent	Cumulative Percent
	Strongly agree	12	44.44%	44.44%
	Agree	9	33.33%	77.78%
	I don't know	2	7.41%	85.19%
	Disagree	1	3.70%	88.89%
	Strongly disagree	3	11.11%	100.00%
	Total	27	100.00%	**Mean=3.96**
				S.D=1.315
The bank develops the culture of being supportive to borrowers wherever they are recognized to be in difficulties and are striving to deal with the situation		Frequency	Percent	Cumulative Percent
	Strongly agree	2	7.41%	7.41%
	Agree	5	18.52%	25.93%
	I don't know	2	7.41%	33.33%
	Disagree	11	40.74%	74.07%
	Strongly disagree	7	25.93%	100.00%
	Total	27	100.00%	**Mean=2.41**
				S.D=1.279
The bank updates borrowers credit files and periodically review the borrowers rating assigned at the time the credit was granted		Frequency	Percent	Cumulative Percent
	Strongly agree	9	33.33%	33.33%
	Agree	12	44.44%	77.78%
	I don't know	2	7.41%	85.19%
	Disagree	3	11.11%	96.30%
	Strongly disagree	1	3.70%	100.00%
	Total	27	100.00%	**Mean=3.93**
				S.D=1.107

Source: Questionnaire, 2023

The respondents were questioned regarding the types of techniques the bank uses for monitoring and quantifying credit risk, as illustrated on Table 4.5. The first inquiry was how frequently the bank communicates with debtors. As a result, the majority of respondents, 10 (37.04%), agree that the bank contacts borrowers regularly, and 8 (29.63%) strongly agree. In contrast, 5 respondents (18.52%) disagree, and 1 respondent (3.70%) strongly disagree, indicating that the bank doesn't frequently communicate with customers. The remaining 3 responders (11.11%) are unaware of the problem. The total aggregate result and mean value of 3.70 and standard deviation 1.203 shows that the bank contacts borrowers on a regular basis.

The following query concerned the bank's capacity to foster an atmosphere where it can be perceived as a problem-solver and reliable advisor. In this regard, 8 of the 27 respondents (or 29.63%) strongly agree with the statement made by 11 respondents (or 40.74%) that the bank fosters an environment in which it can be viewed as a trusted advisor and problem-solver. Contrarily, 4 (14.81%) respondents disagree, and 1 (3.70%) respondents strongly disagree, that the bank should seek to foster a culture where it may be viewed as a trusted advisor and problem-solver. The remaining 3 responders (11.11%) are not aware of the problem. The majority of respondents' observations and the mean value of 3.78 and standard deviation 1.155 agree that the bank fosters an environment in which it can be perceived as a problem-solver and reliable advisor.

The other query concerned the bank's oversight of the borrower's transactions through its account. As a result, 9 respondents (33.33%) and 7 (25.93%) respondents agree or strongly agree that the bank oversees the flow of borrower business through the bank account. However, 5 respondents (18.52%) disagree, and 3 respondents (11.11%) strongly disagree that the bank performed poorly in observing how the borrower's business was moving through the bank account. 3 (11.11%) people are unaware of the problem. The overall result and mean value of 3.44 and standard deviation 1.368 shows that the bank keeps an eye on how the borrower's business is moving through its account.

Regarding the bank's routine examination of borrowers' reports and an on-site visit, most 9 (33.33%) of the respondents and 12 (44.44%) of the respondents strongly agree that the bank often analyzes borrower reports in addition to an onsite visit. Three respondents (11.11%) strongly disagree, and one (3.70%) disagrees, that there isn't both a routine check of borrower reports and an on-site visit. 2 respondents, or 7.41%, were unable to express their opinions on the matter. According to the majority of respondents' reflections, the bank regularly reviewed borrower records and conducted onsite visits. The result is also guaranteed by the mean value of 3.96 and standard deviation1.315.

Another concern was whether the bank fosters a culture of assisting borrowers whenever it is apparent that they are having problems and are making an effort to resolve them. In this regard, 11 respondents (40.74%) disagree, and 7 respondents (25.93%) strongly disagree that the bank lacks a culture of being sympathetic to borrowers whenever it is known that they are in difficulties and doesn't make an effort to handle the situation. However, where borrowers are known to be in difficulties and are making an effort to cope with the situation, there is a culture of being supportive to them, with 5 (18.52%) respondents agreeing and 2 (7.41%) strongly agreeing. The bank performed poorly in creating a culture of being supportive to borrowers wherever they are recognized to be in difficulties and had a lack of effort to handle the situation, as indicated by the majority of respondents' reflections and the 2.41 mean values and standard deviation1.279.

The final query in this area concerned whether the bank regularly reviews the credit rating given to borrowers and updates their credit file. Therefore, 12 (44.44%) of the respondents concur, and 9 (33.33%) of the respondents strongly concur, that the bank should update the credit files of the borrower and periodically examine the rating given to the borrower at the time the credit was granted. Contrarily, 3 (11.11%) respondents and 1 (3.7%) strongly disagree that the bank updates borrower credit files or routinely reviews the rating given to the borrower at the time the credit was granted. 2 (7.41%) respondents don't know about the problem. The majority of respondents' responses and the mean value of 3.93 and standard deviation 1.107 suggest that the bank regularly reviews the borrower rating given at the time the credit was granted and that the borrower's credit files are current.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATION

Introduction

The main findings will be outlined in this chapter, and then conclusions will be drawn. On the basis of the findings, suggestions are made for improved credit risk and management procedures for Dashen Bank based on the literature studied.

5.1. Summary of major findings

- The results of the questionnaire showed that the head office's credit and risk department of Dashen Bank is doing well in terms of human resources. The Bank employs a youthful, qualified credit workforce that is under 35 years old and in a productive stage. The majority of respondents (62.96%) are under the age of 35. Additionally, the bulk of responders (96.3%) have over three years of banking experience. Additionally, the survey includes practically all employment positions and salary ranges, perfectly representing the population. In general, the findings on the age and banking experience of the credit staff indicate that the Bank is in a good position in terms of having productive people. The research's other important conclusions are:
- The bank's credit risk policy, rules, and procedures clarify the goals and tenets of the process used to manage credit risk, and they are successfully disseminated throughout the company. These rules adhere strictly to national bank requirements.
- The department offices' actual loan processing and assessment activities are in accordance with bank credit policies and procedures, and the credit environment is stable. The bank also maintains adequate control over credit through efficient credit administration, which includes a monitoring process.
- The top management's assistance is insufficient and needs to be increased in order to ensure the availability of suitable and clear standards for managing credit. However, in order to carry out efficient screening, trustworthy information must be gathered from potential borrowers. The bank has excellent personnel with the necessary depth of knowledge.
- There is a lack of consistency in how the company distributes policies and ensures that everyone involved in credit risk management is aware of them.

- The percentage of the bank's credit that is made up of non-performing loans (NPLs) is gradually rising. This is a result of inadequate risk assessment and regular follow-up, as well as the current political climate. Additionally, the bank's process needs to be modified because it was ineffective in lowering the NPL status.
- The bank communicates with borrowers on a regular basis and fosters an atmosphere where it can be perceived as a problem-solver and reliable advisor. The bank also keeps tabs on how the borrower's business is moving through its account, and it frequently reviews the borrower's reports and pays a visit.
- The bank did a poor job of creating a culture of being helpful to borrowers whenever it was known that they were having problems, and there was a lack of effort to handle the situation. However, the borrower's credit report is current, and the bank routinely checks the rating given to the borrower at the time the credit was granted.

5.2. Conclusion

- The findings show that the workforce at Dashen Bank is youthful and competent. A large portion of the employees is knowledgeable and of a productive age. Along with other characteristics, the credit staff's current profile increases the likelihood that the bank will be profitable and have a low rate of non-performing loans.
- As a result, the bank's credit risk management process is well-communicated across the whole organization. These rules adhere strictly to national bank requirements. The credit environment is formed, and the credit analysis and management office's practical loan processing and assessment activities are compliant with bank credit policy and procedures. The bank also has an appropriate mechanism for controlling and monitoring credit, which is part of its effective credit management.
- The top management's backing is, however, not as strong in guaranteeing the availability of suitable and explicit procedures for managing credit. There is a lack of consistency in how the company distributes policies and ensures that everyone involved in credit risk management is aware of them. The percentage of the bank's credit that is made up of non-performing loans (NPLs) is gradually rising. This is a result of inadequate risk assessment and regular follow-up, as well as the current political climate. Additionally, the bank's method proved ineffective in lowering the NPL status, despite the fact that it contacts borrowers regularly and cultivates an atmosphere in which it might be perceived as a problem-solver and reliable advisor. The bank routinely reviews the borrower's reports and conducts onsite visits in addition

to monitoring the flow of the borrower's business through the bank account. According to the study's findings, banks manage their credit risk using a variety of methods, methodologies, and assessment models, all of which have the same primary goal of reducing loan default rates, which are the main reason for bank failures.

5.3. Recommendations

- The following suggestions are made in order to enhance the bank's credit management based on the study's findings and conclusions.
- The Bank's top management needs to periodically review its credit policy and procedure, incorporating the feedback of clients and employees in order to decrease the NPL percentage, taking into account the importance of attractive, convenient, and flexible credit policy and procedure in assisting loan creation and growth.
- The top management's assistance is insufficient and needs to be increased in order to ensure the availability of suitable and clear standards for managing credit. The senior management should therefore assist other staff members in managing according to adequate and explicit instructions.
- A successful relationship with borrowers was determined to be a key approach used by banks in their attempt to lower non-performing loans, and the bank has continued to uphold this culture. According to this theory, banks must come up with novel approaches of interacting with borrowers if they are to be successful in recovering their investment. As a result, Dashen Bank must improve all aspects of its loan management system, particularly the way it monitors its borrowers.

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Appendices

Appendix-I **ST MARY UNIVERSITY**

SCHOOL OF GRADUATE STUDIES

MASTERS OF SIENCE

A questionnaire to be filled by employees

Dear Respondents,

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

Thank you in advance for your participation.

Natnael Elias Mobile**:** ***+251-941-40-30-35***

Email:*natnael.elias2019@gmail.com*

Part1: Demographic Information of the research

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

1. **Gender**: Male ☐ Female ☐
2. **Age in year**: 18-25 ☐ 26-30 ☐ 31-35 ☐ 36-40 ☐ 41-45 ☐ >45 ☐
3. **Year of service in DB**: <1year ☐ 1-3yrs ☐ 4 -6yrs ☐ 7-9yrs ☐ >10Yrs ☐
4. **Current position:** Business segment director ☐ Credit Analysis and appraisal Director ☐ R/ship Manager ☐ Credit Analyst ☐ Estimation officer ☐ Risk & compliance officer ☐ Credit follow up & management manager ☐
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 ☐

Part2: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 answers, and your honest opinion is critical to the success of this study.

5="StronglyAgree"4=**"Agree"**3=**"Idon'tknow"**2= **"Disagree"**1=**"Strongly Disagree"**

1. What credit collection strategies are adopted in the management of credit in Dashen bank?

No	Items	5	4	3	2	1
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. WhatarethefactorsthatrelatestotheeffectivenessofcreditriskmanagementinDashenBank?

No	Items	5	4	3	2	1
1	Appropriate credit environment is established through policy and strategies(guidelines) that clearly outline the scope and allocation of Bank credit facilities					
2	An appropriate credit administration that involves monitoring process As well as adequate control over credit is maintained					
3	Top management supports to ensure that there are proper and clear Guidelines in managing credit					

4	Reliable information is collected from prospective borrowers in Accomplishing effective screening					
5	The Bank has high quality staff with required depth of knowledge					
6	All credit risk management guidelines are properly communicated throughout the organization and everybody involved in credit risk Management understands them					
7	Supportive technologies and equipment are utilized in credit analysis, monitoring and control to make the task easy and to keep track on trend Of credits with in the portfolio					

3. HowwasthecreditprocedureoftheBankhelpinginreducingtheNPLstatusloans?

No	Items	5	4	3	2	1
1	The NPL percentage of the bank's credit is increasing time to time.					
2	Lack of continuous follow up and proper risk assessment is the main Cause of NPL%age increment					
3	Mistake on estimation of collateral and evaluating the borrower's Financial report is another cause of NPL%age increment					
4	Current political is the main factors for NPL increment					
5	The bank's procedure was effective in reducing the NPL status					
6	Reviewing and amendment of the bank's procedure is not necessary For NPL related issues					

4. What kind of mechanisms used by the bank for credit risk measuring and monitoring?

No	Items	5	4	3	2	1
1	The bank frequently contact with borrowers					
2	The bank creates an environment that it can be seen as a solver of Problems and trusted advisor					
3	The bank monitors the flow of borrower's business through the					
	bank's account					

4	The bank regularly reviews borrowers reports as well as a non-site Visit					
5	Thebankdevelopstheculture ofbeingsupportivetoborrowerswhereverthe yarerecognizedtobeindifficultiesandarestrivingto Deal with the situation					
6	The bank updates borrowers credit files and periodically review the Borrowers rating assigned at the time the credit was granted					

Thank you for your cooperation!