ST. MARY'S UNIVERSITY COLLEGE
BUSINESS FACULTY
DEPARTMENT OF MANAGEMENT

THE ASSESSMENT OF CREDIT RISK MANAGEMENT PRACTICE IN THE CASE OF DASHEN BANK

BY

TENAGNE GETAHUN

JUNE, 2011
SMUC
ADDIS ABABA

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CHAPTER ONE

INTRODUCTION

1.1. Background of the Study

Risk is uncertainty regarding loss, which poses a problem to business and individuals in nearly every walk of life. Executives, employees, investors, travelers and farmers all confront risk and deal with it in various ways. One takes risks at the time of travel, when engaging in recreational activities, and even when one is at work or when one sleeps. In general everyone is surrounded by uncertainty. This uncertainty is at the heart of risk, and risk management is an inescapable phenomenon of running a business concern (Willet, 1951: 17).

Risk exists whenever the future is unknown, because the adverse effect of risk has plagued mankind since the beginning of time. Individuals, groups and societies have developed various methods for managing risks. Since no one knows the future exactly, everyone is a risk manager not by choice but by sheer necessity. Although financial and non financial risks inherent in the banking business and the systematic approach of handling them have been in existence ever since the emergence of the business. The magnitude of the risk faced by new banks entering the market made the importance of risk management all the more exigent (Samson, 2001: 24).

This study focuses on the types of financial and non-financial risks, and the management practice adopted to mitigate the consequences of risks by Dashen Bank, one of the newly established private banks following liberalization. The study primarily focuses on the various types of financial risks as well as the mechanisms put in place to manage credit risks, liquidity risks and finally will review and analyze the management of interest rate risks.Doing so, the study will explore the role risk management plays in alleviating the uncertainties of loss characterizing the business of banking together with the conscious effort directed at ameliorating their adverse effects on sustainable profitability and the overall stability of the Bank (Dashen Bank: 2003).

Dashen bank is one of the privately owned banks, which was established on September 20, 1995 G.C with an authorized and subscribed capital of Birr 591,860,000. It has been contributing to the economy by providing domestic and international banking services to its customers.

Among the services is mobilization of demand, saving and time deposits. The Bank pays interest on saving and demand deposits on a monthly basis. The rate of interest on Time deposits is very competitive. The other major service the bank renders to its customers is the extension of credit. Therefore, the bank facilitates the financial requirements of businesses engaged in the following sectors:

- Domestic trade and services, manufacturing sector, import and export sector, agricultural sector, transportation sector, and building construction sector.

In order to catch up with the recently booming international business, Dashen bank extends its services in such areas of international banking as opening letter of credit for importers, purchasing and selling of foreign currency, handling money transfers, handling of financial instruments such as drafts, handling of incoming letters of credits, maintenance of foreign currency accounts, cashing VISA and MasterCard credits cards and currently it also introduces Bank payment cards, and many others.

Dashen Bank in its effort to provide unparallel service to its customers; has introduced some unique banking services. These include Door-to-Door services, which enable its corporate customers to get cash delivery, and collection facilities by specially designed vans. The other unique feature of the bank is the interconnection of all its branches across town by making use of state of the act Wide Area Network (WAN) technology. This facility enables customers to deposit or withdrawal money from any of the branches without the need to go to the branch where their account is maintained. Dashen bank **is** also the first domestic private bank in Ethiopia to be the agent of Western Union, one of the largest money transfer companies in the world.

The Bank has also mobilized a special type of deposit facility to encourage parents to open saving accounts for their children for long term benefits, such as financing their educational requirements at higher levels, and providing them funds while starting to live independently.

All by making use of 60 Area banks (branches) spreading over 31 major towns in Ethiopia and 29 convenient sites in Addis Ababa providing efficient and customer focused domestic and international banking services, overcoming the continuous challenges through the application of appropriate technology and human resources Generally, the study will focus on credit risk management practice in the case Dashen Bank

1.2. Statement of the Problem

Every organization, whether profit making or otherwise, has got its own mission which it endeavors to achieve during its existence. Profit making enterprises are expected to enhance the returns on the capital provided by their shareholders by way of maximizing their profits through increased efficiency that certainly give them a larger share of the market in which they operate. Likewise, non-profit organizations do have missions like providing community services and improving standards of living of the society, not primarily focusing on the generation of profit (Dashen Bank: 2003).

During their course of operation, organizations will definitely be exposed to various uncertainties of different magnitude. These uncertainties are commonly known as risks, which can have enormous effects that range from inhibiting the day-to-day activities of the business to endangering the very survival of the organization. The magnitude and far reaching consequences of these exposures force business organizations to put in place a structure that makes possible systematic approach to the management and hence subsequent minimization of the impact of such risks on their overall performance (Ibid).

Accordingly, different organizations employ different risk management techniques, which they determine best suits them to achieve their business objectives. Input of Dashen Bank, the following problems currently persist which requires serious problem solving from management. Some of these are as follows:

- Lack of adequate supervision on old and familiar borrowers.
- Dependence on oral information provide by borrowers in lieu of reliable financial data and direct verification.
- Availing loans without adequate margin of safety.
- Over lending beyond the reasonable capacity of the borrower to pay.
- Lack of collaterals major factors for qualification of loan request.
- The intervention of the National Bank either in interest rates or exchange rates has also an impact on the value of currencies depending on the position taken by the Bank.

1.3 Research Questions

The researcher has attempted to answer the following research questions.

- What are the concept, policies, procedures and techniques of credit risk management used by the bank?
- How the working and functioning of Dashen Bank's financial speculative risk management practices are implemented?
- What collaterals are considered major factors for qualification of a loan request?
- What is the primary concern of the Bank when deciding credit requests of prospective borrowers?

1.4 Objectives of the Study

0bjective of this research study is basically focused on general and specific objectives of credit risk management in Dashen Bank.

1.4.1 General Objectives

To asses the credit risk management practices of Dashen Bank.

1.4.2 Specific Objectives

- To asses the concepts, policies, procedures and techniques of credit risk management the bank used.
- To evaluate the working and functioning of Dashen Bank's financial and speculative Risk management practices.
- To examine the collaterals consider major factors for qualification of loan request.
- To examine the concerning organ of the Bank involve in deciding credit facility requests of prospective borrowers.

1.5. Significance of the Study

This study is being undertaken with a view of appreciating the credit risk management practices of Dashen Bank and identifying any shortcomings in light of international credit risk management standards. Primarily, the credit risk management practice being adopted by the bank is compared against the standard practices in use by financial institutions worldwide. This will help the researcher identify problem areas where deficiencies are being observed and ultimately to come up with remedial actions to minimize the adverse effects of risk exposures that could be better managed with the application of appropriate and modern techniques. Additionally, it will help other researchers who may chose a similar topic (area).

1.6. Delimitation /Scope/ of the Study

Obviously the scope of the topic is quite broad. Given the constraints listed in the limitations, it will not be feasible to go deep into each and every aspect of risk management since each type of risk has a wide coverage. However, efforts have been made to review available literature on the study topics by providing due attention to the most important aspects of credit risk management. To this end, senior essays, internet research results, journals and other sources have been carefully reviewed in order to understand how these research products are dealing with the subject matter. Therefore, the scope of the study is limited to the financial and operational aspect of credit risk and its management techniques, policies and procedures that are currently practiced in the Head office, Main branch and Kera branch of Dashen Bank by compare with National Bank of Ethiopia standards presented in the literature. Additionally, the research uses data from the last two years of 2008-2010 data to gather information.

1.7. Definition of Terms

Risk – Risk is a potential variation in out comes and the exposure to a potential loss. It can also be defined as uncertainty about economic losses due to occurrence of an event (Williams, 1998: 15).

Risk Management – Risk management process involves the executive function of planning, organizing, leading, and controlling those activates in a firm that deal with specified types of risk, in order to maximize the value of an organization. The risk manager is charged with minimizing the adverse impact of losses on the achievement of the company's goal (Trieschmann, 1998: 14).

Credit Risk

Credit risk is defined as the chance that a debtor will not be able to pay interest or repay the principal according to the terms specified in a credit agreement (Greuning, 2003, 14).

1.8. Research Design and Methodology

1.8.1. Research Design

A descriptive research and design method has been use in this study in order to asses and describes the credit risk management practice in the case of Dashen Bank.

1.8.2. Population and Sampling Techniques

The total population of the study is 223; from these take a sample population of 30% of the total which means 67 is the sample size. 55 employees from 3 bank branches, Head office, Main branch and Kera branch are used. Additionally, 12 credit customers from two branches selected by using probability sampling design also called stratified random sampling technique were used.

Table 1. Population and Sample Size

Strata	Population	Sample Size
Head office Credit manager	2	1
Credit department assistance	2	1
Credit analysis	10	8
Branch Managers	2	1
Assistances	3	2
Loan division head	3	2
Loan section	2	1
Loan office and clerks	8	6
Staff	166	33
Credit Customers	25	12
Total	**223**	**67**

1.8.3. Types of Data Collection

To obtain sufficient information for the study the researcher has used both primary and secondary data.

1.8.4 Methods of Data Collection

The methodology to be used for data collection in this study is largely dependant on both primary and secondary data sources. Personal interviews have been conducted with the selected division heads of the bank, which helps the study by providing first hand information. A well designed comprehensive set of questions were prepared and distributed to employees in the bank's Corporate Planning Department, which is the office concerned with credit risk management of Dashen bank. Additionally, policy manuals annual reports and publications have been used as a backup means of collecting second hand information.

1.8.5. Methods of Data Analysis

The data obtained through the questionnaire has been analyzed qualitatively and quantitatively. Similarly, percentage analysis, tabulating and descriptive statistics have been utilized.

1.9. Limitation of the Study

The study doesn't have any financial sponsor. As a result it has been difficult, to extend the study over to other similar financial institutions coupled with time constraints.

The study has therefore been confined to exploring and analyzing the financial risk management techniques, policies and procedures adopted in Dashen bank by comparing with international standards.

Many research papers on the internet request payment via credit cards which unfortunately are not within the reach of this researcher. Additionally, senior essays were unavailable that dealt with similar topics. The researcher has, reviewed the literature that are covered several separate issues of credit risk management. Despite such constraints, an attempt has been made to contact local consultants and senior managers of Dashen bank in order to furnish the study with reliable and timely information.

During the study of the critical analysis of staff training and development policies and procedures in IIRR-Ethiopia, the researcher faced a shortage of time due to electric power problem which was a serious obstacle to finalize the study as scheduled. Moreover, the number of respondents was limited. This affected the conclusion of the research.

1.10. Organization of the Study

The organization of the study is presented in the short and precise form as follows:

- ❖ The first chapter deals with introduction, background, statement of the problem, research question, objective of the study, significance of the study, scope of study, definition, research methodology, limitation of the study, and organization of the study was also presented.
- ❖ The second chapter deals with the review of literature.
- ❖ The third chapter has been about the data presentation and analysis.
- ❖ The fourth chapter has presents the summary, conclusion and recommendations.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1. Overview and Definition of Risk

Risk is a potential variation in outcomes and the exposure to a potential loss. It can also be defined as uncertainty about economic losses due to occurrence of an event. Economic losses are caused by perils such as crimes, fire and accidents. It is the possibility of an adverse deviation from a desired outcome that is expected (Williams, 1998: 15).

Risk can be defined as uncertainty concerning losses. The risk surrounding a potential loss creates significant economic burdens for businesses, governments, and individuals. Billions of dollars are spent each year on strategies for financing potential losses. But when losses are not planned for in advance, they may cost even more. Businesses as well as individuals may try either to avoid risk as much as possible or to reduce its negative consequences, overall, an entity's cost of risk is the sum of outlays to reduce risk, the opportunity cost of activities forgone due to risk considerations, expenses of strategies to finance potential losses and the cost of unreimbursed losses (Trieschmann, 1998: 5).

Risk is a condition in which there is a possibility of an adverse deviation from a desired outcome that is expected or hoped for. The individual hopes that adversity will not occur, and it is the possibility that this hope will not be met that constitutes risk. Risk is a potential variation in outcomes. It is when there is uncertainty about the occurrence of a loss that risk becomes an important problem (Teklegiorgis, 2004: 1).

2.1.1 Uncertainty and its Relationship to Risk

Because the term ‘’uncertainty’’ is often used in connection with the term risk (sometimes even interchangeably), it seems appropriate to explain the relationship between the term ‘risk’ and "uncertainty’’ (Teklegiorgis, 2004:2).

Uncertainty refers to a state of mind characterized by doubt, based on a lack of knowledge about what will or will not happen in the future, uncertainty is simply a psychological reaction to the absence of knowledge about the future (Teklegiorgis, 2004: 2).

The existence of risk is a condition or combination of circumstances in which there is a possibility of loss creates uncertainty on the part of individuals when that risk is recognized (Ibid).

Uncertainty is a person's conscious awareness of the risk in a given situation. It depends up on the person's estimated risk what that person believe to be the state of the world and the confidence he or she has in this belief unlike risk uncertainty cannot be measured by any commonly accepted yardstick (Ibid).

2.1.2 Risk versus Probability

Probability refers to the long-run chance of occurrence or relative frequency of some event. It has meaning only when applied to the chance of occurrence among a large number of events (Teklegiorgis, 2004: 3).

Risk as differentiated from probability, is a concept in relative variation. We are referring here particularly to objective risk, which is the relative variation of actual from probable or expected loss (Ibid).

2.1.3 Risk Distinguished from Peril and Hazard

Risk is a possibility of an adverse deviation from a desired outcome that is expected or hoped for; while peril is defined as the cause of loss. It is contingency that may cause a loss, and Hazard is a condition that increases the frequency or severity of losses (Ibid).

2.1.4 Risk Distinguished from Peril and Hazard

Risk is a possibility of an adverse deviation from a desired outcome that is expected or hoped for; while peril is defined as the cause of loss. It is contingency that may cause a loss, and hazard is a condition that increases the frequency or severity of losses (Teklegiorgis, 2004: 3).

2.2 Classifications of Risk

Risks may be classified in many ways; however, there are certain distinctions that are particularly important to our purpose. Therefore the major categories of risk are:

Objective versus Subjective Risk

Objective risk

Objective risk is the relative variations of actual from probable expected loss. It is concerned with the range of variability of economic losses about some long run average loss in a group large enough to analyze significantly in a statistical sense (Teklegiorgis, 2004: 21).

$$\text{Objective risk} = \frac{\text{Probable variation of actual loss}}{\text{Probable losses}}$$

Objective risk varies inversely with the probability for any constant number of exposure units. However, in general the rate of decrease in objective risk is less than proportionate to the rate of increase in probability of loss (Haimes and Yacove, 1989).

Subjective Risk

Subjective risk is psychological uncertainty that stems from the individual's mental attitude or state of mind, it may be measured by means of different psychological tests but not widely accepted or uniform tests of proven reliability have been developed (Teklegiorgis, 2004: 21).

Financial and Non-Financial Risk

In its broadest context the term risk includes all situations in which there is an exposure to adversity. In some cases adversity involves financial loss, and in others it does not. There is some element of risk in every aspect of human endeavor, and many of these risk have no (or only incidental) financial consequences (Teklegiorgis, 2004: 6).

Pure versus Speculative Risks

Pure Risk

Pure risk in value has only two possible outcomes: a loss or at best, no loss such as the risk of a motor accident, fire at a factory, theft from a store or injury at work are all pure risks with no element of gain (Teklegiorgis, 2004: 11).

Personal risk

Personal risk is that risk that directly affects the individual, which in value may cause the possibility of the complete loss or reduction of earned income, extra expense, and the depletion of financial asset (Ibid).

- Risk of per-mature death –this refers to the death of a house hold head with unfulfilled financial obligation.
- Risk of old age: - The major risk associated with old age is insufficient in income during retirement.
- Risk of poor health- includes both catastrophe medical bills and the loss of earned income.
- Risk of unemployment: - Unemployment can result form a business cycle downsizing, from technological and structural change in the economy from seasonal factors, and from fluctuations in the labor market (Ibid).
- Property risk

Property risk refers to losses associated with ownership of property, person owning properties are exposed to the risk of having their property damaged or lost from numerous causes (Haimes and Yacove, 1989).

Speculative Risks

In speculative risks there are three possibilities. First, outcome-loss, break even, and gain situation which may include investing in a venture, gambling transactions. People may deliberately create speculative risks (Teklegiorgis, 2004: 11).

Static and Dynamic Risks

Dynamic risks are those resulting from changes in the economy. Changes in the price level, consumer tastes, income and output, and technology may cause financial loss to members of the economy. These dynamic risks normally benefit society over the long run, since they are the result of adjustments to misallocation of resources. Although these dynamic risks may affect a large number of individuals, they are generally considered less predictable than static risks, since they do not occur with any precise degree of regularity. Static risk involve those loses that would occur even if there were no changes in the economy. If we could hold consumer testes, output and income and the level of technology constant, some individual would still suffer financial loses. These loses arise from causes other than the changes in the economy, such as the perils of nature and the dishonesty of other individual .unlike dynamic risks, static risks are not a source of gain to the society (Teklegiorgis, 2004: 7).

Fundamental and Particular Risks

A fundamental risk is a risk that affects the entire economy, or large number of persons or groups within the economy. It involves losses that are impersonal in origin and consequence, and they are group risks mostly caused by economic, social, and political phenomena. Conversely, particular risk is a risk that affects only individuals and not the entire community. It involves loss that arises out of individual events and is felt by a single individual rather than by the entire group (Ibid).

A particular risk is a risk that affects only individuals and not the entire community. Particular risks involve losses that arise out of individual events and are felt by individuals rather than by the entire group. They may be static or dynamic. Examples of particular risks are burning of a house, the robbery of a bank, and the damage of a car. Since fundamental risks are caused by conditions more or less beyond the control of individuals who suffer the loses and since they are not the fault of any one in particular, it is held that society rather than the individual has a responsible to deal with them, although some fundamental risks are dealt with through private insurance, it is an inappropriate tool for dealing with most fundamental risks. For example, earth quake insurance is available from private insurers, and flood insurance is frequently included in contracts covering movable personal property. Particular risks are considered to be the individual's responsibility, an inappropriate subject for action by society as a whole. They are dealt with by the individual though the use of insurance, loss prevention, or some other technique (Teklegiorgis, 2004: 7).

2.3. Credit Risk

Credit risk is defined as the chance that a debtor will not be able to pay interest or repay the principal according to the terms specified in a credit agreement. Credit risk means that payment may be delayed or ultimately not paid at all which can intern cause cash flow problems and affect a bank's liquidity. It exists in both banks on balance sheet accounts (Greuning, 2003: 14).

Credit risk, which is the risk that the borrower will default, can occur in different forms. They are as follows:

Direct Lending Risk: the risk that actual customer's obligations will not be repaid on time, which exists for the entire life of the transaction (Ibid).

Contingent Lending Risk: the risk that a potential customer's obligation will become actual obligation and will not be paid on time. It occurs in products ranging from letter of credit and guarantees, which exists still for the entire life of the transaction (Ibid).

Documentation Risk: the risk that documentary evidences which depend on the enforcement of rights under contract, which may not be complete, correct, or inferable for the loan to be repaid (Greuning, 2003: 14).

2.3.2. Credit Risk Management

The primary role of Banks is to gather and husband deposits with safety and lend them on sound basis for attainment of the ultimate objective, which is generation of revenue through providing loans. As a commercial Bank prime task concentrates around the process of borrowing and lending money that involve collection of idle fund from different sources by way of accepting deposits with the commitment to pay interest and deployment of the fund mobilized in the form of credit to areas where it is needed to support commercial activities that have economic importance (Dashen Bank, 2003: 4).

2.3.3. Causes of Credit Risk

A bank is successful when the risks it takes are reasonable, controlled within its financial resources and credit competence. The vital issue for preservation of the quality of loans is existence of well developed policies and procedures, strong portfolio of management, effective credit controls and the most critical element of all, well trained staff that is qualified to implement the system. Conversely, absence of adequate guidelines to monitor administration of the lending function pave the way for the occurrence of substantial amount of problem on loans, compromise of credits, lack of adequate supervision of old and familiar borrowers and weakness in collateral arrangements . Therefore, there are many causes for the occurrence of credit risk, some of these are as follows:

Excessive concern for income growth: the loan portfolio is usually the most important sources of income. Hence growth of the loan portfolio becomes a focal point to boost the revenue. However, too much concern for revenue maximization must not permit extension of weak loans that carry undue risks. Generally, weak loans cost far more than they contribute income for the Bank (Ibid).

Incomplete Information: character and capacity may be determined using different means. However, complete credit information is the best acceptable, reasonable, and accurate method for determining a borrower's financial standing. Lack of supporting credit information is an important cause of credit risk. Therefore, adequate and comparable financial statements and other pertinent statistical data should be available in order to minimize the risk associated with loans (Dashen Bank, 2003: 4).

Competition: competition among banks for market and to influence community may result in the compromise of credit principles and the acquisition of unsound loans in which its ultimate cost exceeds its temporary gains in growth (Ibid).

Technical Incompetence: the ability to analyze financial statements and to obtain and evaluate other credit information thereby protecting in the placement and supervision of loans is processed by all qualified and experienced bankers. Hence, the management should seriously be concerned with the hiring of such employees. In general, controlling the above listed factors and several others, which are sources of failures in loans, entails financial losses, which impede growth of the Bank. Therefore financial officers and management at all levels should be seriously concerned in order to minimize the occurrence of such risk (Ibid).

2.4. Loan

Term loan can be defined as a loan granted for a specified period of time, one year for example, and with periodic term repayments or installments, or in lump-sum at maturity. There are three types of loans in this category that can have their own eligibility and processing procedure. These are:

- Short-Term Loan – a term loan with a maturity period not exceeding one year.
- Medium-Term Loan-a term loan granted for duration of one to five years.
- Long-Term Loan-a term loan, usually project based finance, granted for a duration exceeding five years. (Credit Analysis and Processing Training Manual by Ethiopian Academy of Financial Studies (EAFS).

2.4.1. Loan Processing and Analysis

According to Credit Analysis Processing Manual prepared by Ethiopian Academy of Financial Studies, the major items to be addressed during loan processing will be: Interview, Document Requirements, Business Visit, Credit Information, Credit Analysis Negotiation, Reporting and Recommendation, and Appeal handling (EAFS).

Pre-Application Interview

In this preliminary interview the following and related items will be reviewed:

Purpose of the loan

Applicant's business experience

Applicant's relation -ship with the bank

How the applicant intends to pay back the loan, source of fund and business plan.

Formal Credit Interview

This is an interview in which deeper insight on the loan request will be obtained.

Document Requirements

Upon arriving at satisfactory pre-application interview result, the customer would be required to submit the following major documents to the Bank: Renewed trade license, Financial Statements Business Plan, Owner of Certificate /title deed or LHC/, car booklet and other documents pertaining to collateral offered.

Business Visit

Once the loan application is received, formal credit interview is conducted and the supporting documents are checked, the next step will obviously be arranging a visit to the applicant's business (EAFS).

Credit Information

Credit information is requested to check if the applicant had credit or even banking relationship with other branches or banks (Koch 1995: 103).

Credit Analysis and Evaluation

Analysis refers to a critical assessment of the customer's business strength made by lending officers (i.e., credit analysts, project analysts, loan officers) and Branch managers based on the already obtained information. It may include assessment of the security (collateral) as well (Ibid).

Negotiation

This step is very critical step, as more loans end up being non-performing because borrowers were not involved when arrangements were made regarding repayment schedules, duration of the credit facility, terms and conditions of the loan, etc. Negotiation clarifies the Bank's intention to the borrower and makes the borrower psychologically ready (Ibid).

The Loan Application

The applicant should present his/her application containing: amount of loan requested, purpose of the loan requested, name of applicant, guarantor, if any and collateral (Ibid).

2.4.2. Evaluation of Credit Requests

The basic objective of credit analysis is to assess the risks involved in extending credit. When evaluating loans, bankers cite the 5Cs of credit, i.e. character, capital, capacity, conditions and collateral. Character encompasses such issues as the borrower's honesty, moral character, determination to meet obligation, and willingness to cooperate with the lender. The banker should have complete confidence in the integrity and ability of the customer to use the money to advantage and to repay it within a reasonable period. In the absence of such confidence it is preferable to decline to lend, no matter how much security may be available. Confidence in the borrower is essential. (Robinson 1962: 309-10).

Capital or net worth is the amount of funds the individual borrower or owners have invested to support both fixed assets (permanent capital) and the day-to-day operations of the business, working capital. The customer who requests loan shouldn't be minor and if the one requesting loan is representative of a corporation, he must have a proper authority from the board of directors (Robinson 1962: 309-10).

The recent trends in the borrower's line of work or industry and how changing economic conditions might affect the loan are evaluated under condition study. In assessing the collateral aspect of a loan request, the quality, value and marketability is considered.

As a general rule, bank customers who can make good scores on the tests of character, capacity, and capital can borrow on an unsecured basis while those who have some significant shortcomings in the above must provide security either by pledging property or by obtaining company signatures or endorsements, in turn it is based on evaluations of character, capacity and capital (Ibid).

There are at least four commonly differentiated categories of ratios as stated by:

Liquidity Ratio: - Indicate the firm's ability to meet its short term obligation and continue operations.

Activity Ratio: - Signal how efficiently a firm is using its assets to generate sales.

Leverage Ratio: - Indicate the mix of the firm's financing between debt and equity, hence potential earnings volatility. The greater a firms leverage the more volatile its net profit (losses).

Profitability Ratio: - provide evidence of the firm's sales and earnings performance.

An analyst should evaluate these ratios with a critical eye, trying to identify firms’ strength and weaknesses. All rations should be evaluated on trend to detect shifts in competitiveness and/or firm strategy, and relative to industry standards (Ibid).

An analyst should evaluate these ratios with a critical eye, trying to identify firms' strength and weaknesses. All rations should be evaluated on trend to detect shifts in competitiveness and/or firm strategy, and relative to industry standards (Robinson 1962, 309-10).

2.4.3. Non -performing loans

According to National Bank of Ethiopia directive number SBB/43/2008, "Non -performing" means 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 advance is in question.

"A non-performing loan is a loan that is in default or close to being in default. Many loans become non-performing after being in default for three months but this can depend on the contract terms. A loan is non-performing when payments of interest and principal are past due by 90 days interest payments have been capitalized, refinanced or delayed by agreement or payments are less than 90 days overdue, but there are other good reasons to doubt that payments will be made in full"(NBE).

2.4.4. Classification of Loans and Advances

According to *National Bank of Ethiopia directive number SBB/43/2008,* Banks shall classify all loans and advanced in to five classifications.

Pass

Loans or Advances in this category are fully protected by the current financial and paying capacity of the borrower and are not subject to criticism.

Special –Mention

Loans or advances with pre-established repayment programs past due 30 (thirty) days or more, but less than 90 (ninety) days

Substandard

Loans or advances with pre-established repayment programs past due 90 (ninety) days or more but less than 180 (one hundred -eighty) days

Doubtful

Loans or advances with pre-established repayment programs past due 180 (one-hundred-eighty) days or more but less than 360 (three –hundred-sixty) days

Loss

Loans or advances with pre-established repayment programs past due 360 (three –hundred-sixty) consecutive days or more beyond the scheduled payment date or maturity (NBE).

2.4.5. Causes of Non-performing Loans

If a bank fails to collect its outstanding loans, it may encounter liquidity problem and loans might be written off as uncollectible. This will reduce the reserve, profit and capital of the Bank. This is also may erode public confidence and lead the bank to be close due to excess abnormal withdrawals of money by customers (Koch 1995: 137).

Whenever a loan is not paid accordingly to the terms of the initial agreement or in an otherwise acceptable manner, it is classified as a bad loan. Loan losses are natural by products of extending credit. Loans become problem credit as a result of controllable and uncontrollable factors. Controllable factors are those that reflect through the overall bank credit policy as well as inadequate credit analysis, loan structuring, and loan documentation. Uncontrollable factors typically reflect adverse economic conditions; adverse changes in regulations globalize changes surrounding the borrower's operations and catastrophic events (Ibid).

While there is little that can be done to prevent uncontrollable problems, effective credit granting can significantly reduce other sources of losses. Sometimes the credit analyst may have been faulty because it was based on inadequate information or incomplete analytical procedures.

Economic conditions may change adversely after the loan is granted so that the borrower cannot meet debt service requirements (Koch 1995: 137).

2.4.6. Preventing and Non-performing Loans

Safety is the watchword in commercial bank lending activities. Bankers want to feel reasonably sure that the principals of their loans will be repaid, even though they may have to be satisfied with relatively low raters of interest because of their selection of only the better risks.

Banks deal with problem loans in a variety of ways. The eventual path to collect problem loans depends on how early the problems are discovered. Problems that are discovered early enough can frequently be corrected by restructuring the borrower's operations and repayment schedule. (Peter 2001, 243) there are useful warning signals of a weak loans and poor bank lending polices. The signals of weak loans include irregular or delinquent loan repayment, frequent request for alternations in loan, rising debt to net worth and not filing documents like financial statements. Additionally, requests for reappraisal of assets to increase net worth, and applying for loans on poor quality collateral signal problem loans. The customer may also rely on non recurring sources of funds, such as selling of buildings and equipment to meet loan repayments.

Conversely, poor selection of risks among borrowing customers, ending money on contingent future events, lending money because a customer promises a large deposit, failure to specify a plan for liquidation of each loan are indicators of poor lending policies. Additionally, substantial loans to insiders; including employees, directors, or shareholders, creates a tendency to overreact to competition, like making poor loans to keep customers form going to other banks is a dangerous practice. Lending money to support speculative purchases and lack of sensitivity to conditions are also good indicators of inadequate or poor bank lending polices (Rose 2001: 243).

Lending difficulties can be reduced if management establishes and adheres to loan policy guidelines that restrict unacceptable activity. Such guidelines specify quantitative goals for loan production versus loan quality, and indicate procedures to attain these goals. The procedures document the format for obtaining loan application, grading loans, approving loans and systematically reviewing loan performance and quality (Rose 2001: 248- 51).

Once the bank comes to the realization that is has a problem loan on its books, the first thing it should do is to contact the debtor. This helps to assess the attitude of the borrower and to find solutions to the problem. If the bank expects a debtor's co-operation, it is usually necessary to give him assurance that the bank wishes to co-operate with him and that is advantageous to both the bank and the debtor. At this instance the bank must take action immediately. But it must also be reasonable and conciliatory enough so that the debtor will believe that all is not lost, and that co-operating with the bank in instituting plan for correction may be beneficial to him. In no case should the bank's officer make unrealistic demands for immediate payment, unless obvious fraud or gross misrepresentation exists, nor should they threaten legal action unless necessary (Rose 2001: 248-51).

The second step in handling the problem loan, as described by the same author is searching for solutions. Achieving a workable solution is rarely easy, and in some cases impossible. Where no workable solution can be found, the bank has no alternative but to collect the loan, either through the voluntary liquidation of assets by the debtors or by forced liquidation. The benefits for the debtor with a sound plan for correction can be a win win for everyone. For the bank as well as the debtor, if it can help the borrower solve his problems and become a successful businessman, the bank will have a loyal customer for many years to come. The bank ordinarily gains the good will of the customer, as well as the business community as a whole. Remedial actions should be sought to recover problem loans using various workout strategies. Each problem is different, and no routine is universally applicable. Some of the most common approaches to be considered include:

- Developing a debt structuring program,
- Agreeing on additional documentation, and guarantees, Calling on a guarantees,

- ❖ Arranging for joint partnership and capital contribution
- ❖ Working with managements to define problems and potential solutions,
- ❖ Developing a retrenchment program with closely monitored budgets,

- ❖ Arranging the sale of the operating company to a third party, and
- ❖ Replacing management

When all the above methods fail to be effective in the recovery process, the bank has no option but to forego the dues by writing them off. Write-off should, however, be permitted as the last resort after exhausting all other opportunities (Rose 2001: 248-51).

As a solution, the creditor may seek to solve the borrower's problem of inadequate cash flow to meet loan obligations through the extension of loan terms. Extensions and renewals however, should be considered only after a thorough examination of a cash flow projection, and only if there is adequate evidence that repayment will actually materialize at a later time. Any renewals should be for a short period of time, and the bank should carefully re-examine its position before granting additional renewals or extension. There are several dangers involved in the granting of an extension. The debtor may feel relieved of pressure from, and may reduce his efforts to repay the debt, or divert available cash to the repayment of other debts, which are more pressing (Kennedy, 1996: 95).

2.4.7. Credit Decision (Approval)

The Credit Committee, reviews and recommends or approves credit requests that fall under their discretionary limit. Credit committees are jointly and severally accountable for approvals they make. Therefore; they shall conduct meetings, check and review the following before approving. (Credit Analysis and Processing Training Manual by Ethiopian Academy of Financial Studies (EAFS)

- Documentation checklist is complete and signed.
- Supporting documents tally with the documentation checklist.
- The amount is within their discretionary limit.
- Amount in words and figures are in agreement.

- Data and information on the standard format is complete.
- Recommendations are explicit and the format is signed.
- Deletions and corrections are accompanied by signature.
- When there is a quorum, etc.

When irregularities are observed or suspected in the format, the Credit Committee shall request the original documents to verify information or seek clarification from the parities concerned.

Finally, all Committee members shall sign on the format (with their signature number whenever appropriate) and reasons for reduction or decline should be clearly stated. The date of review, recommendation and approval should be written on the standard format (EAFS).

2.4.8. Communicating Credit Decisions

The approving Committee shall send:

- One copy to the next higher organ of the Bank, where appropriate
- The original copy to the lending branch together with:
- A covering letter signed by the chairperson or the secretary of the committee,
- Original copies of the relevant pages of the minutes, and
- All other supporting documents with the standard format.
- One copy shall be kept by the approving office.

Upon receipt of the approval, the lending branch or organ shall immediately communicate the decision to the applicant in writing. (Credit Analysis and Processing Training Manual by Ethiopian Academy of Financial studies (Ibid).

2.4.9. Appeal

Upon informed about the Bank’s decision, the applicant may not be satisfied with the decision and may need to appeal. The lending branch or the concerned office shall clearly explain the basis of the credit decision before receiving the appeal. If the applicant insists, she/he should appeal in writing within some specified period (example, 30 days) from the date the credit decision is communicated (Ibid).

2.5. Risk Management

2.5.1 Definition

Risk Management has been defined by different authors based on their area of emphasis and their attitudes to wards their exposures. Accordingly the researcher has tried to indicate different authors view in the following manner.

Risk management is a managerial process that involves the executive function of planning, organizing, leading and controlling those activities in a firm that deals with specified types of risks in order to maximize the value of an organization. The risk manager is charged with minimizing the adverse impact of losses on the achievement of the company's goal (Trieschmann, 1998: 14).

Risk management is the scientific approach to the problem faced by business that deals with the techniques of forecasting the future so as to plan, organize, direct, and control efforts to minimize the adverse effects of those potential losses. It is the reduction and prevention of the unfavorable effects of risks at a minimum cost through its indecision, measurement and control (Ibid).

Risk management is a general management function that seeks to identify, assess, and address the causes and effects of uncertainty and risk in an organization in order to attain the goals and objectives that organization in the most direct, efficient and effective path. It is a systematic way of protecting business resources and income against losses so that the organization's aims are reached without interruption, creating stability and contributing to profit. (Williams, 1998)

Risk management is a systematic way of protecting business resources and income against losses so that the organization's aims are reached without interruption, creating stability and contributing to profit. It is a scientific approach to the problem of dealing with risks faced by individual and business (Feseha, 1986: 29).

Risk Management is the process of measuring, assessing, and developing strategies to manage the risk. It is the technique for measuring, monitoring, and controlling the financial or operational risk on a firms' balance sheet. Risk management also faces difficulty in allocating resources properly. Resources spent on risk management may be spent on more profitable activities. This is the idea of opportunity cost. Conversely, ideal risk management spends the least amount of resources in the process while reducing the effects of risks as much as possible. There are four techniques of risk management. These are: Risk avoidance, risk reduction, risk retention and transfer of risk to the third party (Feseha, 1986: 29).

Risk avoidance: includes not performing an activity that could carry risk. An example would be not buying a property or business in order to not take on the liability that comes with it. Another would be not flying in order to not take the risk that the plane may be hijacked. Avoidance may seem the answer to all risks, but avoiding risks also means losing out on the potential gain that accepting (retaining) the risk may have allowed. Not entering a business to avoid the risk of loss also avoids the possibility of earning the profits.

Risk reduction deals with methods that reduce the severity of the loss. For example sprinklers designed to put out a fire to reduce the risk of loss by fire. This method may cause a greater loss by water damage and therefore may not be suitable.

Risk retention involves accepting the loss when it occurs. True self insurance falls in this category. All risks that are not avoided or transferred are retained by default.

Risk transfer is the process of causing another party to accept the risk; typically by contract insurance is one type of risk transfer. Sometimes it may involve contract language that transfers a risk to another party without the payment of an insurance premium. For example, liability among construction or other contractors is very often transferred this way. Risk retention pools are technically retaining the risk for the group, but spreading it over the whole group involves transferring risk among individual members of the group, which is different from traditional insurance due to the reason that no premium is exchanged between members of the group (Ibid).

2.5.2 Risk Identification Defined

The first and the most important step in risk management obviously is risk identification. It is logical to say that an unidentified risk can not possibly be treated .as the saying “a problem identified is half solved” goes unsolved, it is essential that risk management efforts start here (Smuc, 2003).

2.5.3 Objectives of Risk Management

Risk management has several important objectives that can be classified as pre loss and post loss objectives. Pre loss risk management objectives are objectives prior to the occurrence of a loss such as reduction in anxiety, analysis of safety program expenses and meeting external obligations where as post loss objectives are important risk management objectives that can be meet after the occurrence of a loss such as survival of the firm, continuity of operation, stability of earning per share and continued growth by developing new products and market or by acquisition and mergers (Williams, 1998: 18).

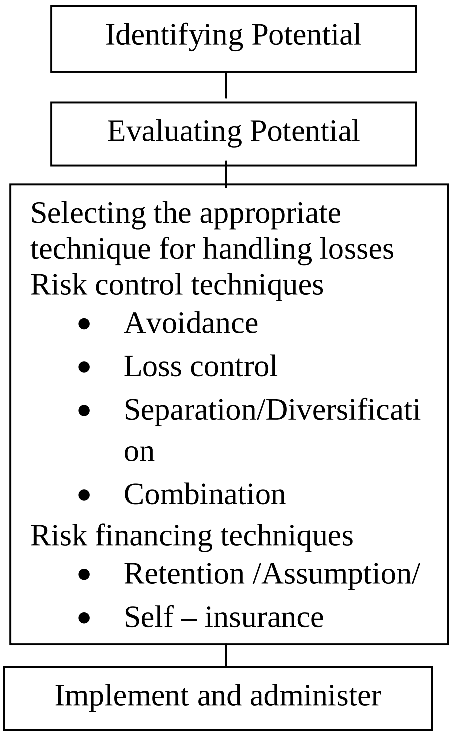
The first step in the risk management process is the determination of the objectives of the risk management program. In other words, the risk manager and other related departments should participate in deciding the expectation of the organization and its risk management program if it is less effective than it could be.

In the absence of coherent objectives, there is a tendency to view the risk management process as a series of individual isolated problems, rather than as one single problem, with no guidelines to provide for a logical consistency in dealing with the risks that the organization faces. Therefore, Risk management objectives serve as a prime source of guidance for those charged with responsibility for the program and also serve as a means of evaluating performance (Ibid).

2.5.4. The Risk Management Process

In order to have an effective risk management program, the risk manager must take certain steps. There are four steps in the risk management process. There are Identifying potential losses evaluating potential losses, selecting the appropriate technique, or combination of techniques, for treating loss exposure, and implementing and administering the program ((Smuc,2003).

Fig 1: Steps in the Management Process



(Teklegiorgis, 2004)

2.5.5. Risk management techniques

The selection of appropriate risk management technique is a dynamic problem. A best method for handling a particular exposure today may not be the best method for next year because so many relevant factors change regularly. The cost and availability of different risk management tools cannot be assumed to remain constant. Thus the risk management plan that seems to be both effective and efficient in one year may not make as much sense in the next. All of these factors make it clear that the risk management techniques should be ongoing rather than an exercise that is performed once and then forgotten. Within this framework there are four basic methods available for handling risk. These are: Risk avoidance, loss control, risk retention, and risk transfer (Williams, 1998: 18).

2.6. Interest rate risk

According to Edward P.M. Gardener, interest rate risks refer to the exposure of an economic unit to movements in the market rates of interest. It is an important part of the baking balance sheet management system, which is concerned with making the corporate trade-offs, sticking the correct balance between profitability, liquidity, and capital adequacy (Greuning, 2003: 16).

2.6.1. Foreign Exchange Risk

The term foreign exchange refers to the simultaneous purchase of one currency and the selling of another, as currencies are traded in pairs. Foreign exchange risk results from changes in exchange rates between a Bank's domestic currency and other currencies. It is a risk of volatility due to a mismatch, and may cause a bank to experience losses as a result of adverse exchange rate movements (Greuning, 2000: 6).

2.6.2 Collateral

Loans are generally granted by the bank and financial agencies against the security of tangible assets pledged by the borrower in favor of the lender. Firms whose credit rating is not sufficiently high to qualify them for unsecured loan or commercial papers are often required to offer a portion of their assets to the lender as security for a loan. The advantage for the lender is that, if the firm is liquidated, the lender has first claim against the assets pledged. This serves the lender as a protection against loss if the borrower's firm gets into cash flow trouble (Lowrence, 1991)

Collateral is the security a bank has in assets owned and pledged by the borrower against a debt in the event of default. Banks look to collateral as a secondary source of repayments when primary cash flows are insufficient to meet debt service requirements. Banks can lower the risk of loss on a loan by requiring support beyond normal cash follow. This can take the form of assets held by the borrower, or an explicit guarantee by a related firm or key individual (Ibid).

CHAPTER THREE

PRESENTATION, ANALYSIS AND INTERPRETATION OF DATA

In this chapter, the data obtained through a questionnaire will be analyzed and interpreted based on the findings. The questionnaire was distributed for 55 division manager, credit manager, credit analysis, branch manager, credit assistance, loan division head, loan section, credit officer and loan officer. Additionally, the questionnaire surveyed 12 customers. The data collected through the questionnaire was compiled and presented as follows:

3.1. Questionnaire Distributed and Returned to Bank Employee's and Customer's

Table 3.1. Questionnaire distributed and returned

Respondents Type	Questionnaire					
	Returned		No Returned		Total distributed	
	In Number	In percentage	In Number	In percentage	In Number	In Total
Bank Employees	47	85.45%	8	14.55%	55	100%
Customers	12	100%	-	-	12	100%

3.2 General Information about the Respondents

No	Question	Respondents	
		In Number	In Percentage %
1	**Sex**		
	Male	36	76.6 %
	Female	11	23.4%
	Total	**47**	**100%**
2	Educational background Below Diploma	-	-
	Diploma	3	6.38%
	1st Degree	35	74.47%
	Above first Degree	9	19.15%
	Total	**47**	**100%**
3	Position		
	Head Office Credit Manager Division Manager Branch Manger	1 1 1	2.13% 2.13% 2.13%
	officers	44	93.62%
	Total	**47**	**100%**
4	Service year		
	Below 5 years	36	76.6%
	5-10 years	11	23.4%
	11-15 years Above 15 years	- -	- -
	Total	**47**	**100%**

Table 3.2. As one can see from the above table, the respondent sex distributions show(36) 76.6% account for males which show the majority of the respondent's were male. The remaining (11) 23.4% were female in gender.

All of the respondents have educational qualification of diploma and above. As indicated in the table out of 47 respondents (3) 6.38% are diploma holders, (35) 74.47% are 1st degree and the remaining (9) 19.15% account for educational qualification above 1st degree.

Concerning the position of respondent’s they comprise the majority which account for (44) 93.62% of the respondent’s which are officers, (1) 2.13% are head office credit manager’s, (1) 2.13% are division manager’s and the remaining (1) 2.13% are account for branch manager’s.

Most of respondent which account for (36) 76.6% of total respondent have a service below 5 years and (11) 23.4% are 5 to 10 years service experience. As it imply Dashen Bank is filled with youngsters. It has positive contribution to future and present performance.

3.3 General Risk Management system

No	Question	Respondents	
		In Number	In percentage %
1	Category of work.		
	Professional and high-level management group.	21	44.68%
	Professional and medium level management group	12	25.53%
	Technical and skilled	14	29.79%
	Total	**47**	**100%**
2	Are collaterals considered per-requests for qualification of loan requests?		
	Yes in most instances	13	27.66%
	Yes in some instances	34	72.34%
	No at all	-	-
	Total	**47**	**100%**
3	Do you believe that the credit risk management policies and Practices are in line with the overall strategy of the Bank?		
	Yes they are.	15	31.91%
	Yes, but there are some irregularities.	26	55.32%
	No they are not.	-	-
	I am not quite aware of that.	6	12.77%
	Total	**47**	**100%**

Table 3.3. The category of work distribution shows that (21) 44.68% of bank employee respondent's are professional, and high level management, (12) 25.53% are in the professional and medium level management group, and the remaining (14) 29.79% are technical and skilled employee's. This data analysis was derived from the Dashen Bank professionals.

The response collected from respondent's show that the bank considers collateral for the qualification of loans, are in most instances, account for (13) 27.66% and the remaining (34) 72,34% of respondents believed that collateral was consider as a qualification for a loan in some instances. .This shows us that the bank considers a collateral in order to be considered (per requests) for qualification for a loan request, because the data shows that more than half (around 72.34% or 34 out of 47) respondents agree with this.

(15) 31.19% of the respondents believe that the credit risk management policies and practices are in line with the overall strategy of the bank, (26) 55.32% of them believe the credit risk management policies and practices are in line with the overall strategy of the bank, but there are some irregularities remaining. For example, (6) 12.77% are not quite aware the credit risk management policy and practice. From the above data analysis, most of employee's believe that the credit risk management polices and practice are in line with the overall strategy of the bank risk management process.

3.4 Risk Management Analysis

	Question	Respondents	
		In Number	**In percentage %**
1	Are the existing credit risk management policies, procedures and techniques of the Bank well communicated to you?		
	Yes	14	29.79%
	To some extent	22	46.8%
	No	11	23.4%
	Total	**47**	**100%**
2	What type of risk management activities are performed by you?		
	Credit risk management	20	42.55%
	Liquidity risk management	12	25.53%
	Interest rate and foreign exchange risk management	15	31.9%
	Total	**47**	**100%**
3	Are you satisfied with the quality of the risk management system adopted by Dashen Bank?		
	Very satisfied	12	25.53%
	Satisfied	14	29.78%
	Fair	-	-
	Dissatisfied	21	44.68%
	Very dissatisfied	-	-
	Total	47	100%

Table 3.4. Shows that the majority of the respondents accounting for (22) 46.8% believed that the existing risk management policies and procedures of the Bank are communicated to them only to some extent (14) 29.79% of the participants have said that “yes” it is well communicated. But (11) 23.4% of the respondents have suggested that it is not communicated at all. This shows that the respondents don’t have a clear understanding about the existing risk management policies and procedures of the Bank.

The above table of respondents (which account for (20) 42.55%) participate in credit risk management, (12) 25.53% in liquidity risk management, and (15) 31.9% participate in interest rate and foreign exchange risk management. This shows that most employees are somewhat familiar with credit risk management.

The above table shows that the degree of their satisfaction in quality of risk management system adopted in Dashen Bank varies according to data collected from the respondents though a questionnaire which shows us (12) 25.53% of bank employee respondents, participate in risk management systems and are very satisfied with the overall quality of the risk management system adopted by the bank. (14) 29.78% are simply satisfied, and the remaining (21) 44.68%, dissatisfied. This shows us that certain bank employee's who participate in the risk management system are dissatisfied with their perception of the risk management system adopted by the bank. Recommendation: revise the bank's risk management system.

3.5 Credit risk management system

No	Question	Respondents	
		In Number	In percentage %
1	How much do you know about the credit risk management system adopted by Dashen Bank?		
	Not at all	3	6.38%
	Not too much	8	17.02%
	Some what	20	42.55%
	Very much	16	34.05%
	Total	**47**	**100%**
2	How loan officers are assigned to their positions?		
	Based on qualification	8	17.02%
	Based on experience	4	8.51%
	Based on qualification and experience	31	65.96%
	Based on blood relation with owners	4	8.51%
	I am not quite aware of it	-	-
	Total	**47**	**100%**
3	Does the Bank access borrower's past financial history, credit worthiness and perform detailed financial analysis before extending the loans?		
	Yes definitely	33	70.21%
	Yes to some extent	10	21.28%
	Not at all	-	-
	I am not quite aware of it	4	8.51%
	Total	**47**	**100%**
4	If your answer to the above question is "Yes definitely", How often?		
	Quarterly	19	57.57%
	Semi- annually	10	30.3%
	Annually	4	12.12%
	I am not quit aware of it	-	-
	Total	**33**	**100%**

Table 3.5. Most of the bank employee respondents know about the credit risk management system adopted by the bank, which accounts for (20) 42.55%, (16) 34.05% know very much about the credit risk managements system, (3) 6.38% and (8) 17.02% of total bank employee respondents are not at all or do not know much about the credit risk management system adopted by Dashen Bank. This shows us that the participants do not know the bank's credit risk management system currently adopted by the Bank.

Most of the bank employee respondents which account for (31) 65.96%, believe that loan officers are assigned in their position based on qualification and experience, (8) 17.02% believe based on qualification, (4) 8.51% believe based on experience and the remaining, (4) 8.51% believe loan officers assignments in their positions based on blood relation with upper management. From this one may be able to conclude that assignment of many loan officers are assigned to their position based on qualification and/or experience.

(33) 70.21% of bank employee respondents (or a majority) believe that the bank definitely assess borrower post financial history, credit worthiness and performs detail financial analysis before extending the loan, (10) 21.28% of them believe to some extent analysis is conducted before extending the loans, but (4) 8,51% not quite sure about it. Therefore, one is able to conclude from the above data, that the borrower’s past financial history, and credit worthiness was determined by appropriate bank financial analysis before extending most loans.

According to certain data, the bank definitely accesses borrowers past financial history, credit worthiness and performs detailed financial analysis, before extending loans in a certain period of time. (19) 57.57% report quarterly performance reviews, (10) 30.3% report semi annual performance reviews, and (4) 12.12% report annual performance reviews. Therefore, they perform detailed financial analysis, mostly on a quarterly basis.

3.6. Credit Risk Management Analysis

No	Question	Respondents	
		In Number	In percentage %
1	When the borrower faces a certain problem and unable to pay the loan, what mechanism do you apply in order for the loan to be collected?		
	Extension of the life of the loan	15	31.91%
	Injection of additional loans	6	12.77%
	Rearrangement of loan repayment structure	6	12.77%
	Waiver of the loan	20	42.55%
	Total	**47**	**100%**
2	What is the concerning organ of the Bank involved in deciding credit facility requests of prospective borrowers?		
	Loan officers	6	12.77%
	Credit analysis	15	31.91%
	Loan officers and Credit analysis	20	42.54%
	Management credit committee	2	4.26%
	Credit analysis and Management credit committee	2	4.26%
	Credit committee	2	4.26%
	Total	**47**	**100%**
3	From the total loans and advances granted to its customers in which sector does the Bank usually emphasize ?		
	Agricultural sector	6	12.77%
	Manufacturing	4	8.51%
	Domestic trade and services	8	17.02%
	Import and Export	6	12.77%
	Building and construction	9	19.15%
	Transport	14	29.78%
	Total	**47**	**100%**

The above table 3.6. Shows that when the borrower faces certain problems, and may be unable to pay back the loan, the bank applies different methods or mechanisms in order to collect the loan. For example, extension, injection of additional loan, and rearrangement of loan repayment. From data collected, (15) 31.91% of bank employee respondents report that the bank extension for the life of loan may be implemented, (6) 12.77% said that injection of addition loans, (6) 12.77% rearrangement of loan repayment structure is applied, and (20) 42.55% of respondents report that a waiver of loan and method of mechanism is offered when the borrower faces a certain problem, and is unable to pay back loan, which implies that the bank much of the time extends the life of the loan.

Different bank employee’s are involved in deciding credit facility requests by prospective borrowers. (6) 12.77% of bank employee respondents believe that loan officers decide and facilitate the credit. (15) 31.91% report that credit analysis is performed. (20) 42.54% believe loan officers perform the credit analysis. (2) 4.26% believe management credit committee performs the analysis, (2) 4.26% credit analysis is performed by the management credit committee, and (2) 4.26% state that the credit committee performed the analysis. From the above data analysis, the loan officers perform the credit analysis by deciding and facilitate the loan for the customers.

From the total, loan and advances granted by the bank to its customers, (6) 12.77% of respondents report that loans are provided to the agricultural sector, (4) 8.51% said to manufacturing, (8) 17.02% said to domestic trade and service, (6) 12.77% said to import and export, (9) 19.15% said to building and construction, and the remaining (14) 29.78% of respondents believe that loans are provided and granted to transport. Therefore, the bank grants most loans for transportation purposes.

3.7 Comments /opinion/

No	Question	Respondents	
		In Number	In percentage %
1	Your opinion , how do you evaluate the over all credit risk management system in Dashen Bank?		
	Yes	27	57.45%
	No	20	42.55%
	Total	**47**	**100%**
2	What is your comment to improve the collateral qualification system of a Bank?		
	Yes	19	40.43%
	No	28	59.57%
	Total	**47**	**100%**
3	What other comment / opinion do you have for credit risk management polices, procedures for Dashen Bank ?		
	Yes	24	51.2%
	No	23	48.94%
	Total	**47**	**100%**

The above table 3.5. Shows (27) 57.47% also commented that in Dashen Bank there is a belief that every manager is a risk manager but there has to be a supervisor body that is responsible to evaluate the overall credit risk management system of the bank and fill any gaps. Similarly, the credit risk management system should be reviewed and updated frequently in consideration of the market. But,(20) 42.55% of them have no opinion on the credit risk management system.

From the above table (19) 40.43% the respondents commented that collateral as a prerequisite to qualify for credit was required. The fundamental principle of lending considers lending for sound investment projects depends on securities as determined for recovery of loans. But, (28) 59.57% of believe that the bank collateral qualification system needs improvement. This shows that the bank collateral qualification system has certain problems that could be remedied by the bank.

The above table shows that (24) 51.2% the respondents advise that polices and procedures are important to measure, monitor and control risk; as a result Dashen Bank has a business credit risk management policies and procedures on all types of credit, liquidity, interest rate, foreign exchange, and operational risks. However, (23) 48.94% of the respondents have no comment on overall credit risk management policies and procedures of the bank.

Profile of Customer

The profile of the customer regarding their sex, educational background ,long term costumers of Dashen Bank , type of loan to the taken by them, and general information about the service they need from Dashen Bank are presented below :-

3.8 General Information about the Respondent Customer and Education Background

No	Question	Respondents	
		In Number	In percentage %
1	Sex		
	Male	10	83.33%
	Female	2	16.67%
	Total	**12**	**100%**
2	Education Background		
	Blow diploma	2	16.67%
	Diploma	8	66.66%
	1st degree	2	16.67%
	Above 1st degree	-	-
	Total	**12**	**100%**

Table 3.8 shows characteristic of respondent's customer by their age. According to the data and analysis on the above table out of 12 respondents customers, 10 of them or 83.33% are male and the remaining 2 or 16.67% are female. This shows a majority of the customers/respondents are male in gender.

The table also shows the educational background of respondents /customers. As indicated in the table, out of 12 respondents/customers 2 or 16.67% are Blow diploma 8 or 66.66% the majority of the customers or respondents are diploma holder and remaining 2 or 16.67% are 1st degree in their education. Most respondent or customer have diploma holder.

3.9 Time Period Being Customer and activity you engaged

No	Question	Respondents	
		In Number	**In percentage %**
1	How long you have been a customer of Dashen Bank?		
	For 5 years	4	33.33%
	From 5-10 years	6	50%
	Above 10 years	2	16.67%
	Total	**12**	**100%**
2	What Kind of trade activity are you engaged in?		
	Wholesaler	6	50%
	Import	2	16.67%
	Export ,industry and agriculture	4	33.33%
	Total	**12**	**100%**

Table 3.9 shows the time period of being a customer of the Dashen Bank. As shown in the above table, 4 or 33.33% being a customer for 5 years, 6 or 50% are 5 to 10 year and the rest 2 or 16.67% are above 10 years. Half of the customers have banked with Dashen Bank for 5 to 10 years.

The above table shows the kinds of trade activity engaged in by each customer. 6 or 50% (one half) of customers engage in wholesaler activity, 2 or 16.67% are importers, and the remaining 4 or 33.33% of total customers engage in other activities. This indicates that most of the Dashen bank customer engaged in export, industry and agriculture activity.

3.10 Factor to secure loan facility and type of loans

No	Question	Respondents	
		In Number	In percentage %
1	What are the factors that help you to secure you loan?		
	past credit history	8	66.69%
	Cash flow of your business	-	-
	Favorable attention to the sector	4	33.33%
	Total	12	100%
2	What type of loan do you make?		
	Term loan	5	41.67%
	Over draft loan	-	-
	Merchandise loan	7	58.33%
	Total	**12**	**100%**

Table 3.10 shows the factors that help you to secure a customer to facilitate the loan. According to data, 8 or 66.67% factors that help to secure loan facility is past credit history, and 4 or 33.33% facilitate due to favorable attention provided to the sector.

According to the above table analysis 5 or 41.67% of customer table get a term loan and the rest 7 or 58.33% take a merchandise loan .Therefore most of the customers taker a merchandise loan.

3.11 Dashen Bank provides adequate credit services and loan activity

No	Question	Respondents	
		In Number	In percentage %
1	Do you believe that the Dashen Bank provides adequate credit services?		
	Yes	12	100%
	No	-	-
	I don't know	-	-
	Total	**12**	**100%**
2	Does Dashen Bank take immediate action to give a loan to customer?		
	Yes	5	41.67%
	No	7	58.33%
	Total	**12**	**100%**

Table 3.11 shows that the Dashen bank provides adequate credit services and loan activates from 12 respondents all of them agree that the bank provides adequate credit services. It means that 100% the bank credit service is adequate.

The above table data analysis shows that 5 or 41.67% of total customers believe that Dashen Bank takes immediate action to give a loan to customer and the reaming 7 or 58.33% do not believe Dashen Bank takes immediate action to give a loan to the customer. According to the respondents, the bank does not take immediate action when providing a loan to the customer according to 58.33% of respondents.

3.12 Collateral evaluated using current Market Value and Knowledge of credit policy and procedures

No	Question	Respondents	
		In Number	In percentage %
1	Are the properties used for collateral by Dashen Bank evaluated using current market value?		
	Yes	6	50%
	No	6	50%
	I don't know	-	-
	Total	**12**	**100%**
2	Do you have any knowledge of the Dashen Bank credit policy and procedures?		
	Yes	10	83.33%
	No	2	16.67%
	I don't know	-	-
	Total	**12**	**100%**

Table 3.12 shows that the above data 6 or 50% or half of the total customers believe that their properties used for collateral are evaluated using current market value, and the rest 6 or 50% or half of customers do not believe (based on the responses) that the bank utilizes current market value when determining collateral for a loan.

According to the above table 10 or 83.33% of total customers have knowledge about credit policy and procedures. However, 2 or 16.67% of customers do not have knowledge about credit policy and procedure .This indicates that a majority of the customers have certain knowledge about Dashen Banks credit policy and procedure.

3.13 Dashen Bank Assist it Customer and Reason for concerning loan

No	Question	Respondents	
		In Number	In percentage %
1	If the borrower is not able to settle its loan according to agreement, is Dashen Bank assisting the borrower?		
	Yes	12	100%
	No	-	-
	Total	12	100%
2	Which one of the following is consider as a problem concerning loan?		
	Borrower behavioral problem	-	-
	Loan official behavioral problem	-	-
	By both	12	100%
	Total	12	100%

Table 3.13 shows that the above data analysis table 12 or 100% of all borrower believe that if they are not able to settle their loan according to agreement, the Dashen Bank assists its borrower.

The above table also shows that 12 or 100% of all customers believe that both borrowers and loan officers' behavioral problems reflect on their loan. It shows that according to the respondents that both the customer and the loan officer may have behavioral problems or difficulties. This could be used as an indicator when taking remedial action to better insure smooth loan transactions for both the customer and the bank.

3.14. Interview questions to Credit Risk management

Questionnaires containing both objective and subjective questions were presented to the three sample branches including the Head office prior to conducting the interviews for this research.
Complete and relevant information was obtained from the interviews conducted with this study. Participation of the Head office credit manager, loan officers, loan clerks and credit analysts were implemented in this research.

Following are responses compiled from interviews:-

- Do you believe that the art and science of credit risk management systems are well applied in the Bank? Yes, How? The respondent believed that the art and science of credit risk management is perfectly applied, suggested that it needs some adjustment.

- Do you think that the best technique of credit risk management today will also be the best for the next year? “Yes. The respondent to the applicability of credit risk management techniques produced a broad variety of opinions as presented. Accordingly, the technique of credit risk management today will also be the best for the next year, but without any justification. With this idea said, “as the speed of technological development is increasing, so many internal and external changes are taking place continuously” as a result the credit risk management system should also be flexible and needs some adjustment. Additionally, it is suggested that the risk management system/technique (especially credit risk) should consider the current market situation and the economic status of the society. The market should also be assessed for minimum risk for credit. In this case, the technique may not be changed very frequently, but adjustments should be made regarding sensitive areas. It depends on the degree of change in the external and internal environment.

- From the total loan, and advances granted to its customers, the Bank usually emphasized that domestic trade service, and manufacturing sectors have been interchangeably leading the others. In general, the current and future situation of the market, its profitability, risk bearing capacity of the sector to be selected and many other factors may determine the area of emphasis to be selected

- What can you suggest for the Bank in order to minimize its risk managements costs? Effectiveness of the management system existing in any business resets largely on its competence to manage risks that hamper attainment of the goals that are set through the planning process. This job requires use of expertise, specific knowledge, and skill sets to develop and implement appropriate system for the management of risks. Accordingly, Dashen Bank is governed by a carefully drawn strategic plan, which incorporates prudent strategies intended to address credit, liquidity, interest rate and foreign exchange rate risks that threaten the success of the Bank. Dashen Bank's credit risk management approach promotes the use of comprehensive guidelines, which is a derivative of the policies and procedures adopted to tackle various types of risks.

- What are the concerns of the Bank when deciding credit requests of prospective borrowers? Those making the decisions regarding credit requests include: loan committee, credit analysis, member of the board of director, the president.

CHAPTER FOUR

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

4.1 Summary

This Chapter presents the summary, conclusion and recommendations made on the basis of the research. In an attempt to achieve these objectives 47 employees, and 12 credit customers of the bank completed questionnaires and were interviewed.

The main purpose of this study is to investigate the credit risk management practice in the case of Dashen Bank. To realize the objective of the study, I collected and organized data related to risk management practices in the bank as well as relevant information that was gathered though the use of a questionnaire.

The main propose of the study is to examine the credit risk management practice in the case of Dashen Bank, to identity the main factors affecting the credit risk management in the Bank, and to point out any existing problems .

The findings are summarized as follows.

- The majority of the respondents (accounting for 44.68) have no clear understanding about the existing credit risk management system adopted by the Bank. This shows a lack of information about the existing credit management system employed by the bank.
- The Bank has both strong and weak sides. It will assess the borrowers past financial history and credit worthiness.
- Detailed financial analysis of past financial history of the borrowers and forecasting of the future prospective development will enable the bank to identify the capacity of the borrowers and to process loan in the safest condition. This is one of the bank’s strong points.
- For about 46.8% of the respondents, the existing credit risk management policies, procedures and techniques of the Bank are not well communicated to the employees.

- About 72.34% of the respondents believed that collateral consider for qualification of a loan is implemented in some instances. This shows us that the bank consider collateral as important for qualification of a loan request, as more than half of the respondents agreed with this.

- About 42.54% of the respondents believed loan officers and the credit committee made the decisions regarding loan approval. This shows that loan officers and credit analysis is mostly involved in deciding and facilitating the loan for customers.

- About 29.78% of the respondents, from the total loans and advances the Bank will emphasize the transportation sector as loan recipients, but for 19.15% and 17.02% the loans will go to building construction, and domestic trade services respectively. This shows that Sectoral analysis, which is an integral part of credit risk management which is not well practiced before extending loans for new projects.

- About 41.67% of the total customers believe that Dashen Bank takes immediate action to give a loan to customers, and the remaining 58.33% do not believe the bank takes immediate action on customer loan requests.

- About 51.2% the respondents advise that polices and procedures are important to measure, monitor and control risk; as a result Dashen Bank has a business credit risk management policies and procedures on all types of credit, liquidity, interest rate, foreign exchange, and operational risks. However, 48.94% of the respondents have no comment on overall credit risk management policies and procedures of the bank.

- Qualified and experienced personnel are not assigned to their proper places, and adequate training is not given periodically in order to update the status of key personnel.

- Respondent interviews show that the existing credit risk management and procedure manual is not current and doesn't comply with the existing dynamic market environment.

4.2 Conclusions

Based on the major findings the following conclusion is drawn.

The strong points of the bank is the introduction of wide area net work (WAN) which helps the bank to have an efficient communication system, where its branches can easily provide current information to the management so that timely decisions can be made with out damage or loss. This is a basic trend among other banks in Ethiopia as they adopt new information technologies, which will enable them to communicate easily among the banks.

However, on occasion the weak polices and procedures and their implementation, outweigh the positive. Most of these have been cited above in the analysis of the findings. To high light some of these, the bank could make the collateral a consideration for qualification of a loan request. This will better evaluate the viability of the proposed project, so that it can handle its credit customers more easily without exposing the company to unnecessary risks.
It appears that an integral part of credit risk management is not well practiced before extending loans for new projects.

Similarly, existing credit risk management polices and procedures of the bank are not well communicated to the employee.
Unless the bank maintains well designed procedures, techniques and policies of a credit risk management system, and establishes the most critical element of all (a well-trained staff that is qualified to implement the system), it will be difficult to survive let alone to flourish in the prevailing competitive economic environment.

If these issues are adequately revised regarding old and familiar borrowers, the researcher believes that the owners, management, the staff, and the public at large will be in a better position to benefit from the overall operation of the bank for which credit risk management is the nucleus.

4.3 Recommendations

Based on the facts gleaned from the questionnaire and interviews, the following are recommended as possible solutions, in alleviating any shortcomings, and to reduce credit risk management cost:

- The Management of Dashen Bank should arrange duplication of credit risk management manuals regarding policies and procedures. Therefore, prepare publications and distribute them to employees at the department level. This will allow every employee to have a clear understanding about the credit risk management process, and policies and procedures of the Bank. This will protect the bank and will allow for a more systematic process, and alternative ways to make decisions.
- It appears that decision makers are in certain positions based on a long stay on the job, rather than specific qualification and job experience. Therefore, the Bank could assign qualified, professional and experienced individuals to high risk positions. Additionally, it is equally important to design an adequate professional training scheme by providing off and on the job training. Therefore, the credit risk management cost will be minimized, and the employees will update themselves with the dynamic nature of risk and the company will be better off and more competitive in the market.

- As per the information obtained from the questionnaire and interviews, the actual practice indicates that Dashen Bank doesn't specify a particular sector and for financing, but it supports any viable business venture. However, the researcher believes that viability of the project doesn't mean that it is risk free and the actual practice may differ from the theoretical viability. Therefore, the Bank should make a detail sectoral analysis of each project and should determine/select the project with the highest profitability and minimum risk.
- The banking business faces various risks. Thus, Dashen bank should implement its existing credit risk management system adopted by the bank in effective risk evaluation systems and identify the overall risks by designing cost effective and efficient techniques

in order to minimize the credit risk management cost and increase the overall return of the bank.

The above recommendations should not be taken as conclusive, but as a guideline to enhance risk management for the bank. The credit risk management committee and senior management of the Bank should promote a culture of gathering various suggestions from the employees and customers and revise its policies, procedures and develop new strategies, which are flexible in nature so that they could fit to the dynamic market environment.

Finally, the researcher reiterates the importance of periodic review of existing credit risk management policies and procedures manuals in line with latest developments and financial condition of the country, as well as best practices in international banking.

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APPENDIX

Appendix I

St. Mary's University College
Faculty of Business
Department of Management

This questionnaire is filled by managers and employees of Dashen Bank in the effort to manage and control credit risk.

For the success and fruitfulness of this research highly rely on your accurate and reliable information. So I would like to thanks in advance for your accurate and reliable information.

The purpose of this study to collect the necessary information for a study titled Credit Risk Management practice in Dashen Bank as fulfillment of B.A degree in Management.

Note:-

- All questions are equally importance and valuable to this research. So please you try to answer all question.
- No need of writing your name.
- Information you give will be kept confidential and hence try express your idea frankly as possible. Because if use for research purpose only

Directions: - For question with give alternative, choose please put "√ "in the box provide.
For question which no alternative write brief and clear answer on the space provided.

General Information about the Respondent

1. Sex

☐ Male

☐ Female

2. Education background

☐ Blow diploma

□ Diploma

□ 1st Degree

□ Above 1st degree

3. Position ___________________________

4. How long have you been working in current position?

□ Below five years

□ 5-10 years

□ 11-15 years

□ Above 15 years

JOB RELATED (general risk managements)

5. Category of work

□ Professional and high level mgt group

□ Professional and medium level mgt group

□ Technical and skilled

6. Are collaterals considered per- requests for qualifications of loan requests?

□ Yes in most instances

□ Yes In some instances

□ No at all

7. Do you believe that the credit risk management policies and practice in line with the overall strategy of the Bank?

□ Yes they are

□ Yes, but there are some irregularities.

□ No they are not.

□ I am not quite aware of that.

8. Are the existing credit risk management policies, procedures and techniques of the Bank well communicated to you?

□ Yes

□ To some extent

□ No

9. If your answer in the above question "YES "what type of risk management activities is Performed by you?

□ Credit risk mgt

- Liquidity risk mgt
- Interest rate and foreign exchange risk mgt.

10. Are you satisfied with the quality of risk management system adopted in Dashen Bank ?

- Very satisfied
- Satisfied
- Fair
- Dissatisfied
- Very dissatisfied

Credit risk management system

11. How much do you know about the credit risk management system adopted by Dashen Bank?

- Not at all
- Not to much
- Some how
- Very much

12. How loan offices are assigned in their positions?

- Based on qualification
- Based on experience
- Based on qualification and experience
- Based on blood relation with owners
- I am not quite aware of it.

13. Does the Bank asses borrower's past financial history, credit worthiness and performs detail financial analysis before extending the loans?

- Yes definitely
- Yes to some extent
- Not at all
- I am not quite aware of it.

14. If your answer in the above question is "Yes definitely", how often?

- Quarterly
- Semi-annually
- Annually
- I am not quite aware of it

15. When the borrower faces a certain problem and unable to pay the loan, what mechanism do you apply in order the loan to be collected?

- Extension of the life of the loan
- Injection of additional loans
- Rearrangement of loan repayment structure
- Waiver of the loan

16. What is the concerning organ of the Bank involved in deciding credit facility requests of prospective borrowers?

- Loan officers
- Credit analysis
- Loan officers and Credit analysis
- Management credit committee
- Credit analysis and Management credit committee
- Bored credit committee

17. From the total loan and advances granted to its customers in which sector does the Bank usually emphasized?

- Agricultural Sector
- Manufacturing
- Domestic trade and services
- Import and Export
- Building and construction
- Transport

Comment /opinion/

18. Your opinion, how do you evaluate the over all credit risk management system in Dashen Bank?

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19. What your comment to improve the collateral qualification system of a Bank?

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20. What other comment /opinion/do you the over all credit risk management policies, procedures of the Bank? --

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Thank you

APPENDIX

Appendix II

St. Mary's University College
Faculty of Business
Department of Management

Customers

This questionnaire is filled by customers of Dashen Bank in the effort to manage and control credit risk.

For the success and fruitfulness of this research highly rely on your accurate and reliable information. So I would like to thanks in advance for your accurate and reliable information.

The purpose of this study to collect the necessary information for a study titled Credit Risk Management practice in Dashen Bank as fulfillment of B.A degree in Management.

Note:-

- All questions are equally importance and valuable to this research. So please you try to answer all question.
- No need of writing your name.
- Information you give will be kept confidential and hence try express your idea frankly as possible. Because if use for research purpose only

Directions: - For question with give alternative, choose please put "√ "in the box provide. For question which no alternative write brief and clear answer on the space provided.

General Information about the Respondent

1. Sex

☐ Male

☐ Female

2. Education background

☐ Blow diploma

☐ Diploma

☐ 1st Degree

☐ Above 1st degree

3. How long you have been stay a customer of Dashen Bank?

☐ For 5 years

☐ From 5-10 years

☐ Above 10 years

4. What kind of trade activity you engaged in ----------------------------------

5. What are the factors that help you to secure your loan facility?

☐ Past credit history

☐ Cash flow of your business

☐ Favorable attention to the sector

6. What type of the loan do you take?

☐ Term loan

☐ Over draft loan

☐ Merchandise loan

7. Do you believe that the Dashen Bank provides adequate credit services?

☐ Yes

☐ No

☐ I don't know

8. Does Dashen Bank takes immediate action to give a loan to customer?

☐ Yes

☐ No

9. Do the properties used for collateral by Dashen Bank evaluated in current market value?

☐ Yes

☐ No

10. Do you have any knowledge of the Dashen Bank credit policy and procedures?

☐ Yes

☐ No

☐ I don't know

11. If the borrower is not able to settle its loan according to agreement, is Dashen Bank assisting the borrower?

☐ Yes

☐ No

12. You answer for number 11 is “No” please state the reason, why?

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13. Which one of the following consider problem concerning loan?

- Borrower behavioral problem
- Loan official behavioral problem
- By both

14. Your answer for number 13 is “Loan officer behavioral problem “please explain the reason

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15. Your answer for number 13 is “Both borrower and loan officer behavioral problems “ please state the reason ---

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Thank you

Appendix

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DECLARATION

I, the undersigned, declare that the thesis/project is my original work and prepared under the guidance of Ato Biruk G/michael. All sources of material used for the manuscript have been duly acknowledged.

Name: Tenagne Getahun

Signature: ______________________________

Place of submission: St.Mary's University College

Date of submission: June 21,2011

<u>**SUBMISSION APPROVAL SHEET**</u>

The senior research paper has been submitted to the department of Management in the partial fulfillment for the requirements of BA Degree in Management with my approval as an advisor.

Name: ___________________________________

Signature: ________________________________

Date Submission: ___________________________

APPENDIX

Appendix III

St. Mary's University College
Faculty of Business
Department of Management

Interview questions to Credit Risk management

1. Do you believe that the art and science of credit risk management systems are well applied in the Bank? Yes, How? No, Why?
2. Do you think that the best technique of credit risk management today will also be the best for the next year? Why?
3. From the total loan and advances granted to its customers the Bank usually emphasized?
4. What can you suggest for the Bank in order to minimize its risk managements costs?
5. What are the concerns of the Bank when deciding credit requests of prospective borrowers?