ST.MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIES

ASSESMENT OF CREDIT MANAGEMENT PRACTICE

(In the case of Awash International Bank share company)

BY

SELAMAWIT ALEMAR ANDIHUN

JUNE, 2017

ADDIS ABABA, ETHIOPIA

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APPROVED BY BOARD OF EXAMINERS

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Advisor	**Signature**
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DECLARATION

I the undersigned declare that this thesis is my original work; prepared under the guidance of Asmamaw Getie (Assistant Professor).All sources of materials used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institutions for the purpose of earning any degree.

Name Signature

St. Mary's University, Addis Ababa **June, 2017**

ENDORSEMENT

This thesis has been submitted to St. Mary's University, school of Graduate Studies for examination with my approval as a University advisor.

Advisor Signature

St. Mary's University, Addis Ababa **June, 2017**

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Abstract

Banking is a business practice, or profession almost as old as the very existence of man. It has sprouted from the very primitive Stone Age banking, through the Victorian age to the technology driven Google-age banking ,encompassing automotive teller machines(ATMs) credit and debit card, correspondent and internet banking (Wikipedia,2008).

While financial institutions have found difficulties over the years for a multitude of reasons, the major cause of serious banking problems is the practice and management related to credit, as a result of this the study aimed at the credit management practice of Awash International Bank Share Company. The Study is organized with five chapters. The First chapter introduces the background of the study, the research objectives and questions, significance of the study, scope of the study and organization of the paper. The Second chapter presents theoretical and empirical review of the related literatures. The Third chapter deals with methodology of the study. The Fourth chapter is concerned with the analysis, results and discussions as well the last chapter of the study chapter five presents the limitation of the study conclusion and recommendations drawn from findings of the data in addition with implications for further research.

The objective of the study specifically raise issues like loan performing ground of the bank, the impact of loan procedure to customers and the measures taken to control non-performing loans and other related issues. The study use Questionnaire as primary data source and manuals and procedures and publications of the bank as well NBE as secondary data source. Data to do the analysis is obtained from bank employees for the analysis the study used SPSS 2010(version 20.1), as a result the study concluded that the bank have more dependable on its income from loan interest and the bank has a good implementation of NBE directives as well the action taken to improve repayments of clients is give better chance to customers, but the follow up on timely repayment of loan is weak and the knowledge of loan clients need improvement.

Thus, the researcher recommends that the repayment of loan need strict follow up and give emphasis on creating better awareness for the loan clients of the bank.

ACRONYMS

SC- Share Company

NBE- National Bank of Ethiopia

AIB-Awash International Bank

A/R-Account Receivable

DSO-Sales Outstanding

L/C-Letter of Credit

TIN-Tax Identification Number

SPSS- Statistical Package for the Social Sciences

MBA-Masters of Business Administration

BA-Bachelor of Art

BSC-Bachelor of Science

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CHAPTER ONE

1. INTRODUCTION

1.1 Back ground of the study

Banks are financial institutes established for provision of full- pledged banking services, such as mobilization of deposits, provision of credit services, International Banking Services, Money Transfer services and safe deposit services, according to the laws and guidelines of the country. As banks have many more services for its customers lending or give credits to potential borrowers is one and important source of income for banks. Those banks establish strong credit management mechanisms to minimize and control the risk following credit like bankruptcy.

While financial institutions have faced difficulties over the years for a multitude of reasons, the major cause of serious banking problems continues to be directly related to lax credit standards for borrowers and counterparties, poor portfolio risk management, or a lack of attention to changes in economic or other circumstances that can lead to a deterioration in the credit standing of a bank's counterparties. This experience is common in both G-10 and non-G-10 countries.

Banks make available financial resources necessary for economic growth from lenders to borrowers (Shanmugan & Bourke, 1990). Banks take deposits from those who have to save (lenders) and then lend the money deposited to those who are in deficit (borrowers) as loans. At a certain stage of their evolution, their traditional activity of deposit taking and loan making enlarged with activities like remittance, foreign exchange dealings ,trustee services, securities brokerages, investment advisory dealings, bill paying ,leasing factoring , etc. (Shanmugan &Bourke,1990)

Banks have different levels of risks in the credit management according to the size of the borrower company, complexity of the business activity and the volume, general belief that banks are expected to face credit ,marketing ,operational ,legal risks ,the credit risk is more direct risk that bank is faced because it's directly related to its profit. Charles Mensah (1999) state the importance of credit management as follows: credit management process deserves special emphasis because proper credit management greatly influences the success or failure of financial institutions. The book forwarded by Honble justice GP mathor in the title of banking law and practice when expresses the importance of lending in the bank industry: Lending is one of the important function of the banks the banks lend their funds for making profits. The banks make profit from the interest on the funds lent to the borrowers, lending to borrowers to satisfy their requirements is one of important functions of bank. The banks lend the money of the depositors, and therefore they should be very careful in lending the amount to their borrowers. The banks should ensure that the borrowers would be able to use the money to such advantage that they will repay the debt in time with interest in accordance with the terms and conditions of the grant of loan. By lending in such manner, the banker can not only guarantee to the depositors the security of the funds, but also can satisfy the requirements of his borrowers and in the process he can make sufficient profits, the lending is a very risky business.

As stated above credit management should be given special emphasis than that of the other operational functions because of that the success or failure of financial institutions depends up on the good performance of credit.

Awash International Bank Share Company is one of the financial institutions engaged in providing short and medium term credit like other commercial banks in the country. In the last two decayed, both public and private sectors in the economy underwent encouraging development in investment and business activities, thus becoming the fertile ground for the banking industry. Since its establishment, Awash International Bank has been striving to exploit such and all other opportunities towards achieving its corporate goals. The bank has been playing a significant role in providing loans and advances to its customers that enhances the investment need in the country and as means of generating income for its shareholders.

The purpose of this study is to recognize the strength and gap in the credit management performance of Awash International Bank Share Company, from different perspectives in light of the practices of modern credit management in financial institutions.

1.2 Statement of the problem

As the study involves on the Credit management, a poor allocation of credit raises costs to successful borrowers. Credit management is the method by which you collect the payments from your customers. Myers and Brealey (2003) describe credit management as methods and strategies adopted by a firm to ensure that they maintain an optimal level of credit and its effective management. It is an aspect of financial management involving credit analysis, credit rating, credit classification and credit reporting. A proper credit management will lower the capital that is locked with the debtors and also reduces the possibility of getting into inactive loans. The very nature of the banking business is so sensitive because more than 85% of their liability is deposits from depositors (Sounders, Cornett, 2005). In this ever changing competitive environment, banks no longer simply receive deposits and make loans , instead, they are operating in a rapidly innovative industry with a lot of profit pressure that urges them to give more emphasis on the credit management .Credit management is so much more important from other operation with in a banking industry to generate good profit. According to Shekhar, 1985, credit plays an important role in the lives of many people and in almost all industries that involve monetary investment in some form, when credit is allocated improperly it raises costs to successful borrowers, erodes the fund, and reduces banks flexibility in redirecting towards alternative activities. In today's changing financial landscape environment of intense competitive pressure, volatile economic conditions, rising bankruptcies, and increasing levels of consumer; the ability of a bank is more important to effectively monitor and manage its credit can mean the difference between success and failure.

Interest income and interest expense are the main determining factors for the profitability of private banks in Ethiopia (Yigremachew.2008), effective relationship between credit management and profitability make the company stable for its success on the other side its very risky that the relationship within credit management and profitability gone be negative, make the bank to be fall into more accumulate unpaid loans, it implies the loan will produce lower returns to the bank. The very accumulation of non- performing loans caused by lack of proper credit management would have substantial adverse impact on the performance of the banks in particular and the overall economy in general. This also affects the government by reducing its tax income and banks by imposing dawn ward pressure on their respective profits and per share value of stock price. In other words the more the credit, the higher is the risk related with it. The poor management of credit reduces the lending capacity of a bank; it also minimizes the access of loan to new applicants. Generally it may disturb the normal in flow and outflow of fund a bank has to keep staying in sustainable credit market.

Thus, credit evaluation decisions are important for the financial institutions involved due to the high level of risk associated with wrong decision. The process of making credit evaluation decision is complex and unstructured, so this complex and unstructured credit evaluation decision process need proper credit management by the concerned bank.

Hence here the researcher is interested to do its research on the gap in the credit management performance of the bank to be in line with NBE directives and banks internal procedure. Therefore the principal concern of this paper intended to assess the performance of credit delivery and management in Awash International Bank Share Company (AIBS.C).

1.3 Research Question

1) What are the grounds to perform loan?
2) How the Bank manage non - performing loan? /what measures are taken by the bank to manage (control) non- performing loans?
3) What is the response of customer about the loan procedure?
4) How the loan procedure impact to have good relationship with customers of the Bank?
5) How much amount of loan is accessed through out a year?

1.4 Objective of the study

The main objective of the research assesses that how a case Bank manages its credit. These given points are set as the specific objective that the study covers:

- To know the base for the loan approval and performance.
- To answer the question for the management about non-performing loan.
- To assess the response of customers about the loan procedure.
- To maintain the impact of loan procedure on the relation of customers with the Bank.
- To know the amount of loan that the Bank al low within a year.

1.5 Significance of the study

This paper/research is intended to examine the short comings with credit management while its application, process and loan approval and the credit management that connected with it to determine:

- Intended to contribute in increase knowledge in the area.
- Intended to give some recommendation to managerial decision making through the finding.
- To give framework for others subsequent studies and research papers.

1.6 Scope of the Study

The banking activity of AIB almost covers the whole area of Ethiopia. As all of its branches are not reachable the study is conducted on Head office and some A.A city branches. The study tyries to covere credit policies, procedures, and credit operations of the Bank.

1.7 Organization of the Paper

The Study is organized by five chapters. The First chapter introduces the background of the study, the research objectives and questions, significance of the study, scope of the study and organization of the paper. The Second chapter presents theoretical and empirical review of the related literatures. The Third chapter deals with methodology of the study. The Fourth chapter is concerned with the analysis, results and discussions. The Fifth chapter presents the limitation of the study conclusion and recommendations drawn from findings of the data in addition with implications for further research.

CHAPTER TWO

2. LITRATURE REVIEW

2.1. Development of Banking

The institution of banking in the present form has developed in a very long time. The word “Bank” owes its origin from the French word “Bancus” or “Banque” and the Italian word “Banca”, both meaning bench. It appears that this word has been in use, from the practice of Jewish money changers of Lombardy, a district in North Italy, who transacted their business in the market place on benches.

Some historian say that the word “Bank” has been derived from the German word “back” which means a joint stock fund which word was converted into Italians into Banco ,when the Germans were the masters of a major part of Italia.

2.2 Development of Banking Industry in Ethiopia

The history of banking in Ethiopia dates back to the turn of the century, when in 1905, the Bank of Abyssinia was established in Addis Ababa, under the regime of Menelek II. This event marked the introduction of banking in the country. national Bank of Egypt having been entrusted of the project , the new institution was chartered in Cairo and its shares were subscribed in a number of countries besides Ethiopia The Bank of Abyssinia was given a 50-Years concession and was engaged in issuing notes, collecting deposits and granting loans, but its clients were mostly foreign businessmen and wealthy Ethiopians. A few years later disappointed by the behaviour of this bank. Mainly devoted to profit-making rather than promoting economic development. The Emperor supported the establishment of a wholly Ethiopian bank.

Emperor Haile Selassie after acceding to the throne in 1930 could not accept that the country’s issuing bank was foreign – owned and, in agreement with National Bank of Egypt, decided liquidation of the Bank of Abyssinia. A new bank, the Bank of Ethiopia, under Government control, was established in 1931 and retained management, staff, Premises and clients of the old bank. Italian invasion in 1936 brought the liquidation of the bank.

After the liquidation of the Bank of Ethiopia, Abroad colonial banking network extended to encompass all Italian possessions in the Horn of Africa (Eritrea, Ethiopia, and Somalia) and closely linked with the metropolitan financial system, was set up the country. In 1943, establishment of the State Bank of Ethiopia, marking the rebirth of the Ethiopian independent Banking, this occurred during World War II after liberation of the country. The other event was the revolution of 1974, which wiped out the monarchy, nationalised companies and shaped a “socialist banking” two- tier model “suited” to Ethiopia; the First tier :National Bank of Ethiopia The Second tier: Commercial Bank of Ethiopia, Housing and Savings Bank, Agricultural and Industrial Development Bank. The whole credit system being based on the central bank and three stated –owned financial institutions, each of them enjoying monopoly in its respective market. The collapse of socialist regime was the other event followed by a financial sector reform and liberalization according to monetary and banking Proclamation of 1994.

The case company that Awash International Bank S.C.(AIB) was established by 486 founding shareholders on November 10,1994 with a paid up capital of Birr 24.2 million.it was the first private commercial bank in Ethiopia following the down fall of the military regime and the declaration of market oriented economic policy.it started banking operation on February 13,1995.By the end of June 2015 ,the number of shareholders and its paid up capital increased to over 3200 and Birr 1.5 Billion ,respectively.

2.3 Loan, Credit, Credit Management &Credit Manager

As www. Investopiedia .com forwarded about Loan,Credit,Credit Management and Credit managers:

Loan

“Loans’’ or “advances’’ means any financial assets of a bank arising from a direct or indirect advance (i.e. unplanned overdrafts, participation in loans syndication, the purchase of loans from another lender, etc.) or commitment to advance funds by a bank to a person that are conditioned on the obligation of the person to repay the funds, either on a specified date or dates or on demand, usually with interest. The term includes a contractual obligation of a bank to advance funds to or on behalf of a person, claim evidenced by a lease financing transaction in which the bank is the lessor, and an overdraft facility to be funded by the bank on behalf of a person. The term does not include accrued but uncollected interest or discounted interest.

Credit

Credit is a contractual agreement in which a borrower receives something of value now and agrees to repay the lender at some date in the future, generally with interest.

Credit management

Credit management is the process of granting credit, the terms it's granted on the recovering this credit when it's due. This is the function within a Banker company to control credit policies that will improve revenues and reduce financial risks.

Credit manager

Credit manager is a person employed by an organization to manage the credit department and make decisions concerning credit limits; acceptable levels of risk and terms of payment to their customers. This function is often handled alongside A/R and collections in one department of a company. The role of credit manager is variable in its scope. Credit managers are responsible for:

- ✓ Controlling bad debt exposure and expenses, through the direct management of credit terms on the company's ledgers.
- ✓ Maintain strong cash flows through efficient collections. The efficiency of cash flows is measured using various methods, most common of which is fays sales outstanding (DSO)
- ✓ Ensuring an adequate allowance for doubtful accounts is kept by the company.
- ✓ Monitoring the A/R portfolio for trends and warning signs.
- ✓ Enforcing the "stop list" of supply of goods and services to customers.
- ✓ Removing bad debts from the ledger (Bad debt write-offs)
- ✓ Setting credit limits.
- ✓ Setting credit terms beyond those with in credit analyst's authority.
- ✓ Setting credit – rating criteria.
- ✓ Setting and ensuring compliance with a corporate credit policy.
- ✓ Pursuing legal remedies for non-payers.

- ✓ Obtaining security interests where necessary common examples of this could be PPSA’s letters of credit or personal guarantees.
- ✓ Initiating legal or other recovery actions against customers who are delinquent.

Credit managers tend to fall into one of two groups due to the differing specially legal and jurisdictional knowledge required:

1. Commercial credit Managers
2. Consumer Credit Managers

Companies which sell to both markets will require accredit manager familiar with both aspects of credit management.

2.4 Types of sectors for loan purpose in AIB

- Domestic Trade and Services (wholesale and retail);
- Import and Export trade;
- Industry;
- Agriculture;
- Hotel and tourism;
- Construction;
- Transportation services;
- Small and medium Enterprises;
- Education, Health, Personal Loans.

2.5 Banking Risks and Returns

According to Koch (1995), the fundamental objective of bank management, as with other firms, is to maximize share holders’ wealth. This goal is typically interpreted to mean maximizing the market value of a firm’s common stock. Wealth maximization, in turn, requires that managers evaluate the present value of cash flows under uncertainty, with the larger, near term cash flows preferred when evaluated on a risk adjusted basis. To obtain higher yields, a bank must either take on increased risk or lower operating costs. Greater risks manifest itself in greater volatility of net income and market value of banks stockholders’ equity. Wealth maximization requires that the manager evaluate and balance the trade-off among the opportunity for high returns, the probability of not realizing those returns, and the possibility that the bank might fail.

Koch (1995) in his book identified five fundamental risks that are faced by all banks:

- Credit risk
- Liquidity risk
- Interest rate risk
- Operational risk
- Capital or solvency risk

Banks also faces rises associated with foreign exchange risk country risk. Each risk is associated with the possibility that expected net returns on assets will not be realized.

2.5.1 Credit risk

Credit risk is the potential variation in net income and market value of equality resulting from non-payment for delayed payment. It is associated with the quality of assets and the likelihood of default. Credit risk measures focus predominantly on loan experience because loans exhibit the highest default rates. Whenever a bank acquires an earning asset, it assumes the risk that the borrower will default that is, not repay the principals and interest in a timely basis. Different types of assets have different default probabilities. Because of loans typically exhibit the greatest credit risk, banks should have to perform a credit analysis on each loan request to assess borrower's capacity to repay.

2.5.2 Liquidity Risk

Liquidity risk is the variation in net income and market value of equity caused by a banks difficulty in obtaining cash at reasonable cost from either the sale of assets or now borrowings. It encompasses the risk that a bank cannot meet payment obligation in a timely, cost effective manner. Liquidity risk is greatest when a bank cannot anticipate new loan demand or deposit withdrawals and does not have access to now forces of case. Most banks hold some assets that can be readily sold near part to meat liquidity needs.

2.5.3 Interest Rate Risk

Interest rate risk refers to the potential variability in a bank's net interest income and market values of equity due to changes in the level of market interest rates. It encompasses the total portfolio composition, focusing on mismatched asset and liability maturities and duration, as well as, changes in interest rates. For example, the removal of rate ceilings forced banks to pay market rates on an increased portion of their liabilities. This increased the sensitivity of interest expense to changes in interest rates and, in turn increased the likelihood of lower net interest income and firm value because of rising rates.

2.5.4 Operational Risk

Operational risk refers to the possibility that operating expense might vary significantly from what is expected, producing a decline in net income and firm value. A bank operating risk is thus closely related to its burden, number of divisions or subsidiary and number of employees. Because operating performance depends on the technology a bank uses, the success in controlling this risk depends on whether a banks system of delivering products and services is efficient and functional.

2.5.5 Capital Risk

Capital risk is the risk that a bank might become insolvent. In this situation, the market value of bank assets falls below the market value of liabilities. If such a bank were to liquidate its assets, it would not be able to pay all creditors and thus would be bankrupt. Capital risk is closely tied to asset quality and a bank's overall risk profile- the more risk taken, the greater the amount of capital required.

2.5.6 Other Risks

Banks that deal with international activities often assume additional risk. The most important of these are exchange risk and country risk. Exchange risk refers to the unpredictable value of domestic currency relative to the foreign currency. It arises whenever a bank receives or makes a payment in a foreign currency. Country risk refers to the potential loss of interest and principal on international loans due to a country refusing to make a timely payment as per a loan agreement. In essence, foreign government borrowers can default on their loans. Thus country risk is a form of default risk.

2.6 Credit Analysis

Credit analysis refers to the process of deciding whether or not to extend credit to a particular customer. Once a customer requests a loan, bank officers analyze all available information to determine whether the loan meets the bank's risk-return objectives. Credit analysis is essentially default risk analysis in which a loan official attempts to evaluate a borrower's ability and willingness to repay (Koch, 1995). Koch explained in his book that Eric Compton identified three district areas of commercial risk analysis related to the following questions:

- What risks are inherent in the operations of the business?
- What have managers done or failed to do in mitigating those risks?
- How can a lender structure and control its own risks in supplying funds?

The first question forces the credit analyst to generate a list of factors that indicate what could harm a borrower's ability to repay. The second recognizes that repayment is largely a function of decisions made by a borrower. The last question forces the analyst to specify how risks can be controlled so the bank can structure an acceptable loan agreement.

Pandey (1990) and Kich (1995) stated in their book that there principal factors taken in to consideration when granting credit. Pandey states 3c's of credit: character, capacity and capital, but Koch mentions 5 c's: character, capital, capacity, condition and collateral.

Character - refers to the borrower's honesty, integrity, serve of responsibility and trustworthiness. An analyst must assess the borrower's integrity and subsequent intent to repay. If there are any serious doubts, the loan should be rejected.

Capital – refers to the borrower's wealth position, measured by financial soundness and market standing. It helps cushion losses and reduces the likelihood of bankruptcy.

Capacity – involves both the borrower's legal standing and management expertise in maintaining operations so the firm or individual can repay its debt obligation. A business or individual must have identifiable cash flow or income respectively repay debt.

Condition – refers to the economic environment or industry specific supply, production, and distribution factors influencing a firms operation. Repayment sources of cash often vary with the business cycle or consumers demand.

Collateral – collateral is the lenders secondary source of repayment or security in the case of default. Having an asset that the bank can seize and liquidate when a borrower defaults reduces loss, but it does not justify lending proceeds when the credit decision is originally made.

2.7 Credit Procedures

For effective management of credit, the firm should lay down clear guidelines and procedures for granting credit for businesses and individual customers. The credit evaluation procedures of the individual accounts should involve the following steps. (Pandey, 1981)

Credit information

In extending credit to customers, the firm should ensure that receivables are collected in full and on the due date. Credit should be granted to those customers who have the ability to make the payment on the due date. To ensure this, the firm should have credit information concerning each customer whom the credit will be granted. The following sources may be required to collect information's.

Financial statements – one of the easiest ways to obtain information regarding the financial condition and performance of the prospective customer or business is to scrutinize his financial statements – balance sheet and the profit and loss account. The credit granting firm should always insist on the audited financial statement.

Bank references – another source of collecting credit information is the bank where the customer maintains his account. Even if the bank provides information to the firm about the proper conduct of the customer's account, if cannot be taken as a basis for believing that the customer will be able to settle his/her dues in time. More information from other sources may be collected to supplement it.

Trade reference – the firm can ask the prospective customer to give trade references. Once the trade references have been finished, the firm should take prompt steps to seek information from the referees.

A customer can furnish misleading references. To guard against this, the honesty and seriousness of the referee should be examined.

Credit reports bureau

The two sources of credit information-bank references and trade references can be biased. To get comprehensive and correct information, credit bureau organizations, which specialize in providing credit information, are employed in the advanced countries. Various trade associations and chambers of commerce can be developed to provide the useful credit information.

Credit Investigation

After having obtained the credit information, the firm will get an idea regarding the matters which should be further investigated. Credit investigations should be carried out so long as the savings in terms of speedy collections and prevention of bad debt losses resulting from it exceed its cost. The factors that affect the extent and nature of credit investigation are:

- The type of customers, whether new or existing
- The customers' business line, background and the related trade risk
- Company credit policy and practices

Credit analysis

In the sequence of the credit appraisal, the next step is to conduct the credit analysis of the applicant. The evaluation of the applicant financial conditions should be done very carefully. The applicants should be asked to provide the financial statements which will form a basis to analyze the performance and trends of the applicant's business activities.

Ratios should be calculated to determine the applicant's liquidity position and ability to repay debts. The performance of the applicant should be compared with industry average. Besides appraising the financial strength of the applicant, the analyst should also consider the quality of management and the nature applicants business. The decision to extend credit to the customer will basically depend upon the judgment of the credit analyst.

Credit limits

Once the firm has taken a decision to extend credit to the applicant, the amount and duration of the credit have to be decided. The maximum amount of credit which the firm will extend at a point of time is called line of credit. In essence, it represents the maximum risk exposure that the firm will allow it to undergo for an account.

Collection Procedure

The collection procedures of the bank should be clear cut and well administrated. The bank should lay down collection procedures for the individual accounts. The collection processes for past due or delinquent accounts should also be established in very clear terms. If collections are delayed, the chance of bad debt will increase. The slow paying customers need to be handled very tactfully. Some of them may be permanent customer; the collection process initiated too early may antagonize them. Consequently the firm may lose them to the competitors. Therefore the collection procedures should be carefully established.

Collection Effort

According to Ross (2000) a firm usually goes through the following sequence of procedures for customers whose payments are overdue:

- It sends out a delinquency letter informing the customer of the past due status of the account
- It makes a telephone call to the customer
- It employs a collection agency
- It takes a legal action against a customers

2.8 Credit Collection Techniques

As www. Articlebase.com states on its Journal about Credit techniques,Effective credit collection techniques are one of the necessities for financial institutions in any economic climate. Knowing how to encourage customers to pay their outstanding debts to financial institutions like banks on time can increase the cash flow of banks. Therefore a number of collection techniques are employed. Under normal circumstances loan clients are expected to pay in cash or deposit or keep their instalment repayment as per the agreement made. As the loan account becomes past due or overdue the collection effort becomes more personal and strict. The basic techniques are:

2.8.1Telephone Calls: If the loan client passes the due date, a telephone call may be made to the customer to request immediate repayment and up to date his or her account.

2.8.2 Personal visits: - If the telephone call made is not resulted positive response visiting clients business and discussing the issue with the customer can be a very effective collection procedure.

2.8.3 Letters: - If the efforts made so far is unsuccessful and not resulted positive response a polite letter is to be served reminding the customer of its obligation followed by warning letters for the action to be taken in future and its consequence. Collection letters are the first step in the collection process for past due and overdue loan accounts.

2.8.4 Using Collection Agencies: Firms can turn uncollectible accounts over to a collection agency or an attorney for collection. The fees for this service are typically quite high; the firm may receive less than fifty percent on accounts collected in this way.

2.8.5 Legal Action: legal action is the most stringent step in the collection process. It is an alternative to the use of a collection agency not only is direct legal action expensive, but is may force the debtor in to bankruptcy, thereby reducing the possibility of future business without guarantying the ultimate receipt of overdue amount.

2.9 Financial Analysis

Review, appraisal and follow-up are three basic elements in credit management and decision-making. At the time of considering fresh proposals or enhancement proposals, the banker reviews the past operations with to judge the health status of the client. Timothy (1995) identified three basic elements used in credit management to evaluate the creditworthiness of clients.

2.9.1 Review

Review is for the past, it should enable the banker to find out whether it is safe to lend to a particular client. In order to arrive at this decision, the banker has to satisfy himself about the risk and viability of the unit. Review of any unit involves assessment of solvency, liquidity and profitability of that unit as revealed by its financial statements, i.e. profit and loss accounts and balance sheets. Review, thus, involves classification of profit and loss account and the balance sheet according to bank's requirement and analysis of these statements.

2.9.2 Credit appraisal

Credit appraisal implies consideration of fresh or enhancement proposals on the basis of futuristic data. While appraising proposals, banker tries to find out: financial need of the client, end-use of funds, viability of operations and risk involved. In case of proposals involving working capital finance, the banker can ascertain the aforesaid factors only when he/she is supplied with the business plan of the borrower for the ensuing period. Business plan is expressed through operating statement, balance sheet, funds flow, and cash flow statements, all on projected basis.

2.9.3 Follow-up

Follow –up may be defined as a continuous activity aimed at ensuring observance of stipulations laid down by the bank, picking up signals on health status of client's position, remedial action and ensuring results of action on a continuous basis. Safety, need-based finance and end-use are the key assumptions of lending.

A banker needs various types of data and information from the borrowers for taking the credit decisions. Such information is generally available in various financial statements such as income statement, balance sheet, cash flow statement, funds flow statement, etc. But mere collect of these financial data from the borrowers is of little help unless the banker is able to use these statements;

arrange or classify them according to his/her needs and analyze them with a view to draw meaningful conclusions.

2.10Provision of credit services in AIB

From the Banks website www.Awash bank .com shows that provision of Credit Services in AIB.

2.10.1Term Loans and advances

Term loans: term loans are loans that are availed for defined purposes, to be rapid with in a given period in a pre-determined repayment patterns. The loans are to be repaid on the basis of monthly, bimonthly, quarterly, semi-annually instalments, in one lump sum up on maturity or other agreed amortization patterns, depending on the nature of the business and its cash flow.

- Short term loan, loans that are fully repaid within 36 months. These loans are used for working capital requirements of businesses.
- Medium and long term loans and advances, loans that are payable beyond 37 months up to 60 months. Such loan can be used for acquisition of fixed assets such as furniture, vehicles, machinery, construction as well for purchase and renovation of buildings.

Merchandise loan facility: is a one time or renewable credit facility that may be granted against pledge of merchandise stock at a margin of advance, depending on the nature, stability and marketability of the merchandise items.

- Merchandise –in – transit facility: is a one term or renewable credit facility which may be converted to merchandise loan shortly after clearing the goods. For the purpose of this loan, the bank selects its preferred transistor with whom it makes under takings to deliver the goods to the bank's preferred store.
- Pre- shipment finances: are short- term one time or revolving facilities that may be granted upon presentation of valid sales contract (lians against sales contracts) and irrevocable export letters of credit (advances against irrevocable L/Cs) as a bridge finance to address seasonal financial needs of exporters.
- Post shipment credit: is facility advanced to exporters to bridge their advanced to exporters to bridge their temporary working capital requirement while the goods are in- transit for shipment upon presentation of all relevant and valid export documents except "Bill of Loading''.

2.10.2. Overdraft facilities, overdrafts

Overdraft facilities are renewable credit facilities by which customers are allowed to draw beyond the deposits they maintain in their current accounts. Overdrafts are extended to meet working capital needs of borrowers based on justified volume of operation and the collaterals proposed. Overdraft facilities are callable whenever the client branches one or more of the covenants, upon 30 days prior notification.

- Special overdraft facilities to exporter's special overdraft to exporters: the special overdraft may be granted to exporters with reputed integrity and strong financial performance. Each withdrawal from the special overdraft account should be supported by presentation of genuine export contract or irrevocable L/Cs.

2.11Classification of Loan or Advances

NBE's,Directives No.SBB/43/2008 states that: for the purpose of NBE directives, banks shall classify all loans and advances, whether such loans or advances have pre-established repayment programs or not, into the following five classification categories using the criteria described below.

2.11.1 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. In general, any loan or advance, or portion there of which is fully secured, both as to principal and interest, by cash or cash -substitutes, shall be classified under this category regardless of past due status or other adverse credit factors.

2.11.2. Special Mention

The following loans and advance at minimum shall be classified special mention:

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

b) Overdrafts and loans or advances that do not have a pre- established repayment program, if:

i. The debt remains outstanding for 30 (thirty) consecutive days or more beyond the scheduled payment date or maturity, but less than 90 (ninety) days; or

ii. The debt exceeds the borrower's approved limit for 30 (thirty) consecutive days or more, but less than 90 (ninety) days ;or

iii. Interest is due and uncollected for 30(thirty) consecutive days or more; but less than 90 (ninety) days ;or

iv. For overdrafts, the account has been inactive for 30 (thirty) consecutive days or more, but less than 90(ninety) days or the account fails to show the following debit balance at least once over 360 days preceding the date of loan review:

1) Ten to nineteen percent of the approved limit latest by June 30,2008;

2) One to four percent of the approved limit effective from June 30, 2009.

2.11.3 Substandard

The following non- performing loans and advances at a minimum shall be classified substandard:

a. Loans or advances with pre-established repayment programs past due 90(ninety) days or more, but less than180(one-hundred-eighty) days; or

b. Overdrafts and loans or advances that do not have a pre-established repayment program, if :

i. The debt remains outstanding for 90 (ninety) consecutive days or more beyond the scheduled payment date or maturity, but less than 180 (one-hundred- eighty) days; or

ii. The debt exceeds the borrower’s approved limit for 90 (ninety)consecutive days or more, but less than 180(one hundred –eighty) days; or

iii. Interest is due and uncollected for 90 (ninety)days or more, but less than 180 (one-hundred-eighty) days; or

iv. For overdrafts, the account has been inactive for 90 (ninety) consecutive days or more, but less than 180 (one- hundred-eighty) days; or the account fails to show the following debt balance at least once over 360 days preceding the date of loans review:

1) Twenty to thirty-nine percent of the approved limit latest by June 30,2008;

2) Five to nineteen percent of the approved limit effective from June 30, 2009.

2.11.4 Doubtful

The following non- performing loans and advances at a minimum shall be classified doubtful:

a. 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;

b. Overdrafts and loans or advances that do not have a pre- established repayment program, if:

i. The debt remains outstanding for 180(one- hundred-eighty) consecutive days or more beyond the scheduled payment date or maturity, but less than 360 (three-hundred-sixty)days ; or

ii. The debt exceeds the borrower's approved limit for 180 (one-hundred-eighty) consecutive days or more, but less than 360 (three-hundred –sixty) days; or
iii. Interest is due and uncollected for 180 (one-hundred- eighty) days or more, but less more, but less than 360(three-hundred-sixty) days; or
iv. For overdrafts, the account has been inactive for 180(one-hundred-eighty) consecutive days or more, but less than 360 (three-hundred-sixty) days; or the account fails to show the following debit balance at least once over 360 days preceding the date of loan review:
   1) Forty to sixty-nine percent of the approved limit latest by June 30, 2008;
   2) Twenty to forty-nine percent of the approved limit effective from June 30, 2009.

2.12 Advantages and Difficulties of Bank loans

According to www. Easypdf combine .com the advantages and difficulties of Bank Loans stated as shown below ;

Basic Advantages of Bank Loans

A bank loans money to a business based on the value of the business and its perceived ability to service the loan by making payments on time and in full. Banks do not take any ownership position in businesses. Bank personnel also do not get involved in any aspect of running a business to which a bank grants a loan. Once a business borrower has paid off a loan, there is no more obligation to or involvement with the bank lender unless the borrower wishes to take out a subsequent loan.

Tax and Financial Planning Advantages

The interest on business bank loans is tax-deductible. In addition, especially with fixed-rate loans, in which the interest rate does not change during the course of a loan, loan servicing payments remain the same throughout the life of the loan. This makes it easy for businesses to budget and plan for monthly loan payments. Even if the loan is an adjustable-rate loan, business owners can use a simple spreadsheet to compute future payments in the event of a change in rates.

Disadvantage

Difficulties in Obtaining Loans

One of the greatest disadvantages to bank loans is that they are very difficult to obtain unless a small business has a substantial track record or valuable collateral. Banks are careful to lend only to businesses that can clearly repay their loans, and they also make sure that they are able to cover losses in the event of default. Business borrowers can be required to provide personal guarantees, which mean the borrower's personal assets can be seized in the event the business fails and is unable to repay all or part of a loan.

2.13 Credit Application Processing

Upon request, credit analysts or officers of AIB follows a defined procedure in processing the credit request and related documents.

Required documents for credit request processing are:

- Trade licenses, registration certificate, investment license, tax identification number (TIN), tax payment receipt, Environmental certificate
- Financial statement or customers financial statement report
- Forecasted financial statements
- Business plan (project proposal)
- Ownership certificate
- Site plans and construction permit (for buildings)
- Memorandum and article of association (for companies)
- Negarit Gazeta, establishment proclamation, if any
- An official letter of consent from the board of management/directors
- Power of attorney, if any
- Sales contract, if applicable
- Provisional financial statement
- A bid document or a bid award letter, if applicable
- Letter of credit and supporting documents, if applicable
- Residence permit (for foreign borrows)
- Copy of identity cards
- Design and specification for farm infrastructure (if applicable)
- Performa invoices and catalogues at least from the acceptable suppliers not later than 60 days from the date of its issuance (if applicable)

- Range of account/overdraft utilization
- Collateral valuation report
- Borrowers credit information inquiry letter
- Others, if any

After the above required documents are presented by an applicant, credit officers or analysts come into play in investigating the credit. The credit information should be thorough enough to diminish the inherent risk.

The credit investigation is conducted to determine the accuracy and authenticity of statements made during the interview and documents presented by applicant.

To get the above information, AIB has prepared a format on which the above information is filled in clear and concise ways which in turn helps the analysts to easily perform their credit investigation.

After all the documents are filled and submitted to the bank, again the customer is called for interview to obtain further information that has not been disclosed in the application or documents.

The investigation and verification is made by the bank mainly to develop information not at hand as well as to verify information supplied by the applicant. During interviews, the respondents indicated that most of the credit investigation starts when an individual asks for credits and presents his/her application. This verification is done through site visits, credit information bureaus, and seeking information from other independent sources such as banks and customer suppliers. These all helps the bank officers in making sound credit decision.

2.14 Credit decision

The final decision as to whether the loan request should be made or reject is reached by comparing the statements made by the applicant with the indication the analysts get through investigation and by analyzing various credit factors such as capital, collateral, payment record and others. As respondents are indicated during interview, the credit decisions are made at four levels according to the amount of loan requested. This credit decision committee consists of Branch credit committee, management credit committee (at head office), Executive credit committee and Board of directors.

CHAPTER THREE

3. RESEARCH METHODOLOGY

3.1. Research Design

The research is designs descriptive type of research because it gives us an understanding of the overall Credit Management Practice of AIB S.C. The result of the study will give us the possible recommendations. In other words Descriptive research tries to "paint a picture" of a given situation by addressing Who, What, When, Where and How Questions (Cooper and Emory, 1995).Answering this questions help to determine the performance of the Bank on the credit management Well done or Need Strict Follow up .

3.2. Target Group

The target group of this study are employees who are directly involved in credit processing and administering. This means, Branch managers, Assistant branch managers, Loan officers, Credit Analysts and all branches are included in the target group.

The sampling technique is systematic random sampling technique; the total amount of questionnaire is 30 it's distributed to 10 selected branches and Head office of the case Bank (AIB S.C).

3.3. Methods of data collection

For the purpose of this study, both primary and secondary data sources are used. Questionnaires are used to collect primary data, and Directives and procedures of the bank and NBE are used as secondary Data source.

1. **Questionnaire -** is prepared and administered to the staffs working on the loan area and branch managers and assistant branch managers of the Bank. This helped to address the research questions more specifically or to concentrate more on the topic itself.

2. **Directives and procedures of the bank as well NBE**

3.4. Sample and Sampling Technique

The sampling technique is systematic random sampling technique; the total amount of questionnaire is distributed to 10 selected branches and Head office of the case Bank (AIB S.C).

3.5. Data Collection Procedure

The researcher is developing a questionnaire to answers for the five basic research questions by using variables to assess the performance in questionnaire form. The questionnaire has two parts, the first part focused on general characteristics of the respondent, and the rest of the questions were focused on measuring the Credit Management Performance of the Bank. The completed form of the Questionnaire attached in the appendix part.

3.6. Method of Data Analysis

Since the study is typically a Descriptive type research, it addresses the objectives of the study by assessing the organization's Credit management practice and providing elaborative description of the Bank. Visual displays of data will be presented in percentage, Chart, tables, and figures. Moreover, most of the data were summarized and presented, by the help of the Statistical Program for Social Sciences, version 20.0, (SPSS, 2010).

CHAPTER FOUR

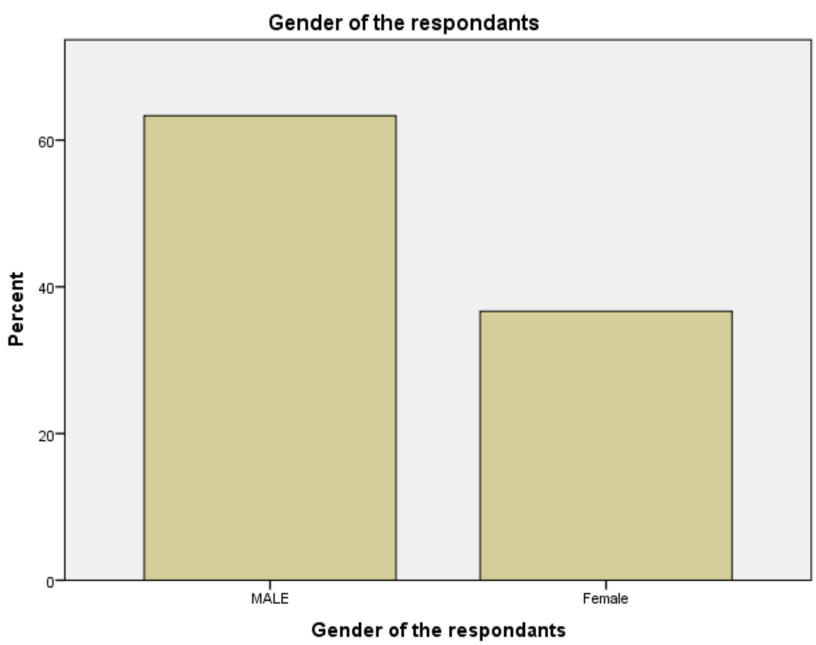
4. RESULTS AND DISCUSSION

This chapter is concerned with the presentation, and discussion of the data gathered via primary data source questionnaire from employees of AIB S.C specifically Credit involved staffs.

Analysis on Personal Information of Respondents

Below there are different Graphs, Pie charts and Tables to shown the given information about what look the respondents personal information throughout the research.

Figure 4.1: Gender of respondents



As the above Bar graph shows from the total number of respondents More than 60% of them are Males. It implies that most of the Credit involved work is dominantly done by males.

Table 4.1: Age of respondents

		Frequency	Valid Percent
Valid	20-35	21	70.0
	36-45	9	30.0
	Total	30	100.0

From the total number of respondents 70% of them are aged between 20-35(Twenty to Thirty Five), it shows that majority of the respondents lay in energetic years of Age, it imply that the company is build up by young staffs it also somehow easy to adapt any changes in technology and other circumstances.

Table 4.2: Service year of respondents

	N	Minimum	Maximum
	Statistic	Statistic	Statistic
SERYEAR	30	2.00	18.00

Statistics		
SERYEAR		
N	Valid	30
	Missing	0
Mean		9.3667
Mode		5.00[a]

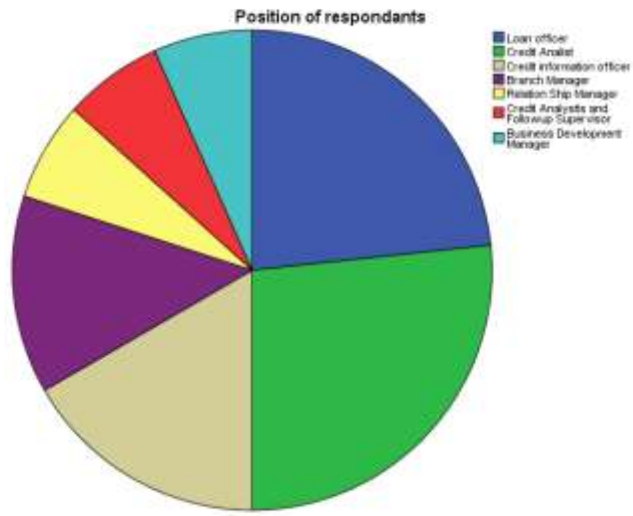
a. Multiple modes exist. The smallest value is shown

The Service year of the relevant respondents lay between Two years of service and Eighteen years of Service in the Bank.

According to the statistical evaluation Mean give that the Average years of service that the respondents have calculated As 9.36 Years of service, thus it implies that credit involved staffs have the opportunity to know the operation well. The statistical evaluations Mode support the value that most frequently given years of service is 5years.

Figure 4.2 : position of

Respondents



As shown above the respondents are loan related employees thus, Loan officers, Credit analysts, credit information officer, Branch Managers, Relationship Managers, Credit Analysts and follow up Supervisor and Business Development Managers, as the respondents are Credit related staffs it is implication for the research is direct and give strong output for the conclusion and recommendation in general.

Table4.3: Educational level of respondents

		Frequency	Valid Percent
Valid	BA in Accounting	11	36.7
	BA in Accounting and Finance	2	6.7
	BA in Business Management	2	6.7
	BA in Economics	4	13.3
	BA in Administrative management	1	3.3
	BA in Management	4	13.3
	BA in Finance and Development Economics	2	6.7
	BSC	2	6.7
	MBA	2	6.7
	Total	**30**	**100.0**

- ❖ As shown in the table above most of the respondents are BA holders in Accounting covers 36.7%, the second most frequent respondents are holder of BA in Economics and Management it covers 13.3% equally, BSC, MBA and BA in finance and development Economics & BA in Business Management take the share of 6.7% independently, the last but not the least one is respondent with BA in Business Administration, it take share of 3.3%.
- ❖ The Educational status of most of the respondents as stated above laid on BA Degree in Business related filed, its sound that the educational level is compatible to give credit decision with addition to the experience that the employees developed.

Analysis on Respondents Answer on General Issue in Credit Management

Table 4.4: summary of respondents answer about the bank has loan Manual

POLICY

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	30	100.0	100.0	100.0

All the respondents are agreed on that the Bank have credit manual. It implies that the Bank loan application is standardized and have ruling procedure to done the credit process.

Table 4.5: summary of respondents answer about the credit manual update

UPTODATE

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	30	100.0	100.0	100.0

The respondents also agreed on the convenience and up to date manual. As the respondents answer implies that the standard procedure for loan is give guarantee for Customers as well the bank not be liable for unimplemented newly published rules and regulation that forwarded by NBE.

Table 4.6: Answers of respondents about ground of loan process

GROUNDOFLOANPROCESS

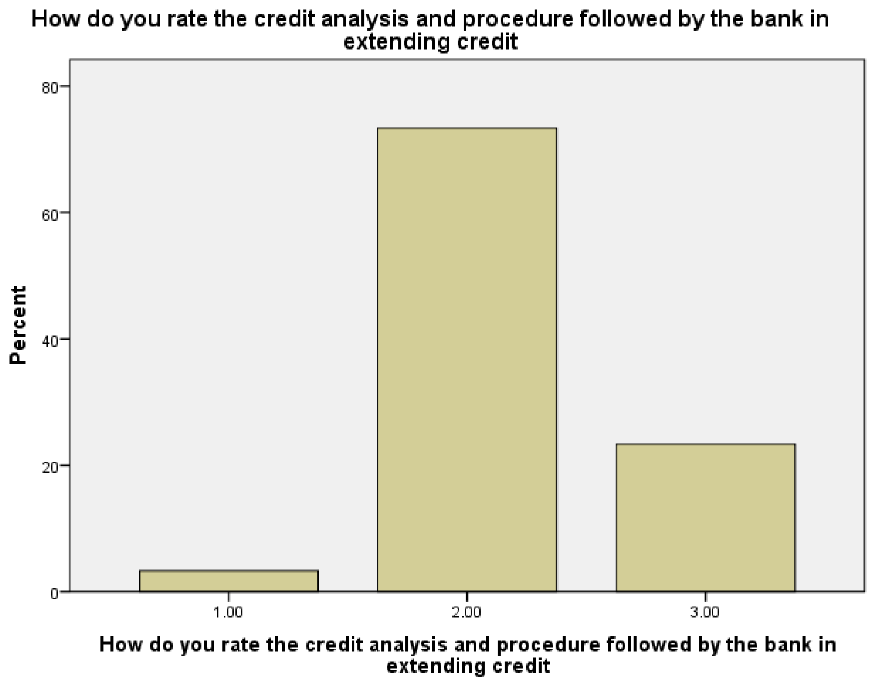
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	30	100.0	100.0	100.0

The respondents are fully accepted the bank loan processed according to the Banks credit manual. The implication of respondents answer is that the bank done its Credit practice on the standardized and formal regulatory rule so, it's open to measure the performance is accordingly done or not ; furthermore it's easy to see which part and party is not done well and take measures.

Table 4.7: Summary of respondents answer on rate that banks credit analysis and procedure

Valid		Frequency	Percent
	Flexible	1	3.3
	Average	22	73.3
	Rigid	7	23.3
	Total	**30**	**100.0**

Figure 4.3: Summary of respondents answer on rate that banks credit analysis and procedure



Most of the respondents (73.3%) are agreed the bank procedure is Average on flexibility issue for the Bank customers (Loan Clients). This analysis forward that the bank have a good customer connection for that its Loan standard is not ridged, it's also protect the bank from risk ; that it's not ruled by customers rather its average for the wellbeing of the two sides customer and Bank.

Table 4.8: policies of the bank are according to rules and regulation of NBE

		Frequency	Percent	Valid Percent
Valid	Yes	30	100.0	100.0

The table above shows that the respondents strongly agree that procedures and policies of the Bank are according to the rules and regulation forwarded by NBE. The analysis respond that the bank ruled according to NBE; so, its guarantee for the bank procedural manual is established according to the NBE because the bank loan is done through the manual, for the creation and follow up of customers standardized loans.

Table 4.9: Loan growth of the branch

		Frequency	Valid Percent
	Yes	25	83.3
	No	5	16.7
	Total	**30**	**100.0**

The above table shows that the answers given by the respondents for the question that loan growth of the branches are as required, 83.3% of the respondents are agreed that the loan growth is as expected, but 16.7% of the respondents are not agreed for the growth of loan is as expected for this the respondents give the reason that liquidity and resource limitation. The analysis produce that the bank ongoing according to the limitation and also the standard application for the loan, as a researcher tries to show by the study as the branches loan growth is as expected it is income from interest grow as well thus all this drive to the banks income and growth is depend on credit mostly it give positive impact on the Growth of the bank.

4.10: The bank procedure on credit extending

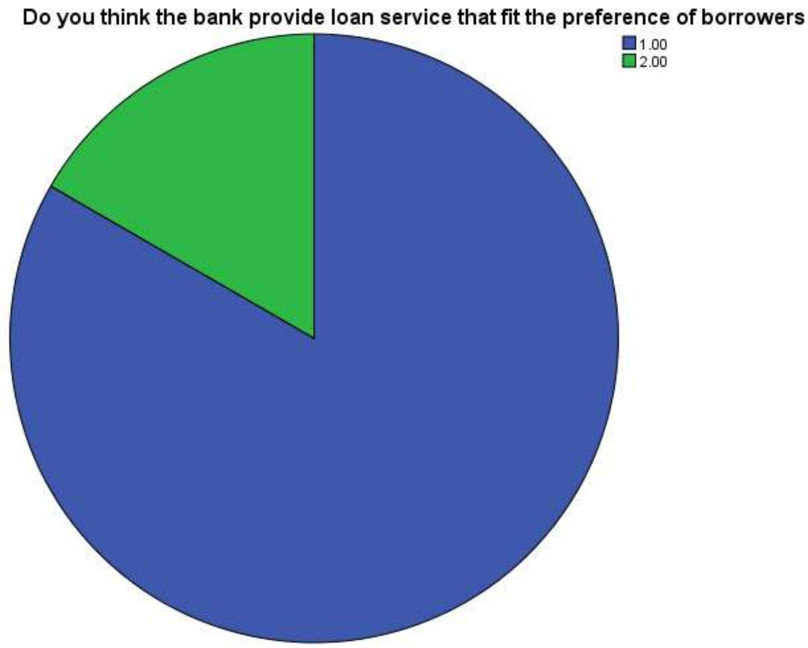
		Frequency	Valid Percent
	Excellent	1	3.3
	Very Good	22	73.3
	Good	7	23.3
	Total	**30**	**100.0**

The table above shows that the answer from respondents for the question about the credit analysis and procedure that the bank follow in credit extending, as the 73.3% of respondents conclude it is Very Good, 23.3% of the respondents give the answer that it is Good and 3.3% of the respondents give the answer that it is Excellent, From this the banks standard on Credit extending is having positive implication with connection with customer's and that the customers are get a good opportunity to work with the bank.

Table4.11: loan service fit with customer preference

		Frequency	Percent	Valid Percent
Valid	1. Yes	25	83.3	83.3
	2. No	5	16.7	16.7
	Total	**30**	**100.0**	**100.0**

Figure4.4: Loan service fit with Customer preference



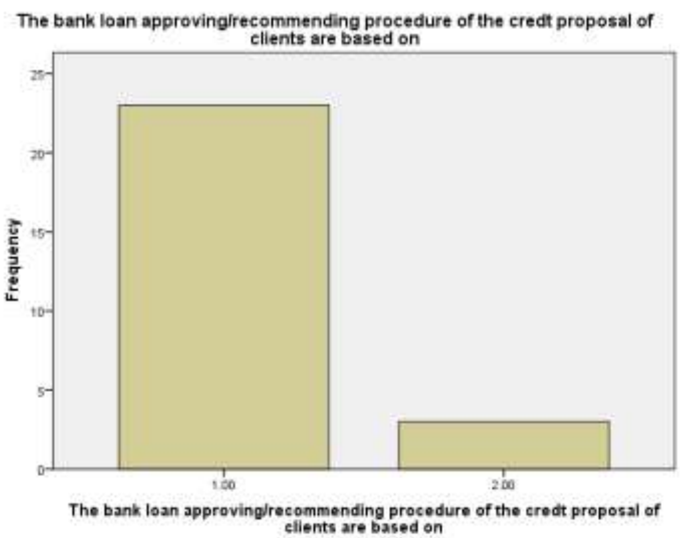
As shown above by the pie chart and the table it describe that 83.3% of respondents agree that the bank provide loan service that fit the preference of borrowers but the 16.7% of respondents agree on the bank service is not fit the preferences of borrowers and disclose it by sometimes the request of customers beyond the capacity of the bank through liquidity problems and the bank facilitate loans based on its own risk assessment techniques so it will not satisfy the need of customers as they need.

Table 4.12: Impact of over ridding and lending limit to branches

		Frequency	Valid Percent
	Missed	1	3.3
	1 (YES)	10	33.3
	(NO)	19	63.3
	Total	**30**	**100.0**

As the above table show the respondents answer for the question that banks overriding limit and lending limit have any difficulty in branches loan providing capacity and growth. ‘‘1’’ stands for the ‘ Yes’ answer of respondents and ‘’2’’ stands for ‘No’ answers of respondents as it shows the respondents Yes and No answer have percentage of 33.3% and 63.3% respectively one respondent doesn’t give answer for the question. The banks overriding and lending limit have some limitation on the branches, the respondents disclosed that the branches lending capacity is related to the branches deposit amount, so respondents recommend that the lending capacity to potential customers have to have a chance to special treatment about branch limits and allow loans according to the procedures.

Figure4.5: Credit approving parties



Statistics		
LOANAPPROVING		
N	Valid	26
	Missing	4

1. Loan committee at all level
2. Branch Managers and President

The above Bar graph show the respondents answer about loan approving parties. From the total number of respondents Four of them don't give answer for the question, from the rest 26 relevant respondents most of them answer the question as the loan approval depend on the loan committee at all levels but in some cases the bank loan approval depend on the Branch managers and President. The analysis give implication that the bank has different level of loan approval committee so it assure that the duty is segregated all over according to limits applicable this will minimize the work load and the time taken to approval.

Table 4.13: credit collection technique

		Frequency	Valid Percent
Valid	1.00	2	6.7
	2.00	14	46.7
	5.00	1	3.3
	1&2	9	30.0
	2&5	2	6.7
	1,2&5	2	6.7
	Total	**30**	**100.0**

1. cash/check Payment
2. Debiting Client account
3. Using Collection Agency
4. Personal Visit
5. Telephone

According to the above table from the respondents 46.7% answered the credit collection technique used by the bank is Debiting client account as per pre undertaken agreement, the other 30% answer the bank collected loan repayment both in cash /check payment and debiting customer account by pre undertaken agreement, the others 6.7% select cash/ check payment; Telephone and Debiting customer account ; cash/ check payment and Debiting customer account and Telephone are answers of respondents respectively; the left 3.3% are answered Telephone contact. Generally almost all respondents agreed on collection by debiting customers account through pre undertaken agreement. The above information tell that the bank has culture of collecting customer loan repayment according to pre undertaken agreement so it's possible and defined to get repayment amount from the account as far as the customer made a deposit in a given account.

Table4.14: Effectiveness of credit collection technique

		Frequency	Valid Percent
Valid	1.(Yes)	24	80.0
	2.(No)	6	20.0
	Total	**30**	**100.0**

Total no of 24 respondents give "Yes'' answer for the question raised on the credit collection techniques are effective the rest 6 respondents give ''No'' answers for the question. From the response of respondents the researcher can conclude that the credit collection techniques are satisfactory for the banks work.

Table4.15: Culture of visiting client business

		Frequency	Valid Percent
Valid	1.(Yes)	27	90.0
	2.(No)	3	10.0
	Total	**30**	**100.0**

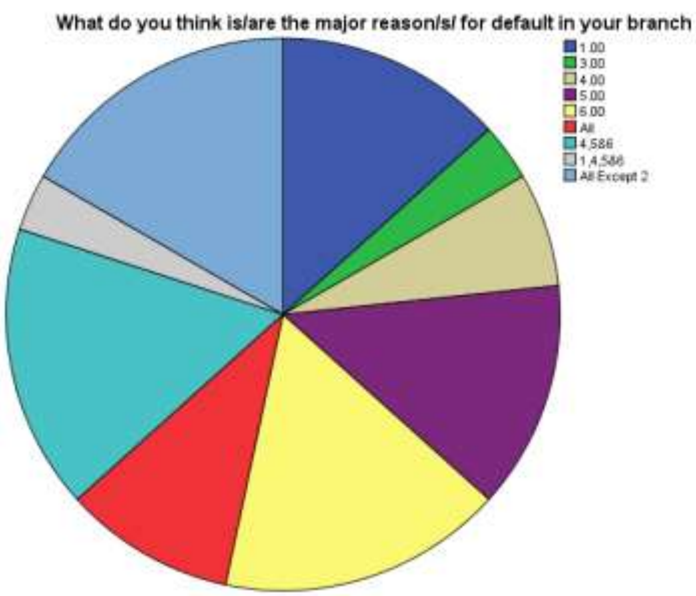
This table is referring the question that does the bank have a culture of visiting clients business ,from the respondents 90% (27) give yes answer that the bank has aculture of visiting clients business, the other 10% (3) respondents answer the bank doesn't have culture of visiting customer business, related to this answer the respondents give additional information about how often the bank visit clients business those 27(90%) of respondents give there answer in two chooses 57.6% respondents answer that the bank have a culture of visiting clients business at time of default, the other 33.3 % of respondents give the answer that the bank have culture of visiting customers business Quarterly manner; the table is drawn below.

From the above analysis the culture of visiting customers business is taken as a good culture but more than 50% of the respondents give the answer that the visit of client business is as in time of default, this give some difficulty for the bank because at all over the time that the bank will not have a reliable information about the business of the customers and how it going on and also the real use of loan taken from the bank is used for, and knowing really the business exists or not.

4.16: How often visiting clients business

		Frequency	Valid Percent
Valid	Missing	3	10.0
	Quarterly	10	33.3
	Time of Default	17	56.7
	Total	**30**	**100.0**

Figure 4.6: Resons for default



1. Lack of follow-up
2. Lack of Training
3. Inadequate information about customer's credit worthiness
4. Loan diversion
5. Lack of market for customer product
6. Unfavorable Environmental condition

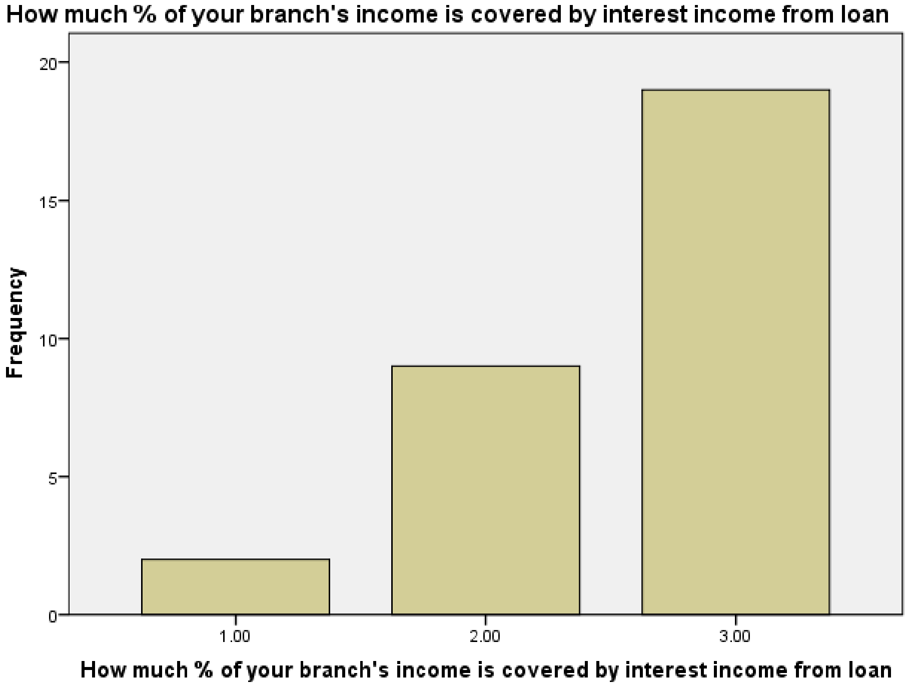
Table 4.17: Reason for default

		Frequency	Valid Percent
Valid	1.00	4	13.3
	3.00	1	3.3
	4.00	2	6.7
	5.00	4	13.3
	6.00	5	16.7
	All	3	10.0
	4,5&6	5	16.7
	1,4,5&6	1	3.3
	All Except 2	5	16.7
	Total	**30**	**100.0**

The table and Pie chart above shows that the answer given for the question raised on the reasons for major default in the branch; 5 of the respondents answer that unfavourable Environmental condition is the reason ;the other 5 respondents answer that Loan Diversion , Lack of market for clients product and Unfavourable Environmental condition ; the other 5 respondents answer that the major reasons are Lack of follow up, Inadequate information about credit worthiness, loan diversion ,Lack of market for client product and Unfavourable Environmental Condition. Other 4 respondents choose Lack of follow up as answer, choices that come with Lack of marker for clients product is chosen by 4 of the respondents. The rest 3 respondents answer All of the choices can be set as reason but 2 others answer Loans diversion is the reason; 1 of the respondent choose the answer Lack of follow up, Loan diversion, Lack of market for client product and Unfavourable Environmental condition are the reasons, the last 1 person give the answer that the reason is Inadequate Information about Customer credit worthiness.

From the information gathered above the reason for default have different circumstances and according to respondents all have their own part according to the condition.

Figure4.7: percentage of income from loan interest



1).10%-25%

2).26%-50%

3).>50%

This bar graph shows the answer that given by the respondents for the question that how much % of branches income is covered from interest from loan; more than half of the respondents give the answer that it is more than 50% of the income covered by interest income from loan.

The implication of respondents strongly support that the researchers intention on the credit assessment ,it give a meaning that the bank income is more dependable on income from loan interest, so the bank need more focused on credit practice it involved.

Table 4.18: Measures taken to improve repayment of loan client

		Frequency	Valid Percent
Valid	1.00	9	30.0
	2.00	1	3.3
	3.00	5	16.7
	1&3	3	10.0
	All	12	40.0
	Total	**30**	**100.0**

1 .loan rescheduling

2. Additional Loan

3. Frequently insisting the client

40% of the respondents give their answer for the question what measure/s is/are taken on the side of the bank to improve the repayment situation, All is the answer those are: Loan rescheduling, Additional loan and Frequently insisting the Client,30% of the respondents choose it is Loan rescheduling the measure taken by the bank, other 16.7% of respondents made their choices on the answer Frequently insisting the client ;10% of respondents give their answer that Loan rescheduling and Frequently insisting the client, the rest 3.3 % of the respondent give the answer by choosing Additional loan is used as loan repayment improving situation.

As the above discussion over comes with, the bank give opportunity to its customers for the conditions that get difficulties to pay on time payments of loan according to the standardized and agreed conditions that the customer and the bank set . This build a good relationship between the customer and the bank for further work and mutual relationship will be initiated.

Table 4.19: Measures taken enforce repayment

		Frequency	Valid Percent
Valid	1.00	24	80.0
	All	6	20.0
	Total	**30**	**100.0**

1. Foreclosure 2.Court Proceedings 3.Rescheduling

The table above shows the answer of respondents for the question that rose on the banks measures taken to enforce repayment, 24 of respondents answer the measure taken is foreclosure but the rest 6 respondents answer all it covers Foreclosure and Court Proceedings, related to this answers the respondents are asked which forcing measurements most effective and convenience the respondents answer as shown below 53.3% of them give the answer it is Foreclosure, the rest 46.7 % give the answer that both Foreclosure and Court preceding are effective. The figures are very close so researcher can conclude both are effective measure to forcing loan repayment.

Table 4.20: Most effective enforcing measure

		Frequency	Valid Percent
Valid	1.00	16	53.3
	3.00	14	46.7
	Total	**30**	**100.0**

1. Foreclosure
2. Court Preceding
3. Both

More than 75% of respondents have ‘Yes’ answer for the question that the knowledge of employees in area of credit is supported by training and up to date procedure and manuals, the rest were having ‘No’ answer for the question.

Table 4.21: knowledge of employees in the area of credit

		Frequency	Valid Percent
Valid	Yes	23	76.7
	No	7	23.3
	Total	**30**	**100.0**

All the above discussion made from the documents output by SPSS ,the other open indeed answers of respondents on the difficulty as well solutions for them is discussed on the conclusion and recommendation part.

CHAPTER FIVE

5. CONCLUSIONS AND RECOMMENDATIONS

In this chapter, a conclusion of the research findings that has been discussed and analysed in detail in the previous chapters is briefly presented. In addition, general conclusions that are highly related with the research objective of this paper are offered.

Furthermore, possible recommendations based on the findings are made. Lastly, implication for further research is indicated.

5.1. Conclusion

Based on the finding the following conclusion s are forwarded

- ✓ Most of the workers are holder of Degree and good experience; it generates a potential and competitive environment for the bank in its long run performance and consistency in the market.
- ✓ As the bank perform its loan process and implementation through the credit manual and policy that lay with NBE it gives assurance and ground to control how the loan is going on in good faith.
- ✓ The action taken in loan enforcement and improving the repayment situation are create a better chance to customers to survive in their business and as well it give the bank a goodwill creation in the minds of customers ,in other words it's the bank increase the asset it have, as Goodwill is recognized as Intangible Asset.
- ✓ The loan extending procedure of the bank laid on Good manner it somehow give sense of good relationship and response with its customers/clients.
- ✓ The Banks procedure limits with the deposit amount that collected within the branch level and collateral estimation is not having value as the expectation of customers it limits the satisfaction level of customers as they need .
- ✓ The amount of loan granted throughout a year is difficult to define exact figure because it is limited and derived from the deposit amount in the branches.

Thus, the above are the conclusion that the researcher reflected from the overall primary data that is Questionnaire and the secondary data observed manuals and procedures.

5.2 Recommendation

On the basis of the results and conclusions of this study, the following policy implications are suggested so as to be considered in the future intervention strategies which are aimed at improving the credit management of the bank.

- ✓ As shown on the analysis the banks income is highly depends on the income from loan interest ,it should give more attention to improve the satisfaction level of customers in loan condition ,as much as possible the estimation method of collateral must be get improvement and made revision on it.
- ✓ The other issue need emphasis and improvement is give time for brief discussion with customers that comes to get a loan, show the directions in the side of the bank as well as side of customer, to broaden the knowledge level of client for better and long years of work together.
- ✓ Give attention to the loan involved staffs by improving their potential through trainings and make them master minded in their work division.
- ✓ Follow how the business of clients going on before it get to default and what really the loan granted is done by the client.
- ✓ Follow timely repayment of loan seriously and take timely measures to make the customer to pay the amount expected.

5.3 Limitation of the Study

The limitations that the study faced are highly work load environment of the respondent's ,it made some difficulty to get documents that help to disclose the study and time limitation are the general difficulty on the study. Especially time limitation was significant impact on the study.

Implications for Further Research

This study is under taken in Awash Bank share Company as a case study of Assessment of credit management performance of the Bank by considering the ten Addis Ababa city branches and Head Office. It has focused on credit while there are also other performance measurements like profitability, liquidity etc. Therefore, it is worth to study in comprehensive level in order to solve the persistent problems and promote the bank as per its vision to the competitive level.

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Appendixes A

St. Mary's University school of Graduate Studies

Department Business Administration

Questionnaire for Bank Employees

My name is Selamawit Alemar, am a MBA (Masters of Business Administration) student at St. Mary's University, and now I am doing my Thesis paper in the title of 'Assessment of Credit Management practice' in the case of AIB, this questionnaire is designed to collect relevant information about credit management related issues, your response to the items of this questionnaire will remain confidential and this research is undertaken as part of fulfillment for the program.

Directions

- You can circle to indicate your responses for items with alternative responses. Please, briefly state your responses for the open ended items.
- You can choose more than one answer for the questions as you get it necessary.

Thank u for taking your precious time.

Part I. personal Information

1. Gender 1/ Male 2/ Female
2. Age 1/ 20-35 2/ 36-45 3/ >45
3. Position In the Bank--
4. Year of Service---
5. Educational Level(E.g. Diploma in Management)---------------------------------------

Part II .General Issues in Credit Management

1. Does the bank have credit manual or Policy?

   1) Yes 2) No

2. If your answer for Question No. 1 is yes, do you think the manual is up to date and convenience for loan creation?

A) Yes B) No

3. If your answer for Question no.2 is "No", specify how the Bank implements its loan process.---------
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----

4. In what ground that the Bank process loans?

1) According to Banks credit manual

2) According to personal judgement of the managers

3) According to loan officers personal Judgement

Other--
----

5. How do you judge the bank's credit policy and procedure?

1) Flexible 2) Average 3) Rigid

6. Do the Policies and procedures exactly comply with regulations of National Bank Of Ethiopia

1) Yes 2) No

7. How much amount of loan accessed through your Branch? ------------------------------

8. Do you think your branch's loan growth is as required?

1) Yes 2) No

9. If your answer for question no. 7 is No please specify the reasons--
----

10. How do you rate the credit analysis and procedure followed by the Bank in extending credit?

1) Excellent 2) Very Good 3) Good 4) Fair 5) Poor

11. Do you think the Bank provide loan service that fit the preference of borrowers?

1) Yes 2) No

12. If your answer is No for question no. 11 please specify the reasons--------------------------------------
----
----

13. Do you think the branch lending limit and overriding limit has any difficulty in your branches loan providing capacity and growth?

1) Yes 2) No

14. If your answer for question no. 13 is Yes please suggest other procedure as choice---

15. The bank loan approving /recommending procedure of the credit proposal of clients are based on:

1) Loan committee at all level

2) Branch manager and president

3) Loan department

4) Board

16. Which of the following credit collection technique /s/ are used by the bank?

1) Cash/check payment

2) Debiting client account per pre undertaking agreement

3) Using collection agencies

4) Personal visit

5) Telephone

17. Do you think the credit collection techniques used by the bank are effective?

1) Yes 2) No

18. Does the bank have a culture of visiting clients business?

1) Yes 2) No

19. If your answer for question no.18 is Yes How often :

1) Monthly 2) Quarterly 3) In a time of default

20. What do you think is/are the major reason/s/ for default in your branch?

1) Lack of follow-up

2) Lack of training

3) Inadequate information about customer credit worthiness

4) Loan diversion

5) Lack of market for clients product

6) Unfavourable Environmental condition

21. How much % of your Branch’s income is covered by interest income from loan?

1)10-25% 2) 26-50% 3) >50%

22. What measure/s/ is/are taken on the side of the bank to improve the repayment situation

1) Loan rescheduling

2) Additional loan

3) Frequently insisting the client

Others-- -----------------------
----

23. What measures are taken by the bank to enforce repayment

1) Foreclosure

2) Court proceedings

Others --

24. Which one of the forcing measurements do you think most effective and convenience?

1) Foreclosure

2) Court preceding 3) Both

25. Knowledge of employees in area of credit is supported by training and up to date procedures and manuals?

1) Yes 2) No

26. Would you please specify the major credit problems that you assume--

27. Would you please specify any problem/s of credit management that your institute face so far apart from the above raised issues? ---

28. For the problem/s/ that you mentioned above please list out the possible and better solution/s that u think improve the credit management of the bank.---

Appendix B

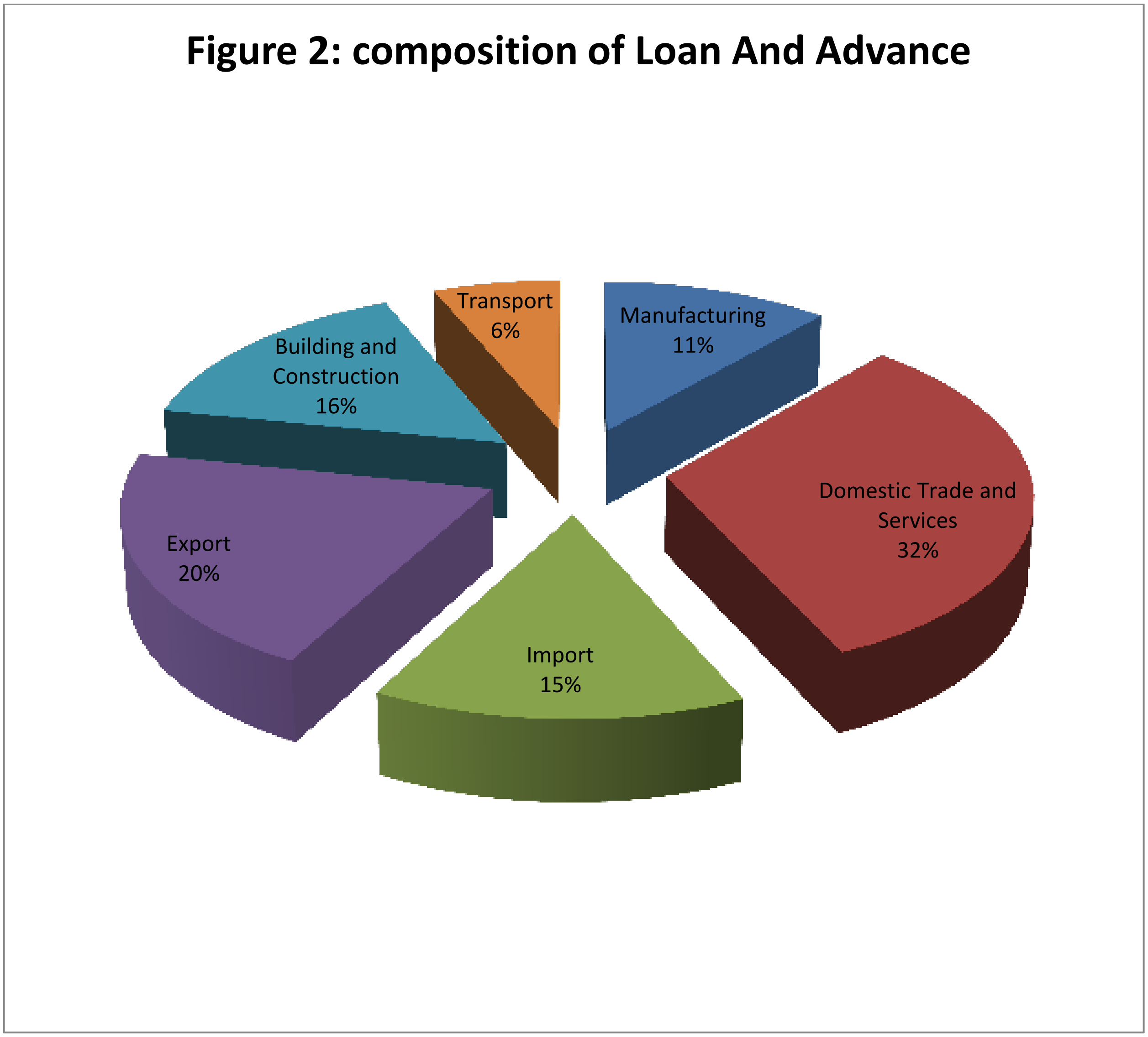
Figure 2: composition of Loan And Advance
Transport
6%
Manufacturing
11%
Building and
Construction
16%
Domestic Trade and
Services
32%
Export
20%
Import
15%

Appendix C

Provision for doubtful debts

The provision for doubtful debts is calculated at the following rates based on past-due loans and interest, less net recoverable values, as is directed by the National Bank of Ethiopia.

Days past due	Sub- categories	%
Less than 30 days	Pass	1
Between 31and 90 days	Special mention	3
Between 91and 180 days	substandard loans	20
Between 181and 360 days	Doubtful loans	50
More than 360 days	Loss loans	100

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