St. Mary's university school of graduate

Department of MBA project management

Assessment and evaluation of Credit Risk Management in United Bank

PREPFARED BY:

MOHAMMED AHMED

ID NO: SGS/2009/0428

SUBMITTED TO:

WUBSHET BEKALU

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The assessment and evaluation Credit Risk Management in the united bank

A THESIS SUBMITTED TO ST.MARY'S UNIVERSITY, SCHOOL OF GRADUATE STUDIES IN PARTIAL FULFILLMENT OF THE REQUIRMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF PROJCET MANAGEMENT

BY: MOHAMMED AHMED
ID NO: SGS/2009/0428

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ADDIS ABABA,

ETHIOPIA

Statement of Declaration

I, Mohammed Ahmed Jemal, have carried out independently a research work on ―Credit Risk Management assessment and evaluation in united Banks ‖ in partial fulfillment of the Requirement of the M.A program in project management with the guidance and support of the research advisor DR WUBESHET BEKALU.

This study is my own work that has not been submitted for any degree or diploma program in this or any other institution.

NAME	SIGNATURE
Mohammed Ahmed	______________________________
St. Mary's University, Addis Ababa	Date ______________________________

The assessment and evaluation of Credit Risk Management in united bank

By: Mohammed Ahmed Jemal

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Dean, Graduate studies	Signature & Date
_______________	_______________
Advisor	Signature & Date
_______________	_______________
External Examiner	Signature & Date
_______________	_______________
Internal Examiner	Signature & Date

DECEMBER, 2018

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LIST OF ACRONYMS

S.C:	Share Company
U.B:	United Bank
NBE:	National Bank of Ethiopian
CRQM:	Credit Risk Management
RM:	Risk Management
NPL:	Non-Performing Loan
CEO:	Chief Executive Officer
SPSS:	Statistical Package for Social Science
MS Excel:	Microsoft Excel
CAR:	Capital Adequacy Return
ROA:	Return on Asset
ROE:	Return on Equity
LLP:	Loan Loss Provisions

Abstract

The financial sector plays vital role in any economy by transferring funds from surplus to deficit area by giving credit. In today's changing financial lands cape-environment of intense competitive pressure, volatile economic conditions, rising bankruptcies, and increasing level s of consumer and commercial debt; an organization's ability to effectively monitor and manage risk associated to credit become critical. Therefore, managing its credit risk, using the credit risk management tools Hence it is essential to overview of the credit risk management practice of the banks and identifies the gap to take proactive measures and to protect the banks from any damage. Therefore, the research to identify the gap on credit risk management practices of united bank data has been collected from primary and secondary sources. In obtaining information from the primary data, a survey questionnaire was developed Simple random sampling technique was used to select respondents of the Bank and the data were collected from credit professionals the secondary date use to annual report and magazine different research published and unpublished The risk factors classified in two internal and external, the internal is human resources, system and bank rule & regulation credit rate experienced etc. & external inflation ,defilation, unemployment rate ,GDP, interest rate, business area, business type & marketed situation awareness about the loan & procedure customer educational background business experienced credit culture in societies etc. This implies the risk control methods developed the credit risk management main target is identifies major risk and how to can minimize the risk happiness give alternative and or situations The study found that lack of information system that support the risk management process, absence of risk identification focused tools on customers' business and the associated environment, unsound lending practices associated to credit processing and appraisal activities it is suggested that Bank should build well organized management information system, should put in-place a system capable of assessing, monitoring and controlling risk exposures in more scientific manner, should give a key concern to minimize concentration risk and should develop code of conduct to proactively monitoring ethical standards, and prudent application of policies.

Key words: Key Words: credit risk, credit, loan, concentration risk, risk management in bank, credit policy.

CHAPTER ONE

Introduction

1.1. Background of the study

The word "**Bank**" is used in the sense of commercial bank. A financial establishment that invests money deposited by customers, pays it out when required, makes loans at interest, and exchanges. Banks make money by providing service that their customer wants and granting a credit facility. In doing so there are some risks with this services provided and the most critical risk is credit risk.

Risk can be defined as a probability or threat of damage, injury, liability, loss, or any other negative occurrence that is caused by external or internal vulnerabilities, and that may be avoided through preemptive action. Risk can be defined as a probability or threat of damage, injury, liability, loss, or any other negative occurrence that is caused by external or internal vulnerabilities, and that may be avoided through preemptive action.

Risk is inherent in all aspects of a commercial operation. However, for Banks and financial institutions, credit risk is an essential factor that needs to be managed. Credit risk is the possibility that a borrower or counter party will fail to meet its obligations in accordance with agreed terms. Credit risk, therefore, arises from the bank's dealings with or lending to corporate, individuals, and other banks or financial institutions. Credit risk management needs to be a robust process that enables banks to proactively manage loan portfolios in order to minimize losses and earn an acceptable level of return for shareholders. It is essential for banks having robust credit risk management policies and procedures that are sensitive and responsive to these changes. National Bank of Ethiopia issued guidelines on the Credit risk management function and it emphasizes on – Policy guidelines, organizational structure and responsibility and procedural guidelines.

Credit risk management is very important to banks as it is an integral part of the loan process. It maximizes bank risk, adjusted risk rate of return by maintaining credit risk exposure with view to shielding the bank from the adverse effects of credit risk. Banks are investing a lot of funds in credit risk.

Risk management is simply a practice of systematically selecting cost effective approaches for minimizing the effect of threat realization to the organization. All risks can be never fully avoided or mitigated simply because of financial and practical limitations (Moteff, 2005).

Credit risk management is very important to banks as it is an integral part of the loan process. It maximizes bank risk, adjusted risk rate of return by maintaining credit risk exposure with view to shielding the bank from the adverse effects of credit risk. Banks are investing a lot of funds in credit risk. (Maggi and Guida, 2009).

Risk management is defined as the identification, assessment, and prioritization of risks followed by coordinated and economical application of resources to minimize, monitor, and control the probability and/or impact of unfortunate events or to maximize the realization of opportunities Risks can come from uncertainty in financial markets, project failures, legal liabilities, credit risk, accidents, natural causes and disasters as well as deliberate attacks from an adversary. The strategies to manage risk include transferring the risk to another party, avoiding the risk, reducing the negative effect of the risk, and accepting some or all of the consequences of a particular risk (Hubbard, 2009). The risk management plan should propose applicable and effective security controls for managing risks. A good risk management plan should contain a schedule for control implementation and responsible persons for those actions (Edward, 2005). It should also select appropriate controls or countermeasures to measure each risk. Risk mitigation needs to be approved by the appropriate level of management in order to increase profitability in a company. For example, a risk concerning the image of the organization should have top management decision behind (Payle, 1997).

Credit Policies:-The foundation for effective credit risk management is the identification of existing and potential risks in the bank's credit products and credit activities. This creates the need for development and implementation of clearly defined policies, formally established in writing, which set out the credit risk philosophy of the bank and the parameters under which credit risk is to be controlled. Measuring the risks attached to each credit activity permits a platform against which the bank can make critical decisions about the nature and scope of the credit activity it is willing to undertake.

A cornerstone of safe and sound banking is the design and implementation of written policies and procedures related to identifying, measuring, monitoring and controlling credit risk. Credit policies establish the framework for lending and guide the credit-granting activities of the bank. The policies should be designed and implemented with consideration for internal and external factors such as the bank's market position, trade area, staff capabilities and technology; and should particularly establish targets for portfolio mix and exposure limits to single counterparties, groups of connected counterparties, industries or economic sectors, geographic regions and specific products. Effective policies and procedures enable a bank to: maintain sound credit-granting standards; monitor and control credit risk; properly evaluate new business opportunities; and identify and administer problem credits. Credit policies need to contain, at a minimum:

The basis for an effective credit risk management process is the identification and analysis of existing and potential risks inherent in any product or activity. Consequently, it is important that banks identify the credit risk inherent in all the products they offer and the activities in which they engage. This is particularly true for those products and activities that are new to the bank where risk may be less obvious and which may require more analysis than traditional credit-granting activities. Although such activities may require tailored procedures and controls, the basic principles of credit risk management will still apply. All new products and activities should receive board approval before being offered by the bank..

1.2 Statement of the Problem

It is known that business is full of risk and risk taking which is a critical issue in banking business. Banks are successful when the risks they take are reasonable, identified, controlled within their financial resource and credit competence. In developing markets Bank faces stiff challenges in managing credit risks. A well-developed Credit Policy is an essential part of a sound and effective credit risk management in a bank.

Credit risk management is pillars of in loan granted and approval process in united bank this sectors highly invested capital that capital is invested to loan able process in this because of more control and secured by regulating policy and procedures the manually must be updated and versatile in current marketing situations .to control and or minimize the risk or nonperforming loan, the risk occurred in two situations internal and external factors internal factors is in side of the bank like human resources ,material ,system ,rule and regulation of a bank and external factors is inflation deflation, GDP, interest rate ,unemployment rate, marketing satiation customer willingness ,background of the customer ,loan cultures in societies, awareness of the bank policy and procedures

In united bank internal and external factors occurs and non-performing loan percents is 8%of the total loan approved this figures is how to can minimize and or control, my research is figure out or dig out main causes of internal and external causes, in united bank 23.08 billion birr deposit, 15.07 billion birr loan &advanced give to the customer

In United Bank S.C. the researchers realized unwilling customers to repay the credit they borrowed on timely base, failure in analysis of customer's financial statement periodically and significant number of None Performing Loans. The volume of loan and advanced that developmental project require by their nature and the associated requirement for the bank to keep substantial amount of capital reserve to protect it is solvency and to maintain it is economic stability. Thus credit apart from it is risk many result in risk of liquidity problem of the bank if loan are not repaid as per agreed period, these problems initiated the researchers to make further investigation on the credit risk management of United Bank S.C.

Focused answering the following basic research questions:

1 Properly implemented the bank manual?

2 How to can developed the bank credit risk management in versatile prospective?

3 How to can minimize the credit risk in loan process?

4 What is the gap between the loan processing manual and current business situation?

5 What are the internal controls mechanisms in practical to protect the bank from risk?

6 What are the steps in Credit granting and approval of the bank for Risk Management?

1.3 Objectives of the Study

1.3.1General objective

The general objective of the study to asses and evaluate the problem of the practice and evaluate of credit risk management system or processing in United Bank S.C.

1.3.2 The specific objectives

The study focused on the following specific objectives:

- To assess the credit risk environment of the Bank
- To evaluate credit granting process of the Bank
- To investigate the credit monitoring processes of the Bank, which include proper documentation, disbursement and identification of warning signals
- To evaluate the internal control system over credit risk.
- Means of credit risk management
- Areas of credit risk management which type of business are more prevented
- The united bank CRM manual properly implemented?

1.4 Significance of the Study

The primary significance of the paper will to serve as a partial requirement for a M.A. (Master of Arts) degree in project management. In addition, the researcher believes that the paper will have somehow brought in to the picture some general and specific situation of the issue of Credit Risk Management of the Bank.

This paper examines the proper application of credit risk management in the private banking industry with special focus on united bank to clearly diagnose the existing credit risk management practice. The Bank may consider the recommendation to improve its existing credit risk management processes which in turn will help to protect the Bank from future failed The outcome of this study could also have practical relevance to pinpoint key point for policy makers towards credit risk management implementation in the Banking industry. Finally, It also fill some knowledge gap associated the implementation of credit risk management pillars by producing the status of credit risk management application and could also serve as input for further research on the area more specifically on the implementation of key variables or component of standardized credit risk management tools.

1.5 Background of the Organization

United Bank was incorporated as a Share Company on 10 September 1998 in accordance with the Commercial Code of Ethiopia of 1960 and the Licensing and Supervision of Banking Business Proclamation No. 84/1994. The Bank obtained a banking services license from the National Bank of Ethiopia and is registered with the Trade, Industry and Tourism Bureau of the Addis Ababa City Administration over the years.

VISION

The vision of United Bank is to be "The Preferred Bank" in the banking industry of Ethiopia.

MISSION

UB’s mission is to render Quality Commercial Banking Services to the best satisfaction of its Customers; to enhance Shareholder value; to be one of, if not the best, employers in the industry; and, to discharge its corporate responsibilities to both the community in which it operates and the environment which it shares with the world. In 2020 best 5 bank industries in eastern Africa

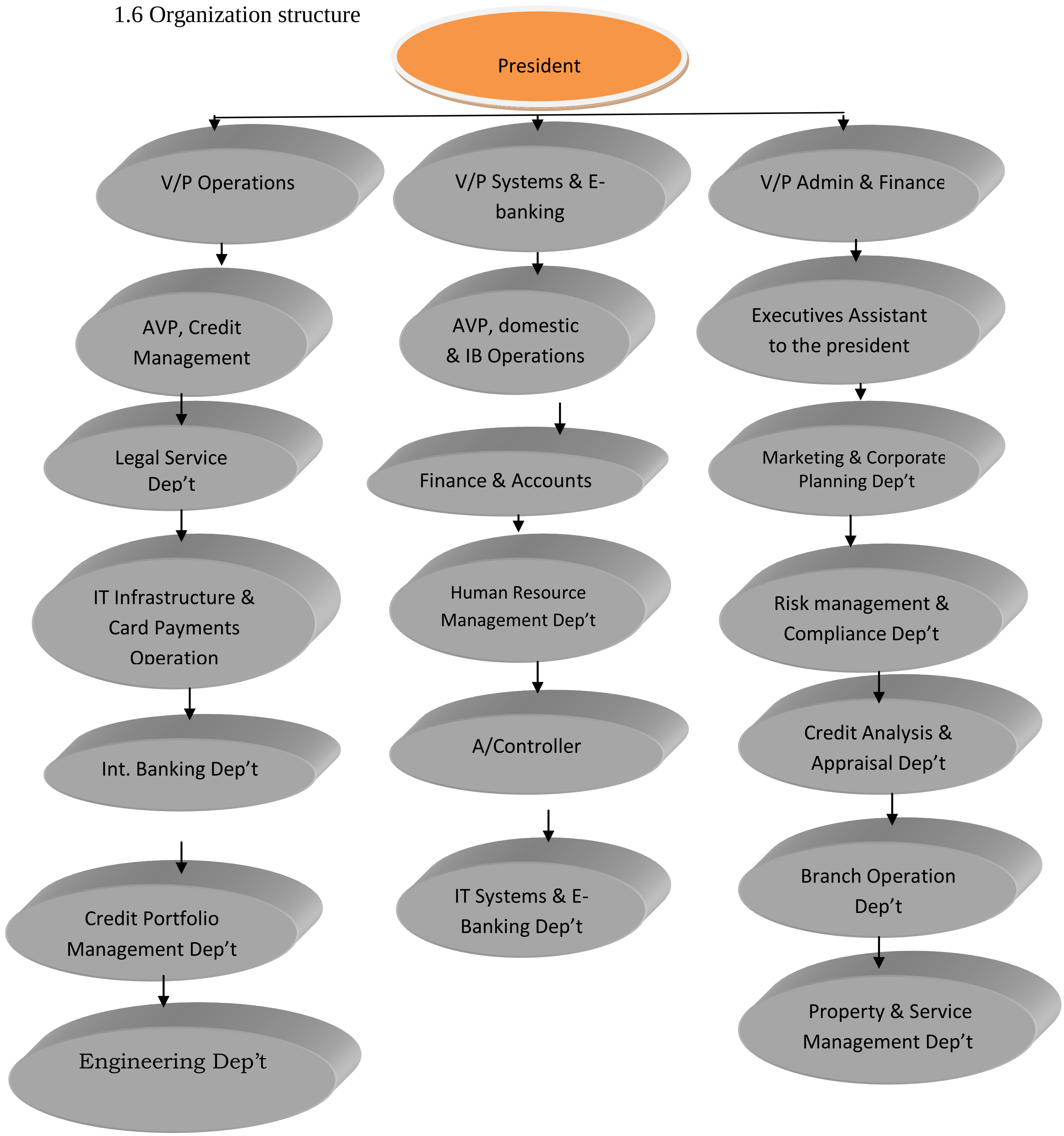
VALUE STATEMENT

The customer is United Bank's lifeline

- United Bank invests in its employees and dignifies them
- United Bank is committed to quality
- United Bank is a responsible corporate citizen
- United Bank works towards profitability and growth.
- United Bank values honesty, integrity and loyalty
- United Bank lives its values
- United bank give service to the customers

Deposits	Services	Loans
• Saving Account • Current Account • Fixed Time Account • Foreign Currency Account	• Internet Banking • Telephone Banking • BLMT • Mobile banking • Agent banking	• Short Term Loan • Overdraft • Letter of Credit • merchandize • transportation • hotel and tourism • personal • building • import and export • and other

1.6 Organization structure

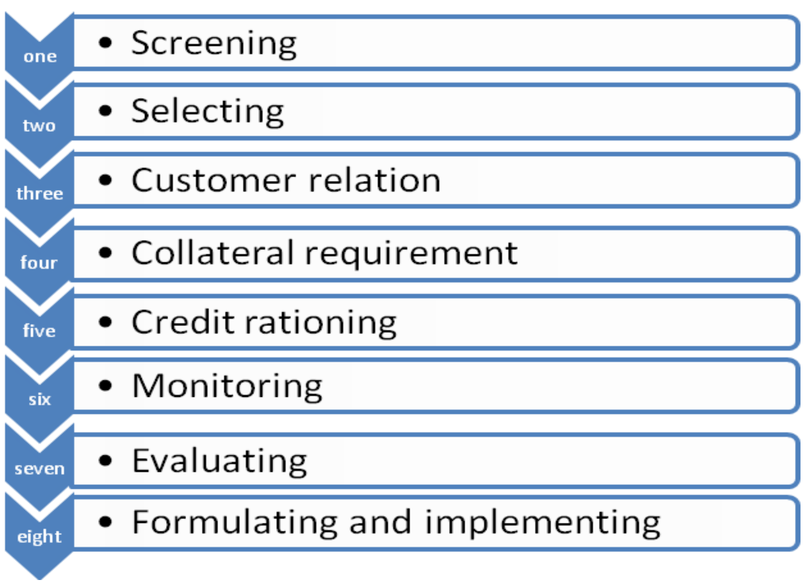


Graph A: organization structure

1.6 Scope of the Study

This study concentrated only on United Bank S.C to assess the practice of Credit Risk Management in the Bank and finally conclusions and recommendations were drawn from the study. Poor credit quality is not only the outcome of poor credit risk management. There are other factors that can contribute for the deterioration of credit quality. However, the scopes will only limit to the practice and processes of credit risk management in the Bank. United Bank S.C. has 102 at Addis Ababa and 121 outlying branches and the research scope not including all branch because of the limitation of cost and time high budgeted needed and more time needed. As a result some representative branches were selected. the study addresses branches that are all in which credits process done and grade A. specifically the study targeted Special branch /head office credit risk management department and portfolio department, and other branch such as Messalemiy Kolfe Sefere selam Bomb tera Itege tayetu Ayer tena Betel Catderal, Mehal arada Branch. And this research covered the credit Risk Management of the Bank.

Credit risk management process steps (framework of credit risk)



1.7 Organization of the Study

In this study chapter one is made from: the background of the study, problem statement, specific and general objective of the study, a research hypothesis, scope and significance of the study. In chapter two various theories and empirical studies are overviewed and the studies are summarized with their methodologies, variables used, findings and conclusion. In addition theories about each dependent and independent variables are presented. Third chapter is the methodology part and includes the research design, nature of data used, sampling design; data processing analyzing and presentation methods are presented. Moreover the model specification and the researcher expectation had described. Under chapter four the result of the regression finding is discussed and also the five assumption of Classical Linear Regression Model (CLRM) are tested. In this part the descriptive statistics data and correlation analysis also has conducted. Finally, in chapter five the conclusion made based on the finding obtained in chapter four and also appropriate recommendations has given.

CHAPTER TWO

Review of Related Literature

Banks make money by providing service that their customer wants and granting they credit facility. In doing so there are some risks with this services provided and the most critical risk is credit risk.

2.1 Theoretical Literature

Risk management is described as the performance of activities designed to minimize the negative impact (cost) of uncertainty (risk) regarding possible losses (Schmidt and Roth, 1990). Risk management as a systematic process for the identification and evaluation of pure loss exposure faced by an organization or an individual, and for the selection and implementation of the most appropriate techniques for treating such exposure. The process involves: identification, measurement, and management of the risk. Bessis (2010) also adds that in addition to it being a process, risk management also involves a set of tool and models for measuring and controlling risk. The objectives of risk management is to minimize foreign exchange losses, reduce the volatility of cash flows, protect earnings fluctuations, increase profitability, and ensure survival of the firm (Fatemi and Glaum, 2000). To ensure that banks operate in a sound risk management environment, where there is reduced impact of uncertainty and potential Master's Thesis: Assessment of Credit Risk Management Policies and Practices in NIB International Bank. (April 2015) losses, managers need reliable risk measures to direct capital to activities with the best risk/reward ratios. They need estimates of the size of potential losses to stay within limits set through careful internal considerations and by regulators. They also need mechanisms to monitor positions and create incentives for prudent risk taking by divisions and individuals. According to Pyle (1997), risk management is the process by which managers satisfy these needs by identifying key risks, obtaining consistent, understandable, operational risk measures, choosing which risks to reduce, which to increase and by what means, and establishing procedures to monitor resulting risk positions. Bessis (2010) indicates that the goal of risk management is to measure risks in order to monitor and control them, and also enable it to serve other important functions in a bank in addition to its direct financial function. These include assisting in the implementation of the bank‘s ultimate strategy by providing it with a better view of the future and therefore defining appropriate business policy and assisting in developing competitive advantages through the calculation of appropriate pricing and the formulation of other differentiation strategies based on customers‘ risk profiles.

According to Santomero (1995), the management of the banking firm relies on a sequence of steps to implement a risk management system. These normally contain four parts which are standards and reports, position limits or rules, investment guidelines or strategies, incentive contracts and compensation. These tools are generally established to measure exposure, define procedures to manage these exposures, limit individual positions to acceptable levels, and encourage decision makers to manage risk in a manner that is consistent with the firm's goals and objectives. Risk-taking is an inherent element of banking and, indeed, profits are in part the reward for successful risk taking. In contrary, excessive, poorly managed risk can lead to distresses and failures of banks. Risks are, therefore, warranted when they are understandable, measurable, controllable and within a bank’s capacity to withstand adverse results

2.2 Empirical Literature

Solomon (2013) in his paper entitled “Credit risk management techniques and practice of NIB International Bank” has conclude that credit risk management system of commercial Banks should incorporate a check and balance for the extension of credit that integrate separation of credit risk management from credit sanction, credit processing/approval from credit administration and finally establishment of an independent credit audit and risk review function. Tibebu (2011) “Credit risk management and profitability of commercial banks in Ethiopia” emphasized that Banks board of directors are responsible for each and every activities of the bank, so they need to conduct continues training for their employees particularly for credit risk management department managers and employees as well. Policy maker of banks (NBE) need to set policy, and guidelines which force banks to think over their credit policy, risk management policy, and other related things. Sudhir C (2010) Credit risk management ‟. The purpose of this document is to provide directional guidelines to the banking sector that will improve the risk management culture, establish minimum standards for segregation of duties and responsibilities, and assist in the ongoing improvement of the banking sector in Bangladesh. Credit risk management is of utmost importance to Banks, and as such, policies and procedures should be endorsed and strictly enforced by the CEO and the board of the Bank.

2.3 Common Causes for Credit Risk

Credit risk decision is a complex process which implies a careful analysis of information regarding the borrower in order to estimate the probability of regular repayment. Any consequence on such decision will result to severe damage to banks. It. is, therefore, necessary to look into the cases of credit risk vulnerability. The main cause of credit risk include, limited institutional capacity, inappropriate credit policies, volatile interest rates, poor management, inappropriate laws, ineffective control processes, poor loan underwriting, laxity in credit assessment, poor lending practices, government interference and inadequate supervision by the central bank(Kithinji,2010). Cited on Solomon (2013) According to (.Bagchi, 2006) broadly, there are three sets of causes

● Credit concentration- The extent of concentration any group can pose a threat to the lender's well being. Such measure should be evaluated in relation to institution' capital base (paid- up –capital+ reserves), total tangible assets and prevailing risk level. The alarming consequence is the like hood of large losses at one time or in succession without an opportunity to absorb the shock.

● Credit granting and/or monitoring process - ineffective appraisal system and pre sanction care with lack of supplemented by an appropriate and prompt post- disbursement supervision and follow-up system

● Credit exposure in the market and liquidity- sensitive sectors - associated to absence of compact analytical system to check for the customers' vulnerability of liquidity problem.

2.3.1 The Internal Determinants

Internal determinants of bank performance can be defined as factors that are influenced by a bank's management decisions. Such management effects will definitely affect the operating results of banks. Although a quality management leads to a good bank performance, it is difficult, if not impossible, to assess management quality directly. In fact, it is implicitly assumed that such a quality will be reflected in the operating performance (Anna P. I et al 2009). More precisely, the internal factors are bank specific variables which influence the profitability of specific bank, (Al-Tammie, 2010; Aburime, 2005). Even if there is variation in the number of determinant factors pointed out by the number of studies, the variables can be summarized using the

2.3.2 External Determinants of Bank Performance

A factor that pertinent to a broad economy at the regional or national level and affects a large population rather than a few select individuals. Macroeconomic factors such as economic output, unemployment, inflation, savings and investment are key indicators of economic performance and are closely monitored by governments, businesses and consumers.

External determinants of bank profitability are factors that are beyond the control of a bank's management. They represent events outside the influence of the bank, (Al-Tamimi, 2010; Aburime, 2005). The two major components of the external determinants are sector specific and macroeconomic factors.

2.4 Macro-Economic Related

There is wide variety of literature support the impact of the macroeconomic factors impact on bank performance. The macroeconomic policy stability, Gross Domestic Product, Inflation, Interest Rate and Political instability are also other macroeconomic variables that affect the performances of banks.

2.5 The Need of Credit Risk Management

The goal of credit risk management should always be to maximize bank's adjusted rate of return by maintaining credit risk exposure with in the entire portfolio as well as the risk in individuals' credit or transactions. For most banks, loans are the largest and most obvious source of credit risk; however, other sources of credit risk exist throughout the activities of a bank, including in the banking book and in the trading book, and both on and off the balance sheet. Banks are increasingly facing credit risk (or counter party risk) in various financial instruments other than loans, including acceptances, interbank transactions, trade financing, foreign exchange transactions, financial futures, equities, options, and in the extension of commitments and guarantees, and the settlement of transactions. So that bank should consider the relation between the credit risk and other risks. The effective management of credit risk is critical component of a comprehensive approach to credit risk management and essential to the long term success of any banking organization However, to be consistence with the research objective the focus here is on credit risk, which is the risk of repayment. i.e. the possibility that an obligatory will fail to perform as agreed or will not be able to fulfill the commitment agreed.

2.6 Types of Credit Risk

The loan officer or the branch Manager should see potential risk areas of the business and state the expected impact and materiality. According to United Bank S. C, Risk Procedure manual the Major areas of risk to be considered are:

A. Credit risk: Credit risk is the risk that a borrower or counterparty will fail to meet obligation in accordance with agreed terms. The Bank can be exposed to credit risk from diverse financial activities such as loans, off-balance sheet activities (such as guarantee and letter of credit), deposit in correspondent banks, and inter-bank transactions. Nevertheless, in doing banking business loans are the largest and most obvious source of credit risk.

B. Liquidity risk: Liquidity risks is the risk of financial loss to an institution arising from its inability to fund increase in assets and/or meet obligations as they fall due without incurring unacceptable cost or losses.

C. Interest rate risk: Interest rate risk is the exposure of a bank to adverse movements in interest rates resulting in a loss to earnings and capital.

D. Foreign Exchange risk: Foreign exchange risk is a current or prospective exposure to earnings and capital arising from adverse movement in currency exchange rate. The amount at risk is a function of the magnitude of potential exchange rate change and the size of the foreign currency exposure.

E. Operational risk: It is the risk of loss arising from the potential that inadequate information system; human error, technology failures, breaches in internal controls, fraud, unforeseen catastrophes, or other operational problems may result in unexpected losses or reputation problems.

2.7 PRINCIPLES OF CREDIT RISK MANAGEMENT

The goal of credit risk management should always be to maximize bank's risk adjusted rate of return. The credit risk management is the most critical issue in banking business success. Outlines basic principles while addressing the above areas of credit risk management and presented in the following paragraphs.

Principle 1: The board of directors should have responsibility for approving and periodically reviewing the credit risk strategy and significant credit risk policies of the bank. The strategy should reflect the bank's tolerance for risk and the level of profitability the bank expects to achieve for incurring various credit risks.

Principle 2: Senior management should have responsibility for implementing the credit risk strategy approved by the board of directors and for developing policies and procedures for identifying, measuring, monitoring and controlling credit risk. Such policies and procedures should address credit risk in all of the bank's activities and at both the individual credit and portfolio levels.

Principle 3: Banks should identify and manage credit risk inherent in all products and activities. Banks should ensure that the risks of products and activities new to them are subject to adequate procedures and controls before being introduced or undertaken, and approved in advance by the board of directors or its appropriate committee.

A. Operating under a sound credit granting process

Principle 4: Banks must operate under sound, well-defined credit-granting criteria.

These criteria should include a thorough understanding of the borrower or counter party, as well as the purpose and structure of the credit, and its source of repayment.

Principle 6: Banks should have a clearly established process in place for approving new credits as well as the extension of existing credits.

Principle 7: All extensions of credit must be made on an arm's-length basis. In particular, credits to related companies and individuals must be monitored with particular care and other appropriate steps taken to control or mitigate the risks of connected lending.

B. Maintaining an appropriate credit administration, measurement and monitoring process

Principle 8: Banks should have in place a system for the ongoing administration of their various credit risk-bearing portfolios.

Principle 9: Banks must have in place a system for monitoring the condition of individual credits, including determining the adequacy of provisions and reserves.

Principle 10: Banks should develop and utilize internal risk rating systems in managing credit risk. The rating system should be consistent with the nature, size and complexity of a bank's activities.

Principle 11: Banks must have information systems and analytical techniques that enable management to measure the credit risk inherent in all on- and off-balance sheet activities. The management information system should provide adequate information on the composition of the credit portfolio, including identification of any concentrations of risk.

Principle 12: Banks must have in place a system for monitoring the overall composition and quality of the credit portfolio.

Principle 13: Banks should take into consideration potential future changes in economic conditions when assessing individual credits and their credit portfolios, and should assess their credit risk exposures under stressful conditions.

C. Ensuring Adequate Controls over Credit Risk

Principle 14: Banks should establish a system of independent, ongoing credit review and the results of such reviews should be communicated directly to the board of directors and senior management.

Principle 15: Banks must ensure that the credit-granting function is being properly managed and that credit exposures are within levels consistent with prudential standards and internal limits. Banks should establish and enforce internal controls and other practices to ensure that exceptions to policies, procedures and limits are reported in a timely manner to the appropriate level of management.

Principle 16: Banks must have a system in place for managing problem credits and various other workout situations.

D. the Role of supervisors

Principle 17: Supervisors should require that banks have an effective system in place to identify measure, monitor and control credit risk as part of an overall approach to risk management.

Supervisors should conduct an independent evaluation of a bank's strategies, policies, practices and procedures related to the granting of credit and the ongoing management of the portfolio. Supervisors should consider setting prudential limits to restrict bank exposures to single borrowers or groups of connected counter parties as per (Credit Analysis and Processing Training Manual).

Main credit principles   All credits facilities should comply with

- The laws & regulations of the government
- Directives of UNIED BANK
- The strategy, credit, policy & procedure of the bank
- Know your customer, the business and security
- Make sure the amount, purpose &timing
- Depend on credit quality the first way to ensure repayment and collateral a second way out. Sources U.B procedures manual As per the above principles credit risk Management should contain those elements, which are mentioned by the above writers

2.8 Factors that influence credit risk Management

The environment within which the bank will grant credit has a real impact on the risk involved. This environment can be divided into the internal and external environment.

2.8.1. The internal environment

The internal environment of the bank refers to those factors or variables that can affect the credit risk, but may be influenced indirectly or directly by the management of the bank.

The credit policy of the bank –it is a document that gives the necessary guidelines and principles to be applied when granting a loan.(i.e., what credit may be granted , the credit terms required, acceptable security and qualified principles and criteria) it is developed by senior levels of management and be approved by the top management. It should be constantly updated and streamlined (improve) with current issues on credit risk faced by the bank. All credit staffs must be well trained in the content and implication of the credit policy at all times.

Employees of the bank-an employee need to be knowledgeable and competent if they are not the banks will exposited to credit risk. Credit training programs are used to give staff the necessary skills and knowledge.

Products and markets- it is essential to the bank to do through research as to the type of products it wants to sell to the specified target market. High level of competition can also put pressure on banks to become more lenient in granting credit, especially if it is a newly entered target market. Credit management & control system- it includes client information, monitoring of clients conduct in terms of their contracts, record keeping, credit reports etc.

2.8.2. The external environment

The external environment of the bank refers to those factors or variables that can have an affect the credit risk, but cannot be really influenced indirectly or directly by the management of the bank. The external environment can be classified under the following eight categories: The marketing environment (competition, clients and risk. i.e., inability to repay debt (insolvency and illiquidity), unwillingness or due to fraud an illegal conduct. The economic environment (1.cyclical economic movement –when the economy is upswing higher consumer expenditure higher demand for credit and when the economy downswing consumer will spend less and the demand for credit will decrease.2 role of inflation-it is a continuous increase in the general price level as measured by CPI (consumer price index) and the PPI (producer price index) & 3 the role of interest rate. The international environment- fluctuations in the exchange rate, e country risk i.e., the degree to which a govt. can interfere in the normal business by means of rules, regulations, control system, nationalization, confiscation, political instability also is part of country risk. The physical environment –it refers climate, availability of good infrastructure and the impact of environmental protection and conservation.

Legislative and the institutional environment: - the social environment influence of fiscal policy (govt. spending and taxation). Influence of monetary policy--tax policy- restriction of bank lending, interest rate control, exchange control regulation and moral suasion-in other wards requesting the bank to act/not to act in a particular way. The social environment – it refers to culture, language, religion and customs and population. The technical l environment –the fast pace of change of technology (MIS) The political environment- the influence that the political parties that manifest in the govt. ideological standpoint, policies and expectation on matters such as education, free market economy, privatization, stability of the government itself and influence of international politics.

2.9. CREDIT RISK MANAGEMENT APPROACH

According to Herrick (1990) banks manage their credit risk through three approaches.

- Minimizing risk
- Price risk and
- The diversity of risk approaches

All approaches require an ability to assess credit risks. The difference between the three approaches is the way assessments of risk are used banks.

A. Minimal Risk Approach **The minimal risk approach to credit risk management attempts to separate loans securities and other asset in two groups,**

1. It includes credit in which there is no reasonable doubt that the asset will be redeemed at face value, or in the case of equity investment, no reasonable doubt that the investment will provide significant rate of return over period of years.

2. It includes all assessments of credit risk where it appears that a credit might not be redeemed or an equity investment might not provide a good return. Money young bankers of the time told themselves that they would do whatever was needed to prevent the experience from happening again. One preventive measure was to look carefully at quality of the loan application; little could be done about past loans. Many of them were either on a workout basis of the type of business over which a banker had some discretion. Bankers did not feel confident about drawing fine lines of various degrees of risk and credit worthies. Loans, which were not likely to be repaid, beyond reasonable doubt, simply were made. The minimal risk approach relies on the classic three “C” of credit.

- Character
- Condition
- Collateral
- Capacity and
- Capital

The minimal risk approach to credit risk requires that bankers act as a helpful friend, consultant and adviser who use firm's persuasion when necessary.

This informal relationship adds understanding, but strong pressure to the management of any organization to keep its affairs in good shape. Moreover, if a banker approaches credit risk from the minimal risk approach, his efferent is directed to prevent any losses risk from occurring. There is no place in this thinking for losses and he makes extra ordinary afferent’s to fulfill this outlook.

To a banker with this credit risk approach and with dedication to his customers, there is often a feeling of person's failure if loss occurs. This psychological incentive to prevent losses provides an important part of attitude of bankers with a strategy that strives to minimize risk. This approaches tenders to keep bank activities restricted to areas that are already well known to a bank, new areas of banking activities involves greater uncertainties than the areas that are part of daily activities.

Even though the minimal risk approach has this important limitation, many banks have been very successful for many years by following this approach of credit risk.

B. Diversity of Risk Approaches

Credit risk management often diversifies a portfolio of loan, securities and investment at a simple effective way of keeping problems of credit risk under control. However, the approach is sometimes mistakenly used to justify taking grated individual credit risk or slimmer risk price premiums than otherwise would be justified, which is mistaken.

In fact, diversity can only partially control risk and it is not approach to credit risk that can stand independently of other approaches.

The major practical problem in diversifying credit risk is determining what constitutes diversity. There are literally thousands of ways of classifying assets, and a case could be made that many of the categories represent diversity on logical grounds. Yet to be effective, risk diversity requires relevant categories and the determination of relevant categories is not an easy matter. (Herrik,1990:p 135).

2.10. CREDIT RISK MANAGEMENT COST

The starting point for efficient credit control is recognition of cost of credit and is potential effects on profit and liquidity. Techniques for managing operating credit risk build on the broad principles of risk management. That is already deeply ingrained in banking practices. There are three basic ways to manage credit risk and carry costs to consider. They are

1. Exposure reduction methods; this credit exposure could be eliminated by requiring the customer to provide collateral or guarantees. Banks have their own specialist lenders and credit risk assessors who have the skills and experience to assess risk reduction. Although exposure reduction techniques are generally not expensive for banks to implement, they often result in higher customer costs.

2. Risk control: programs to control risk on the other hand can involve a change in operation and are often expensive to implement. This is designed to mentor the actual level of risk as it changes and to refer to transactions to the proper credit authority for approval before the exposure is created.

3. Loss funding: provisions must also be made for any losses that do occur. Although banks insure loans losses by deducting a provision from earnings to create are sere, must do not uses this mechanism to insure against losses from operating services. Ideally, reserves should be built and capital allocated to operating services in proportion the risk they incur.

The determine the level of credit risk to be funded, the following have to be considered: How much risk remains after implementation exposure reduction and risk control procedures, the operation dependability of the efforts and an analysis of the likelihood of loss from the remaining exposure (Paul F, 1991:132)

Credit risk management is divided in to two faces according to Churchill and Dancoster (2001)

1. Prior to issuing a loan, a lender reduces credit risk through controls that reduce the potential for delinquency or loss commonly known as preventive steps before issuing a loan and it includes: loan terms, loan amounts reflecting the clients repayment capacity, legibility criteria for a loan request, repayment frequencies, collateral ability and willingness of borrowers to repay a loan and check credit history with suppliers and other credit organizations.
2. Once the loan is issues a lender's risk management expends controls that reduce actual loss, commonly known as controls after extending loans. It includes the following
   - Periodically analyzing the portfolio quality with intent to modify procedures and policies before the loan quality deteriorates.
   - Field staff and clients must understand that late payments are not acceptable and client should be penalized for late payments or rewards to early payments.
   - There should be effective follow up procedures.
   - The consequence of loan default must be sufficiently unappealing to clients.

All credit departments should have credit management manual in order to standardize procedures. The manual should be regularly updated to account for changes in procedures and circumstances. The manual contains; statement of credit policy, methods of payment for various of account, specimen of management information forms and reports and the time table for completion and procedures for account collection, credit sanction, legal action, disputes, bad debits, credit limits etc. (Churchill and Dancoster (2001)

2.11 CREDIT POLICY AND PROCEDURE

Policy Means a program of action adopted by a person, a group, or government or set of principles on which they are based In simple term, policies are way of doing things, Policies are core stone of sound credit man and polices is agreement.

According to United Bank Credit policy manual:

Credit policies

- Ensure operational consistency
- Adhere [stick] uniform and sound practice
- Guide – lending activities
- Define- acceptable and non-acceptable risks
- Policies establish common credit language throughout the institution, delegate lending authority and responsibility

Objective of credit policy Provide guidance and standardize credit decision

- Avoid exposing excessive credit risk, Proper evaluation of business opportunities, Ensure operational consistency,

Procedure

Procedure is Established Method-Correct method of doing things In credit, it indicates correct way of processing, disbursing, collecting, reviewing loan. That is Interviewing, Document, visit, credit information, Credit analysis, Negotiation, recommendation, approval, [appeal] disbursement-Contract-registration- stamp duty, file maintenance –file prune, follow up, report ---- Loan categorization, provisioning---- Legal action, foreclosure, rescheduling, write off etc.

2.12 Conceptual Frame Work

The main objective of this study is to examine the impact of Credit risk management of banks on profitability. Based on the objective of the study, the following conceptual model is framed. As it described previously in the related literature review parts, bank profitability can be affected by bank specific, industry specific or macroeconomic factors. Bank specific factors are: non-performing loans overt total loan, capital adequacy ratio, bank size, and Loan-deposit.

In addition to this there are also macroeconomic factors which can affect bank profitability such as economic growth which is measured by GDP and inflation. For this study the researcher also took interest spread rate from the industry specific as this rate will going to determine partially by the government and also the market rate. Thus, the following conceptual model is framed to summarize the main focus and scope of this study in terms of variables included

2.13 Summary and Knowledge Gap

Up to the best knowledge of the researcher, in Ethiopia context it's not possible to get a study which took; bank specific, industry specific and macro-economic factors to test the impact of credit risk management on financial performance of banks in Ethiopia. The current study therefore aimed at contributing to the literature gap on the subject matter by expanding the independent variables and also taking into consideration of the external determinants of profitability factors like interest spread, inflation and GDP. This study is conducted first by considering both internal and external factors and analyzes the impact of those variables on banks profitability. This enables the researcher to evaluate from different three directions and to examine the impact of credit risk management on profitability of Ethiopian banks

Risk are an occurrences of lost or damage something on work process in the banking sectors are major risk are credit risk, liquidation risk, interest rate risk ,foreign exchange risk and operational risk one of the major risk focusing about credit risk in banking credit is back bone of the banking sectors and have good and highly control systems need this system is credit risk managements the banks are established manual and procedure applied the loan processing activities the manual is updated the current marketing situations includes it is versatile in approving loan the bank must be minimize risk methods used this is to developed manual or credit risk management

CHAPTER THREE

3. RESEARCH DESIGN AND METHODOLOGY

The aim of this chapter is to discuss the overall methodological considerations of the research. In this chapter the research design, population of the study, sample and sampling techniques, sources of data collection, instruments of data collection and procedures of data collection will be discussed thoroughly. It will also discuss the methods of data analysis, validity and reliability and the ethical considerations of the research in depth

3.1 Research Design

Research design is a blueprint for fulfilling the research objectives and answering the research questions the function of research design is to provide for the collection of relevant information with minimal expenditure of effort, time and money

The research design used in this study was descriptive type of study. That means the research focused to answer the questions that were involved in credit risk management activities of the bank and tried to get the true picture of the existing credit risk management of the Bank.

The reason for choosing this method was to detailed descriptions of specific situation(s) using interviews, observations, document review. It can describe things as they are. How do people implement this program, what challenges do managers face.

3.2 Data source

Data were collected from both primary and secondary sources. The primary sources are employees and customers of the selected branches of bank, where as secondary sources include reports academic research and documents of the bank as well as other published and unpublished materials used for review.

3.3 Date collection method

The Primary data were collected from the bank employees who have the knowledge in credit activities of the bank using questionnaires and interview. The questionnaires were distributed for some credit risk management department, loan officers, staffs and customers of the bank. Interview was particularly focused on department heads of credit risk management and loan officers of the branch. The secondary data were collected from the United Bank S.C credit policy manual, reports and procedures using document review and analysis method.

3.4 Sample size and Sampling Technique

3.4.1 Data gathering instruments

Probability sampling technique where in the researcher divides the entire population in to different sub groups or strata, then randomly selects the final subjects proportionally from the different strata .The most common strata used in stratified random sampling are age, gender ,socioeconomic status, religion, nationality and educational background. The strata must be non –over lapping having over lapping sub groups will grant some individuals higher chances of being selected as subjects this completely negates the concepts of stratified as type of probability sampling equally important is the fact that researcher must be use simple probability sampling within the different strata

United bank has 223 branches in Addis Ababa with estimated number of 30-35 staffs in each branch. For the purpose of this study, two special departments from head office and other nine branches were selected purposively because of time and costs as well as all branches use the same manual and policy for loan processing. Thus, Special departments of /Beklo bet head office credit and risk management and, portfolio departments and other branch offices such as Messalemia, Kolfe Sefereselam ,Catderal, Mehal Arada, Betel, Ayer Tena, Bomb Tera, and Etegtsaitu were selected with their respective one department that focuses on credit management.

Totally the researchers distributed questionnaire to 22 purposively selected respondents and interviewed 2 department heads.

- For branches loan officers- 22 questionnaires
- For customers ……30
- Interview ………… 7 department heads in head office of the bank.

3.4.2 Data presentation and analysis

After the relevant data were collected, Microsoft office- Excel was used to process and (SPSS) analyze data. Excel was used to generate descriptive statistics like frequency and percentage which were presented using tables and graphs. SPSS is the data analyzing and percentages feed the outcome are more actually Then interpretation and discussion of data was made on the basis of the objectives and research questions analysis.

Ethical consideration and validity

Validity means that correct procedures have been applied to find answers to a question. *Reliability* refers to the quality of a measurement procedure that provides repeatability and accuracy.

Reliability:- refers to the degree of consistency or accuracy with which an instruments measures the attributes it is designs to measure (polit &hunger 1997:296;uys &bassoon 1991:75)if the study and it is results reliability ,it means that the same results would be obtained if the study were to be replicated by other researchers using the same methods this title may be research by other researcher but different things are time interval respondents methods and using data the respondents are selected by properly and purposely .the selection of data used secondary and primary are implies the research developed ,the secondary data used the bank manual and procedure, the bank annual report ,the NBE report and wekipida and Google and the primary data using the interview asked question to the respondents and observation the data used the bank loan beneficiary (borrower) and the employee

Ethical Considerations :-First of all the study will be permitted from St marry University authorities who allowed a researcher, project management department in order to get acceptance .the bank for provision of data For data that will be collected from credit risk mangers officials of banks permission also be obtained from them selves‘. Since the research involved people, the researcher considered ethical issues. In this study ethical issue such as informed consent for one on participate in the study, privacy, anonymity and confidentiality had been adhered to as argued by Cohen, Manion and Marrison (2007 The confidentiality of responses and information obtained from the credit risk managers and even from the financial statements of concerned banks will be kept properly In addition, at the time of data collection the researcher will give respect to the participants and asks permission about their voluntariness for response. The researcher will also ethically consider not to put the participants at risk and not to act against the human rights of the county. For the analysis of the data collected the researcher will be ethically considered to be frank and not to include any fictitious data for analysis purpose.

Validity procedures: ―Validity means the accuracy of measurement of which the data is intended to be measured and how truthful the results of the research are‖,Patti and Ariccia, (2004). For the reliability & validity of this study, the researcher follows procedures starting from the data collation up analysis. The researcher first collects the data from audited annual reports of banks by the authorized body and published reports. Then those data is compared from the annual report which is found in the National Bank of Ethiopia/NBE/ .The survey questionnaires will be pretest by different individuals before it will be distributed to the target customers. This concept is not a single, fixed or universal concept but rather a contingent construct, inescapably grounded in the processes and intentions of particular research methodologies and projects. In addition scientific articles, journals and books will be used to guarantee the reliability and validity of the data. The largest part is, statically analysis tools like Regression model, SPSS computer program and MS-Excel office application will be used to analysis obtained data in order to increase the validity. That long list of care reduces the possibility of getting wrong answers. The findings of the pilot study discovered that the issue of risk management among the financial organization was not effectively implemented.

CHAPTER FOUR

RESULTS AND DISCUSSIONS

Introduction

This chapter presents the analysis of data collected with the use of questionnaire, interview and discussions of results in line to the basic research questions on which the study was based and discussion of the results of the empirical data collection

The analysis part is done with two main parts in relation to source, primary and secondary, used for the study. The primary data are analyzed using frequency distribution tables and the secondary data are also descriptively analyzed using different ratios

Survey response rate (employee of united bank selected branch)

Sample size (selected branch loan officers)	22
Completed and returned questionnaires	22
Response rate	100%

4.1. Background Characteristics of respondents

The first part of the questionnaire consists of five items about demographic information of the respondents. It covers the personal data of respondents, such as sex, age, educational Back ground, year of service in the bank, current job position. The subsequent tables revealed the total demographic characteristics of the respondents. All the respondents are united bank employees that are different branch makes in the positions of loan officers in different age educational background, in different gender, Sex years of experienced. That different background interpreted in this section. All the respondents are volunteer to answer the research questionnaires.

Table 4.1: Background of the respondent (Loan Officers)

No.	Item	Responses	Number of Respondents	Percentage (%)
1	Sex			
		- Male	16	72.72
		- Female	6	27.28
Total			22	100
2	Age			
		20-25	10	45.45
		26-30	4	18.18
		31-35	6	27.27
		Above 36	2	9.09
Total			22	100
3	Qualification			
		- Diploma	0	0
		- Degree	22	100
		- Others	-	-
Total			22	100
4	Work experience in United Bank			
		- 0-5 years	10	45.45
		- 6-10 years	12	54.54
		- 11-15 years		0
		- above 16 years		
Total			22	100
5	Current working position of respondents			
		- Credit Section Head	2	9.09
		- Credit Analyst	2	9.09
		- Loan Officers	14	63.63
		- Loan Supervisor	4	18.18
Total			22	100

Source: Field survey, 2018

As it can be seen from table 4.1, out of total respondents, male constitute 72.7 and female are 27.3 %. From the response we can also generalize for many loan officers are male. From the total respondents, 45.45% are young who are within age of 20-25 years this means the loan officers are young and to be knowing new things easily accept and implemented this indicates without any interface customer and employee relationship to friendship connection easily communicated exchange information, 18.18% are within the age range of 26-30 years, the other 27.27% respondents are in the age category of 31-36 years and above united bank are employed staff young and adults easily understand manually and procedures. Those whose age is above 36 years constitute only 9.09%. From this we can understand that majority of the respondents are young and adults. Concerning the educational status of respondents, all of them (loan officers) are BA Degree holders which show that they are well educated professionals to handle the issue related with credit risk. Regarding the work experience of respondents, 45.5% of them have 1- 5 years of, and 54.5 have 6-10 years of working experience. credit related experience the loan process are must be need experienced because of market analyses, economical analysis business behaviors and also what is the main factors affected in previous years and what is common reason for business interrupted. This shows that most of the employees who are working in the department of risk management are educated and good for handling credit areas with their experience.

4.2 Knowledge of the staffs about procedure and manual

This section deals with the information collected from respondents in regard to their perception for their current knowledge on procedure and manual of credit provision and risk management. In this regard, Table 3. Presents the views of respondents participated in the study.

Table 4.3 Knowledge of the staffs about procedure and manual

No.	Item	Responses	Number of respondents	Percentage (%)
1	Does the bank have credit policy and procedure manual?			
		- Yes	22	100
		- No	-	-
Total			22	100
2	If your answer "Yes" for the above question, do you think the manual is up to date and help full to you in processing credit request?			
		- Yes	22	100
		- No	-	-
Total			22	100
3	Do you have enough knowledge about the policy of credit in United Bank?			
		- Yes	22	100
		- No	0	0
Total			22	100
4	If your response is “Yes” in the above question, How get this enough knowledge.			
		-By reading loan procedure manual	-	-
		- By taking training	-	-
		- By asking immediate supervisor	-	-
		- Others	-	-
		- All	22	100
Total			22	100

Source: Field survey, 2018

As shown in the above table 4.3.the above table shows all united bank branch have loan procedures manual and all branch have hard copy and soft copy availability on hand. This manual must be updated because of the manual have the current market situations includes .the current is versatile and the procedure or the manual is updated to the current situations. 100% of the officers have enough knowledge of the procedure of the bank which shows that they are capable to handle loan process .all loan officers are read the manually properly and implemented in the loan process this indicates the loan officers are updated on the manual read and implemented in practical. And also 100% of respondents also reported that they attain enough knowledge about lending procedure through different ways. It implies that the credit policy of the bank is fairly up to date and the bank will make it better and adjusted the credit policy with in some time intervals.

4.3. Credit Policy and Procedure

The credit policy of the bank is a document that gives the necessary guidelines and principles to be applied when granting a loan.(i.e., what credit may be granted , the credit terms required, acceptable security and qualified principles and criteria) it is developed by senior levels of management and be approved by the top management. It should be constantly updated and streamlined (improve) with current issues on credit risk faced by the bank. All credit staffs must be well trained in the content and implication of the credit policy at all times.

Employees of the bank need to be knowledgeable and competent if they are not the banks will expose to credit risk. Credit training programs are used to give for the staffs to develop necessary skills and knowledge.

Table 4.2 Credit Policy and Procedure

No.	Item	Responses	Number of Respondents	Percentage (%)
1	Do you think that the credit policy of UB needs review?			
		- Yes	20	90.9
		- No	2	9.09
Total			22	100
2	If Your answer is "Yes" for the above question by what?			
		- Amount they asked	-	-
		- The Type of loan they selected	22	100
		- Other, if any	-	-
Total			22	100

Source: Field survey, 2018

As per the above table (4.2.) all of the respondents responded that the Credit policy needs to be revised by the type of loan they selected and it implies that the policy of the bank need to be revised with the changing condition to decrease the risk exposure. According to the interview conducted the respondent said that United Bank modifies the policies regularly because of the manually is not updated the current market situations .a current market is very exigent and many analysis must be done and including to the manually. The manually is few business are mentioned and solution in few business. Today is versatile business are allow in the market that business handle or managed in new version that means updated the manually.

4.4. Training and Skill up grading

Training and skill up grading is must applied within the organization because of the employees are must know the outside marketing environment as well as the practical rule and regulation of marketing .that knowing is which business are most risk and which business are not prohibited & illegal in the country the employees or the loan officers are must announced every rule and regulation due to the country. Updated by training and reading rule and regulation in business circumstance

the training is recorded in your employees performance and development plan including what jobs will be performed to use the training employees also good way to improve productivity, quality and output, customer satisfaction and employee job satisfaction .you should also ensure that the new training and development feeds into your review of staff performance as this will help you to track the benefit of the training

Table 4.4 Training and Skill up grading

No	Item	Responses	Number of Respondents	Percentage (%)
1	Have you attend any credit related skill up grading training recently?			
		- Yes	12	54.55
		- No	11	45.45
Total			22	100
2	Is the training is adequate for your current working condition?			
		- Yes	12	54.55
		- No	11	45.45
Total			22	100

Source: Field survey, 2018

As per the above table (4.4.) 54.55% of the respondents reported that they took training in credit related area. It implies that the training given to staffs was not satisfactory enough especially the frequency they get skill up grading training and it can affect the credit risk assessment capacity of the staffs. The loan officers are must be updated in the training of different training in the loan area because of the loan officers are must be knowing the marketing or the current marketing situations and it entail to the sharpness of the marketing determine ,easily scanning environment and knowing environment in different marketing analysis.

4.5 The Situation of Current Deposit and Loan Administration Practices of the Bank

As we all know loan and advance constitutes the largest part of total asset in banking industry which is also true in case of United Bank. In this regard, figure 3.1 shows the deposit of bank by category for the last years of 2014 and 2015

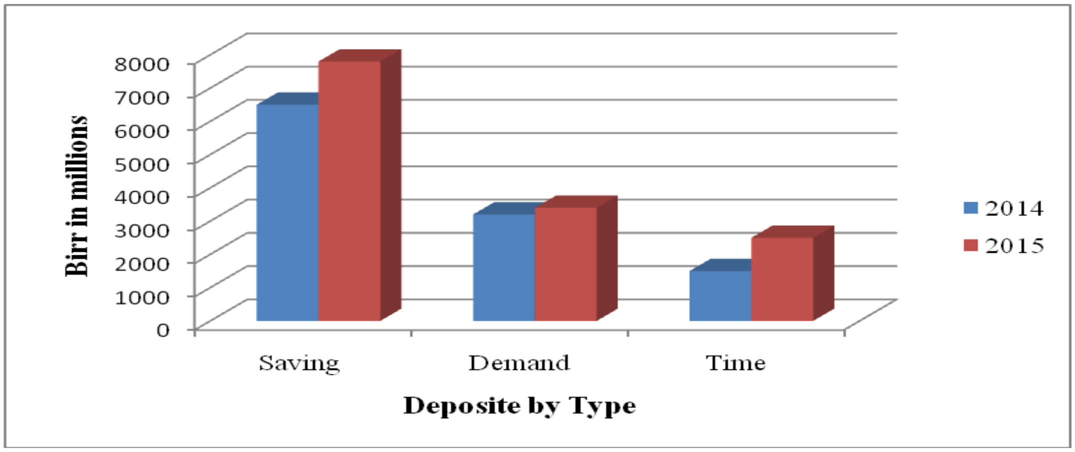


Figure (4.1): Deposit of Bank by Category

Source: Annual Report of United Bank, 2016.

Figure 4.1 show that saving in United Bank in year 2016 has shown increment as compared to year 2071. However, the demand in two years has not shown significant change. This shows that the bank has extra saving that can meet if additional demand for loan arises.

4.6 Loan and Advances of the Bank by Economic Sector

The bank provides loan to different economic sectors in different budget years. This was clearly shown the bank is granted the loan area in different area this indicates diversification of asset in different area figure 4.2 below.

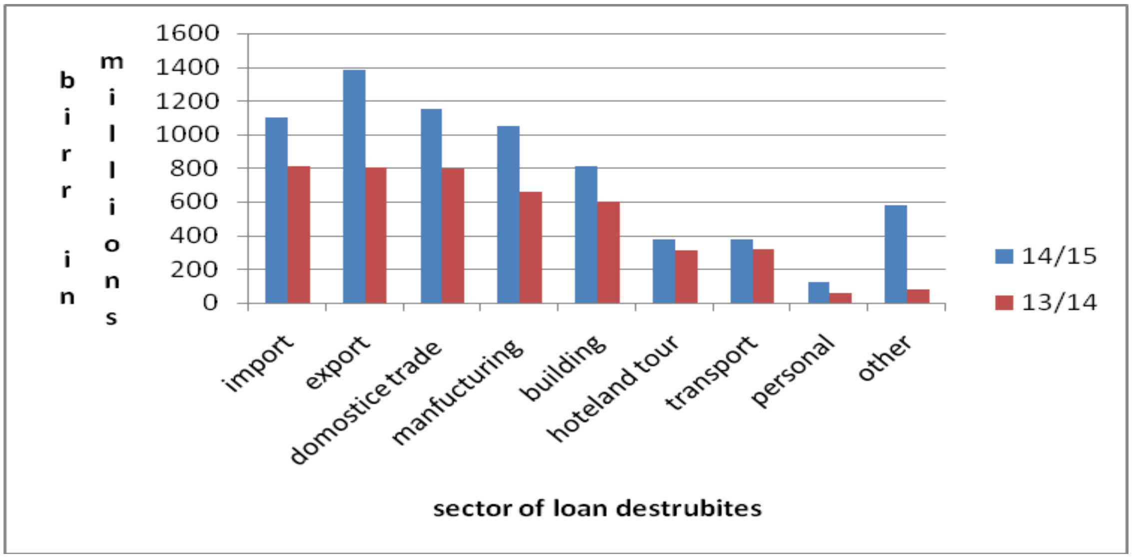


Figure (4.2) loan and economic sector

Source: Annual Report of United Bank, 2016.

Figure 4.2 shows that United Bank has distributing large portion of it is loan to the sector of export followed by domestic trade and import in year 2016/2017. The sector such as manufacturing and building also received more loans from the bank as compared to hotel, tour and transport in year2016/175. From this it is possible to realize that the bank's loan provision mainly target export, domestic trade and import. In addition, the figure shows that the change in granting of loan has shown increment from year 2015/16 to year 2016/17.

4.7. Breakdown of Loans and Advances of the Bank

This section clearly indicates the breakdown of loans and advances administered by bank to different economic sectors in year 2017 as shown in figure 4.3 below.

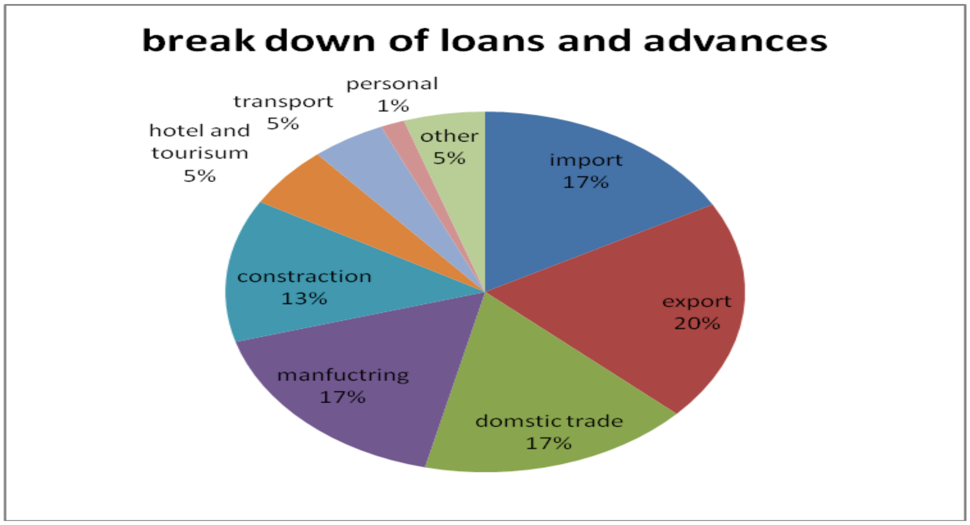


Figure (4.3). Breakdown of loans and advance

Source: Annual Report of United Bank, 2017.

Figure 4.3 shows that the loan granting of United bank mainly targeted clients of export sector which followed by import, domestic trade and manufacturing. In addition to these sectors, the bank also grants more portion of its loan to construction sector clients. However, the share of other sectors such as hotel and tourism, transport, personal and others is very minimal. This clearly indicates that target of loan provision is for those businesses that contribute to generation of foreign currency to the country.

4.8. Loan provision and Repayment Administration

In this uncertain and volatile economic environment, it is necessary to utilize any tools that help proactively assess the default risk and to handle any risk associated to their customers regarding payment of their obligations. Hence, making use of different credit risk model for evaluating the existing credit portfolio of the Banks is merely applied on banks. Accordingly, the researcher is asking the respondent about the use of models on the Bank**.**

This section clearly describes the loan provided and repayments administered in the last budget by the bank. Accordingly,

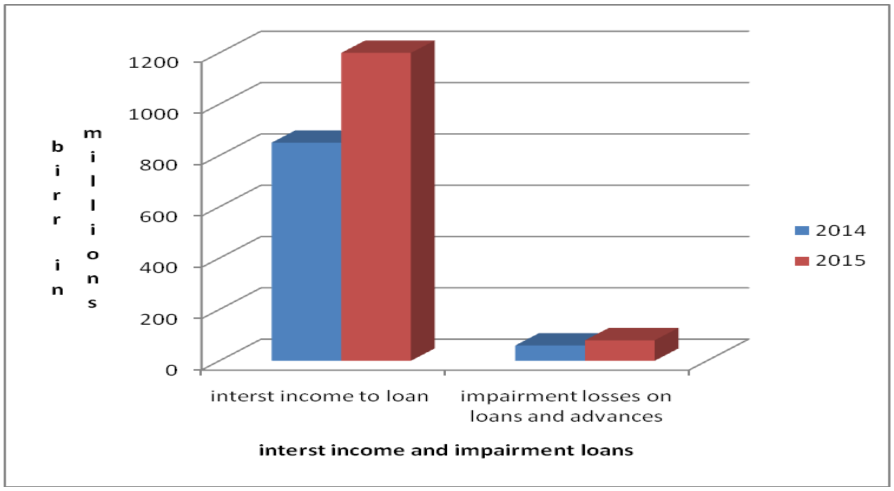


Figure 4.4 shows the provision of loan and repayments made as follows.

Source: Annual Report of United Bank, 2016.

Figure 4.4 shows that the Untied Bank are high profit gain on the loan process and advanced loan give to the customer in 2017 a united bank are increasing to the year 2016 by percents of 27.3%percentes this indicate profitable year to year and also sick loan are allow on the past 2 years a sick are increasing year to year this indicates the amount of loan are higher the risk also high.

4.9. The descriptions of Credit Risk environments of the banks in relation to Risk Management practices of United Bank S.C.

Credit department is one of the most and largest department in united bank because of banks are large profit can get on this department and highly secured and highly follow up and updated information and updated training give to the employee and the risk amount are decrease or control by short period of time and a united banks employee or loan office are updated and easy can solve the problem the other factors to reduces the risk is the collateral value is doubled and most secure ,listed and identified the causes of the nonperforming loan factors.

4.10 Loan Approval and Disbursement

All extensions of credit must be made on an arm's-length basis. In particular, credits to be related with companies and individuals must be monitored with particular care and other appropriate steps should be taken to control or mitigate the risks of connected lending .in this regard.

Table 4.5: Loan Approval and Disbursement

No	Item	Responses	Number of Respondents	Percentage (%)
1	What do you think about the time taken for a loan applicant to get loan service in United Bank S.C?			
		- Less than two weeks	2	-9.090
		- More than 2 weeks but less than one month	20	90.909
		- More than one month	-	-
Total			22	100

Source: Field survey, 2018

As per the above table (4.5) 85.71% of respondents responded that the loan deliver takes more than two weeks but less than one month, but some say it depends on the type of the project it shows that the bank takes in to consideration of the customers time and measure it risk at the same time

The loan process is takes time because of the knowledge of the loan officers due to that business know and what is that business environment in the current conditions will be answered this time takes within one month the answered. The time of loan approval and disbursement period is long because of the project analysis by loan officer that loan officer is knowledge is little area or make in few business area .the new business comes refer to an immediate supervisor or head office loan and credit department this activities is takes time. The bank must be updated all loan officers in a current market situation and or current dynamic business environment.

4.11 The loan requested by borrowers and Approval

Loan giving to the customer in procedure and manual bases and financial statement bases and all employees applied on this practicable a united bank are their own rule and regulation on loan process this manual are updated ad current marketing situation are collaborated and all employee are trainee

Collateral is used to secure the loan if the loan is secured by collateral and customer fails to repay the loan as promised, the bank has the right to the assets to secure the loan. To provide an alternative source of repayment the collateral must be marketable and the value of the collateral must exceed the balance of the loan at the time of default. The collateral should serve only as an alternative source of repayment and in most cases should not be major consideration in granting credit. It serves to limit loss of the bank is finally forced to resolve the loan through repossession

Table 4.6 The loan requested by borrowers and Approval

No.	Item	Responses	Number of Respondents	Percentage (%)
1	Do you know why all requested loan by the borrowers are not approved?			
		- Credit policy of the bank	6	27.27
		- Repayment capacity of the borrower	8	36.36
		- Lack of adequate collateral	8	36.36
		- Others	0	
Total			22	100

Source: Field survey, 2018

As per the above table 36.36% respondents are their own reason to suggest and the repayment capacity of the borrower are higher percentage indicates of not approved the total amount of loan, 36.36% the respondents are lack of adequate collateral the collateral are not equal of the request amount of loan and the bank are their own criteria to approved ,the guaranty must have the repayment amount cover and credit policy of the bank are their own effects of the borrower side because of not understanding policy,27.27% of the respondents are credit policy of the bank is the factors that not repayment the loan because of the banks or bank employee(loan officers) not follow up by time interval or not visit customer business in time gap the banks must be visit the customer business area condition by annual ,quarter or semi -annual because of the customer condition must be know Rather than collection of repayment.

4.12. Collateral Evaluation and Estimation

Collateral is used to secure the loan if the loan is secured by collateral and customer fails to repay the loan as promised, the bank has the right to the assets to secure the loan. To provide an alternative source of repayment the collateral must be marketable and the value of the collateral must exceed the balance of the loan at the time of default.

The collateral should serve only as an alternative source of repayment and in most cases should not be major consideration in granting credit. It serves to limit loss of the bank is finally forced to resolve the loan through repossession.

Table 4.7: The collateral valuation and estimation of United Bank S.C

No.	Item	Responses	Number of Respondents	Percentage (%)
1	Do you think that United's collateral valuation and estimation is appropriate?			
		- Yes	12	54.54
		- No	10	45.45
Total			22	100.00

Source: Field survey, 2018

As can see from the above table (4.7) about 54.54% of the respondents reported that the collateral valuation and estimation of the bank is appropriate. But it is clear that collateral evaluation is one main variable that affects credit risk management, which might be an explanation that most of the respondent clients took loans the above respondents shows united bank loan procedure manual appropriately applied and secured the bank.45.45% the respondent is the estimation is not appropriate and reclassification of manual and procedure because of the estimation is not current market situation and the valuation of the collaterals is greater than the actual collaterals the banks officers are very secured the bank by doubled of the collateral and approved the loan it implies the bank100% is very secured and free from risk.

4.13 Methodology to reduce Credit Risk

According to the interview conducted respondents told me that regarding the consumers previous bank credit exposure the National Bank of Ethiopia credit information data center provides the required information and The Bank request National Bank of Ethiopia to provide credit information of the customers to get credit information about his potential borrowers, In addition to this the bank gates information about it's potential borrower through evaluation the organization financial statement and assessing the background of the customers. More over to internal factors there are external factors, which should be considered and evaluated to assess the credit riskiness of potential borrowers, which include factors such as social, economic, political and technological factors

Table 4.11: methodology to reduce Credit Risk

Elements	**Very Efficient**	**Percentage**	**Efficient**	**Percentage**	**Less Efficient**	**Percentage**
Proper analysis of borrower’s request and documents		100%			-	-
Properly collect the required information from other Banks		54.54%		18.18		27.27
Give Sufficient Credit Awareness for borrower		54.54%		45.45	-	-
Efficient and proper follow up and risk assessment		100%				
Give relevant training for loan officers and related staffs		54.54		45.45		
Well attention and treatment for sick loans		81.81		18.18		

Source: Field survey, 2018

As can see from the above table (4.11) responses, which is 100% of the total responses state. Proper analyzing of borrower's request and document is more efficient it implies that to reduce the risk up to the target level or more than proper analysis of borrowers request and documents include analyzing the borrower’s intention to the fund on analyzing the purpose of the fund. As per the above table (4.11) 54.54% of the response states that properly collecting this information is more efficient and the rest say it is only Efficient and 100 % says its least efficient. The above but in recent the National Bank of Ethiopia is starting compiling all bank borrowers' credit information from all banks and providing it whenever requested by banks; United Banks policy stated that give sufficient credit awareness for borrowers includes advising the borrowers how to invest the fund to purpose intended, how to handle the loan and its repayment and how he/she will compare the cost of the loan interest and benefit (the return from loan fund); As per the above table 54.54% of the response state more sufficient credit awareness for borrowers more efficient and the remaining say it is efficient. From the total responses 100%responses say proper follow up and risk assessment is more efficient mechanism to reduce the risk From the total respondents 81.81 of the response say giving relevant training for staffs that are engaged in loan related activity is more efficient the rest 18.18% state it is efficient only. In general from the opinions gathered through the questionnaire, except Well attention and treatment for sick loans is pointed out as the most efficient to reduce the risk. As per the interview conducted the respondents say that Credit risk management needs excessive focus to minimize uncollectible loan & holding none performing loans because the bank with high level of NPLs would be forced to incur Caring cost on none-income yielding assets. In addition to this other consequences would be reduction in interest income, high level of provision, thereby reducing competitiveness.

4.14 Credit Follow up in United Bank S.C.

Once a loan is disbursed, it must be reviewed and managed actively to ensure that it is repaid. Credit approval committees are responsible for reviewing the status of the loans and advances extended through them, to ascertain timely collection and initiate all the necessary action to secure all due from borrowers, however, the prime responsibility of ensuring loan repayment fails on the lending branches. The Loan review and Risk Management Department is also responsible for the overall reviewing, monitoring and follow up of loan repayment. Credit review refers to the re-examination of a customer loan file at an established interval in order to discover the existence of any favorable or unfavorable changes in the creditworthiness of the customer (change in the risk level of the customer). A credit review is to be considered as an integral part of credit monitoring.

It also refers to the investigation and review of loan approvals by various credit committees.

4.15 Proper collection and follow-up of loans.

A loan officers make proper collection and follow up of a customer in day to day activity and business statement should be prepare on a time and updated organizational market position a loan officers are follow on a time schedule of united bank manual and procedure and indicates risk analysis position and clear of a risk indicates and the risk may be higher a loan officers are warning signals are write

Table 4.8: Proper collection and follow-up of loans

No.	**Item**	**Responses**	**Number of Respondents**	**Percentage (%)**
1	Is there proper and timely collection and follow-up of loans?			
		- Yes	18	81.81
		- No	4	18.18
Total			22	100

Source: Field survey, 2018

As can see from the above table (3.8}81.81% the respondent said that once the loan is approved and disbursed it needs proper loan follow-up at head office level and at branch level. And 18.18% of the respondent are the estimation which is not marketed value add and less amount are estimate to other banks

4.16. Credit Risk Environment of United Bank S.C.

Credit risk refers to the probability of loss due to a borrower's failure to make payment on any type of debt. Credit risk management meanwhile .is the practical of mitigating those losses by understanding the adequacy of both a bank capital and loan loss reserves at any given time –a process that has long been a challenge for financial institution To comply with the more stringent regulatory requirements and absorb the higher capital cost for credit risk, many banks are overhauling their approaches to credit risk. But a bank who views this as strictly a compliance exercise is being short-signed. Better credit risk management also presents an opportunity to greatly improve overall performance and secure competitive advantage.

Table 4.9: Credit committee members and organs involved in day-to-day credit

No.	Items	Responses	Number of Respondents	Percentage (%)
1	Do all credit committee members and organs involved in day-to-day credit operations strictly?			
		- Absolutely	10	45.45
		- Partially	10	45.45
		- Not at all	-	-
		- In some instance	2	9.09
		-Another Brief reasons		
Total			22	100

Source: Field survey, 2018

As can see from the above table (4.9) about 42.85% of the respondents reported that absolutely the bank loan Officers or Branch Manager do not approve any amount of loan independently which shows that the Managers or Officers have not any right to approve the requested loan rather the Head office Management Committee. This shows that all committees or organs have their own responsibility to assess the risk.

4.17 Major Causes of Credit risk and reducing mechanism

A bank has many risks that must be managed carefully, especially since a bank use a large amount of leverage .without effective management of it is risk, it could very easily become insolvent. If a bank is perceived to be a financial weak position, depositor wills withdrawal their fund, other bank won’t lend to it nor will the bank be able to sell debt securities such as bond or commercial paper. Liquidation is the ability to pay on demand, interest rate is the amount of collected on repayment of borrowers and the other hands are the depositor pays on the amount of deposit .market value is the current market value of goods or collateral

Table 4.10: Major causes of Credit risk and reducing mechanism

Elements	**Very High**	**Percentage**	**High**	**Percentage**	**Moderate**	**Percentage**	**Low**	**Percentage**	**Very Low**	**Percentage**
Lack of continuous follow up and proper risk assessment		54.54	-	0		9.09		27.27		9.09
Lack of consultation and communication with the defaulter	-	18.18		36.36		27.27		18.18		
Lack of information from other commercial banks		27.27	-	9.09-		27.27		18.18		18.18
Mistake on estimation of collateral and evaluating the borrowers financial reports		9.09	-	36.36	-	18.18		27.27		9.09

Source: Field survey, 2018

AS can see from the above table (3.10) summarizes the cause of risk at bank level the main cause with the highest percentage 54.54% which was Lack of continuous follow up and proper risk assessment the loan officers are not follow up and not control in a given period of time and this is affected of the organization in terms of interest not collect on time. 27.27%% holds for lack of information from other commercial banks 9.09% mistakes on estimation of collateral evaluation and borrowers financial report. Even if united bank has its own engineering department for this purpose estimation of collateral shows the highest percentage. 18.18% and also the cause lack of consultation and communication with the defaulter From open question respondents most of the respondents respond the current centralized credit information system of National Bank of Ethiopia is better than the former decentralized system.

4.18 Time Term Loan disbursement and ability to repay the lending loan

Term loan is monitory loan that is repaid in regular payments over a set period of time term loans usually last between one and ten years, a loan granted for working capital and /or project financing to be repaid within a specified period of time with interest .term loans can be repaid in lump sum on maturity or in periodic installments depending on the nature of the business and it is cash flow. The bank can extend a short, medium and long term loans

Table 4.15: Time Term Loan disbursement and ability to repay the lending loan

No	Items	Responses	Number of respondents	Percentage (%)
1	How do you describe the time taken to secure loan granting from date of application to date disbursement?			
		- Very long time (more than 2 months)	12	54.17
		- Medium (One Month)	4	18.75
		- Short (15 days)	6	27.08
Total			22	100
2	Have you ever got difficulty in repayment of your debt?			
		- Yes	22	100
		- No	0	0
Total			22	100
3	If your answer is "Yes" in the above question, what could be the possible reason?			
		- Increase of interest rate	7	31.82
		- High amount of grantee loan (beyond my own repayment capacity)	-	
		-Unexpected market fluctuation	15	68.18
Total			22	100

Source: Field survey, 2018

As per the above table (.4.15) about 54.17% of respondents reported that there is a very long time gap from loan application to loan disbursement, which implies that the bank's lending procedure cycle needs to be revised timely as well as Loan Officers should facilitate the loan as fast as possible so that customers can take more loans for more business activities. The majority of the respondents (54.17%) have not faced any difficulty in repaying of their debts. Still significant percentage of clients (45.83%) had difficulties in repaying back their loan. From this one can say that proper follow-up of customers regarding the problems and difficulties they faced and helping them should be an essential component in the loan providing service. This will allow strengthening partnership.

4.19. Objectives of Credit Risk Management of the Bank

Regarding the interview conducted to different staff of credit risk management section of the bank and branch manager. Credit risk management is mandatory to the bank future existence to ensure sustainability of the bank, which is largely depending on the quality of its assets. In general the objectives of credit risk management are assurance of healthy loan portfolio, which is important for the growth and expansion of the bank.

Table 4.12: customers trade type, duration of their relation, loan services and frequency of the loan.

No.	Items	Responses	Number of respondents	Percentage (%)
1	Type of trade Engaged			
		- Domestic	16	72.92
		- Foreign trade	3	14.58
		- Both	3	12.5
Total			22	100
2	Duration of relationship with United Bank			
		- 1 – 3 Years	17	79.17
		- 3 – 5 Years	3	14.58
		- More than 5 years	2	6.25
Total			22	100

No.	Items	Responses	Number of respondents	Percentage (%)
3	Types of Loan service borrowers entertain			
		- Term loan	16	68.75
		-Building and construction loan	3	10.42
		- Consumer loan	-	-
		- Truck loan	3	20.83
		- Others	-	-
Total			22	100
4	Frequency of loan granted			
		- One time	5	22.91
		- Two time	12	54.17
		- Three time	2	10.42
		- More than three time	3	12.5
Total			22	100
5	Amount Granted from requested			
		- All	17	35.42
		- Half	20	41.67
		- One third	11	22.91
Total			48	100

Source: Field survey, 2018

From the above table (4.12) we can see that 72.92% borrowers are engaged in domestic trade. This implies that most of the granted loan operates within in the country. The majority of the respondents (79.17%) have established their relationship with United Bank S.C Recently. (Less than three years), the service was highly dedicated for those with high capital investment. About 68.75% of the respondents are enjoyed with term loan from this we can say that the bank doesn't facilitate other types of loan other than term loan from the borrowers what they want. About 41.67% of the respondents reported that from the requested amount of loan most of the time half of the loan has been approved from this we conclude that this might be a reason for most customers taking loan not more than two times. When the bank concentrates only on risk management the customers will be affected when the bank did not lend the credit they requested.

4.20. Customers awareness about credit policy and Procedure of United Bank S.C.

A customer awareness of accredit policy in lending process and before agreement sign and the banker side must have the policy and procedure their own parts or articles because of the two parties have known as the policy clear and must have the agreement of the two parties on the agreement .

Table 4.13: Customers awareness level about united bank's lending procedure

No.	Item	Responses	Number of respondents	Percentage (%)
1	The awareness level of borrowers about United bank's lending procedure			
		- High	3	12.50
		- Medium	7	31.25
		- Low	12	56.25
Total			22	100
2	If your response is "high" in the above question, how did you learn about the bank's lending procedure?			
		- From the bank's staff	8	36.36
		- By reading the bank's manuals	10	45.45
		- From friends & relatives	4	18.18
Total			22	100

Source: Field survey, 2018

As per the above table (4.13) about 56.25% of the respondents respond that they lack awareness about the banks lending procedure. This is an indicator that most of the borrowers didn't have enough knowledge about the bank's policy as well as its lending procedures in detail. From this it can be taken as a lesson that the bank has to formulate a mechanism, so that as many clients as possible should be well aware of its lending procedure. Most borrowers (about 68.75%) didn't seek the help of Loan Officers before they fill the loan application form, this could be an explanation for the borrowers not getting the amount of loan they requested, for the fact that the customers potential to return loan, proper utilization of the loan and other variables may not well assessed. Twenty (60.01 %) out of 33 respondents who didn't seek help from Loan Officers didn't think of asking help while they are requesting a loan. This shows that most borrowers aren't supported by Loan Officers to know the bank's loan policy as well as lending procedures. In addition customers lack proper knowledge that the Loan Officers are very crucial in due the course of the loan.

3.21 Customers opinion about banks credit service, their ability to repay and follow up

United bank is primary objective is lending money to the customer, united bank offers a variety of lending and credit services designed to fit your individual needs as well as offering a quick turnaround time with local decision making, the representation of the financial capacity of an individual or an institution to make good on their repayment of a debt or a loan .the ability to repay is considered by lender when deciding whether to give a loan to an individual or an institution

Table 4.14: Customers opinion on united bank's loan providing service

No	Items	Responses	Number of Respondents	Percentages (%)
1.	Criteria to describe the bank's loan providing service to the standard			
		-When there is a continuous assessment by the bank itself	3	14.58
		-When the bank follows the granted loan used for the intended purpose	10	45.84
		-When the bank gets assurance from its borrowers	6	25.00
		- All could be possible	3	14.58
Total			22	100

No	Items	Responses	Number of Respondents	Percentages (%)
2	Have you been satisfied with the bank's loan providing service?			
		- Highly	8	37.5
		- Moderate	12	52.08
		- Not satisfied	2	10.42
Total			22	100
3	If your response for the above question is "Not satisfied" what do you think the reason be?			
		- Discrimination from customer to customer	13	60
		- Weakness and negligence of the bank officer	9	40
		- Strictness of the bank's credit policy	-	-
Total			22	100
4	Have you ever tried to report your complain to the concerned Official (To Branch Manager)			
		- Yes	8	37.5
		- No	14	62.5
Total			22	100
5	Have you got any problem for the question that you asked for loan staffs?			
		- Yes	7	31.25
		- No	15	68.75
Total			22	100

Source: Field survey, 2018

As can see from the above table (4.14}In this regard nearly 45.84% of the borrowers responded that, regarding to the bank's loan providing service as to the standard, the banks lending service meets to the standard, when the bank follows the granted loan is used for the intended purpose.

Even though 89.58% of clients were satisfied by the banks loan providing service, this is not an indicator of the banks best loan lending performance since most of them were not taking more than two times since its establishment.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This section presents summary of Kay finding, conclusion and recommendations that to be considered to solve gaps identified in the study.

5.1 SUMMERY OF FINDINGS

With the help of the analysis made the major findings are summarizes as follows.

- The credit risk management properly applied in all united bank branch
- The customers awareness about the credit risk procedure and manuals
- The credit management are vital import in banking sectors
- The finding shows united bank use different quantitative and qualitative method of measurement to assess the possible occurrences credit risk.
- The assessment is not made in frequently
- The CRM is the banking industries is most probably the profit and the back bone of the industries
- CRM area are have good knowledge experienced and skill about the credit manuals procedures and articles and that have expected knowledge and skill this becomes on training and work experienced
- The banking industries are limited working area not more than 15 secretors this is inducts the banking industries are monopolized in one company that is national bank all banking industries are must be applied national bank Ethiopian rule and regulation and not more than the boundary and scope jump
- The selection process are must be applied the national bank of Ethiopian rule and regulation this is one of the problem affected their own job and own selection mechanism applied ,this affected the new create job(new comers) entity is not prefer advanced

- The loan process and steps are must be applied the national bank loan procedures and manuals
- Term and conditions of the loan process are besides on the banking sides at free from of risk not how to can income generate or how to can business run the business must be follow up the activities of the business and business owners.
- Educational and work experience composition of staffs who are working in the credit area is recommendable.

5.2 Conclusions

Lending is the heart of banking industry. While doing so, the integral element of uncertainty or possibility of loss, risk, is faced by the Banks associated to lending or credit activity. Managing this risk is a vital with the help of standardized credit risk management tools in order to survive and thrive in such volatile and competitive environment

The broad objective of this research was to identify bank specific determinants of nonperforming loans. Based on the broad objective a number of specific research questions were developed. To achieve this broad objective, the study used mixed 'research approach. More specifically, the study used survey of employees, review of documents of bank reports and used unstructured interview with senior bankers. The results showed that, based on the respondents' view it was evident that most likely factors that affect occurrences of nonperforming loans in united banks are presented in the paragraphs that follow. The study has also found the united bank S.C has both strength and weakness.

- Have hierarchy of credit assessment unit both at branch level and head office level.
- The study indicated that poor credit assessment ascribing to capacity limitation of credit operators, institutional capacity drawbacks and unavailability of national data for project financing that had also led to setting terms and conditions that were not practical and/or not properly discussed with borrowers had been the cause for occurrences of loan default
- The tools which are used in credit risk management by the Bank are mainly depending on collateral value .Besides, despite the fact that credit monitoring/ follow-up plays pivotal role to ensure loan collection failure to do this properly was also found to be causes for sick loans. The research also indicated that over financing due to poor credit assessment, compromised integrity of credit operators were cause for incidences of NPL. In fact cases of under financing loan requirement that meant shortage of working capital or not being able to meet planned targets were associated with defaults. And credit approval authority. the Bank didn't utilize other methods like portfolio management, diversification.
  - In addition the study also found out that due to underdevelopment of credit orientation /culture borrowers engaged in business that they had no depth

knowledge, diverted loans advanced for unintended purpose and at times made a willful default.

- The loan facility is only granted for merchants who are owners of fixed asset collateral (registered assets) instead of having visible business idea and professionals.
- In-depth interview also indicated that underdevelopment of supervisory authority competence in formulating policies, monitoring capability also ascribe to occurrences of nonperforming loans earlier.
- The lending policy of the bank is more or less stagnant, i.e the lending policy is a tight one, which lacks alternative options to perform major duties related to credit approval.
- It has a weak side; there is huge concentration on one or two sectors. That antagonizes decreasing risk by diversification and there is no timely training of staffs and timely financial analysis of customer's financial report after disbursement.
- Detail credit analysis with respect to financial position of customer, credit repayment history and track record are assessed. This information help to forecast the future enable the bank to identify the capacity of borrowers and to process loan in the safety condition. More over there is no independent credit risk management unit.
- There is a new implemented system of sharing credit information among banks by national bank of Ethiopia.
- The bank Credit policy is not based on the current situation of the banking industry, at least partly, and this leads to every decision to be made by higher management body.
- United bank is not granted on instruments as like collateral because of loan granted or approved only by collateral
- Collateral estimation is higher than loan approved
- The time of loan approved longer time takes
- Loan officers or bankers not visited the customer business area or customer projects
- Pricing of credit risk mainly associated to the collateral value in the Bank. the Bank didn't consider the viability of customer business, which should be the key point to consider the pricing risk
- Under monitoring and control activities of the Bank, stress testing on the overall credit portfolio is not conducted,

Concentration risk associated to sector, product and geography are also existed on the Bank. In addition high concentration of loan by large borrowers is also witnessed on the credit portfolio of the Bank.

5.3. Recommendation.

Based on the results found out in the previous chapter, summery findings, and the conclusion made, the following recommendations are suggested to improve credit risk management of United Bank;

- Credit analysis and appraisal helps to know the credit worthiness of the borrowers and hence it is advisable if properly implement and integrate the credit analysis and appraisal in to its credit risk management system.
- United Bank should diversify their credit portfolios by avoiding huge credit concentration on one or two sector.
- The bank should update its credit policy and manuals and credit risk system over time.
- Proper and continues training should be provided to the staff and straightening the follow up division to follow up the proper usage of the credit facility for the intended purpose.
- The bank should implement cost effective credit risk evaluation system, in order to minimize the risk management cost.
- As credit information is crucial element of credit risk management system, the bank should make maximum caution in dissemination of credit information on defaulters.
- To reduce the time taken in processing of loan, reengineering of all the necessary steps to make them efficient and active in a way that long bureaucracies will be shortened together with applying the necessary technology is very important.
- Banks should put in place a clear policy framework that addresses issues of conflict of interest, ethical standards, check and balance in decision making process for all those involved in the credit process ensure its implementation thereof.
- Banks should give due emphasis it takes to developing the competency of credit operators, information system management pertaining to credit and efficiency of the credit process.
- Prudence of policies that govern bank loans should continuously be ensured in light of international best practices, macroeconomic situations, level of development of banks and the economy in general by NBE.

- The bank not lending business plan or business project this is one of the result gain on the questionaries' and observed of the manual as procedures
- United bank have good communication via parallel and horizontal and vice versa
- The time takes of loan approved period is less than in two weeks by training of employee because of the customer need on fast and that gap may be fluctuation cases or deflation /inflation
- Banks managements has to impose moderate lending rate so as to reduce a loan default arises from charging highest interest rate
- Banks should give due emphasis to developing the competence of credit operations ,information system management related to credit and also made efficiency the credit process in all aspects

Besides all banks in the country should be exerted their effort in developing the culture and orientation of the public towards credit and it is management of loan information detail of how to can borrow (lending), how to can repayment the loan and the credit culture of the society is developing by giving information and changing of the societies of culture change.

National Bank of Ethiopia should also strengthen its on-site examination and also regularly review the credit risk management activity of the Bank

NBE should also enforce the Bank to develop code of conduct, to prohibit the interference of executives from overriding the Bank's policy and procedures.

Recommendation for further study

The improper credit risk management practices of any Bank will have a great impact on the overall financial sector and also on the economy. Hence, the result what is obtained on this paper may also be the fact of other private banks. Hence, future research should be required on how to develop a standardized credit risk management practices in the sector

St Mary’s School of Graduate

SCHOOL OF GRADUATE STUDIES POST GRADUATE PROGRAM

Dear respondents;

The purpose of this questionnaire is to conduct a study “Credit Risk Management practice in united Bank S.C. ”in partial fulfillment of to the requirement of MA degree in PROJECT MANAGEMENT. My name is Mohammed Ahmed Jamal , a graduate student of Masters in project management (MBA) at St. Mary's University, department of project management at SGS CAMPUS , the objective of The study tries to evaluate the assessment of credit risk management and practice of UNITED Bank S.C. and making suggestions to overcome the problems of credit risk.

Thus your response is highly valued for assessment of these factors and in providing solution based on the findings.
Your genuine response is solely used for academic research purpose only and the data will be treated as most confidential, please mark your response by using tick mark by the provided according to your choice,

Should you wish to contact me for any reason or question regarding this issue, feel free to call me on telephone:- xxxxxxxxxxxxxx, or mail me at __________________

Thanks for your diligent cooperation in advance.

In filling the questionnaire:

1. You need not to write your name.
2. For close-ended questions, mark (X) in the box provided corresponding your answer.
3. For those statement factors with which you agree/disagree, mark (X) under the corresponding level of agreement /Disagreement for each factors listed.
4. For open ended questions, write the answers on the space provided or you may additional paper if the space provided is not adequate

1) Job Title: ___________________________

2) Gender: A Male B Female

3) Age: A 20-29 B 30-39 C 40-49 D 50-59

4) Current department/Division/ Branch_________________

5) Highest educational levels obtained

A High school complete B Certificate C Diploma
D Bachelor Degree E Masters Degree and above

6) Area (field of specialization) or major field of study Accounting Management CPA Economists others please specify _____________

7) Years of work experience

A 0-5 years B 6-10 years C 11-20 years D More than 20 years

8) Marital statuses Single

A Married B Widowed C Divorced

(Part two)

1Which credit risk management mechanism do you think is the most important to reduce credit risk of united banks of our country?

A) Screening and monitoring B) Credit Rationing

C) Collateral Requirements D) Long-term Customer Relationship
E) I don‘t know

2) After you select among the alternatives for question number ―1‖, would you explain why you prefer among the other alternatives please? --
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3) What do you think the problem will be, if there is poor credit risk management is there in the bank? --
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4) As expert of credit risk management, what do you recommend to make our banks more effective and decreasing NPL on processing and before grant loan? -------------------------
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5). what are the major challenges in the process of loan and advances process?

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6. How much percents NPL in past three years in your branch and NPL % in totally borrowed loan? ___________________________________

PART 3 Loan and advance in united bank.

Instruction, this questionnaire provides a description of the loan and advance practice in your organization,

KEY: 1. Strongly Disagree

2. Disagree

3. Neutral

4. Agree

5. Strongly Agree

Statement /description of loan and advance	1	2	3	4	5	
The lending policy or directive respects the NBE directives?						
The bank loan approval and selection process keeps the NBE standard						
Customers should understand and communicated that their due payments.						
The bank/branch should consult and advise the borrowers with prior to their deterioration						
The bank practice the credit policy timely and efficiently						
The bank/branch processes the loan timely and efficiently						
The loan approval process deserves customers satisfaction						
The bank earnestly keeping the loan and advances collateral securities						
The value of the collateral assets of a given loan underestimated						
The loan and advances collateral value exaggerated for a given loan.						
The bank provides large amount for small collateral or not?						
The bank earnestly believes that the existing estimation errors leads customers defaulted.						
The bank update frequently loan discrepancies?						
There are loans approved and granted without any preconditions like insurance, Collateral security, marriage						

Certificate.						
The bank control any change in business, economic, political environment?						
The share of NPL at the branch level have increased tremendously						
The bank or the loan officer is properly see all documents on loan process						
The screening time all documents see and measure and approved before granted the loan						
The impact of loan and advances on the wealth maximization of the stakeholders						
The bank provides consultancy service to the borrowers?						
The relationship between the bank and borrowers is based on dual benefit						

.II Questions Related to Credit Risk Management

1. Does the bank have credit policy and procedure manual?

   Yes ☐ No ☐

2. If your answer "Yes" for Q No 1, do you think the manual is up to date and help full to you in processing credit request?

   Yes ☐ No ☐

3. Do you have enough knowledge about the Policy and Procedures of Credit in united Bank S.C? Yes ☐ No ☐

4. If the answer is Yes' for Q. YES. 3, the bank officer are updated his or her knowledge by which methods

a) By reading Loan Procedure Manual ☐

b) By Taking Training ☐

c) By Asking Immediate Supervisors ☐

d) all ☐

e) Others and or please state the reason selected the above questions answered -----
----

----

5. Have you attended any credit related skill up grading training recently?

Yes ☐ No ☐

6. It your answer "Yes" for Q No 5. How often you attended the training program in the last three years? Do you think the program helped you to upgrade your credit risk management skill?

Yes ☐ No ☐

7. How long it will take on average to process any credit request

(Loan approved time) after full documentation?

A. Less than two weeks ☐

B. More than 2 weeks but less than one month ☐

C. More than one month. ☐

8. What do you think about the reason that all loans requested by borrowers are not approved?

Credit Policy of the Bank ☐

Repayment capacity of the Borrower ☐

Lack of Adequate Collateral ☐

Others

____

____

____

____

9. Do you think the credit policy of united Bank S.C needs review?

Yes ☐ No ☐

10. Is there proper collection and follow up of loans?

Yes ☐ No ☐

11. Does the bank make financial analysis properly?

Done always ☐

Done sometimes ☐

Not done ☐

In some instance ☐

Another Explanation if any

____

____

____

____

12. Do you think that the bank follows adequate mechanism to reduce credit risk?

Yes ☐ NO ☐

13. If your answer is "No" to Q No. 12 what do you think the main problems related to it.____

____

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____

14. Explain what type of credit risk redaction mechanism implement in the bank to reduce the credit risk exposure of the bank?

____

____

____

____

15. Do you think National Bank of Ethiopia's current practice of centralized credit information system has helped the bank in obtaining accurate and up to date credit information system regarding to credit risk management system of the bank?

Yes ☐ No ☐

16. If "No" for Q No 15 what are the main problem?

____

____

____

____

17. Indicate the major causes of Risk at Bank Level

You can indicate the significance of the causes by ranking from Very High to Very Low

Elements	Very High	High	Moderate	Low	Very Low
Lack of continuous follow up and proper risk assessment					
Lack of consultation and communication with the defaulter(debtor)					
Lack of information from other commercial banks					
Mistake on estimation of collateral and evaluating the borrowers financial reports					

18. What do you think about the efficiency of the following methodology to reduce Credit Risk?Elements	Very Efficent	Efficent	Less Efficient
Proper analysis of borrower's request and documents			
Properly collect the required information from other Banks			
Give Sufficient Credit Awareness for borrower			
Efficient and proper follow up and risk assessment			
Well attention and treatment for sick loans ?			

Finally, please state and describe any comments and suggestion that would help the bank to improve its credit risk management system? -

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____

____

Thank you again for your patience and allow me your precious time

INTERVIEW QUESTIONS

1. What are the requirements of the bank for lending money for customers?
2. What are the core elements of credit policy of the bank
3. How often do you modify the credit risk management system being in practice by Nib International bank?
4. What information does the bank uses in assessing the credit risk of the potential debtor?
5. How do you assess the credit riskiness of potential borrower?
6. What are the preventive techniques used to reduce credit risk?
7. Do you use the practice of sartorial portfolio allocation in managing credit risk?
8. What are the major problems and challenges of credit risk management Practice of the bank?
9. What are your suggestions to improve the credit risk management practice of the bank?

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Appendixes

Appendix 1 Questionnaire

Appendix 2 Forms designed for data collection from the respondent banks

Appendix 3 Regression Analysis output in SPSS for each bank separately