

**ASSESSMENT OF LOAN ADVANCING PROCEDUES AND
PRACTICES A CASE STUDY IN NIB INTERNATIONAL BANK IN CASE
OF WOLKITE TOWN IN JOCA BERANCH**

**SINIAR ESSAY SUBMITTED TO DEPARTMENT OF ACCOUNTING
AND FINANCE IN PARTIAL FULFILLMENT OF THE REQUIREMENT
OF BACHELOR OF ART DEGREE IN ACCOUNTING AND FINANCE**

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List of Abbreviations and acronyms

CBE: Commercial bank of Ethiopia

HPR: house of people representative

NBC: National bank of Ethiopia

RI: Rate of interest

S.C: Share Company

LAF: loan approval format

5c's: # character

Capacity

Capital

Collatera

Condition

ABSTRACT

This study was conducted on primary objective of assessing the loan advancing procedures and practices of nib international bank s.c.wolkite in joka branch. The research is organized into five chapters such as introduction, review of related literature, research methodology, data presentation, analysis and discussion and summery of findings, conclusion and recommendation. So as to achieve the objectives of the study research adopt a descriptive type of research design. In this regard both primary and secondary data sources have been used. The primary data was collected through self-administered questionnaires (open ended and close ended) and unstructured personal interview. The secondary data was collected from different sources such as internet, banks manual, and other related books. The target population for the study was the bank employees, from this the researcher select a simple size of 10 loan officers of the bank and the manger by using judgmental sampling technique. The collected data's are presented, analyzed and interpreted by using tables, frequencies and percentages. The finding revealed that the bank currently delivers all types of term loans for all types of business organizations, by investigating their financial statements for different purpose. However, the bank is not free from internal and external challenges such as underestimation of collaterals, lack of providing sufficient documents on the side of the borrowers and political instability are among them. Finally, from the conclusion gain by analysis, recommendation is forwarded to the bank so as to address and overcome the previous gaps and to have a good loan advancing procedure and practice based on suggested feedbacks

Key words: Loan advancing procedure and practices

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CHAPTER ONE

INTRODUCTION

This chapter deals about the background of the study, background of the organization ,statement of the problem ,objectives of the study, research questions, significance of the study ,scope of the study, limitations of the study and organization of the paper.

1.1. Background of the study

Loan is a debt provided by one entity (organization or individual) to another entity at an interest rate, and evidenced by a note which specifies, among other things, the principal amount, interest rate, and date of repayment. A loan entails the reallocation of the subject asset (s) for a period of time between the lender and the borrower. In a loan, the borrower initially receives or borrows an amount of money called the principal from the lender and is obligated to pay back to the lender at a later time (Gray smith, 1991).

Most of the banks in the world earn incomes from the source of loan and other services provided to the borrowers and clients. This income depends on the normal lending and borrowing between the banker and the clients. In order to acquire the loan, the applicants must fulfill the requirements which the banks imposed and the bank should have its own loan advancing procedure policies and guidelines. These loan advancing procedures policies and guidelines leads the banker (lender) how to lend the money and the borrower (client) how to acquire the fund (money). These loan advancing procedures policies and guidelines includes time frame (term of loan), loan limit (the amount that borrower can acquire), interest rate, and other legal issues like burden of overdue in repayment (Soldofsky and Olive, 1974).

The bank's loan advancing procedure and practices provide guidelines for determining suitable lending requirements and format and preparation of loan proposals. This procedure applies to bank loan applications but can be used for alternative forms of financing. Proposals can be used for loan applications for one or more banks or lending institutions. This procedure comes from the financial policies and procedures manual (Soldofsky and Olive, 1974).

The term loan advancing procedure and practice is the way of giving directions which are used by the lender to provide loan to those who request to borrow. Loan advancing procedures and practices have both positive and negative effects on bank assets such as working capital, reserve money/fund, money transfer delivery to the favored persons and different portfolio investments (Mishkin, Fredric S, 1989).

In lenders view loan advancing is investment, where as in the view of the borrower it is debt and has both benefit and risk for both parties in the lending and borrowing. The Lender sometimes faces illiquidity problem resulting from the default in the borrower, whereas the borrower also fall down in the risk results from the default at the time of repayment of principal including interest computed on it. In order to eliminate such problems and drawbacks (side effects) the lender must give its due attention and care on the loan advancing procedure and on the client who is requesting to obtain the loan. This failure ceases another third party risk like depositors illiquidity at the time when they go to the customer banks who deposits their money and the customer banks not capable to withdraw their deposit as a result of loan recovery problem which resulted from the borrower's default (Robison A, 1962).

Loan advancing procedures and practices have considerable impact to the development of the bank and corresponding issues. Lack of study and assessment in the advancing procedure and practice can result in the fall, illiquidity, and investment sacrifice of the bank (Richard, a. Riley and Stewart, c. Myers, 1996).

As other commercial banks in Ethiopia, nib international bank is among them and it has its own loan advancing procedure and practice. The loan advancing procedures and practices in nib international bank include term of loans, limits of loans, personal qualities, time of loan at which the borrower can get the loan, interest rates, and other duties like overdue loan in the repayment. That means in other words, these policies (guidelines), procedures, and practices limit and show the direction and instruction for when the loan will mature, how much to provide, what personality should the applicant (borrower) have, at/on what season the applicant (borrower) can get the loan, how much the interest will have the loan in maturity date, and what the borrower will be if he/she default in the maturity date to repay the proceed. In addition to these, the loan

advancing procedure and practice helps the bank how to lend to borrower in bankers point of view and how to acquire the loan in the point of view of borrower (Gray smith, 1991).

Generally, the loan advancing procedures and practices are the standards to the bank while providing the loan. Also loan advancing procedure and practice can have both positive and negative effects based on their goodness and weakness.

1.2. Background of the organization

Nib international bank (NIB) was established on 26 May 1999 under license no. LBB /007/99 in accordance with the commercial code of Ethiopia and the proclamation for licensing and supervision of banking business proclamation no. 84/1994 with the paid up capital of Birr 27.6 million and authorized capital of Birr 150 million by 717 shareholders. The bank commenced its operation in 28 October 1999 by 27 employees. It joined the banking industry as the sixth private bank licensed in the country.

Other than rendering fulfilled domestic and international banking services the bank implemented mobile and internet. Banking through which it issues and has placed its ATM's at various locations throughout the country to provide its diversified products in convenient ways to our esteemed customer. Moreover, to enhance the application of modern banking technologies and provide competitive service via a wide range of card banking services, the bank has established a strategic partnership with master card, VISA and union pay branded cards which is one of the break troughs to provide international payment service. A full-scale preparation to upgrade the bank's T24 application to the latest and robust release is completed. With a view to introduce new types of products, other than the previous innovative products and services Gojo-guzo foreign exchange(FX) linked deposit and loan products, credit products to employment agencies and employees working abroad to enhance FX generation and murabaha interest free financing products were developed. The development of the 3 strategic plan is now at implementation phase and putting a new structure formulating policy manuals and cascading the various targets of the strategic plan to the implementing units. The billion Birr construction projects of nib headquarter and Hawssa

buildings are enhanced as per the schedule and the construction of aratkiillo and hosaahna buildings would be fully completed in 2018/19 budget year.

Among others, the bank has registered a steady growth and achievement in all aspects of its operations since its establishment. At the end of March 2018/19, its total deposits and loans and advances stood at about Birr 25.1 billion and Birr 17.5 billion respectively. Total assets also grew to about Birr 31.1 billion and paid up capital to Birr 2.5 billion. The level of net profit before tax reached Birr 673.1 million in March 2018/19. The bank's shareholders are close to 4,585 and the total number of customers exceeds 812,627. The bank's employees reached more than 4,797 as at March 2019. (Palferman and Ford F, 1989). (www.Nibinternationalbank.com).

1.3. Statement of the problem

In modern world, different groups usually carry out economic savings and investments. The banking system channels the transfer of funds from savers to borrowers. The majority of commercial banks earn profit by granting loans to their customers who fulfill the guidelines of banks and their countries rule and regulations. Lone advancing has been regarded as the major task of banking in our world as well as in Ethiopia today, it is made available to the deficit unit for economically and socially desirable purposes. Nib international Bank s.c plays a vital role in order to develop the economy of our country by facilitating different types of loans and advances to the borrowers. These shows that, commercial banks played a great role in the economy of the nations, due to this fact the loan advancing procedures and practices of commercial banks should be well developed so as to fulfill the demand of loans.

Therefore, the research intention while studying in the issue identified, in order to assess the loan advancing procedures and practices employed by nib international bank s.c to get and continue the sound financial operation in the financial market. The final destination of the research was to address or arrive to provide holistic view of solution if there is observed problem in study and overcoming the existing problems in relation with loan advancing procedure in a maximum effort. The research seeks to fulfill the apparent gap in literature by conducting a research to assess loan advancing procedures and practice in nib in international bank in case of wolkite town Joca branch.

- 1) To assess the loan procedure and activity of the bank.
- 2) To investigate the profitability of the bank by providing loan to their customer.
- 3) To assess the applicable banks as well as countries law towards the loan provision.

Here, also the research is needed to assess the loan practice activates of the bank in relation to the other financial institution loan provision

1.4. Research questions

Depending on the above problem the study try's to answer the following questions:

What loan advancing procedure and practices were employed by the bank?

What are the major strengths and weakness of loan advancing procedures of the bank?

What are the challenges of loan advancing procedures and practices of the bank?

1.5. Objectives of study

This study has the following general and the specific objectives:

1.5.1. General objectives of the study

the general objective of the study was to assess the loan advancing procedures and practices of the nib international bank S.C specifically wolkite in joka branch.

1.5.2. Specific objectives of the study

The specific and support objectives of the study were:

- ❖ To assess the lending procedures and practices employed by the bank
- ❖ To assess the major strengths and weakness of loan advancing procedure and practices employed by the bank.
- ❖ To assess the main challenges of loan advancing procedure and practice of the Bank.

1.6. Significance of the study

The significance of this study is to identify or to show the main challenges of loan advancing procedure and practice of the bank. In addition, the paper is important for the readers to know the way how the bank provides loan to the borrowers, the study can also be served as an input for the organization to improve its performance and to overcome its weakness on the loan advancing

Procedures. the study also would be useful for as a stepping stone for other research to fill the knowledge gap means that also important to the research to understand or gain experiences how the senior essay (research) is done and also important to other research for further investigation.

1.7. Scope of the study

The scope of the study was the broad nature of the loan, conceptually the study had covered the loan advancing procedure and practice in depth and detail in the issues related to loan advancing procedures and practices employed by the bank before granting the loan, issues related with the types of loan provided by the bank, issues related with the unique features of the bank, issues related to the major strength and weakness of the bank and the challenges that the bank faces while granting loan, whereas the geographical limitation of the study was in nib international bank wolkite in joka branch.

1.8. Limitation of the study

Limitation of the study was in nib international bank, wolkite in joka branch only, the research may not reflect the lending procedures and practices of other branches of nib international bank. In addition because the study was conceptually limited to lending procedures of the bank especially before disbursing loan to borrowers, this research paper may not be used as a secondary source for other research who want to study about the loan advancing procedures of the bank after disbursement.

1.9. Organization of the paper

This research paper has five chapters. The first chapter presents about the overall introduction, such as, background of the study, background of the organization, statement of the problem, objective of the study, research questions, significance of the study, scope of the study, limitation of the study and organization of the paper. The second chapter state about review of related literature which organized from different source. The third chapter concerned about research method and methodology. The fourth chapter states about data presentation, analysis and discussion. The Final chapter presents about summery of findings, conclusion, recommendations of the research and recommendation for future studies.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

This chapter deals about definition of loans and advances, classification of loans and advances, ways of lending money, types of loans and advances, the nature and security of loans and others elements with related to demonstrating what others write about loans and advances.

2.1. Definition of loans and advance

The term 'loan' refers to the debt originally scheduled for repayment in more than one year in but in general less than ten year. Physically loan is amount of money lend or borrowed by one financial organization or person from an others. The amount is in the nature of loan and refers to the sum paid to the borrower. Thus from the view point of borrower, it is 'borrowing' and from the view point of bank, it is 'lending'. Loan may be regarded as 'credit' granted where the money is disbursed and its recovery is made on a later date. It is a debt for the borrower. While granting loans, credit is given for a definite purpose and for a predetermined period. Interest is charged on the loan at agreed rate and intervals of payment. 'Advance' on the other hand, is a 'credit facility' granted by the bank. Banks grant advances largely for short-term purposes, such as purchase of goods traded in and meeting other short-term trading liabilities. There is a sense of debt in loan, whereas an advance is a facility being availed of by the borrower. However, like loans, advances are also to be repaid. Thus a credit facility- repayable in installments over a period is termed as loan while a credit facility repayable within one year may be known as advances (Garry Smith, 1991).

2.2. Utility of loans and advances

Loans and advances granted by commercial banks are highly beneficial to individuals, firms, companies and industrial concerns. The growth and diversification of business activities are effected to a large extent through bank financing. Loans and advances granted by banks help in meeting short-term and long term financial needs of business enterprises ([http://www.kiva.org/about/commercial banks](http://www.kiva.org/about/commercial_banks)). We can discuss the role played by banks in the business world by way of loans and advances as, Loans and advances can be arranged from banks in keeping with the flexibility in business operations. Traders, may borrow money for day to day financial needs availing of the facility of cash credit, bank overdraft and discounting of bills. The amount raised

as loan may be repaid within a short period to suit the convenience of the borrower. Thus business may be run efficiently with borrowed funds from banks for financing its working capital requirements, Loans and advances are utilized for making payment of current liabilities, wage and salaries of employees, and also the tax liability of business, Loans and advances from banks are found to be 'economical' for traders and businessmen, because banks charge a reasonable rate of interest on such loans/advances. For loans from money lenders, the rate of interest charged is very high. The interest charged by commercial banks is regulated by the national bank of Ethiopia.

In addition banks generally do not interfere with the use, management and control of the borrowed money, but it takes care to ensure that the money lent is used only for business purposes and also Bank loans and advances are found to be convenient as far as its repayment is concerned. This facilitates planning for future and timely repayment of loans otherwise business activities would have come to a halt.

2.3. Ways of lending money

Commercial banks lend money in four different ways among them direct loans, cash credit, overdraft, and discounting of bills are the main ones.

2.3.1. Direct Loans

Direct Loan is the amount borrowed from bank directly. The nature of borrowing is that the money is disbursed and recovery is made in instalments. While lending money by way of loan, credit is given for a definite purpose and for a pre-determined period. Depending upon the purpose and period of loan, each bank has its own procedure for granting loan. However the bank is at liberty to grant the loan requested or refuse it depending upon its own cash position and lending policy. There are two types of loan available from banks those are Demand Loan which is repayable on demand by the bank. In other words, it is repayable at short-notice. Such loans are normally granted by banks against security. The security may include materials or goods in stock, shares of companies or any other asset. Demand loans are raised normally for working capital purposes, like purchase of raw materials, making payment of short-term liabilities and Term Loans which are granted for a year or more than a year and repayment of

Such loans are spread over a longer period. Term loan is required for the purpose of starting a new business activity, renovation, modernization, expansion/ extension of existing units, purchase of plant and machinery, purchase of land for setting up of a factory, construction of factory building or purchase of other immovable assets. These loans are generally secured against the mortgage of land, plant and machinery, building and the like ([http: www.loan and advances. Org.com](http://www.loanandadvances.Org.com))

2.3.2. Cash credit

Cash credit is a flexible system of lending under which the borrower has the option to withdraw the funds as and when required and to the extent of his needs. Under this arrangement the banker specifies a limit of loan for the customer (known as cash credit limit) up to which the customer is allowed to draw. The cash credit limit is based on the borrower's need and as agreed with the bank.

Cash credit, is one of the types of bank lending against security by way of pledge or hypothecation of goods. 'Pledge' means bailment of goods as security for payment of debt. Its primary purpose is to put the goods pledged in the possession of the lender. It ensures recovery of loan in case of failure of the borrower to repay the borrowed amount. In "Hypothecation", goods remain in the possession of the borrower, who binds himself under the agreement to give possession of goods to the banker whenever the banker requires him to do so. So hypothecation is a device to create a charge over the asset under circumstances in which transfer of possession is either inconvenient or impracticable ([http: www.loan and advances. Org.com](http://www.loanandadvances.Org.com)).

2.3.3. Overdraft

Overdraft facility is more or less similar to 'cash credit' facility. Overdraft facility is the result of an agreement with the bank by which a current account holder is allowed to draw over and above the credit balance in his/her account. It is a short-period facility. This facility is made available to current account holders who operate their account through cheques. The customer is permitted to withdraw the amount of overdraft allowed as and when he/she needs it and to repay it through deposits in the account as and when it is convenient to him/her ([http: www.loan and advances. Org.com](http://www.loanandadvances.Org.com)).

2.3.4. Discounting of Bills

Apart from sanctioning loans and advances, discounting of bills of exchange by bank is another way of making funds available to the customers. Bills of exchange are negotiable instruments which enable debtors to discharge their obligations to the creditors. Such Bills of exchange arise out of commercial transactions both in inland trade and foreign trade. When the seller of goods has to realize his dues from the buyer at a distant place immediately or after the lapse of the agreed period of time, the bill of exchange facilitates this task with the help of the banking institution.

Banks invest a good percentage of their funds in discounting bills of exchange. These bills may be payable on demand or after a stated period. In discounting a bill, the bank pays the amount to the customer in advance, i.e. before the due date. For this purpose, the bank charges discount on the bill at a specified rate. The bill so discounted, is retained by the bank till its due date and is presented to the drawee on the date of maturity. In case the bill is dishonored on due date the amount due on bill together with interest and other charges is debited by the bank to the customer's account (http://www.kiva.org/about/commercial_banks).

2.4. Types of loans and advance

Bank service involves mobilization funds in the form of saving deposits, checking accounts and time deposit that are payable on demand and lending these to the business organization and individuals trades. This fund should be employed to provide the maximum benefit to the community at large. Lending is the principal activity of for most commercial banks. The loan is typically the largest asset and predominate source of revenue for the bank. It's also one of the greatest sources of risk to a banks safety and soundness that may be due to weakness in the economy poor credit standard sick loans and others. Thus effective credit processing is fundamental to a banks safety and soundness (Mishkin, Fredric. S, 1989).

In lending we have to follow certain guidelines, principles or procedure that emphasizes on various loan types that the bank provides and lending procedure so as control the quality of individual loan approval. To address the credit needs of the business banks have different

categories of loans. However each category of the loan is granted to the deserving business, so as to match the need of business to the type of facility. Though there are many, the major loan products or credit facilities practiced in Ethiopia are listed here under (Assefamoges, 1998).

- **Term Loans**

Term loan is debt originally scheduled for repayment in one year or more than one year but generally less than fifteen years. Term loan are physical money lent to borrowers in expectation of period repayment. It is a method of financing, which is characterized by periodic repayments that can be monthly, quarterly and semi-annually or on a lump sum basis (balloon repayment).

Term loans given by financial institution and banks have been the primary source of finance for private firms and public firms. Generally, terms loan to business are divided in to three depending on their period of maturity. Such as short term loan, medium term loan, and long term loan (Robison. R, 1962).

Short term loan which is used to finance short term working capital and self-liquidating over a period of time of one year or less, that is it generates it's on repayment. The need is seasonal in nature to allow temporary build-up of inventory in advance for peak selling season. And it also used to finance build-up of receivable during peak sales in addition for purchase of raw materials when sales and cash in flow processes do not match. That means, a firm needs cash to purchase raw material and pay expenses as there may not be matching between cash inflow and out flow.

Medium term loans is a types of loans granted to business to keep them overcome permanent working capital shortage. For acquisition of fixed assets are not expected to be repaid from liquidation of inventories and receivables but from firm's future net earnings plus depreciation allowance. Therefore, repayment of a medium term loan is scheduled over a period not greater than five years. Long term loans are loans granted for more than five years. In general, lack of access to credit and/or financial constraints was being referred as the major bottle neck in implementing deserving and viable projects (Robison .R, 1962).

- **Personal Loans**

As the name indicates a personal loan is a lump sum advanced to a borrower to meet personal requirements. The purpose may be for repair and maintenance of house, purchase and other personal needs. Source of repayment for such loan is from salary, rent income and others. Personal loan is considered on exception basis for cases believed. Risks related to personal loan are higher compared to other types of loans due to this it charges higher interest rate. As any other types of loans personal loans must be secured by collateral or personal guarantees of persons of high integrity and financial capacity (Robison. R, 1962).

- **Other types of Loans**

It is a type of loan which includes agricultural, manufacturing loan, consumer loan, construction loan, and merchandise loan are the main ones.

Agricultural loans are loans made to assist agricultural business in operating and expanding their operations, different programs offer both direct and indirect loan operations. Some loan programs focus on helping farmers with operation costs when they cannot get private loans. Some programs provide assistance geared toward helping farmers to find and build new market. Each loan has different eligibility requirements that applicants must meet before acquiring that loan.

Manufacturing loan is a type of loan in which large scale enterprise that includes the process of converting raw materials or parts into finished product. Manufacturers have quite a large overhead with machinery, building, and real estate. An alternative business loan for manufacturing can be used for equipment updates and replacement, real estate purchases, material financing. Consumer loan is a type of loan in which money is lent to an individual mostly on a non-secured basis for people to satisfy their household purposes. Those loans are monitored by government regulatory agency for their compliance with consumer protection like the truth in lending act, also called consumer lending.

Construction loans are typically a short term in their nature used to pay for the cost of building a house. It may also offered for asset term usually around a year to allow the time to build a construction.

Merchandise loan is a kind of loan facility granted against pledged of stocks of merchandise items in secured premises. This type of loan is advanced at a certain percentage depending on the nature and marketability of the items pledged. Care should be taken on advancing loan against pledge of perishable items and items with limited shelf. Consider deterioration in quality and stock obsolescence when granting merchandise facility. Generally, a merchandise loan is granted to relief short term working capital constraints customers (Richard. A, 1996).

2.5. Nature and security of loans

To ensure the safety of funds lent, the first and most important factor considered by a bank is the capacity of borrowers to repay the amount of loan; the bank therefore, relies primarily on the character, capacity and financial soundness of the borrower. But the bank can hardly afford to take any risk in this regard and hence it also has the security of tangible assets owned by the borrower. In case the borrower fails to repay the loan, the bank can recover the amount by attaching the assets (Gray. S, 1998).

It can sell the assets offered as security and realize the amount. Thus from the view point of security of loans, we can divide the loans into two categories this are secured, and unsecured. Unsecured loans are those loans which are not covered by the security of tangible assets. Such loans are granted to firms/institutions against the personal security of the owner, manager or director. On the other hand, Secured loans are those which are granted against the security of tangible assets, like stock in trade and immovable property. Thus, while granting loan against the security of some assets, a charge is created over the assets of the borrower in favor of the bank. This enables the bank to recover the dues from the customer out of the sale proceeds of the assets in case the borrower fails to repay the loan (Mishkin, Fredric. S, 1989).

There are various types of securities which may be offered against loans granted, but all of those are not acceptable to the banks. The types of securities generally accepted by the bank includes Tangible assets, Documents of title to goods, Financial Securities (Shares and Debentures), Life-

Insurance Policy, Real estates (Land, building, etc.), Fixed Deposit Receipt and Gold ornaments, Jewelleryetc (Mishkin, Fredric. S, 1989).

2.6. Lending procedures

Lending money is easy, it is ensuring that loan are repaid that skill is required when asked to make a loan, the first concern of a bank will be to extract as much information as possible about the proposition so as to be able assess the probability of repayment (Assefamoges, 1998).

Some loans will become bad debts and cannot be recovered but this should never happen as the result a risk which could have been foreseen from the outset. In coming to a decision you must check how well the proposition measures up to a number of criteria. Some of the questions to be asked are vital other less so but all help the lending officer to obtain an overall view of the proposals (Pilferman D, Ford F, 1989)

In one sense these criteria can be looked on as a series of hurdles. Which would be borrowers must clear, they fail to completely satisfy the bank on one of the important principles than the application will probably not be pursued all the way through the rest of the decision making process. On the other hand it has to recognize that few proposals for advance are perfectly satisfactory in all respects. In most cases the baker must use skill judgment and experience in balancing the good points and the bank points of the proposition to judge the probability of the outcome ([http: www.loan and advances. Org.com](http://www.loanandadvances.Org.com)).

Each bank should immediately undertake a sample of the information and data sought for examination of loan proposal from clients in the priority sectors for ascertain whether the demands made by the bank are excessive and or unrealistic, with a view to initiating corrective action. Banks must enjoy on their operating start to call for information data, etc. for examination of loan applications, as far as possible in two or more installments (Gray Smith, 1991).

In considering loan applications loan officers should be encouraged to adopt flexible approach here what is important is an overall appraisal backed by a good knowledge of laical market prices applicant and his /her back ground and familiarity with the nature of operations of applicant.

Loan officers should be able to comprehend the total situation and determine whether the Applicant seems honest, Applicants proposal seems reasonable, The information given by the applicant makes sense, Applicants can accomplish the purpose of the loan, Purpose of the loan of the loan is legitimate and productive, Applicants with having with the capacity to repay the loan according to schedule under normal circumstance and There is margin of safety, if things just do not go right (Gray Smith, 1991).

Bank staff should perform an additional duty of consulting these applicants where ever required, with a view to converting seemingly imprecise and in attractive proposals in to reasonably bank able proportions. Controlling offices of bank's should advise their branches detailed reasons for rejection of loan proposals wherever this is not already being done this will enable branch staff to understand the core lending policy and in turn do counseling to applicants in appropriate cases. It would be desirable to advise loan applicants, in each case, the reason for rejection of their applications but this may not be possible always. Banks would be justified in refusing to make known the reason for rejection. But, wherever possible, customers should be advised of the reason backed by counseling in appropriate manner (Gray Smith, 1991).

2.6.1. Credit term

How long is the advance required for although this will depend to all large degree on the proposals for repayment, it is important because the longer the loan is outstanding the more chance there is of something unforeseen happening to prevent the customer from adhering to the agreed schedule.

2.6.2. Control of credit

In a developing economy as that of ours shortage of capital has always been as tumbling block on the road to industrial progress. The role of commercial banks in overcoming this difficulty by extending large credit facility is abundantly clear. However, this does not mean that they should be given a free hand in the creation of credit. The recent monetary policy of the reserve bank shows that it has taken a serious view of the rising price levels; the key note of the policy has been to exercise both a general and selective restraint on credit and pruning down of the less essential demands through a combination of measures, quantitative, qualitative and selective.

The bank has been careful to implement the various methods of credit control in a flexible and judicious manner (Suekhar, 1987).

2.6.3. Calculation of interest rate

Interest rate is of course the priced charge a borrower for the loan of money. This price is unique because it is really a ratio of two quantities; the total required fee that a borrower must pay a lender to obtain the use of credit for a stipulated period divided by the amount of credit actually made available to the borrower. Generally banks calculate interest by multiplying the principal, the rate and the time in which the borrowers holds the loan.

For example, interest rate on overnight loan of reserves in Federal funds market are expressed in percent per annual although the loan is going to be paid the next day in addition, some interest rates measures use a 360 days year and others a 365 day year. Some employ compound rate of return, with interest income earned on accumulated interest and some do not use compounding.

2.6.4. Loan evaluation

The criteria for giving a credit are most of the time a subjective job it depends on the staffs personal judgment is a very is a very hard Job to decide on divining loans this is to say that differentiating people who pay back the loan from people who do not a bit difficult.

If customers are allowed to take loan and are not able to pay back. The bank will be in danger. On the other hand banks may cause problem by not allowing loan to those who could have invested and contributed economy. Bank issue loans to those who are credit worthy. Credit worthiness may be seen from different angles. When the company asking for loan is profitable, if there is an acceptable debt equity ratio in the firm or good managerial capability (National bank of Ethiopia, 2017).

Commercial banks use the 5Cs model of credit to evaluate a customer as a potential borrower (Abedi, 2000). The 5Cs helps commercial banks to increase loan performance, as they get to know their customers better. These 5Cs are: character, capacity, collateral, capital and condition.

The character means the reputation of the prospective borrower. This includes certain moral and mental qualities of integrity, fairness, responsibility, trust. The factors that influence a client can be categorized into personal, cultural, social and economic factors (Osman, 1996).The honesty

and integrity of the borrowers is of primary importance. So, credit character should be judged on the basis of applicant's performance in bad times. Capacity it is the management ability factor that indicates the ability of the potential borrower to repay the debt in addition it also shows the borrower's ability to utilize the loan effectively and profitably.

Capital refers to the general financial position of the potential borrower's firm. It indicates the ability to generate funds continuously over time. Capital means investment represents the faith in the concern, its product and nature. Bank should also determine the amount of immediate liabilities that are due. For the true estimate, market value of assets should be considered rather than book value. Collateral it refers to any asset that customers have to pledge against debt (Lawrence & Charles, 1995). Collateral means assets offered as a pledge against the loan. It serves as cushion at the time of insufficiency of giving a reasonable assurance of repayment of the loan.

Condition it refers to the economic and business conditions of the country and position of particular business cycle, which affect the borrower's ability to earn and repay the debt. This is beyond the control of the borrower. Sometimes borrower may have a high credit character, potential ability to produce income but the condition may not be in favor. For the proper evaluation, bank should have eyesight on the economic condition too.

For this, they have to rate the borrowers in different categories like excellent, well and poor. Both the formal and non-formal tools combined would lead to perfection in credit appraisal and ward of increasing default tendency in credit.

2.6.5. Loan approval

Loan approval that meets all the criteria as well as the terms & conditions enumerated in the policy and procedural manuals of banks have to be submitted by a loan officer to the branches loan committee. There is the highest body in the screening processes and is empowered to accept, amend, differ or reject loan proposal submitted to it. It is important that the committee be composed of as many members as possible so that its deliberation can have necessary balance. Specific reasons considered in the decision at the shortest possible time.

2.6.6. Loan contracts (agreement)

Loan agreement is a legal agreement specifying the terms of a loan the obligations of borrower. If loan is approved a contract is prepared immediately in as many copies as there are parties to the agreement (including guaranties) and signed by the banks signature lies and co-signature lies, witness and the borrower. Basically, there are two types of bank loan contracts term loan contract and open credit contract. Term loan contracts are contracts which are applied for all approved term loan and open credit contract are contracts, which are applied for all approved overdraft (National Bank of Ethiopia, 2002)

2.6.7. Loan repayment

Bank while giving customer they should also figure out the way they will have to collect or refund their money. Lenders in general have two sources of loan repayment. The cash flow ability of the firm to service the debt and two sources fails for some reason. The collateral value of the security, Banks principally make their profit by issuing loans. A loan is a liability for the individual or a corporation receiving it but an asset for a bank because it provides an income to the bank. Loans are typically less liquid than matures. Therefore, banks may face some difficulties while dealing with loans

CHAPTER THREE

RESEARCH METHODOLOGY

This chapter specifically gives a brief description of the research method that would assess loan advancing procedures and practice in nib international bank. This includes research design, research approach adopted and data source, population, data collection procedure, types of data analyses.

3.1. Research design

A research design is a master plan specifying the method and procedure framework for collecting and analyzing the required data (Bryman & Bell, 2007). Or it is the plan and structure of investigating conceived as to obtain an answer to a research question (Cooper & Emory, 1995). This means it gives the procedure necessarily for obtaining the information needed to solve the research problems. The choice of the research design depends on the objective that the research wants to achieve on the research question and present their purpose, the research design could be classified into three groups, namely exploratory, descriptive and explanatory study (Saunders et al, 2009).

When we use Exploratory research design, the problem cannot be studied in the past that means when the problem is new. When we see explanatory or scaled cause research design, this research design is used to assess the cause and effect relationship between dependent and independent variables (Kothari, 2004). Descriptive research design was used in descriptive type of research, because the study was conducted by collection, organization and analysis of the data.

3.2 Research approach

Depending on the research problem carried out, research approach can be classified into three. There are quantitative, qualitative and mixed research approaches. Quantitative approach towards research is that the collection and analysis of information is conducted utilizing mathematical or numerical data are utilized to obtain information (Creswell 2009). Qualitative research approach takes a theoretical methodological focus on complex relations between personal and social meanings, individuals and cultural practices and materials environment or

Context (Mmuya 2007). Mixed approach is the researches combine elements of qualitative and quantitative approaches.

Therefore, based on the above discussion this study were used mixed research approach to achieve the intended objective. Because the mixed research approach can offset the disadvantage of one approach by other research approach advantage.

3.3. Data type and data source and data collection method

3.3.1 Data type and data source

The data types were primary and secondary data. Primary data is used to address the problem and so as to collected reliable data from the employees, manager. This involves in nib international bank in joca branch. Secondary data is used because of there were some findings which are not covered by primary data source only and because it is simple to collect and less time consuming.

3.3.2 Data collection method

There are many methods of data collection. The choice of tool and instrument depend manly on the attribute of the subject, research topic, problem question, objectives, design, expected data and results (Kamau 2010)

To obtain relevant information for the study, the research had been used self-administrated questionnaire and unstructured interview for primary data collection. Self-administered questionnaire have been designed to give freedom for respondents and this primary data sources were directly collected from loan officers of the bank. Unstructured personal interview had selected by expecting to get plenty information from the bank manager. Secondary data was collected or gathered from different sources such as internet, bank's manual, and other related books.

3.4 Target population

Population refers to the entire group of individual's Mugenda (2003) having a common observable characteristic. In research methods, population is the entire aggregation of items from which samples can be drawn. The target population of the study was employed of the bank such

as individuals with their respective profession accountant at different stages, cashier, loan officer, and internal auditor and manager of the Nib international bank at joka branch in Wolkitetown was taken as a target population for the study. The total population of the employee of the organization is 10. Therefore in order to achieve the objectives of the research, the study was used total population. Who were being employed in Nib international bank of joka branch in Wolkitetown. So that the research used total employee, because Therefore in order to have a better representative result and conclude for the entire population; the target population of the employees also selects all target population because the total target population is small and for the better evidence, those are easy to manage.

3.5 Method of data analysis

After necessary data collected from both primary and secondary sources of data, this study was analyzed by using descriptive statistics. The research would use descriptive data analysis method that is used to analyze the responses of the respondents and discussions interview and questioner. The most important activities of data analysis were started by editing and classifying the collecting data in to more meaning full and relevant information.

Therefore, in this study the data was analyzed through descriptive method. In descriptive method, the study result complies in the form of table, frequency, percentage, ratio, mean, standard deviation, variance method.

CHAPTER FOUR

4.1. DATA PRESENTATION, ANALYSIS AND DISCUSSION

In the previous chapters, the overall methodology, research purpose, approach and method of data collection and analysis used in the study has been presented. In this chapter presents the results and analysis of data collected from primary and secondary data sources.

4.1.1. Presentation, analysis and discussion of questionnaire

This title deals with presentation, analysis and interpretation of data obtained from respondents through structured questionnaire and interview. Out of 10 questionnaires distributed to the respondents, 10 (100%) of them were properly filled and returned. And interview provided to manager of the institution. Accordingly, all the data gathered were presented, analyzed and interpreted in the upcoming section.

4.1.2. Background of the respondents

Objectives of background of respondent's analysis: To recognize the age and maturity of the employees to respond the questionnaire honestly and because the age and maturity of the employees have indirect effect on the loan advancing procedures of the bank, To know the working experience of the respondents on the bank industry because it helps us how much they are familiar with the bank. In addition it also used to identify the experience of the respondents on their current position, because it give us highly reliable information to conclude the entire operation of the bank related to loan advances procedures and practices.

Table 1: background of the respondent

No	Item	Category	Responses	
			Frequency	Percentage
1	Age	20-30	9	90%
		30-40	1	10%
		40-50	0	0%
		>50	0	0%
2	Education	Diploma	0	0%
		Degree	9	90%
		Masters	1	10%
		PhD	0	0%
3	Working experience in the banking industry	Between 0-3 years	2	20%
		Between 3-5 years	8	80%
		Above 5 years	0	0%
4	Experience in current position	Less than 1 year	5	50%
		Less than 2 years	4	40%
		Less than 3 years	0	0%
		Greater than 3 years	1	10%

(Source: Questionnaire survey (2021))

As table 1 item 1 show, 90% of the total respondents are in the age group of 20-30, the remaining 10% are above 30-40 years old. We conclude that most of the employees are on the

productive age group so it facilitates the loan provision activity and makes it more attractive for customers. Item 2 shows that, from the total respondents 90% of the respondents were degree holders, the remaining 10% of the total respondents were master's holders, but there is no anyone who is a PhD holder. We conclude that that, most of the employees are educated and skilled so, the employees use the bank rules and regulation to approve the loan requirements easily. Item 3 shows that, 20% of the total respondents have an experience between 0-3 years, the majority which takes 80% of the total respondents has an experience of 3-5 years. We generalize that most of the employees are familiar with the bank. Item 4 shows that, 50% of the total respondents have an experience between < 1 years in their current position, 40% of the total respondents has an experience of < 2 year in their current position, and the remaining 10% of the respondents has an experience of more than > 3 years in their current position. This implies that most of the employees are not experienced with their current position.

4.1.3. Questions related with the types of loans provided to customers

The objectives of this study is to know what types of loans are provided by the bank so as satisfy the need of its customers.

Table 2: loan advancing procedure and practice in Nib international Bank

No	Item	Category	Responses	
			Frequency	Percentage
1	What are the service given by your bank?	domestic banking (loans and deposit)	3	30%
		international banking (import export ,letter of credit and forex services)	2	20%
		money transfer	3	30%
		others (safe custody, trustee ,bailee)	2	20%
2	what types of loan does the bank gives for its customer	long term	1	10%
		medium term	0	0%
		short term	3	30%
		all of them	6	60%
3	Which type of loan is simple to grant and easily collectable to the bank	long term	3	30%
		medium term	4	40%
		short term	3	30%
4	for which types of business organization do your bank provides loan	manufacturing organization	2	20%
		merchandizing organization	3	30%
		service giving organization	5	50%
5	for which types of	Agricultural	3	30%

	business activities does your bank mainly provides loan	hotel and tourism	2	20%
		inter banking bank lending	3	30%
		building construction	2	20%
		Others	0	0%
6	from the above list business activities which one is best for loan provision purpose	Agricultural	2	20%
		building and construction	4	40%
		hotel and tourism	2	20%
		inter banking lending	2	20%
		Other	0	0%
7	Which types of loan contributes highest percentage of revenue for the bank? specify your reason on the space provided below	long term loan	5	50%
		medium term loan	4	40%
		short term loan	1	10%

(Source: Questionnaire survey 2021)

As the above table 2 item 1 shows that, 30% of the total respondents replied that the bank gives domestic lending, half percent of respondents replied that the bank provides international banking and money transfer, 20% others (safe custody, trustee, Bailee). From this we can understand that the bank provides domestic banking on high rage and it also provides international banking, money transfer and other services to its customers. Item 2 shows that,10% of the total respondents replied that the bank gives long term loan,30% of the total respondents replied that the bank gives short term loans, 60% of the total respondents said that the bank provides all types of loan that were presented in the table. So, the bank provides all type of loan. We concluded that, the bank provides all type of loan to fulfill customer's want, attract customer and also to raise banks profitability. Item 3 shows that, 30% of the total respondents replied that,

from the alternatives listed long term loan is the most simple to grant and easily collectable than that of medium and long term, 40% of the total respondents replied that, from the listed alternatives medium term is more simple to grant and easily collectable than that of long term, 30% of the total respondents replied that, From this listed alternative the research conclude that short term loan is simple to grant and easily collectable from that the remaining. Item 4 shows that, 20% of the total respondent's choices manufacturing type organization, 30% of the total respondent's choices merchandising type of organization, and 50% of the total respondent's choices service giving type of organization. From this we conclude that, the bank provides loans to all types of business organizations. Item 5 shows that, 30% of the total respondents select agricultural types of business activities, 20% of the total respondents select hotel and tourism types of business activities, 30% of the total respondents select interbank lending, 20% of the total respondents select building and construction business type. From this we conclude that, the bank mainly giving loans to agricultural type of activities, and also for hotel and tourism, building construction and inter banking bank lending business types. Item 6 shows that, 20% of the total respondents select agricultural types of business activities, 20% of the total respondents select hotel and tourism types of business activities, 20% of the total respondents select interbank lending, 40% of the total respondents select building and construction business type. From this we conclude that, loans for agricultural activities are best for loan provision purpose of the branch bank from the remaining. Item 7 shows that, 50% of the total respondents select long term loan, 40% of the total respondents select medium term loan, and 10% of the total respondents select short term loans. From this we conclude that long term loans contribute a highest percentage revenue for the given bank.

The research also used a secondary data source which says that nib international bank provides a range of credit services that are supposed to fit the existing and future demands of customers. The bank loan services including Overdrafts, Merchandise loan and term loans for various sectors such as: domestic trade and services, transport service, agricultural, motor vehicle loan, hotel and tourism, health, education, financial(micro-finance institution), mining and quarry, consumer loan, machinery/equipment leasing financing, channel financing, consulting firm

financing, inter-bank lending, idea financing, loan buyout and project financing(nib international bank manual and www.Nibinternationalbank.com.et).

4.1.4. Questions related with the Lending procedures and practices of the bank

Objectives of Lending Procedures and Practices Analysis is to know what loan advancing procedures were practiced, identify the procedures and policies applied or used in the bank are appropriate for both the banks safety and customer satisfaction, to know what things should be fulfilled by the customers so as to get loan and to know the strengths and weakness of the bank related with loan advancing procedures of the bank.

The bank should always have healthy principles and policies which helps it in the healthy operation and sustainability of the bank in the future. Not only that but also survival in the bad economic conditions is dependent on what the bank is doing with related to customers and the capacity of knowing the problems related to lending procedures is also necessary for development.

Once a potential customer identifies the need of bank loan and approach on branch of the bank, the branch carries out an appraisal with the assistance of the potential employees to provide basis for decision. Branch managers and lending officers have to carry out comprehensive and detailed analysis work in order to determine the business and the securely strength of the applicant. To make credit decision nib international bank has its own guidelines and procedures for handling loan applicants to advance the loan. An applicant should fulfill:

Letter of application; The loan application should specify every detail request of the loan clearly including the name of the applicant, the amount of loan requested birr, the purpose of the loan requested, the installment payment if monthly, quarterly semiannually or lump sum, duration of the loan in which the borrower intends to pay the debt, type of collateral to be offered (movable or immovable), full address of the applicant, Signature of the applicant etc.

Opening of account; the applicant is supposed to open either current or saving account if he or she is new to the branch and was no any account before. This is helpful to direct all his or her transactions through a bank account which will finally hint on the financial performance of the

customer and the activity of the business. In addition it helps to disburse the approved loan and Also to debt for the periodic installments and other charges like insurance and stump duty charges.

Submission of necessary documents for the review and comments as to who is authorized to conclude loan contract on behalf of the enterprises and also whether he or she can mortgage the property of the company along with the application. The customer should submit Appropriate and renewed original licenses with one copy which shows the beginning capital and year of establishment at least one year in business, Collateral documents if the collateral is building the plan and ownership certificate (title deed if the collateral is vehicle need to present car book late), Audited financial statements, Memorandum of association registration certificate and article of association and power of attorney where applicable must be presented (in case of PLCs and S.C), Any document relevant to the business such as contract made with other organizations and any feasibility study connected with new investment proposal. Based on the above documents the bank makes further investigation, Confirms the genuineness of the documents presented by the applicants, Interview the applicants way she or he needs the money, how she or he has planned to return it and other, credit information from NBE data center in order to know the applicant is a defaulter or was good customer in other bank (nib international bank s.c. (2017) domestic manual, international banking procedures, policies and procedures).

Table 3: Other criteria's before granting loan related to collaterals

No	Item	Categories	Responses	
			frequency	percentage
1	Which loan advancing procedures are employed by the bank	Simple agreement	0	0%
		Using collateral	7	70%
		Both of them	3	30%
		Other	0	0%
2	For question number 2 if you chose "B" or	Movable	0	0%
		Immovable	1	10%

	“C” what types of collateral the bank retains?	Both	9	90%
3	In determining the value of collateral the bank uses	Market price	6	60%
		Book value	3	30%
		Initial cost	1	10%

(Source: Questionnaire survey 2021)

As the above table 3 Item 1 shows that, 70% of the total respondents replied that the bank grants loan by using collateral, 30% of the total respondents replied that the bank grants loan by using both simple agreements and collaterals. From this we understand the nib international bank, wolkite in joka branch grants loan to its customers by keeping collaterals as a pledge. item 2 shows that, 10% of the total respondents replied that the bank keeps both movable and immovable types of collaterals, 90% of the total respondents replied that the bank keeps immovable type of collaterals. From this we understand that nib international bank, wolkite in joka branch keeps both of movable and immovable types of collaterals as a pledge of the loans granted. Item 3 shows that, 60% of the total respondents replied that the bank uses market price, 30% of the total respondents replied that the bank uses book value, 10% of the total respondents replied that the bank uses initial cost. From this we understand that nib international bank, wolkite in joka branch uses market price in determining the value of the collaterals received from customers as a pledge.

Table 4: problems in which the bank faces related to collaterals

No	Item	Categories	Responses	
			frequency	Percentage
1	Have you face problems with related to collaterals of the borrower	Yes	9	90%
		No	1	10%
	For the above question if	Difficulty in estimating the	4	40%

2	you chose “ yes” what types of problems that you faces	value of the collateral		
		Deliberate fraud on the side of the borrower	3	30%
		Under capacity of the engineers	3	30%
		Overestimation by the borrower	0	0%
		Other	0	0%

(Source: Questionnaire survey 2021)

The above table is designed to ask the existence of problems related to collaterals that the bank uses as pledge. As the above table 4 item 1 shows that, among the total number of respondents 90% of them replied “yes”, only 10% of the respondents replied “no”. From this we understand that in the bank there is the existence of problems with related to collaterals. Item 2 shows that, among the total number of respondents 30% of them replied “deliberate fraud on the side of the borrower”, 30% of the respondents replied “under capacity of the engineers”, 40% of the total respondents replied “difficulty in estimating the value of the collateral”. From this we understand that even if most of problems are arise due to deliberate fraud on the side of the borrowers, Difficulty in estimating the value of the collateral and under capacity of the engineer who estimates the value of the collateral is another source of problem for the bank.

Table 5: Questions related to other means before granting loan

No	Items	Categories	Responses	
			Frequency	Percentage
1	How does the bank grant loan to the borrowers	By analyzing their financial statements	3	30%
		By sending a committee to visit the business environment	4	40%
		By asking the partners of the borrower	2	20%
		Other	1	10%
2	Is your bank investigating the customer financial	Yes	10	100%

	statement before granting loan	No	0	0%
3	If your answer for the above question is “yes” for what purpose does the bank investigate	To see the bad debt of the company	4	40%
		To know the total asset of the company	3	30%
		To know their capacity to repay the loan	2	20%
		Others	1	10%

(Source: Questionnaire survey2021)

The above table is designed to ask the respondents about other means before granting loan especially about their assessment of the borrower’s financial statement. As the above table 5 item 1 shows that, 30% of the total respondents replied that the bank grant loans by analyzing their financial statements, 40% of the total respondents replied that the bank grant loans by sending a committee to visit the business environment, 20% of the total respondents replied that the bank grant loans by asking the partners of the borrower, 10% of the total respondents chose “others” and replied the bank grant loans by carefully analyzing the customers and its business capability to repay the loan. From this I understand that nib international bank grant loans by analyzing the financial statement of the borrowers and by sending a committee to visit the business environment of the borrower.

Item 2 show that, 100% of respondents replied that the bank investigates customer’s financial statement before provision of loan. From this we understand that the bank investigates the borrower’s financial statement before granting loan. Item 3 which deals about the purpose of investigating customer financial statement, 40% of the total respondents replies to see the bad debt of the company, 30% of the respondents replies that to know the total asset of the company and 20% to know their capacity to repay the loan , 10% of the respondents select “others” and 10% they replied that to investigate the liquidity position & equity contribution of the applicant, to know the leverage position of the applicant, and the final respondents says that it is for financial analysis purpose. From this we understand that the bank investigates the borrower’s financial statement for the purpose of looking their bad debt, to know the total asset of the applicant, and evaluate the leverage position of the applicant.

Table 6: questions related with loan approval and disbursement of the bank

No	Item	Categories	Responses	
			Frequency	Percentage
1	Who approves the loan granted to customers	The manager	1	10%
		The board of directors	1	10%
		The loan approval committee	5	50%
		Others	3	30%
2	Up to what amount does your branch grant loan	Up to 500,000	8	80%
		Up to 1,000,000	0	0%
		Up to 5,000,000	2	20%
		Others	0	0%
3	How a loan provided by the is disbursed to customers	Individually	4	40%
		By cooperating customers	5	50%
		Other ways	1	10%

(Source: Questionnaire survey2021)

The above table is designed to ask the respondents about issues related with loan approval and disbursement nib international bank, wolkite in joka branch. As the above table 6 item 1 shows that, 10% of respondents replied that the manager of the bank and 10 the board of directors approves the loan, 50% of the respondents replied that the loan approval committee approves the loan granted, 30% of the respondents selects “others” they replies it depends on the amount of loan. From this we understand that the loan approval committee approves the loans granted to borrowers. Item 2 show that, 80% of respondents replied that the bank grants loan up to 500,000, 20% of the total respondents replied that the bank grants loan up to 5,000,000. From this we understand that nib international bank wolkite in joka branch grants loan up to the maximum amounts of 500,000 birr.

Item 3 shows, 40% of the respondents replied that by applying individually, the 50% of the total respondents are replied by cooperation of customers, the remaining respondents which are 10% select “other ways” they replied that we have a disbursement scheme. From this we understand nib international bank, wolkite in joka branch disburse loans to borrowers by cooperating the individuals and by applying individually.

After all the significant activities are completed the loan officer should prepare the loan approval format. The LAF is a format which includes all the necessary information about the borrower such as name of the borrower, types of loan, required amount, purpose of the loan, collateral offered, value of collateral, liabilities outstanding (including the bank), balance sheet summary (including net working capital of this year and last year, capital and reserve, net profit loss) etc. And all other activities of the borrower like background of the borrower, source of repayment, financial performance, managerial capability and all other activities that was in the above step are summarized and displaying in the way that easily to understand for the loan committee. After this, the loan officer recommends granting the request, and then the final part of the LAF is recommendation. In this part it should specify the amount recommended, duration of loan period, interest rate, and amount of repayment, repayment schedule, collaterals offered, and other conditions should be fulfilled before disbursement is effective. After that the loan proposal that meets all the criteria has to be submitted to the branch loan committee for approval. The branch loan committee has the power to accept, or to reject the loan proposals, which is submitted to it, if the loan amount is above the branch limit, which is above 500,000 birr it is recommended to approve or decline by the head office credit committee (nib international bank s.c. (2017) domestic manual).

Table 7: General questions about the bank loan advancing procedures and practices

No	Item	Category	Responses	
			Frequency	Percentage
1	Did you think nib international bank grants loan for predetermined purpose only	Strongly agree	5	50%
		Agree	3	30%
		Disagree	2	20%
		Strongly agree	0	0%
2	Does the bank collect comments and feedbacks from customers about its loan advancing procedures	Yes	3	30%
		No	7	70%

(Source: Questionnaire survey 2021)

The above table is designed to ask the respondents about the general issues on loan advancing procedures of the organization. As the above table 7 item 1 shows that, 50% of the total respondents replied that they strongly agree, 30% of the total respondents replied that they agree, 20% of the total respondents replied that they disagree. These percentages implies that majority of the respondents agreed with the statement. However, according to the bank's objectives and current situation of the country, with regarded to private banks competition, the percentages agreed with the statements are not much because still 20% of the respondents strongly disagreed with the statement. Item 2 show that, 30% of the respondents replied that the bank collects comments and feedbacks about its loan service. And the remaining, 70% of customers replied that, the bank does not collect comments and feedbacks about its loan service. From this we understand that the bank does not collect any comments and feedbacks about its loan services. .

4.1.5. Questions related with the unique features of the bank

The Objectives of Analysis of Unique Features of the Bank With Regard To Loan Advancing Procedures Practiced is to know the unique features of the bank which are different from other banks with regarded to procedures of loans and to recommend that principles and procedures to be practiced in the bank.

All businesses including financial institutions are in the competition in order to attract the major part of the market because the one who has greatest market share will best operate in the market than those who have less market share. In order to know whether the bank has services which make the unique from the others, the researchers collected the following data from employees of the bank.

Table 8: Analysis of Unique Features of the Bank

NO	Item	Categories	Respondents	
			Frequency	percentage

1	Could you think that your bank loan advancing procedure and practice is better than others?	Yes	6	60%
		No	4	40%
2	If your answer for the above question is “yes” what are unique features of the bank’s loan advancing procedures and practices in relation to other banks?	Borrowers can get loan within short time	7	70%
		Borrowers can get loan for a long period	3	30%
		borrowers can borrow at lower interest rate	0	0%
		Others	0	0%
3	For your answer to the above question, what is the borrower’s feedback and comment over your policy and procedure?	Good	4	40%
		Very Good	0	0%
		Medium	6	60%
		Poor	0	0%
		No comment and feed back	0	0%
4	If the borrowers’ feedback for the above question is any except E (no comment and feedback), have you took any decision and improvement?	Yes	5	50%
		No	5	50%
5	If your answer for the above question is “no” why?	We have no time to improve	0	0%
		we forgot	8	80%
		We ignore it	2	20%
		Others	0	0%

(Source: Questionnaire survey 2021)

The above table is designed to ask the respondents about the unique features of the bank that makes it different from other commercial banks.as the above table 8 item 1 shows, For the question asked to know whether the bank’s employee’s perception and attitude towards banks services and over all operation in relation to loan advancing procedure practiced in the bank,

60% of the respondents replied 'yes' and 40% of the respondents replied 'no'. From this we understand that majority of the respondents 60% chosen "yes" but it have a slight difference from the respondents who chooses "no". Item 2 deals with the unique features of the bank's loan advancing procedures and practices in relation to other banks, 70% of the respondent's replied that Borrowers can get loan within short time, 30% of the respondents replied Borrowers can get loan for a long time. From this the researchers understand that the bank is unique from other Commercial banks because the borrowers can gate loan with in short period of time. Item 3 Upon knowing the length of time that takes to acquire the loan, we the research proceeded to know the comment and feedback of the customers given to the bank regarding authority, For the questions asked to know the borrowers feedback and comment over your policy and procedure the respondents replied as, 40% good and 60% medium. From this the researches understand that the majority of the respondents 60% choose "medium". Item 4 deals with whether the bank is taking decision based on the comment of the customers, 50% of the respondents replied 'No', 50% of the respondents replied 'Yes'. From this the researches understand that the bank did not take decisions based on the comment of the customers. Item 5 deals with their reasons why they selects "no", 80% of the respondents replied because we forgot, 20% of the respondents replied because we ignore it. From this the researchers understand that the bank employees forgot the comments and feedbacks of the borrowers.

4.1.6. Presentation, analysis and discussion of open ended questionnaire

Open ended questions are questions which the respondent can express their opinion in an open way. In order to summarize the open ended questions that states about the major challenges of loan advancing procedure and practice. respondents replies different answers we can see the challenges by classifying in to general and specific ways, the challenges which appears within the bank itself, as most of the respondents says there is a problem in the estimation of the value of the collaterals such as, borrowers overstate their collaterals, luck of documentation that gives sufficient information about the collaterals of the borrower, the bank lacks clear policy related to collaterals, due to this there is ambiguity between the bank and borrowers, and also luck of providing sufficient document by the customers, luck of borrowers understanding the bank's policy and procedure and lending criteria, borrowers cannot make their repayment of principal and interest effectively at the due date. When we came to general challenges, challenges which

appear at the country level among these challenges, as respondents replied market flexibility and political instability are the major one.

4.2. Presentation, analysis and discussion of interview

In the interview part the research raised open ended questions to the Bank manager regarding loan advancing procedure and practice of nib international Bank.

Personal information

Objectives of asking the personal information of the manager to know the maturity of the manger because loan advancing procedure needs a stable and mature manager so as to decide on things, to know the experience of the manager in the current position, because it give us highly reliable information to conclude the entire operation of the bank related to loan advances procedures and practices.

We the research physically asked the manager of the bank and get the following personal information in short the manager of the bank is 39 years old and he has an a master's degree in business management and he has about five years' experience in the current position. From this the researches understand that the manager is having in productive age group and he also has a good experience in the bank industry.

4.2.1. Questions related with over all loan advancing procedures and practices of the bank

For the questions asked about his opinion regarding the loan service that is given to the customer is an important source of revenue for the bank, the manger replied that "it is obvious and I can confidentially tell you 'yes' in our bank the main source of revenue is generated from the loans we are granted to borrowers. For the questions about his opinion regarding customers are satisfied with regard to the loan advancing procedures of the bank he replied that "Not always".

In addition the researchers also ask about his opinion regarding how does the bank screens or select borrowers, According to the response of the manager the institution screen their borrowers based on 5C's that is character, capacity, collateral, capital and condition. Anyone who satisfies these borrowing criteria can borrow money from the institution. For the questions about his

actions related to change of customer as a result of loan policy, he replied that “I will decide then”. And finally for the question’s related to the managers discussions over the loan issue with the customers and loan office officers, and also questions related to special orientations and trainings to employees of the bank ,the manger replied that sometimes there is a discussion between them and there in special orientation or trainings give to the loan related employees From the above findings we understand that the main source of revenue for the bank is generated from loans in which the bank grants to borrowers, the bank works to satisfy the customers need but it not possible to satisfy all the customer needs.

In addition to this from the above findings the researchers understand that nib international bank select the borrowers based on 5C’s i.e. character, capacity, collateral, capital and condition. Anyone who satisfies the above condition con borrows money from the organization. finally our finding concentrates on factors which can enhance the banks performance with related to loan advancing procedures of the bank, from our finding we understand that the bank doesn’t have a culture of facilitating discussions over loan issues with the customers of the bank and the concerned loan officers. In addition the bank also did not facilitate formal trainings and orientations to loan related employees.

CHAPTER FIVE

FINDINGS, CONCLUSION AND RECOMMENDATION

After all the detailed analysis is done in the previous chapter, this chapter gives emphasis on summary of findings, conclusions and recommendations in relation with loan advancing procedure and practice of nib international Bank s.c, wolkite in joka main branch.

5.1. Summary of Findings

The findings of this study indicate that in the research founds most of the respondents were between 20-30 age group, degree holders, who have 3-5 experience in nib international bank, and they have less than two years' experience in their current position. nib international bank wolkite in joka branch provides domestic banking such as deposit and loan mobilization on high range compared to other services and even if long term loans are simple to grant and easily collectable it provides all types of term loans for all types of business organizations.

According to the researches finding, the primary criteria that the bank needs to be fulfilled by the customers so as to grant loan is the types of activity that the borrower engages. Other things before borrowing can include, analyzing the financial statements of the borrowers sending a committee to visit the business environment of the borrowers. The bank grant loans to customers by keeping collateral's as a pledge and the collateral may be movable or immovable. There were also the existence of problems with related to collaterals; some of them are deliberate fraud on the side of the borrowers, difficulty in estimating the value of the collateral, under capacity of the engineer are the major ones.

Loan is approved by the loan approval committee in a collaboration with the managers and other responsible persons. But before approval and disbursement of loans the borrower should fulfill the essential lending guidelines of the bank such as providing letter of application, opening an account, submission of necessary documents, collaterals etc. nib international bank wolkite in joka branch grants loan up to five hundred thousand birr only and the bank grants loan by cooperating individuals and by applying individually.

The main challenges of loan advancing procedure and practices of the bank includes that there is a problem in the estimation of the value of the collaterals, lack of providing sufficient document on the side of the borrowers, lack of borrowers understanding on the bank's policy, procedure and lending guidelines, borrowers cannot make their repayment of principal and interest effectively at the due date, not only these challenges which appears at the country level also affects the bank. And finally the unique features of the bank are borrowers can get loan with in short period of time compared to other commercial banks of Ethiopia.

5.2. Conclusion

Standing from the above chapter we concluded the following main points as our finding we conclude that nib international bank provides domestic banking on high rage and it also provides international banking, money transfer and other services to its customers, the bank currently provides both short term, medium term, and long term loans to the borrowers among this short term loans are simple to grant and easily collectable compared with medium term and long term loan types, but long term loans contribute a highest percentage revenue for the bank compared to medium term and short term loans. In addition to this the bank provides loans to all types of business organizations. As our finding we conclude that because agricultural activities are best for loan provision purpose the bank mainly provide loans to agricultural type of activities, and next to that it also provides for hotel and tourism business types.

As our finding we conclude that, more than anything the types of activity in which the borrower engages is the primary criteria that the bank needs to be fulfilled by customers so as to grant loan. nib international bank wolkite in joka branch, select borrowers based on 5C's that is character, capacity, collateral, capital and condition anyone who satisfies the above condition can get loan by fulfilling the other requirements of the organization. Nib international bank, wolkite in joka branch grants loan to its customers by keeping collaterals as a pledge and also the bank uses market price in determining the value of the collaterals received from customers as a pledge, however in the bank there is the existence of problems with related to collaterals such as deliberate fraud on the side of the borrowers, difficulty in estimating the value of the collateral and under capacity of the engineer who estimates the value of the collateral are among them. In addition to the above nib international bank grant loans by analyzing the financial statement of

The borrowers and by sending a committee to visit the business environment of the borrower. The possible reason why the bank investigates the borrower's financial statement is for looking their bad debt, to know the total asset of the applicant, and evaluate the leverage position of the applicant. It has its own benefit for the bank loan advancing procedure and practice by making it more successful, effective and it also enables the organization to achieve its goals. The researchers also conclude that in the bank the loan approval committee approves the loans granted to borrowers. In addition nib international bank wolkite in joka branch grants loan up to the maximum amounts of five hundred thousand birr, besides this that the organization also provide loans by cooperating individuals and by applying individually.

The major strengths of the bank does include all loan officers are graduated in B.A degree, they are familiar with the bank so this can positively affects the bank profitability and productive level related to loans. In addition to the above the strength of the bank does includes the bank provides all types of loans or all types of business organizations, the bank use collaterals as a pledge while providing loan, the bank determines the value of the collaterals based on their market value, the bank assess the financial statements of the borrowers before granting loan, the bank disburses loans by cooperating individuals as well as by applying individually and finally the bank has a unique feature by providing loan to borrowers with in short time.

The major weakness of the bank includes loan officers have short time experience with their current position by having less than two years' experience, the bank failure to hire a qualified engineer to overcome its under capacity, the bank limited capacity in providing loan, the banks variation in providing loan out of the predetermined purpose, the bank failure to collect comments and feedbacks of the customers about the overall lending procedures of the bank, lack of policy for future anticipations of change in customers, lack of discussion between the manager, customers and credit officers on the issues of loan periodically, failure to provide orientations and trainings to loan related employees, the bank employees did not take decisions to modify their activities up on the comments and feedbacks of the customers related to the unique futures of the bank, Failure to modify their activities because they didn't take into consideration the comments of clients and forget it.

As our finding we conclude that the bank loan advancing procedure is no much better than other commercial banks in Ethiopia. But it does not mean that the bank did not have unique features that makes it different from others because it have some special features which make it different from others such as borrowers can get loan within short time.

As our findings regarding to the main challenges of loan advancing procedure and practices of the bank, we conclude that there is a problem in the estimation of the value of the collaterals, luck of providing sufficient document on the side of the borrowers, luck of borrowers understanding on the bank's policy, procedure and lending guidelines, borrowers cannot make their repayment of principal and interest effectively at the due date, not only these challenges which appears at the country level also affects the bank.

5.3. Recommendations

The general objective of the study was to assess the loan advancing procedures and practices of nib international bank, wolkite in joka branch. Based on the findings, in order to avoid or possibly reduce the problem existing in loan advancing procedures and practices of commercial banks in general and nib international bank in particular the following recommendations are forwarded by the research: Because main source of revenue for the bank is from loans its provision needs higher diligence, we recommend that employees in the loan office should be more experienced in the profession of loan related areas. In addition the bank loan granting capacity is limited to five hundred thousand birr, we recommend that to increase its accessibility the bank should increase its loan granting capacity above five hundred thousand birr and the bank should grant loans for a predetermined purpose only.

So as to receive an approximate compensation when the customer fails to pay loans, the bank should evaluate collaterals which is taken as pledge with a maximum effort and should hire a qualified engineer. In addition to this the bank should provide different orientation and trainings to the employees so as to build their common understanding regarding the loan policies, procedures and guidelines of the bank. Besides this because the future is uncertain it is better to the bank if it does formulate a policy to overcome future anticipations of change in customers.

We recommend that the bank should collect feedbacks and comments from its customers to fulfill further customer need, to know whether the customers are satisfied on the Bank loan service or not. Furthermore employees of the bank should take decisions to modify their activities up on the comments and feedbacks of the customers. In addition to this we recommend that the bank should make clear its policy, procedure and lending guidelines to its customers and the bank should draft a policy that can overcome the challenges which appears at the country level that affects the bank.

We recommend that the bank should improve its policy regarding with analyzing the borrowers financial statement because it has its own benefit for the bank loan advancing procedure and practice by making it more successful, effective and it also enables the organization to achieve its goals. In addition to this recommend that the bank should develop the culture of facilitating discussions over loan issues with the customers of the bank and the concerned loan officers.

5.4. Recommendation for future studies

The study sought to assess only loan advancing procedure and practice in nib international bank in case of wolkite town joca branch. to this end, future research may concenter the adoption of a combined method of compressive, multiple face -to- face interviews and survey to generate data among different business. Although one can assume that the attributes that have received high endorsement in this study will be considered important in other parts of the country, another limitation of this study is that the population was collected from only from one town. this promotes need to conduct similar studies in other area of Ethiopia. in this regard the study recommended the following for future studies, both by assessing and determining the factor that affect loan advancing procedure and practice in all branches of nib international bank in Ethiopia.

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APPENDIX

APPENDIX-I

QUESTIONNAIRE

WOLKITE UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING AND FINANCE

THIS QUESTIONNAIRE IS PREPARED TO THE EMPLOYEES OF NIB INTERNATIONAL BANK, WOLKITE IN JOKA BRANCH.

DEAR RESPONDENT!

This questionnaire is prepared by third year accounting and finance student and you are kindly requested to complete these questionnaires honestly all information you provide will be kept confidential and will not be used for any other purpose except for the academic research.

This questionnaire is used to gather data about loan advancing procedure of nib international bank.

INSTRUCTIONS:

- Your response kept very confidential and you don't require mentioning your name.
- Tick () appropriate boxes as applicable to you and fill the relevant information.
- You can tick more than one box if necessary.
- Finally thank you in advance for your cooperation.

PERSONAL INFORMATION

1. Age:

- | | | |
|---------|---------|--------------------------|
| • 20-30 | C.40-50 | <input type="checkbox"/> |
| • 30-40 | D. >50 | <input type="checkbox"/> |

2 .Education:

- Diploma C. Masters
- 1st Degree D. PhD
- Working experience in the banking industry?
 - Between 0-3years
 - Between 3-5 years
 - Above 5 years
- Experience in current position
 - < 1 year
 - < 2 year
 - < 3 years
 - > 3 years

RESEARCH QUESTIONS

Part i. questions regarding the types of loans provided to customers.

- What are the services given by your bank?
 - Domestic Banking (Loans and Deposits)
 - International Banking (Import-export, Letter of Credit, &Forex Services)
 - Money transfer
 - Others (Safe custody, Trustee, Bailee)
- What types of loan does the bank gives for its customers?

- Long term
 - Medium term
 - Short term
 - All of them
- From the alternatives given below which is simple to grant and easily collectable to the bank?
 - A. Long term
 - B. Medium term
 - C. Short term
 - For which types of business organizations do your bank provides loan?
 - Manufacturing organizations
 - Merchandizing organizations
 - Service giving organizations
 - For which type of business activities does your bank mainly provides loan?
 - Agricultural
 - Hotel and tourism
 - Inter banking bank lending
 - Building construction
 - Others.....
.....
 - From the above list of business activates which one is best for loan provision purpose?
 - Agricultural
 - Building and construction

- Hotel and tourism
 - Inter banking lending
 - Others.....
- Which types of loan contributes highest percentage of revenue for the bank? Specify your reason on the space provided below
 - Long term loan
 - Medium term loan
 - Short term loan

Why.....

.....

.....

Part ii. Questions related to the lending procedures of the bank+

- What are the primary criteria's that the bank needs to be fulfilled by the customers so as to grant loan?
 - The age of the borrowers
 - The types of activity the borrower engages
 - The purpose of loan
 - The duration of the loan
 - Other.....
- Which loan advancing procedures are employed by the bank?
 - Simple agreement
 - Using collateral
 - Both of them

- Others.....
- For question number 9 if you choose “B” or “C” which type of collateral does the bank retains?
 - Movable
 - Immovable
 - Both
- In determining the value of the collateral the bank uses?
 - Market price
 - Book value
 - Initial cost
- Have you face problem with related to collaterals of the borrowers after the bank maintains?
 - Yes B. No
- For the above question if you chose “YES” what types of risk that the bank faces?
 - Difficulty in estimating the value of the collateral
 - Fraud on the side of the borrower
 - Under capacity of the engineers
 - Overstatement by the borrower
 - Others.....
- Who approves the loan grated to customers?
 - The manager

- The board of directors
- The loan approval committee
- Others.....
- Up to what amount does your branch can grant loan?
 - Up to 500,000
 - Up to 1,000,000
 - Up to 5,000,000
 - Others specify the amount.....
- How does the bank grant loan to the borrowers?
 - By analyzing their financial statement
 - By sending a committee to visit the business environment
 - By asking the partners of the borrower
 - Others.....
- How a loan approved by the bank is disbursed to customers?
 - Individually
 - By cooperating customers
 - Other ways.....
- Is your bank investigating the customer's financial statement before granting loan?
 - Yes B. No
- If your answer for the above question is YES for what purpose does the bank investigate?
 - To see the bad debt of the company

- To know the amount of asset of the company
- To know the bank capacity to repay the loan
- Others.....
- Did you think nib international bank grants a loan for a predetermined purpose only?
 - Strongly agree
 - Agree
 - Disagree
 - Strongly disagree
- Does the bank collect comments and feedbacks from customers about its loan advancing procedures
 - Yes B. No
- Is there any difficulties and challenges that faces you during the loan advancing procedures and practices of your bank? If there, please write in the space below

Part iii. Questions related to the unique features of the bank with other commercial banks

- Could you think that your bank loan advancing procedure and practice is better than others?
 - Yes B. NO
- If your answer for the above question is “yes” what are unique features of the bank’s loan advancing procedures and practices in relation to other banks?
 - Borrowers can get loan within short time
 - Borrowers can get loan for a long period
 - borrowers can borrow at lower interest rate

- others _____

- For your answer to the above question, what is the borrowers' feedback and comment over your policy and procedure?
 - good
 - Very Good
 - Medium
 - Poor
 - No comment and feed back

- If the borrowers' feedback for the above question is any except E (no comment and feedback), have you took any decision and improvement?
 - Yes
 - No

- If your answer for the above question 4 is No, Why?
 - We have not time to improve
 - We forgot
 - We ignore it
 - Others _____

APPENDIX-II

INTERVIEW

WOLKITE UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING AND FINANCE

**INTERVIEW PREPARED ONLY FOR MANGER OF NIB
INTERNATIONLA BANK, WOLKITE IN JOKA BRANCH.**

You are kindly requested to complete these questionnaires honesty all information you provide will kept stricken confidentiality and will not be used for any other purpose except for the academic research.

- **PERSONAL INFORMATION**

- Age: _____
- Education level : _____
- Year of Experience _____

- **INTERVIEW**

- Do you think that the loan service that is given to the customer is an important source of revenue for the bank?

- Do you think customers are satisfied with regard to the loan advancing procedures of the bank?

- How did your bank screens or select borrowers?

- If you observe change customer as a result of loan policy what will you do?

- Have you ever discuss over the loan issue with the customers and loan officers?

- Did your bank give a special orientations and trainings to loan related employees?
