

**ASSESSMENT OF NON-PERFORMING LOAN IN CASE OF
COMMERCIAL BANK OF ETHIOPIA, BEKUR BRANCH,
WOLKITE TOWN**



**COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF ACCOUNTING AND FINANCE**

**A SENIOR ESSAY PAPER SUBMITTED TO THE DEPARTMENT OF
ACCOUNTING AND FINANCE FOR PARTIAL FULFILLMENT OF
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DECLARATION

I Yechale Demlew hereby declare that the research entitled “**Assessment of non-performing loan commercial bank of Ethiopia: Wolkite Branch**” submitted for Award of Bachelor of Art Degree in Accounting and Finance.

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ABSTRACT

Loan becomes nonperforming when it cannot be recovered within certain stipulated time that is governed by some respective principle of loan. The objective of this study is to assess the non-performing loans of commercial bank of Ethiopia, Wolkite branch. The researcher used to mixed approach which means, both qualitative and quantitative research approach to gather relevant data from the concerned body and also the researcher applied descriptive method of the research design because the method used to describe the state of the nature of NPLs in detail. A primary method of data collection was applied. The primary data was collected through questionnaire from the customers and employees of the bank and interview to the loan manager of the bank. The researcher used judgmental sampling technique to accumulate a desire data about the non-performing loans of the bank within the sample size of 30 and 10 respondents are customers and employees respectively. The data was presented and analyze through tabular representation and descriptive method of analysis so as to clarify points related to the subject matter in detail. The finding of the study shows that: poor asset management, unplanned expansion and diversification of business and the bank over financing to the borrowers. Finally, the researcher recommend that it is advisable to have clear policy and procedure in the bank for credit assessment and detailed consultation is provided to new applicants regarding asset management and over all bank rule and regulation.

Key Words: *Non performing loan, commercial bank*

Table of Contents

ACKNOWLEDGEMNT.....	iii
ABSTRACT.....	iv
CHAPTER ONE	1
1.2. Background of the study	1
1.3. Statement of The Problem	1
1.4 Research Question	2
1.5. Objective of the Study	3
1.5.1. General Objective	3
1.5.2. Specific Objective	3
1.6. Significance of the Study	3
1.7 Scope of The Study	3
1.8 Limitation of the Study	3
1.9 Organization of the study	4
CHAPTER TWO	5
2.1 Introduction	5
2. 2 THEORETICAL LITERATURE	5
2.2.1 TERMS LOAN	6
2.2.2. CATEGORY OF LOANS AND ADVANCE	7
2.3 CLASSIFICATION OF NON-PERFORMING LOANS	12
2.4 DIVERSION OF LOAN	12
2.4.1 LOANS PROVISION	13
2.4.2 RENEGOTIATED LOANS OR ADVANCES	13
2.4.3 SUSPEND INTEREST ACCOUNT	14
2.4.4 CREDIT MANAGEMENT	14
2.4.5 SCREENING AND MONITORING	15
2.4.6 SCREENING	15
2.4.7 CREDIT POLICY	16
2.4.8 CREDIT STANDARD	16
2.4.9 CREDIT TERMS	16
2.5 CREDIT INVESTIGATION	17
2.6 SPECIALIZATION IN LENDING	18

2.7 Empirical Literature Review	19
2.8 KNOWLEDGE GAP IDENTIFICATION AND CONCLUSION	20
CHAPTER THREE	21
3.1 RESEARCH DESIGN	21
3.2 THE TARGET POPULATION OF THE STUDY	21
3.3 Sampling method	21
3.4. RESEARCH DATA SOURCE	22
3.5METHOD OF DATA ANALYSIS	22
CHAPTER FOUR	23
DATA ANALYSIS AND PRESENTATION	23
4.Introduction	23
4.1 Primary Data Analysis	23
4.1.1 Analysis of personal background of respondents	23
4.1.2. The way in which non-performing loan can be managed	25
4.1.3. Who is responsible for NPL?	28
4.1.4. Analysis for the Extent or the Degree of Hardworking with Regarded to Non-Performing Loans	29
4.1.5 The Methods to managing non-performing loan.	30
4.1.6. Analysis for sequences of procedures for borrowers whose payments are overdue	30
4.2. Date collected by interview	31
CHAPTER FIVE.....	32
5. CONCLUSION AND RECOMMENDATION	32
5.1. Conclusions	32
5.2. Recommendation	33
References	34
APPENDIX 1	35
APPENDIX II	38

ACRONYMS

NPLs: - Non-performing loans

MFG: - Manufacturing Product Loans

DTS: - Domestic Trade and Service Loans

CBE: - Commercial Bank of Ethiopia

BC: - Building and Construction Loan

TR/TL: - Transport Sector Loan

LUR: - Loan Under Reactivation

LIL: - Loans in Litigation

CHAPTER ONE

Introduction

1.2. Background of the study

Non-performing loan has a great impact on the country's economic growth which results from the failure customer to meet the initial contract. Many loans became non-performing after being in default for 90 days. But this can depend on the contract terms. Non-performing loan is a loan that is in default or close to being in default. In banking terminology, loans and advances signify bank funds deployed to borrowers at specified rates of interest for specified length of time for which the funds are deployed may not be specified in the main contract. The contract entered into between the lender and the borrower is called an open credit contract and does not specify time limit (Roman & Holger, 2006).

Loan means any financial facets of a bank arising from a direct or indirect advance or commitment to advances funds by a bank to a person that are conditioned on the obligation of the person to repay the funds either on specified dates or on demand usually with interest. Worldwide, the most common and successful approach towards non-performing loan (NPL): management is the establishment of Asset Management Companies (AMC). These companies use public or bank funds to remove non-performing loans (NPLs) from the bank books (Roman & Holger, 2000). If the debtor starts making payments again on a nonperforming loan, it becomes re performing loan, even if the debtor has not caught up on all the missed payments. Sales of nonperforming loans must be carefully considered since they can have numerous financial implications, including affecting the company's profit and loss, and tax situations (G/Hiwot, 2006).

1.3. Statement of The Problem

Ethiopia requires an efficient board based and dynamic financial sector to achieve sustainable development & growth. The continent needs to develop an effective institutional & environmental infrastructure to encourage & facilitate resource inflows in support of its development initiative.

Making loan is the principal economic function of banks to fund consumption& investment spending by the business, individual & units of government. Most banks fail seem to do so because of problems in their loan portfolio. Non-performing loans grow to such extent that revenues fall off and loan loss expenses. Failing banks often have in adequate system for spotting problem loan approval and disbursement.

The ultimate objective bank while classify, fixing standard, and specific criteria for each loan is to make customers aware not to shift of fund give for one type loan categories without ratify and modify of contractual agreement with banks providing loans. But there is occasion's customers fail to adhere contractual agreements by diverting money un planned purpose which leads to non-performing loan (NPL). Elias Firdawek (2013) assessed non-performing loans in development bank of Ethiopia in Yirgalem branch. The result of the study shows that, the problem that the bank faced due to NPLs like the revenue of the bank will fall off and loan expense loss increase. In addition, Haile Selassie G/Mariam (2014) assessed nonperforming loans in CBE Adigrat branch, the finding of the study shows that there are shows that there are problems related to NPL such as decreasing the banks process of growing and profitability, means that loan and advance are granted and become doubtful, the bank will incur much to manage NPL, because it devotes much time, money and man power. Commercial Bank of Ethiopia gives loan to customers in order to seen in being applies on planned goals. To get appropriate profit from interest base on the state rules the bank lends money to its customers. The customers shall also use the money he/she obtained from the bank properly.

The study sought on the assessment of non-performing loan on the Commercial Bank of Ethiopia (CBE) Wolkite branch in considering the recent year's information between the last three years from 2016/17-2018/19.

1.4 Research Question

1. Does the borrower use the loan for the intended purpose?
2. Does commercial bank of Ethiopia follow the customers or borrowers?
3. How to investigate & examine the performance of commercial bank of Ethiopia?
 - ✓ What is collateral estimation?
 - ✓ Which time the duration of granting the loan?
 - ✓ What are significant factors causing non -performing?

1.5. Objective of the Study

1.5.1. General Objective

The general objective of this study is to assess the non-performing loans (NPLs) (Evidence from CBE, Wolkite branch)

1.5.2. Specific Objective

The specific objectives of the study are:

- To assess whether the borrower use the loan for the intended purpose.
- To examine how the CBE follow their customers or borrowers.
- To investigate & examine the performance of CBE.

With regarding to :-

- ❖ Its collateral estimation
- ❖ The duration of granting the loan factors causing NPLs.

1.6. Significance of the Study

The significant of the study is to identify problems, which reduce the banks profit and effects on the bank, & is this to say effects of non -performing loans on the bank profitability & the economic growth.

1.7 Scope of The Study

The research paper was deals with the assessment of non -performing loan & the controlling of non -performing loan effect in CBE.

The study also focuses the non -performing loan management effect on the economic growth & also discussed the type on loan rendered by CBE in Wolkite branch .

1.8 Limitation of the Study

There are some limitations to design these researchers.

The limitation would be:-

- Shortage of time and finance resources to undertake detailed study
- Lack of experience i.e. deep knowledge

- the problem of getting full information about the organization.
- Lack of getting adequate documents and data for the study.

1.9 Organization of the study

The study is organized in to five chapters. The first chapter dealt with introduction part mainly back ground of the study, statement of the problem, research question, objective of the study, significant of the study scope and limitation of the study.

The second chapter was presents the review of the related literature. It describes the theoretical and empirical literature review. The third chapter presents the methodology's used the study and presentation of the data collected. The fourth chapter dealt with the analysis and interpretation of data. Finally, the fifth chapter would bring to end this study with summary, conclusions, and recommendations.

CHAPTER TWO

2. REVIEW OF RELATED LITERATURE

2.1 Introduction

In different journals articles has become expressed more widely risk of borrowing by different variables. Bank perform the important role of limiting adverse selection problem in the economy by screen and analyzed borrower's credit history makes riskier portfolios and weaker balance sheets, with potentially negative consequence for the stability of credit marker(Janericson, 2006).

According to Boo:(2000) banking relationships entail the supply of financial service to a firm by a bank that invests I obtaining specific information about the firm and evaluates the chance of success of its investment through multiple interactions with the same. client over a period of time in the case of several products. The advantage and disadvantages of banking relationships have been widely studied. Assuming asymmetric information, one advantage of establishing link between a borrower and bank reduced inefficiencies, firms whose loans are renewed will be seen as of good reputation (Diamod, 2007).

Finally, Yosha (2003) predicted that borrower with more valuable information will concentrate their relationship through bilateral negation with a bank in order to limit the information that must be conveyed to the market.(Janerison and Renault-2006).

Most of journal articles risk of default with symmetric information. Lending volume and lending standard s. But the researcher wants to analyze the main causes of Non-performing loans (NPL)

2. 2 THEORETICAL LITERATURE

In the past decades there have been major advances in theoretical understanding on the role of Credit markets. These advances have evolved from a paradigm that emphasis the problems of Imperfect information and imperfect enforcement (*Hoff and Stiglitz, 1990*). They pointed out that borrowers and lenders may have differential access to information concerning a projects risk, they may form different appraisal of risk. So what is clearly observed in credit market is asymmetric information, where the borrower knows the expected return and risk of his/her project, whereas the lender knows only the expected return and risk of the average project in the economy. Four common problems that faced lending institutions such as banks in the course of undertaking credit activity is:

- To find out what kind of risk the potential borrowers have (adverse selection).
- To make sure that borrower will utilize the loan properly once made, so that he/she will be able to repay it (moral hazard).
- To learn how the project really did in case the borrower declares his/her inability to repay and,
- To find methods to force the borrower to repay the loan if the borrower is reluctant to do so (enforcement).

Loan is the sale of goods, services and money claims in the present in exchange for a promise to pay in the future. That means the debtor and the creditor agrees to settle their transactions.

In respect of bank's meaning: credit means lending or granting money to those who are in need of it (investors) who fulfill the bank's requirements. It is a liability for the individual or corporation received it but an investment comparable to bond, stock or other asset. For each borrower a loan is a debt, an obligation to repay the borrower money plus interest (smith, 1995).

The probability of regular repayment depends on objective factors related to the borrower's operating environment, the borrower's personal attitude towards loan obligation, and the bank's ability to evaluate these two aspects through the information it has and to control credit risk specific contractual conditions. The author argues that the failure of lending agencies in playing their roles in loan disbursement and recovery process is a major contribution to loan default. Determining credit worthiness requires investment of time and resources to evaluate firm specific and industry wide variable, structural or cyclical, by analysts with specific professional skills.

A mistake on the evaluation of the borrowers' characteristics or the introduction of inappropriate loan conditions may increase the total risk of the transaction (Vigano, 1993).

2.2.1 TERMS LOAN

Term loans are credit facilities with a vailed an agreement to pay back the principal with interest within a specified period of time i.e. due date for final settlement is set in advance. Loans are the largest single source of income for banks. Bank loan involves personal relationships between the bankers and borrowers. It has a highest degree of default risk than other bank assets. Loans yield the higher rate of return among bank assets in compensation for lower liquidity and higher risk (Thomas,

2006). A loan composition greatly varies among banks based on their size, location, trade area and lending experts (Donald, 2006). Term loans are classified as short, medium and long term.

2.2.2. CATEGORY OF LOANS AND ADVANCE

The list category of loans indicated that the purpose or end-use to which funds is put by borrowers. Area banks managers and loan officers have the responsibility of seeing that the funds lent out are employed for the purpose intended. At times borrowers may be intending to apply the funds for a number of economic activities, thus making it difficult for ready categorization. For instance, a borrower may be importer and exporter as well local trade. In such a case, the loan applied for may be employed for any one of these activities or for all of them. Where demarcations are difficult, the major activities for which he/she is being financed (Alemu, 2001, cited in Geletta, 2011).

2.2.2.1 AGRICULTURAL LOAN

Loan for the purpose connected with agricultural sector falls in to this category. These include loans granted for the purchase of agricultural inputs like selected seeds. Fertilizers and agrochemicals, rental or purchase of agricultural machinery and equipment for crop collection, processing and marketing agricultural products, Projects aiming at production of exportable product like flower, fruit and vegetable and agro industry development like dairy farming. Cattle fattening etc... Though the descriptions give encompass wider range of agriculture activities, the focus at present is limited to assisting customers engaged in modern style of farming which presupposes application of mechanization and installation of irrigation system for the production of exportable produces or selected seeds. Loans granted for the purpose explained above are normally short lived unless the financing extended has investment nature like constricting, blinding, purchasing of equipment and machinery (Smith, 1991, P.343).

2.2.2.2 MANUFACTURING PRODUCTION LOANS (MFG)

Manufacturing production loans should be used for purchased of basic and auxiliary raw materials, intermediate goods, or semi processed goods. Such loans are granted to manufacturing enterprises such as those which use agricultural products, large scale capital goods or import substitution product and the like. Loans availed for purchase of industrial machinery and equipment's are also classified under this category. Life of the loans range from short term to medium term and are extended against acceptable after proper study and analysis of the viability] S. mishkin, 1997).

2.2.2.3 DOMESTIC TRADE AND SERVICES LOANS (DTS)

Domestic trade implies whole sale or retail trade. The main activity of this sector is the distribution of locally produced manufactured and imported goods by way wholesaling or retailing. In addition it incorporates different types of services. Financing domestic trade and service helps in smooth flow of goods and services as bridge between manufactures and customers. There, for domestic trade are essential goods whether imported or local produced or manufactured is to be encouraged through bank financing distribution being an important link between production, manufacturing and consumption, credit assistance, generally short term working fund, is made and need to avert possible bottle-neck in the smooth running of the activity (TokShiong, 1998) Financing for this category is to be used for acceptable and recognized commercial proposed and not for speculative under taking their by creating artificial shortage of goods the products under domestic trade and services are broadly classified in to five main categories which includes: -Agriculture products, manufactured products, cottage and hand craft industries product, mining product and various services other than transport (Posner, 1995, P.752)

2.2.2.4. INTERNATIONAL TRADE

Foreign placed a key role in the development of the economy. In view of the great importance and the bank's role to promote the growth of the Ethiopian economy international trade financing is to be given priority. International trade is classified in to two categories as under

Export loan: Agriculture product like livestock hides and skins. Cereals, pulses, oil seeds and coffee are the major source of foreign exchange earnings. In addition, industrially manufactured or semi-processed products are also exported to a limited extent. The export of this item must therefore; receive the credit support of the bank (United bank credit policy and producer in 2015 education)

Import loan: Import of goods and services is unavoidable in today's world economy which is characterized by globalization and interdependence. Importation became pre dominant where the economy is not self-sufficient. Therefore, importers of essential raw materials, impost for industry and final products like medicines, spare parts, building materials extra assistance from banks the importer will have obtained the necessary import license and foreign exchange permit to meet the counter value in birr of his commitment in foreign currency. He may need birr in his account with us. So loan is proceeding in the usual manner and advance against acceptable security. Repayment is

done either from proceeds of sell of goods in the process of recycling or from other source (United bank credit policy and producer in 2015 education).

2.2.2.5 BUILDING AND CONSTRUCTION LOAN (BC)

This category of loan involves two types of financing. Mobilization fund to building contactors (working capital loan). Bank loan can be provided to license building contractors to cover working capital shortages i.e. to mobilize materials required to construct buildings, roads Domestic. Based on contracts concluded with employers. Working capital loan to building contractors are normally made giving consideration to the following in addition to the normal prerequisite to the loan: Proof of owner ship of equipment and machinery reported in the balance sheet, Evidences explaining good performance of projects completed from previous employees, Copy of the contact to be executed, Payment certificates as evidences for retention money if reported as receivable and Letter of agreement from the current employer to channel all payments throat deposit account of the customer maintained with the lending area bank. Term of the loan will normally be linked with the project life, unless several projects are undertaken simultaneously this type of credit is availed in the form of term loan, unless the number of projects executed at any one time the classification of the constriction firm to be financed encouraged considering over draft facilities based on the going on concerned creation. Loans to partially covered constriction costs of building (Souise, (1992). Commercial bank will anvil loans to individuals or enterprise engaged in the construction of commercial or residential buildings this loans are usually of medium or long term duration; hence they are treatment will be entirely based on propriety orders to prevail at time of financing. Loan to be advanced partially covered constriction cost of commercial buildings will not exceed 50% of the total value of the construction .as periodic installment to words to the loan is expected to be from rent revenue, loans for such purposes should entirely be based on viability. Market factors such as demand and supply and location have to be given due consideration while threatening the loan (Macmillan, 2005)

2.2.2.6. TRANSPORT SECTOR LOANS (TR/TL)

All loans to be availed for the purchase of transport vehicles like trucks, tankers, and public transport buses to licensed transport operators are to be classified here. Additionally, loan availed to facilitate smooth operation trucking companies or loans to cover custom duty charges or modification costs are to be included under this category. However, loans granted for other purposed such as loans for purchase of truck granted to construction companies to transport own materials to construction site

are to be include under Building & construction and not transport loan. So to say, loans for transport of own goods are reported under the specific sector of that business (Fofack, (2005)

2.2.2.7. PERSONAL LOANS

Personal loans are normally the least preferred categories of loans. Funds are allocated to them after the other categories are satisfied. They are the least preferred because they are not easy to administer due to mobility of borrowers and guarantors from one employer to the other. They are usually of small size when taken individually and involve work when viewed against the benefits derived. Personal loans are usually consumer oriented and narrow based.

The hierarchy is determined by banks usually on the basis of needs, societal goods and ability to pay. They are charged higher rate of interest than other categories of loans and are disbursed generally directed to the supplier of goods or services rather than to the borrower himself after obtaining consent of the borrower himself after obtaining consent of the borrower (United bank credit policy and producer in 2015 education).

2.2.2. 8 LOANS UNDER REACTIVATION (L U R)

In most cases it is important to suspend immediate transfer of loans overdue to litigation, so that chances available for amicable settlement will be properly exploited. On the other hand, it is prudent to freeze interest realization on overdue loans, hence such loans known as loans under reactivation. This account is a transitory account where overdue loans will be kept for a maximum period of six months during which time the loan will be fully settled, rescheduled or transferred to legal. The purpose of categorizing overdue loans under this account is to alter Area Banks to make persistent follow-up. Therefore, Area Bank Managers are required to give special attention to loans classified under this account in order to expedite the debt recovery process (Geadah and D. Rozhkov (2003).

2.2.2.9. LOANS IN LITIGATION

All loans and advances that are deemed uncollectible for one reason or the other are passed to this account mostly from 'loans under Reactivation' account. This is where all overdue loans are to be segregated and kept for a maximum period of six months, during which time extra effort should be exerted and the loan has to be fully settled, rescheduled or transferred to the

account in caption if effort for reactivation turns futile. The procedure to be followed in handling loans in litigation is indicated under the chapter entitled credit follow up (NBE, 2008).

Non-performing loans are loans and advances whose credit quality has deteriorated such that full collection of principal and /or interest in accordance with the contractual repayment terms of the loan or advance is in question.

There is no common definition of nonperforming loans (NPLs) in the whole country since it is recognized that it is possible that what is appropriate in one country may not be so in another.

There is, however, some common opinion on this issue. Accordingly, the IMF's Compilation Guide on Financial Soundness Indicators, NPLs is defined as:

“A loan is nonperforming when payments of interest and/or principal are past due by 90 days or more, or interest payments equal to 90 days or more have been capitalized, refinanced, or delayed by agreement, or payments are less than 90 days overdue, but there are other good reasons such as a debtor filing for bankruptcy to doubt that payments will be made in full” (IMF, 2005).

Loans or advances with pre-established repayments programs are non-performing when principal and/or interest is due and uncollected for 90 days or more beyond the scheduled payment date or maturity.

Overdrafts and other loans that do not have a pre-established repayment program will be considered as non-performing when: -

The debt remains outstanding for 90 consecutive days or more beyond the scheduled payment date or maturity, the exceeds the approved limit for 90 consecutive days or more, interest is due and uncollected for 90 days or more for overdrafts the account has been inactive for 90 consecutive days and/or deposit is insufficient to cover the interest capitalized during the period, the entire principal balance of loans or advances outstanding exhibiting the characteristics described under and here above shall be considered as non-performing (Tseganesh, 2012).

2.3 CLASSIFICATION OF NON-PERFORMING LOANS

Non-performing loans are classified into five groups of substandard, Doubtful, pass, special, mention and loss depending on the number of days that they are past due. Loan can be classified as performing and non-performing. Performing loan is loan that Payments of both principal and interest charges are up to date as agreed between the creditor and debtor. Generally, loans those are outstanding in both principal and interest for a long time contrary to the terms and conditions contained in the loan contract are considered as NPLs.

Pass: Loans or advances that are fully protected by the current financial and the paying capacity of borrower and are not subject to criticism. In other word passed means loans paid back.

Special Mention: Past due for more than 30 days but less than 90 days. Special mention class of loans implies Loans to incorporations, which may get some trouble in the repayment due to business cycle losses.

Substandard: Non-performing loans or advance past due 90 days or more but less than 180 days shall be classified as substandard. Substandard signify Loans whose interest or principal payments are longer than three months' in arrears of lending conditions are eased.

Doubtful: Non-performing loans or advances past due 180 days or more but less than 360 days shall be classified as Doubtful. Doubtful indicate that full liquidation of outstanding debts appears doubtful and the accounts suggest that there will be a loss.

Loss: Non-performing loans or advances past due 360 days or more shall be classified as loss. Non-performing loans comprise the loans in the last three categories (Substandard, Doubtful and Loss), and are further differentiated according to the degree of collection difficulties. As per the directive No. SBB/43/2007 Minimum provision percentage against outstanding principal amount of each loan or advance classified in accordance with the criteria for the classification of loan or advance on the above. Below the table show that the minimum percent of provision for NPLs.

2.4 DIVERSION OF LOAN

Commercial bank categorizes loans by their end use irrespective of the type of securities pledged. If the loans disbursed are changed their end use this indicates that the loan is diverted.

2.4.1 LOANS PROVISION

All commercial activities undertaken by business organization involve different risks with varying chances of occurrence that affect the interest of the promoters. This is a phenomenon that cannot be controlled fully since it is not possible to identify and mitigate the risk involved in the operation of a business with certainty. In other words, 100% attainable business plan is less likely to be drawn under conditions of uncertainty. Hence is normal to record variances that are attainable within tolerable margins.

Due to the fact explained above, commercial bank lending involves risk and that bankers enter into the lending process after a careful analysis of the factors that have a bearing on the borrowers' willingness and ability to repay their obligation. However, credit analysis is only under progress to the level where it is possible to predict with better accuracy whether or not a loan will be repaid as agreed. As a result, the occurrence of problem loans that eventually entail losses could be expected (*Siamat, (2005)*, cited in *Suryanto (2015)*).

Maintenance of provision on loans is essential for cleaning the balance sheet of the bank from non-collectable items and helps report true and fair values of its assets. To this end, each non-performing loan (NPL) cases is reviewed in tandem with the national bank of Ethiopia (NBE) directive about treatment of the same to determine the prudent amount required to be provided. The ultimate purpose our accumulation of provision by way of deducting from annual profit of the bank each year is to give allowance for possible loan losses that arise due to various causes.

This should not, however, imply that the bank prefers write-off. It is only to protect the bank to withstand forcing circumstance.

2.4.2 RENEGOTIATED LOANS OR ADVANCES

Renegotiated loans or advances are loans that have been refinanced, rescheduled, rolled over, or otherwise modified at favorable terms and conditions for the borrower because of weaknesses in the borrower's financial condition and or ability to repay.

Renegotiated loans are non-performing loans and shall be categorized as sub-standards that include: Renegotiated term loans unless equivalent of all past due interest is paid by the borrower in cash at the time of renegotiation and the following payments are made by the borrower on a consistent and timely basis in accordance with the restructured terms of the loan

of advance in the case of term loans with Monthly installment repayments, at least 4 consecutive repayments, Quarterly installment repayments, at least 3 consecutive repayments, Semi-annual installments, at least 2 consecutive repayments and If repayment amount is significant and covers the above at the time of renegotiation, then the balance can be reactivate.(*Mishkin, 2007*).

2.4.3 SUSPEND INTEREST ACCOUNT

Interest income calculated and accrued, but not collected on non-performing loans or advances shall be reversed from income account and to be placed in suspended interest account. However, monthly interest calculated on non-performing loans should be accounted under this account; hence no income can be realized from non-performing loans.

Non-accrual status means a loan or advance has been placed on a cash basis for financial reporting purpose. Interest on such loans or advances accrued on the book of the bank or for which a specific reserve (such as a suspended interest account) has been established by the bank to offset the full amount of interest being accrued shall not be taken into income of the bank (*Mishkin, 2007*).

A non-performing loan or advance placed on non-accrual status may be restored to accrual status when None of the outstanding principal and/or interest is past due, and for negotiated loans or advances, where all part due interest is paid by the borrower in cash at the time of negotiation and the loan or advances is not classified as substandard (*Mishkin, 2007*)

2.4.4 CREDIT MANAGEMENT

Firstly, Banks try to find borrowers who will pay high interest rates and are unlikely to default on their loans they seek out loan business by advertising borrowing rates and by approaching corporations directly to solicit loans. It is up to banks loan officer to decide if the potential borrowers are good credit customers who will make interest principal payment on time (*Gray, 2000*).

Typically, banks are conservative in their loan polices; the default rate is usually less than 1%. It is important, however, that banks not to be so conservative that they miss out attractive lending opportunities than warn higher interest rates. Banks try to purchase securities with high returns and low risk. Secondly, in managing their assets, banks must attempt to lower risk by diversifying loan portfolio.

They achieve this by purchasing many different types of assets (short term and long term) and approving different type of loans to number of potential customers after careful analysis. Finally, the bank must manage liquidity of its assets so that it will hold liquid securities even if they earn a somewhat lower return than other asset (*Myers and brealey, 2003*).

Bank and also other financial instruction must overcome the adverse selection and moral hazards problem that makes loan default more likely. The attempt of financial instruction to solve these problems explain number of principles for managing credit risks, screening and monitoring, establishment of long term customer relationships, loan commitment, Collateral, compensating balance requirements and credit rationing (*Mishkin, -2007*).

2.4.5 SCREENING AND MONITORING

Asymmetric information is present in loan markets because lenders have information about the investment opportunities and activities of borrowers that borrowers do. This situation leads to information producing activities by banks and other financial institutions, screening and monitoring. Indeed, Walter Winston, a former head of Citicorp, the largest bank corporation in USA, was often quoted as stating the business of banking that the business of banking is the production of information (*Mishkin, 2007*).

2.4.6 SCREENING

Adverse selection in loan markets requires that lenders screen out the bad credit risks from the good ones so that loans are profitable to them. To accomplish effective screening, tenders must collect reliable information from prospective borrowers. Effective screening and collection together form an important principle of credit risk management.

When you apply for a consumer loan (such as a car loan or a mortgage to purchase a house), the first thing you are asked to do is fill out forms that elicit a great deal of information about your personal Finances.

The process of screening and collection information is similar when a financial institution makes a business loan. It collects information about the company's future plans, how the loan will be used, and the competition in the industry. The officer may even visit the company to obtain a firsthand look at its operations. The bottom line is that whether for personal or business loans, bankers and other financial institutions need to be nosy (*Mueller 2008*).

2.4.7 CREDIT POLICY

Credit policy is often referred as a standing decision made to cover a prescribed set of conditions. It provides guidelines for determining whether to extend credit to clients and how much credit to extend. A bank may adopt either liberal or tight credit policy.

Liberal credit policy involves extending credit to one riskier class whose credit worthiness is not known exactly this policy increases profit by increasing the level of loans extended to customers but incurs higher risk of bad debts and face the problem of liquidity. On the other hand, tight credit policy involves extending credit to those who have proven credit & result in a low profit but is has minimum cost & chance of bad debt. Thus managers should develop credit policies which make tradeoff between risks & return (*commercial bank of Ethiopia credit manual*).

2.4.8 CREDIT STANDARD

Credit standard is a minimum criterion for extension of credit to a client. It enables the credit manager or loan officer to accept the desirable client & reject the undesirable ones. Setting credit standard implicitly requires a management of credit quality, which is defined in terms of the probability of borrower default. The probability of a given borrower to pay the loan is by a subjective judgment. However, a system of credit standard enhances the ability of the credit manager to make the correct decision of use fairly & consistently (*commercial bank credit manual*).

2.4.9 CREDIT TERMS

Credit term involves both the length of the credit period & the discount given. Credit is a means by extending the credit period. Discount given involves an attempt of increase the payment of receivables (*commercial bank manual*).

Short Term Loans: Short term loans are facilities availed for a maximum period of 18 months for working capital purposes. End-use of short term loans should be effectively followed by visits made to business sites and evaluation of the financial standing of the borrower both before and after disbursement of the loan (*commercial bank of Ethiopia credit manual*).

Medium Term Loans: Medium term loans are granted for the purchase of capital good, truck, trailers, public, and transport buses of investments whose payback periods justify. Duration of medium term loans can extend up to a maximum period of 60 months. Loans approved in package (integrated loans) which include participation in the construction work of projects,

purchase of equipment and machinery required for the project, which also incorporate permanent working capital component would be payable in the medium term (*commercial bank of Ethiopia credit manual*).

Long Term Loans: Long term loans are loans granted for the financing of business of investment nature. The financing includes participation in the establishment of viable business ventures and supporting expansion program of successful businesses. Manufacturing, mining, and building and construction sector are among the beneficiaries of the long term loans. The duration of long term loans extends up to ten years (*Credit policy and procedure manual of commercial Bank*).

2.5 CREDIT INVESTIGATION

Credit investigation is a means of developing information not at hand as well as verifying information supplied from different sources. It carried out to aid in making a sound credit decision. After having obtaining the vital information for credit the credit manager will get a knowhow or clue regarding the matter that should be further to be investigated. The investigation seeks pertinent information to the specific credit decision sufficient to assure that the decision will fail in the probability range for payment set by the operating policies. The extent of credit investigation need is influenced by the degree of certainty necessary for proper by borrowers is important when the question of investigation is raised it is customary to focus on the six characteristics of credit namely character, credit worthiness, capacity, capital & collateral (Biabani ,2012).

Credit worthiness:-of the customer is the intangible personal attribute of the customer. Those include personal habit, attitude & moral past payment history as well as any pending or resolved legal judgments against the applicants is vital to evaluate its character. At the same time good character may be result of never having faced adversely. Capacity is credit quality that results on a widely diverse group of specific conditions. It is their ability to pay a specific sum when it is due in a much wider sense it means the source of ability to pay such an employment income earning power (*Ross, ET.ALI98*).

Financial statement analysis with the particular emphasis on liquidity is used to assess the applicant's capacity. Capital is financial strength the applicant has to reduce risk in case of

he/she failed to repay obligation when due. It is the financial strength of the applicant reflected by its ownership position of asset.

Condition while credit analyst today can obtain a fairly reliable image of an individual applicant through series of specific information. They always face the problem of interpreting this information in the form of the current environment. Analysis of general economic and business condition as well as special circumstances that may affect the applicant or firms is performed to assess conditions. The current economic and business climate have to take account.

Collateral: -describes the amount of assets that the applicant has available to secure the loans collateral has to be evaluated from its current and with possible future marketability and stability of its value (*Commercial bank of Ethiopia credit manual 2001*).

2.6 SPECIALIZATION IN LENDING

One puzzling feature of bank lending is that a bank often specializes in lending to local firms or to firms in particular industries, such as energy. In one sense, this behavior seems surprising because it means that the bank is not diversifying its portfolio of loans and thus is exposing itself to more risk. But from another perspective such specialization makes perfect sense. The adverse selection problem requires that the bank screen out bad credit risks. It is easier for the bank to collect information about local firms and determine their credit worthiness than to collect comparable information on firms that are far away. Similarly, by concentrating on lending to firms in specific industries, the bank becomes more knowledgeable about these industries and is therefore better able to predict which firms will be able to make timely payment on their debt (*Mishkin:2007*).

Monitoring and enforcement of Restrictive Covenant Once a loan had been made, the borrowers have an incentive to engage in risky activities that make it less likely that the loan will be paid off. To reduce moral hazard financial institutions must adhere to the principle for managing credit risk that a lender should write provisions (Restrictive covenant) in to loan contracts that restrict borrower from engaging in risky activities. By monitoring borrower's activities to see whether they are complying with the restrictive covenants and by enforcing the covenants if they are not, lenders can make sure that borrowers are not taking on risks at their expense.

Credit Follow-Up: Credit Follow-up one the main tasks of Area Bank Manager. Once funds are disbursed, the concerned bank officers cannot afford to rest on their laurels and expect all payment to come in on the due dates without problem. Hence, it is important that we design a system whereby borrowers are persuaded to repay their loans regularly. We cannot give our customers the understanding and assistance required unless we know what their problems are. We can detect this only by having open and transparent discussion with them.

They might even ask us to help them formulate such plans, which should be accepted i.e. we should demonstrate our concern and assistance by giving consultancy service, a key factor which we have adopted in credit operation. By doing so, we have to make them realize that the money lent to them is that of the depositors and they should utilize it in a wise investment. All or efforts should not be threatening or frighten them but to persuade and convince them to settle the loan.

2.7 Empirical Literature Review

Goldstein and Turner(2006) stated that” the accumulation of non-performing loans is generally attributable to a number of factors, including economic down turns and macroeconomic volatility, terms of trade deterioration, high interest rate, excessive reliance on overly high priced inter bank borrowings, insider lending and moral hazard.

Bloem and Gorter(2001) indicated that non- performing loan(NPL) may rise considerably due to less predictable incidents such as the cost of petroleum products, price of key export products, foreign exchange rates change abruptly.

A World Bank police research working paper on non-performing loans in sub-Saharan Africa revealed that bad loan are caused by adverse economic shocks coupled with high cost of capital and low interest margin(Fotach,2005).

Elias Firdawek(2013) assessed non-performing loan in development bank of Ethiopia in yirgalem branch. The purpose of research is to determining the problem and assessing factors that result in non- performing loan which reduce profitability and performance of the bank. To conduct the research the researcher used census survey data collection method and studied all population in order to obtain data from the organization.

Haile Selassie G/Mariam (2014) assessed non-performing loans in CBE in Adigrat branch, use simple random sampling technique to collect data from the employees of the bank. The researcher assessed many impacts of non-performing loans (NPLs) on loan lending have been occurring. It decreases the bank process of growing and profitability means that loan and advances are granted and become doubtful, the banks will incur much cost to manage NPLs, because it devotes much time, money and man power.

2.8 KNOWLEDGE GAP IDENTIFICATION AND CONCLUSION

From the above theoretical and empirical reviews, it can be concluded that NPLs have a great impact on the operation of banks. The empirical studies show that banks NPLs can be determined by many variables which can be grouped as macroeconomic and bank specific factors. However, most of the literatures that are discussed so far appeared to have focused on studies that were conducted in the banking sector of different countries outside Ethiopia. Consequently, the Banking sector of Ethiopia has so far received inadequate attention in the literature. Conclusions cannot be made on the causes of NPLs of the banking sector of a given country based on the finding of other countries because the studies were carried out based on the data from diverse countries. Apart from the data originated from, those literatures by themselves provided contradictory conclusions because of different models and methodologies they used.

In the context of Ethiopia, except for the study of Anisa (2015) and Mesay (2017), the related studies conducted by Daniel (2010), Geletta (2012), Tesfaye (2015) and Habtamu (2015) assessed the determinants of NPLs in Ethiopian commercial banks focusing on bank-specific variables. The study by Anisa (2015) and Mesay (2017) combined both the macroeconomic and bank specific factors but both the studies utilize the same macroeconomic variables. Accordingly, as per the knowledge of the researcher, the macroeconomic determinants of NPLs in Ethiopian banking sector are not sufficiently addressed. Moreover, all the studies except for the study of Mesay (2017) use the data before the year 2013 so the current impact of the determinants on NPLs is not studied.

In general, the lack of adequate research on the determinants of NPLs in Ethiopian banking sector, the focus of most of the existing studies being only on the bank specific determinants of NPLs and the existing knowledge gap initiates this study.

CHAPTER THREE

3. RESEARCH METHODOLOGY

3.1 RESEARCH DESIGN

The research is descriptive type, because the objective of a descriptive study is to learn who, what, where when and how question of topic. Since it is helpful to describe the present status of the research area of investigation, the researcher used to descriptive study.

3.2 THE TARGET POPULATION OF THE STUDY

Populations of the study was the employees and the manager of the organization commercial bank of Ethiopia in Wolkite, Bekur branch. The total numbers of the workers in this commercial bank of Ethiopia in Wolkite Bekur branch are 26, with 24 males and 2 females. Besides worker's participant manager of the organization is the target population of the study.

3.3 Sampling method

The research used judgmental sampling technique. Because this type of sampling technique enables the researcher to gather accurate and sufficient or required information/ data from authorized and concerned persons. From the total population 26 workers in the study section was selected 9 workers using judgmental sampling technique. which belied to have sufficient knowledge expertise and familiarity with subject matter the study.

3.4. RESEARCH DATA SOURCE

primary data would have collected and systematically presented and analyzed. **The primary** source of the data was collected by using structured questionnaire. The structured questionnaires would have used to get unbiased opinion of respondents. Both the open ended and close ended questionnaires would use. The open ended question helps the respondent to express their opinion in unlimited way and close ended questionnaires provide actualize question to the respondents. The main advantage of primary data is the first hand of the information and the data collection were reliable and qualified.

3.5METHOD OF DATA ANALYSIS

The data would have collected in different forms can be organize properly and examined by using both qualitative & quantitative data and should be analyzed properly by using descriptive method like percentages & tables. In general, all the necessarily data, which would be organized and compiled and the percent's in a tabular for, should be analyzed and described accordingly on theoretical basis in general, all the necessarily data, which would be organized and compiled and the percent's in a tabular for, should be analyzed and described accordingly on theoretical basis.

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION

4.Introduction

This chapter presents and analysis non-performing loan management in commercial bank of Ethiopia in Wolkite branch. The primary and secondary data analyzed and presented in descriptive way.

Primary data is collected from CBE Wolkite branch through questionnaires and interview. The questionnaires are distributed to 9 employees of bank.

4.1 Primary Data Analysis

The primary data is collected from CBE Wolkite branch through questionnaires and interview. The questionnaires were distributed to 9 employees of branch and the to manager, assistant manager and loan officer. The researcher collected all questionnaires from the respondents and analyzed.

4.1.1 Analysis of personal background of respondents

Table 4.1 **analysis of personal background of respondents**

NO	Item	Alternatives	Respondents	
			No	%
1	Sex	Males	8	88
		Females	1	12
		Total	9	100
2	Age	20-25	1	12
		26-30	3	32
		31-35	4	44
		36-40	1	12
		Above 40	0	0
		Total	9	100
4	Educational status	Diploma	0	0
		First degree	6	67
		Masters	3	33
		Above masters	0	0
		Total	9	100
5	Position in bank	Manager	1	12
		Assistant manager	1	12
		Loan officer	1	12
		Employee	6	64

		Total	9	100
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Source: questionnaire survey, 2020

From the data gathered through questionnaire, the researcher gathered different types of data that are expected to represent the response of all employees in the bank and also the researcher analyzed as follows:

According to above table 8 or 88% respondents are males and 1 or 12% are female respondents. Therefore, more number of the employees in bank is males.

In the researcher asked about Age, the respondents answered and analyzed above table shows 1 respondents or 12% are aged between 20-25,3 respondents or 32% are aged between 26-30,4 respondents or 44%are aged between 31-35 and 12% of respondents are aged between36-40 years. No one chooses above 40 years. So from this we can conclude that the most of respondents are in between 31 and 35.

the researcher asked about educational status of the employees, the respondents answered as follows and analyzed as Diploma no chose it. 6 respondents or 67%of respondents have first degree, 3 respondent or 33% have master and none of them has above second degree. From this we can conclude that most of employees in the bank are 1st degree

The researcher asked about respondents' position in the bank, in above table 4.1, 12%or1 respondent is manager, 1respondents or12% are assistant manager,12 % Or one respondent is loan officer,64 %of respondents or 6 respondents are employees of bank. So, from this can be conclude that most of the respondents are employee of bank.

4.1.2. The way in which non-performing loan can be managed

Table 4.2 the way in which non-performing loan manage

N'O	Item	Alternatives	respondent	
			No'	%
	Does your branch advance loan?	Yes	9	100

1		No	0	0
		Total	9	100
2	If your answer for question number 1 is “Yes” what type of loan do you advance?	Short term	5	56
		Long term	4	44
		Other	0	0
		Total	9	100
3	Have you recognize ever non-performing loan in your bank?	Yes	6	67
		No	3	33
		Total	9	100
4	If your answer is Yes for no’ 3, what are basic cases of non-performing loan in your branch?	Poor management	4	44
		Political instability	2	22
		Lack of credit police	0	0
		Fraudulent practice	0	0
		Error and documentation	3	34
		Total	9	100
5	Do you try to make non-performing loan to performing loan?	Yes	6	67
		No	3	33
		Total	9	100
6	If your answer for no’ 5 is Yes, by what	Billing	3	50

	method?	Applying to court	3	50
		Other	0	0
		Total	6	100
7	If you chose any number 6 is it contributed to cover a full amount?	Yes	2	40
		No	3	60
		Total	5	100

Source: questionnaire survey, 2020

The researcher asked to know whether the bank is giving loan to customers/clients and in table 4.2 100% of respondents choose yes and no one choose no. So, from this conclude that, the bank is advancing or providing loan to the clients.

The researcher asked those who say yes, the type of loan and the 5 respondents or 56% agreed that bank is giving short term and 4 respondents or 44% agreed that the bank giving long term to customers so, from this we can conclude that the bank is lending short term loans to the borrowers.

The researcher asked to the respondents to know that the bank have recognized ever non-performing loan. The table 4.2 shows that 6 respondents or 67% of respondents said yes and 3 respondents or 33% said no So, from this the researcher can conclude that the bank has recognized non-performing loans or experienced nonperforming loan.

The researcher asked those who say yes, the reasons/causes of nonperforming and respondents answered :4 respondents or 44% are responded the poor management, 2 respondents or 22% of respondents answered political instability, 3 respondents or 34% answered error in documentation none of them choose the fraudulent practice and lack of credit practice. So, from this researcher can conclude that the bank has poor loan management system even if political instability and error in documentation ability have its part.

The researcher asked to know whether the bank tried to make the loan performing loan back, according to table 4.2 the respondents answered as follows; 67% of respondents assured that the bank tries to make it performing, and 33% of respondents said no. So, from this can conclude that the bank is trying its level best to make the loans performing.

The researcher asked those who say yes the method that the bank use to make it performing loan and according to above table 4.2,3 respondents or 50% of respondents are responded billing, 3 respondents 50% of respondents are responded applying to court. From this we can conclude that the bank is using both billing and applying to courts as an instrument for collection of nonperforming loans from defaults.

The researcher asked those who respondents that of the method the is contributing to recover full amount. according to above table 4.2, 40% of respondents answered yes and 3 respondents or 60% of respondents answered no. So, from this we can conclude that the billing is not contributed to make the loan performing in full amount.

4.1.3. Who is responsible for NPL?

- The researcher asked respondents to know for the nonperformance of the loan who is responsible and accountable, they answered as follows;

- **Table 4.3 responsible for NPL**

	Manager	loan officer	both
Who is responsible and accountable, for nonperformance of the loan ?			9

Source: questionnaire, 2020

According to the above question nine respondents or all of respondents stated as the manager and loan officer are responsible. So, from this the researcher conclude that the responsible person is manager and loan officer.

Table 4. 4.The length of time taken to bring NPL to performing

	3 month	6 month	1 year
How much time taken to bring NPL to performing	✓		

Source: interview result, 2020

The above question was most probably for the manager and loan officer. As they have Saied the time taken to bring non-performing loan to performing is three months. This indicates there is a short time to bring performing. As the manager of the bank when a person or a company borrow money from the bank with in three months the borrower must be payed after due date.

4.1.4. Analysis for the Extent or the Degree of Hardworking with Regarded to Non-Performing Loans

Table 4. 5. Table Extent or the Degree of Hardworking

	Yes	no
There is Extent or the Degree of Hardworking with Regarded to Non-Performing Loans	9	0

Source: questionnaire, 2021

According to the above table the Bank is working to manage non-performing loan. However according to question about the performance/degree of hard working in managing NPL the performance in managing is satisfactory and most loans are becoming performing. Managements are running as much as possible to manage non-performing loans.

4.1.5 The Methods to managing non-performing loan.

Table 4.6 methods to managing non-performing loan.

No	Item	Alternative	Respondent	
			No'	%
1	How can the bank know that managing of non-performing loan?	When income of bank decrease	0	0
		When bank income increase	0	0
		Whatever the condition the bank manage non-performing loan	7	77.8
		When loan status changed	2	22.2
		Total	9	100

Source: questionnaire survey, 2020

Researcher asked to know the method that the bank uses to know whether they are managing the loans properly, according to table 4.6 seven respondent or 77.8% of respondents were responded that they know whether the bank is managing when Whatever the condition the bank manage non-performing loan and 2 respondents (22.2%) of respondents respond that they know bank is managing when loan status. So, from this we can conclude that the method the bank uses to know whether loans are managed is when Whatever the condition the bank manage non-performing loan and When loan status changed.

4.1.6. Analysis for sequences of procedures for borrowers whose payments are overdue

Table 4.7 Analysis for sequences of procedures for borrowers whose payments are overdue

No'	Item	Alternative	Respondent	
			No'	%
1	What are sequence of procedures for borrower's whose payment is overdue	Calling, billing, applying to court	5	53
		Billing, calling, applying to court	2	23.5

		Appling to court, calling, billing	2	23.5
		Other mechanism	0	0
		Total	9	100

Source: questionnaire, 2020

According to the above table 4.7. 5(53%) of respondent choices calling, billing and applying to court procedure, 2(23%) of respondent choice Billing, Calling and applying to court, 2(23%) of respondents responded to Applying to court, Calling and Billing procedure. From this the researcher concludes that the banks procedure for borrowers whose payment is overdue is calling, billing and applying to court.

4.2. Date collected by interview

In addition to the information gathered from the customers and employees of the bank, an interview was conducted to the customer service manager and he said something on the NPLs of the bank.

As a manager said currently, the bank has 2,569 customers and out of this 180 persons are on NPLs. Many reasons were mentioned in the interview regarding the common reasons for customers to be NPL in bank. Most of them focus on the following reasons. Business diversion is the first one among the reasons shown in most of the respondents form failure of their loan. This is in conformity with what was mentioned by the respondents as a major cause. In addition, macro economy problems and thus price change in macro economy was revealed as the second most basis of the failure. Similarly inflations have also play a role to strengthen the cause. In reality people want to buy goods from relatives or from those who had been customer for very longtime. This is because they think they can't deceive them. Then the new beginners (example, those who inter in to the world business) have to suffer until they get social acceptance. On the other hand, there are such things like natural hazards that occur unexpected and rise above our scope to deal with. It is true that when they happen these hazards can cause loss greater than all of the aforementioned reasons to the problem but for its less incidence of occasion compared to others it is stated last. The loan manager of the bank was asked about the measures that the bank takes when customers become NPLs. First, call to them and announce their payment date is

reached, second, call them to office and give urgent announcement. Finally if they are unable to pay their loan the bank gives the collateral that the customer have into an auction market. The loan officer also gives clarification about the approval of loan to its customer. The bank set criteria to give a loan to its customer that includes: reviewing the financial performance of the customer, relevance of their business plan and also by examining their financial statement.

Regarding to the bank portfolio the manager said it shows radical increment from year to year because of the entrance of new customer to the bank.

The loan manager of the bank was also asked to tell the contribution of the bank policies and procedures to handle NPLs. In the first step, the bank consults to make the customers to adjust their businesses and then allow the extension of their repayment period. Loan sections of the bank evaluate the amount of loan request by the customer before approved by the following procedures as whispered by the officials. In addition to this the bank gives addition loan to cover the previous loan. Finally, the manager gives explanation about the effect of NPLs on the bank. As he said, NPL has a significant effect on different area of the bank that includes: minimization of working capital decreases the liquidity of money, decrease the inflow and out flow of cash and discourage the bank for additional investment.

CHAPTER FIVE

5. CONCLUSION AND RECOMMENDATION

This chapter deal with conclusion based on primary and secondary finding and finally to make recommendation to commercial bank of Ethiopia in Wolkite branch

5.1. Conclusions

Based on the data gathered from primary and secondary data sources and observation made on the in relation to current problem of the bank (that is huge amount of non-performing loans) and credit management, the researcher concludes that the causes of the problem are: -

There is times at which the loan becomes nonperforming loan. The bank is not trying its level best to make the loans the performing and The bank is using only both billing and applying to court an instrument for collection of nonperforming loans from defaults. The billing and applying to court is not contributed to make the loan performing in full amount.

The length of time to recover or to make it performing the loans that become nonperforming is above 3 months. The bank is not properly working and making follow up on nonperforming loans and also has poor management. The method the bank uses to know whether loans are managed or not is when the bank. The bank is not properly deciding on the nonperforming loan.

Due to lack of sufficient knowledge about the loan most of the borrower wants to expand their business rather than paying the debt in time. This leads to a raise in the non-performing loan of the banks. On the evaluation stage most borrowers do not present update financial statement this leads during the feasibility stage the bank use over stated financial statement of debtors. This will affect the loan approval form by over stated the grant loan amount.

5.2. Recommendation

In addition to having a well-organized credit management system, the bank need to make exhaustive effort in implementation as well as for better improvement of handing and controlling problems of non-performing loan in the future I insist that the following changes and adjustments could be good for the bank's future career.

- ❖ To control the problem takes place during the estimation of collateral the bank the form collateral estimation committee for estimation of the collateral. This avoids the problem of settlement of the loan through foreclosure.
- ❖ The bank should decides rapidly to collect the loan by foreclosed the defaulters collaterals before it value depreciate and deteriorated through time.
- ❖ Frequency of nonperforming loans should be minimized.

- ❖ The bank should have good loan management practice and proper follow up before loans become NPL. and The bank should try its level best to make all or the part of nonperforming loans to normal loans.
- ❖ The bank should properly decide on the nonperforming loans, should protect and detect the problems and consequences of non-performing in the banks operation and profitability.
- ❖ The manager should take care /great attention on the loans given to the borrower.
- ❖ The bank may reschedule and may consider injection of additional loan to reduce the non-performing loan when the defaulter faces market failure due to price, inflation and weather condition so on especial for short term loan.
- ❖ Finally, the researcher string recommends further detail researches in loan operation specifically non-performing loan of the bank which are problems area and core activities of the financial institution.

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APPENDIX 1

WOLKITE UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING AND FINANCE

Yes No

❖ If your answer for question number 3 is yes, what are the basic causes for non-performing loan in your branch?

Poor management lack of credit policy fraudulent practice

Political instability error in documentation

If any other please specify

.....

5 Do you try to make non-performing loan to performing loan?

Yes no

6 If, answer for question number 5 is yes, by what method?

Billing applying to court

Other please specify

1. If you choose any in question number 6, is it contributed to cover full amount?

Yes No

• Who is responsible for non-performing loan?

.....
.....

• What is length of the time that loan can becomes non-performing loan in your branch.....

.....

The extent of hard working with non-performing loan

1, Does your bank is working to manage non-performing loan?

Yes no

2. What is your performance regarding to working to manage non-performing loan.....
.....

The Methods to know whether the bank is managing the non-performing loan or not managing the non-performing loan

1. How can your bank know that, it is managing non-performing loan or not managing non – performing loan?

- A) When income of bank decrease
- B) When income of bank increase
- C) When head office asks
- D) Without any observation

Other please specify.....

What are sequences of procedure for borrowers whose payments are over due

What are sequences of procedure for borrowers whose payments are overdue?

- Calling, billing, applying to court
- Billing, calling applying to court
- applying to court, calling and billing
- Other mechanism,
- Please specify.....

APPENDIX II

Interview questions

- Do you advance the loan to your customers?
- How do you advance the loan to customers?

- What are criteria to advance the loan?
- What are your bases to accept or to reject the applicants?
- Do you experience any non-performing loan in your bank?
- What are basic causes of non-performing loan in your bank?
- What are factors contributing to default loan?
- What are effects of non-performing loan on your bank?
- What are measures taken to deal with non-performing loan?