

**ASSESSMENT OF CREDIT RISK MANAGEMENT PRACTICE: THE CASE OF  
DASHEN BANK, GUBRE BRANCH.**



**Wolkite University**

*We Strive for Wisdom!*

**COLLEGE OF BUSINESS AND ECONOMICS**

**DEPARTMENT OF ACCOUNTING AND FINANCE**

**A REASERCH PAPER SUBMITTED TO DEPARTMENT OF ACCOUNTING AND FINANCE IN PARTIAL  
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FINANCE**

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**ADVISOR'S APPROVAL SHEETS**

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This is to certify that the thesis entitled **ASSESSMENT OF CREDIT RISK MANAGEMENT PRACTICE: THE CASE OF DASHEN BANK, GUBRE BRANCH.** submitted in partial fulfillment of the requirements for the Bachelor of Art in Accounting and Finance and has been carried out by Yeabsra Tigistu under our supervision. Therefore, I recommend that the student has fulfilled the requirements and hence hereby can submit the research paper to Department of Accounting and Finance.

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## Declaration Sheet

### Declaration

I, Yeabsra Tigistu declare that this thesis entitled **ASSESSEMENT OF CREDIT RISK MANAGEMENT PRACTICE: THE CASE OF DASHEN BANK, GUBRE BRANCH.** submitted to the department of accounting and finance in partial fulfillment of the requirement for the award of bachelor of art degree (BA) in accounting and finance is an output of our own effort. I have produced it independently except for the guidance and suggestion of the thesis advisor Dr. Kassahun. That all sources of materials used for the study have been duly acknowledged. To the best of my knowledge this work has not been submitted for any degree at this university or any other university and college

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**Approved by:** The examiner approve that this research paper has passed through the defense and review process

Examiner

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**Signature and Stamp of the Department**

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## LIST OF ABBREVIATIONS AND ACRONYMS

<b>FI</b>	Financial Institutions
<b>CR</b>	Credit Risk
<b>CRM</b>	Credit Risk Management
<b>BIS</b>	Bank for International Settlements
<b>NPL</b>	Non Performing Loans
<b>DB</b>	Dashen Bank
<b>IRaFX</b>	Interest Rate and Foreign Exchange
<b>LRM</b>	Liquidity Risk Management
<b>S.C</b>	Share Company

## Abstract

*Credit risk management has become an important topic for financial institutes, especially since the business sector of financial services is related to conditions of uncertainty. The turmoil of the financial industry emphasizes the importance of effective risk management practices.*

*The purpose of this study was assessing the practice of credit risk management at Dashen Bank S.C., Gubre branch, particularly in light of the bank's performance amid financial uncertainties. A descriptive research design was employed to provide a clear assessment of current credit risk management practices. The study utilized a mixed-methods approach, integrating both qualitative and quantitative research techniques to derive comprehensive insights into the issue.*

*The population of the study consisted of ten employees from the credit department including managers and twenty-five credit customers, who are the whole available customers and has long-term relationships with the bank. This census allowed for an in-depth exploration of credit management perceptions.*

*Primary data were collected via questionnaires, containing both closed and open-ended questions, and through structured interviews with bank employees. Bank's internal documents and records, providing context on branch performance and customer demographics. Data analysis was conducted using SPSS software for quantitative data, while qualitative responses were analyzed using content analysis to identify key themes.*

*The results indicate a significant gap in the bank's credit risk management practices; although policies are in place, they are not efficiently integrated with the bank's overall strategy, resulting in instances of loan defaults. Major findings suggest that while the bank possesses sound credit risk policies, the execution and monitoring of these practices need improvement.*

*Based on the findings, it is recommended that Dashen Bank enhance its credit management by establishing well-defined credit criteria, implementing a robust review process for credit risk management strategies, and striving to dynamically adjust practices according to critical influencing factors to improve overall performance and competitiveness in the market.*

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# CHAPTER ONE

## 1. INTRODUCTION

### 1.1. Background of the Study

This section provides an overview of credit risk management, its importance in banking, and its impact on financial stability. It may also introduce Dashen Bank and the specific challenges it faces regarding credit risk. Also i try to identifies specific issues or gaps in current credit risk management practices at the bank. This section highlights why it is essential to conduct this assessment and the potential consequences of inadequate credit risk management.

Bank is a financial institution that accepts deposit and make loans. And Risk is the element of uncertainty or possibility of loss that prevail in any business transaction in any place, in any mode and at any time. In the financial area, enterprise risks can be broadly categorized as Credit Risk, Operational Risk, Market Risk and Other Risk. Credit risk is the possibility that a borrower or counter party will fail to meet the agreed obligations. Globally, more than 50% of total risk elements in Banks and Financial Institutions (FI) are credit risk alone. Thus managing credit risk for efficient management of a FI has gradually become the most crucial task (Lalon , 2015). Credit risk management is an essential component of successful business ventures, as it controls and guides a profitable business through transactions across various industries. Credit risk management has arguably existed since the beginning of banking. The underlying principle of banking is lending and risk mitigation. Determining a borrower's ability and propensity to repay is essential to successful lending. As banking and finance have evolved, so has credit risk management (Nigatu, 2011).

Banks face different elements of risk that require identifying, understanding, measuring and managing. Banks should now have a keen awareness of the need to identify, measure, monitor and control credit risk as well as to determine that they hold adequate capital against these risks and that they are adequately compensated for risks incurred. The importance of strong credit risk management for building up quality loan portfolio is of paramount importance to robust performance of commercial banks as well as overall economy (Charles and Kenneth, 2013).

Banking in Ethiopia is still in its nascent stages, lacking the maturity and structure of banking in more developed financial markets. As the industry evolves and consolidates, its future development will heavily depend on effective risk management practices. This point is crucial: for Ethiopian banks to achieve world-class

standards of financial performance, they must manage risk efficiently. This capability not only enables banks to serve the public effectively but also ensures the delivery of substantial returns to their stakeholders. Efficient risk management is fundamental and forms the bedrock of confident and successful banking in Ethiopia. There are two main reasons to support this perspective. First, risk fundamentally limits the operational capacity of banks. Second, the banking environment in Ethiopia is often volatile and subject to significant fluctuations. Consequently, bankers need to maintain a comprehensive understanding of their business's future while factoring in the influence of risk and uncertainty on their performance outcomes. The challenges faced by the Ethiopian banking sector have been heightened, particularly in the wake of the global financial crisis from 2007 to 2009, which revealed vulnerabilities within the system. The persistence of credit risk continues to plague financial institutions and the broader financial landscape in Ethiopia. Regrettably, many banking operators have not adequately learned from past crises. Overall, the lack of diligence in risk management meant that bank management in several Ethiopian financial institutions was often oblivious to the gradual buildup of potential crises. This emphasizes the necessity for bank management to remain vigilant and proactive in their oversight. Frequently, the path to a credit risk crisis is paved with repeated violations of internal credit policies, and addressing these crises is invariably a challenging process that requires immediate and decisive action.

There are more studies on credit risk management in Ethiopia shown that banking system had been not given enough attention before 2015 G.C specially regarding to the development of modern system of assessing, controlling and managing risk in banking operation in line with the changing environment and global financial standard .Risk management guideline of 2010 G.C (The "Risk Management Guidelines for Banks," issued by the National Bank of Ethiopia in 2010, provide a comprehensive framework aimed at enhancing the risk management practices of financial institutions in Ethiopia. The guidelines outline the responsibilities of banks in identifying, assessing, managing, and monitoring various types of risks, including credit, market, operational, and liquidity risks) paved the way for the latest development of risk management practice in Ethiopian banking industry. Commercial banking earn profit out of managing risk as a result banking business is all about managing risk. As no gain no loss principles of nature that ‘Profiting without exposing to risk is like trying to live without being borne’. Risk and return are therefore the core reason for the existence of commercial banks. Banks should have sound and effective risk management system in the view of the fact that their fund is highly leveraged or public fund. As a result, sound risk management system and practice in bank is not an alternative rather it is a matter of survival for not only safety of individual bank and depositors but also for national and global financial stability ( Acharya, 2003).

From the above discussions points we can understand that practicing an effective risk management system play

great role in protecting depositors and investors against risk of losing their deposits and capital not only through maintaining soundness, liquidity, profitable and stability of banking industry but also through enhancing competitive advantage, improving mobilization and deployment of fund as well as optimizing risk – return trade off and reducing cost. Specifically when we come to the unit analysis of Dashen Bank S.C, it is a privately owned company established in 1995. Dashen Bank coined its name from the highest peak in the Country, mount Dashen, and aspires to be unparalleled in banking. It operates through a network of 882 Branches, nine dedicated Forex Bureaus, more than 440 ATMs and 1400 plus Point-of-Sale (POS) terminals spread across the length and breadth of the nation. In addition, it has established correspondent banking relationship with 464 banks covering 70 countries and 175 cities across the world. Dashen Bank S.C has the most reputable brand in the domestic banking market; a reputation earned through consistent delivery of values and preeminence unmatched by its competitors the Bank’s accountholder reached 6.71 million, up from 5.27 million in 2023, representing a significant increase of 27.4% from last year same period. Since the launch of the Bank’s collaborative partnership with Ethio Telecom in the digital lending space, digital loans have been granted to 1,306,158 customers through Telebirr (Annual report of the Bank ,June 30, 2024). Now a days the bank has a wide range of clients and volume of credit transactions which resulted in the need full-fledged risk management systems. Hence, the study tries to assess the practices of credit risk management in Dashen Bank S.C

## **1.2 statement of the problem**

Credit risk is the risk of loss due to a debtor’s nonpayment of loans or other line of credit . Credit risk is defined as the potential that a bank and borrower or counter-party would fail to meet its obligations in accordance with agreed terms. Default occurs if the debtor is unable to meet its legal obligation according to the debt contract. The examples of default event include the bond default, the corporate bankruptcy, the credit card charge-off, and the mortgage foreclosure. Other forms of credit risk include the repayment delinquency in retail loans, the loss severity up on the default event, as well as the unexpected change of credit rating (Aijun, 2009). The objective of credit risk management is to minimize the risk and maximize bank’s risk adjusted rate of return by assuming and maintaining credit exposure within the acceptable parameters. The risk must be assessed to derive a sound investment decision and decision should be made by balancing the risks and returns. The role of credit risk management is assessing the risk, conducts monitoring and reviews of the performance of the bank (Machiraju, 2008).

Poor credit risk management results in, impeding (reducing) banking system profitability and stability in many places, and bank failures. For example, Udunze(2013) reports that as a result of investigations regarding poor

corporate governance and poor credit risk management, the chief of executive officer of Ecobank transnational agreed to forgo US\$1.14 million bonus to earn for the 2012 financial year as part of efforts to rebuild public confidence in the bank against the back drop of accusations of maladministration, fraud, and technical incompetence in the bank in Nigeria. To give emphasis for the credit risk management practice, some studies were carried out on credit risk management in Ethiopian banks, such as that of Dr. Shaik Abdul Majeed Pasha (2011) and Birhane Tsegaye Mitiku (2023 GC). But, still there are gaps related with the credit risk management practice in banks. This studies did not include borrowers in the sample and also credit risk management are changed over atime. Here, this study would try to assess these gaps by employing primary data sources from borrowers, which may help me to investigate data directly from the practitioners and experts.

### **1.3 Research Questions**

Therefore, this study conducted with the aim of providing answers for the following basic questions.

1. How credit risk management is practiced in Dashen Bank, Gubre Branch?
2. Does the policy and practices of credit risk management of the bank aligned with the overall strategy of the bank?
3. What are the challenges in implementing an effective risk management at Dashen Bank, Gubre Branch?

### **1.4 Objective of the study**

#### **1.4.1 General objectives**

1. The main objective of the study is to assess the credit risk management practice in Dashen Bank, Gubre Branch.

#### **1.4.2 Specific objectives**

The specific objectives of this study are:

1. To assess the credit risk management practice applied at Dashen Bank, Gubre Branch.
2. To identify whether there is effective credit risk management and follow up within the bank.
3. To identify the major challenges, if any that affects credit risk management practice in Dashen Bank, Gubre Branch.
4. To identify the gap in relation to best practice in credit risk management

## **1.5 significance of the study**

It is likely certain that some significance will be derived from the study. The study will be useful for Dashen Bank in order to evaluate the credit risk management actually practiced at branch level. The Bank may consider the recommendation to improve its existing credit risk management processes which in turn help to protect the Bank from future damages. The study also show and present important credit risk management ways which will be useful in managing its risk to be successful in the current banking system. Finally, it can be used by other researcher as a reference who wants to study further in this or related areas or to serve as a reading material for anyone who is interested.

## **1.6. Scope of the study**

The scope of the study based only to assess credit risk management practice of Dashen Bank, Gubre Branch. The magnitude of risk managements are mainly in number however, the study encompassed credit risk management like analyzing how banks identify potential credit risks associated with borrowers, including assessing financial history, credit scores, collateral, and current economic conditions. And it took almost 7 months to complete the study.

## **1.7 Limitations of the Study**

It would have been better if the study is conducted in a comparison way by taking into account different organizations in the banking industry, but the given or the available resources (both in terms of time and money) brings a burden to limit the study on a single organization. There were also external (uncontrollable) variables that prevent to carry out the study smoothly, for instance, there were lack of cooperation on the side of the respondents and their commitment to complete filling the questionnaires properly.

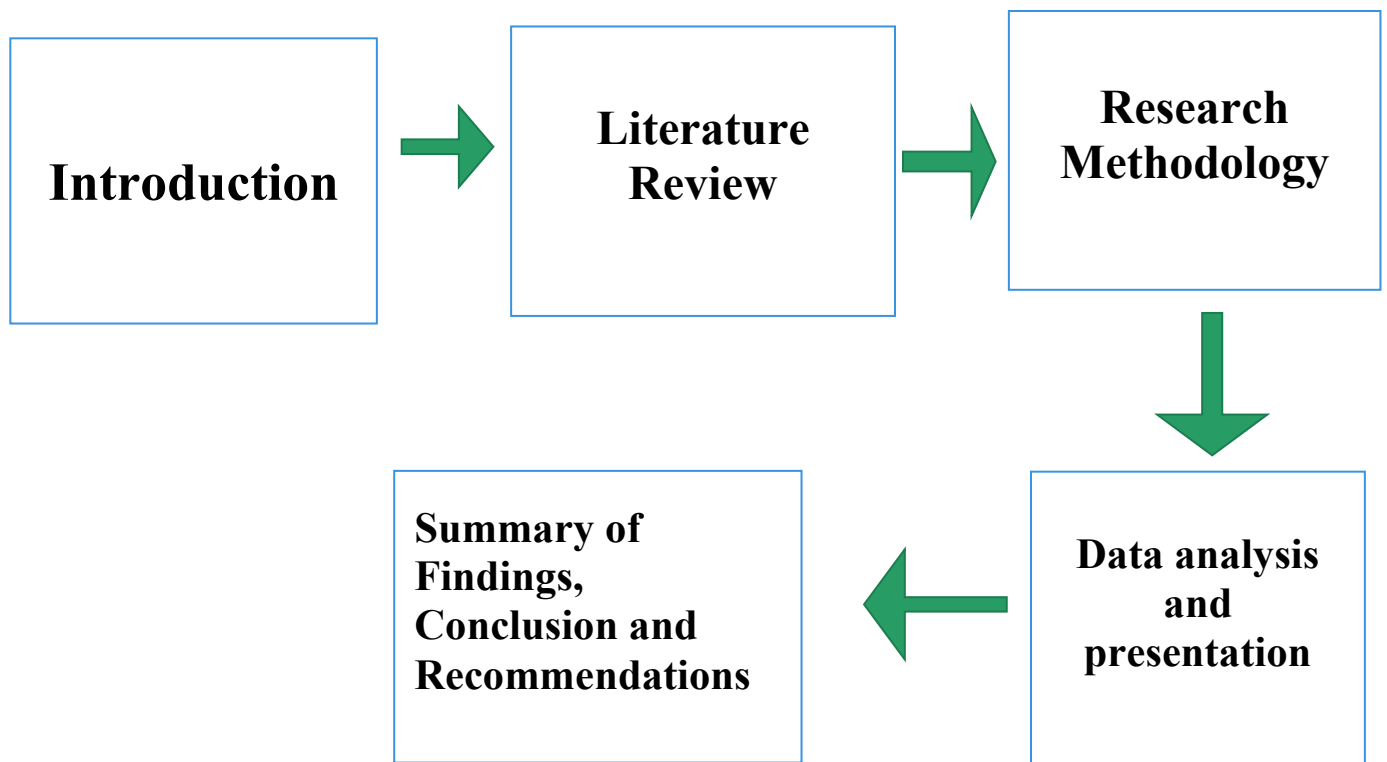
## **1.8 Definition of key term**

**Credit Risk (CR):** refers to the probability of loss due to a borrower's failure to make payment on any type of debt (Basel Committee on Banking Supervision, 2000).

**Credit Risk Management (CRM):** is a practice of mitigating losses by understanding the adequate of a bank's a capital and loan loss reserves at any given time; process that has long been a challenge for a financial institution (Basel Committee on Banking Supervision, 2000). **Financial Institutions (FI):** are institutions that keep money flowing throughout the economy among customers, businesses and government. These institutions including commercial banks, saving and loan associations and credit unions (Argimon et al, 2018).

## 1.9 Organization of the study

The remaining parts of the study are organized as follows, chapter two focus on different literature's written on issues related to risk management practices. The third chapter shows methodology of the research and chapter four states the data presentation and analysis. The fifth chapter presents conclusions of findings and recommendation.



# CHAPTER TWO

## 2. Literature Review

### 2.1 .Theoretical Review

*This chapter dowels on defining the variables which are considered in the study and discussed the various concepts or issues related with them and also about an effective practices of credit risk management including its basic models in the achievements of the goals of the organization in general.*

### 2.2 Definitions of Credit Risk

Credit risk is defined as the probability that some of a bank's assets, especially its loans, will decline in value and possibly become worthless. Because banks hold little owners' capital relative to the aggregate value of their assets, only a small percentage of total loans need to go bad to push a bank to the brink of failure (Raghavan, 2011).

Credit risk, is the uncertainty of bad debts, in case a borrower fails to meet his commitments in accordance with the agreed loan terms (Kapoor, 2017).

### 2.3 Credit Risk Management

#### 2.3.1 Definitions

Credit risk management is the practice of mitigating losses by understanding the adequacy of a bank's capital and loan loss reserves at any given time – a process that has long been a challenge for financial institutions. The credit risk management is one the most important tasks for the financial liquidity and stability of banking sector in connection with increased sensitivity of banks to the credit risks and changes in the development of prices of financial instruments (Kiseľáková and Kiseľák, 2013).

The most significant impact on performance of the enterprise has just financial risk. The unsystematic risks have a higher impact on performance of the enterprise as systematic risks (Kiseľáková et al, 2015). Credit risk management can be summed up as how a bank measures, manages, and monitors its exposures to achieve a desired return on its capital.

Credit risk has the highest weight among risks taken by the Bank in the course of its Banking activities. Credit risk management in the Bank is carried out using the following main procedures:

1. putting in place limits for operations to limit credit risk;
2. putting in place indicative limits for credit risk concentration and the share of unsecured loan portfolio;
3. Creation of security for credit operations;
4. Setting value conditions for operations with respect to payment for risks taken;
5. Permanent monitoring of risks taken and preparation of management reporting for the Credit Committee, the Bank's management and units concerned;
6. Evaluation of regulatory and economic capital necessary to cover the risks taken in respect of the Bank's operations and ensuring its sufficiency;
7. Carrying out hedging operations;
8. Permanent internal control over the Bank's units in respect of observing regulations on operations procedure and risk assessment and management procedures by independent units.

### **2.3.2 The Bank's Risk Management Envisages**

1. Applying systematic approach to overall Bank's loan portfolio risk management and separate operations with certain borrowers/counterparties (group of related borrowers/counterparties);
2. Applying unified methodology for identification and quantitative assessment of credit risk which is adequate to the nature and scale of the Bank's operations; and
3. Balanced combination of centralized and decentralized decision-making in respect of operations related to taking credit risk.

The main tool to restrict and control the credit risk taken by the Bank is the credit limit System.

The following types of credit risk limits are put in place:

- ✓ counterparty limits;
- ✓ limits for independent risk-taking by the Bank's branches; and
- ✓ Credit risk limits by countries/industries/regions.

Credit risk limits are determined by the Credit Committee and approved by the Bank's

Management Board (in case the Credit Committee does not have the required authority). A part of authorities for putting credit limits in place is delegated to Branch Credit Committees (for standard credit operations within the special limit for independent credit risk-taking by branches), as well as to the Small Credit Committee and the Moscow Region Credit (Raghavan,2003).

### **2.3.3 How to Manage Credit Risk**

According to Clerc (2004) participants analyzed the different risk management techniques by taking a look at the following two aspects: the emergence of a risk culture and the prevention of risk by building up regulatory capital in proportion to the level of risk exposure of each credit institution. Pillar 1 of the new Basel II framework provides banks with several options for calculating their capital requirements relative to their credit risk and their operational risk. The most innovative one is the possibility that banks have been given of using under the control of the supervisory authorities i.e., their internal assessment systems. Because calibrating these models tends to come up against the problem of the reliability and availability of data in some emerging economies, the Basel Committee has proposed a simplified standardized approach designed specifically for these economies.

The development of credit derivatives markets is taken into account when drawing up standards that better capture risk and recognizing the most advanced techniques at the prudential level. The following conclusions were drawn from the presentation of the results of the survey conducted under the aegis of the ESCB Banking Supervision Committee: the liquidity of credit derivatives markets has increased sharply, and, contrary to expectations, the transfer of credit risk to insurance companies has marked time.

In Europe, activity thus appears to be principally concentrated in the banking sector. The most standardized instruments, such as credit default swaps (CDSs) account for the lion's share of transactions. As yet, credit risk transfer activities do not appear to have substantially impacted European banks' provisioning needs over the last business cycle. However, a few aspects remain unclear. They relate to the amounts actually transferred and the complexity of some of the instruments used, such as the CDOs of CDOs (Collateralized Debt Obligations), which seem particularly obscure.

Participants also commented on the decision taken by the Basel Committee in October 2003 to

calibrate capital requirements against unexpected losses. This mechanism could have penalized banks that make greater provisions for their expected losses and resort more to dynamic provisioning. In order to prevent this undesirable effect from arising, excess provision amounts are to be integrated into banks' additional capital up to a certain limit, while any shortfall of provision amounts compared with expected losses is to be deducted from banks' own funds, up to 50% from their core capital (Tier 1) and 50% from their additional capital (Tier 2).

### **2.3.4 Credit Assessment and Risk Grading**

#### **2.3.4.1 Credit assessment**

A thorough credit and risk assessment should be conducted prior to the granting of loans, and at least annually thereafter for all facilities. The results of this assessment should be presented in a Credit Application that originates from the relationship manager/account officer (—RM), and is approved by Credit Risk Management (CRM). The RM should be the owner of the customer relationship, and must be held responsible to ensure the accuracy of the entire credit application submitted for approval. RMs must be familiar with the bank's Lending Guidelines and should conduct due diligence on new borrowers, principals, and guarantors (Santomero, 2007).

It is essential that RMs know their customers and conduct due diligence on new borrowers, principals, and guarantors to ensure such parties are in fact who they represent themselves to be. All banks should have established Know Your Customer (KYC) and Money Laundering guidelines which should be adhered to at all times. Credit Applications should summarize the results of the RMs risk assessment and include, as a minimum, the following details: (Santomero, 2007).

- 2.3.4.1.1 Amount and type of loan(s) proposed.
- 2.3.4.1.2 Purpose of loans.
- 2.3.4.1.3 Loan Structure (Tenor, Covenants, Repayment Schedule, Interest)
- 2.3.4.1.4 Security Arrangements

In addition, the following risk areas should be addressed according to Santomero (2007).

**Borrower Analysis:** The majority shareholders, management team and group or affiliate companies should be assessed. Any issues regarding lack of management depth, complicated ownership structures or inter group transactions should be addressed, and risks mitigated.

**Industry Analysis:** The key risk factors of the borrower's industry should be assessed. Any issues regarding the borrower's position in the industry, overall industry concerns or competitive forces should be addressed and the strengths and weaknesses of the borrower relative to its competition should be identified.

**Supplier/Buyer Analysis:** Any customer or supplier concentration should be addressed, as these could have a significant impact on the future viability of the borrower.

**Historical Financial Analysis:** An analysis of a minimum of 3 years historical financial statements of the borrower should be presented. Where reliance is placed on a corporate guarantor, guarantor financial statements should also be analyzed. The analysis should address the quality and sustainability of earnings, cash flow and the strength of the borrower's balance sheet. Specifically, cash flow, leverage and profitability must be analyzed.

**Projected Financial Performance:** Where term facilities (tenor > 1 year) are being proposed, a projection of the borrower's future financial performance should be provided, indicating an analysis of the sufficiency of cash flow to service debt repayments. Loans should not be granted if projected cash flow is insufficient to repay debts.

**Account Conduct:** For existing borrowers, the historic performance in meeting repayment obligations (trade payments, check, interest and principal payments, etc) should be assessed.

**Adherence to Lending Guidelines:** Credit Applications should clearly state whether or not the proposed application is in compliance with the bank's Lending Guidelines. The Bank's Head of Credit or Managing Director/CEO should approve Credit Applications that do not adhere to the bank's Lending Guidelines.

**Mitigating Factors:** Mitigating factors for risks identified in the credit assessment should be identified. Possible risks include, but are not limited to: margin sustainability and/or volatility,

high debt load (leverage/gearing), overstocking or debtor issues; rapid growth, acquisition or expansion; new business line/product expansion; management changes or succession issues; customer or supplier concentrations; and lack of transparency or industry issues.

**Loan Structure:** The amounts and tenors of financing proposed should be justified based on the projected repayment ability and loan purpose. Excessive tenor or amount relative to business needs increases the risk of fund diversion and may adversely impact the borrower's repayment ability.

**Security:** A current valuation of collateral should be obtained and the quality and priority of security being proposed should be assessed. Loans should not be granted based solely on security. Adequacy and the extent of the insurance coverage should be assessed.

**Name Lending:** Credit proposals should not be unduly influenced by an over reliance on the sponsoring principal's reputation, reported independent means, or their perceived willingness to inject funds into various business enterprises in case of need. These situations should be discouraged and treated with great caution. Rather, credit proposals and the granting of loans should be based on sound fundamentals, supported by a thorough financial and risk analysis.

#### **2.3.4.2 Risk grading**

All Banks should adopt a credit risk grading system. The system should define the risk profile of borrower's to ensure that account management, structure and pricing are commensurate with the risk involved. Risk grading is a key measurement of a Bank's asset quality, and as such, it is essential that grading is a robust process. All facilities should be assigned a risk grade. Where deterioration in risk is noted, the Risk Grade assigned to a borrower and its facilities should be immediately changed. Borrower Risk Grades should be clearly stated on Credit Applications (Mohammad and Nahar Onni, 2015).

The more conservative risk grade (higher) should be applied if there is a difference between the personal judgment and the Risk Grade Scorecard results. It is recognized that the banks may have more or less Risk grades; however, monitoring standards and account management must be

appropriate given the assigned Risk Grade.

## **2.4 Best Practices in Credit Risk Management**

The first step in effective credit risk management is to gain a complete understanding of a bank's overall credit risk by viewing risk at the individual, customer and portfolio levels. While banks strive for an integrated understanding of their risk profiles, much information is often scattered among business units. Without a thorough risk assessment, banks have no way of knowing if capital reserves accurately reflect risks or if loan loss reserves adequately cover potential short-term credit losses. Vulnerable banks are targets for close scrutiny by regulators and investors, as well as debilitating losses (Tenguh, 2008).

According to Tenguh (2008), the key to reducing loan losses – and ensuring that capital reserves appropriately reflect the risk profile – is to implement an integrated, quantitative credit risk solution. This solution should get banks up and running quickly with simple portfolio measures. It should also accommodate a path to more sophisticated credit risk management measures as needs evolve. The solution should include:

1. Better model management that spans the entire modeling life cycle.
2. Real-time scoring and limits monitoring.
3. Robust stress-testing capabilities.
4. Data visualization capabilities and business intelligence tools that get important information into the hands of those who need it, when they need it.

### **2.4.1 Setting up an Ideal Credit Risk Environment**

The bank's board of directors, in an ideal credit risk environment, should involve and take the responsibility of periodically reviewing the credit risk policies of their bank. The policy, as and when undertaken by the board, should clearly state the bank's tolerance level for risks, and also the interest rate spread it requires for taking such risks. The top-level management is then obligated to implement the credit strategy approved by the board for classifying, measuring, monitoring and regulating the credit risk. Such policies should be religiously followed across the organizational line for individual as well as portfolio credits. Banks should periodically monitor the inherent credit risks in all its products and services. For new launches, it should identify risks in advance and price-them out by ensuring that adequate risk management procedures are

initiated before the product is introduced (Kapoor, 2017).

#### **2.4.2 Formulating a Full Proof Credit Granting Process**

It is essential for banks to operate within well-defined credit criteria. These criteria should clearly lay down the bank's target market, the borrower's credential requirements, purpose and structure of credit, and the source of repayment. Financial institutions should set an overall credit limit for all individual borrowers, as well as for connected counterparties, as specified in the credit policy. Banks should also explicitly define its approval guidelines for new credits, renewal, refinancing, and premature terminations. Deviation in guidelines shouldn't be entertained without the recommendation of the board (Kapoor, 2017).

#### **2.4.3 Securing Control over Credit Risks**

Banks must establish a process for continuous review of credit risk management strategies. Results of such assessments should be forwarded directly to the board of directors.

The reviews are intended to provide valuable insights on whether the bank's credit granting functions are being accurately managed within the defined standards and limits. Banks must enforce an internal control mechanism to make sure those exceptions of policies, limits, and procedures are communicated to the appropriate authority in time. There should be a streamlined system in place for early detection of fraudulent activities, and for corrective action on deteriorating credits (Kapoor, 2017).

#### **2.4.4 Intelligent Recruitment of Human Resource**

It is also a responsibility of the management to ensure that sufficient and competent resources are allocated to control and manage the credit risks. Credit managers should –

- Have a comprehensive perception of the risks associated with the bank's credit activities.
- Be capable of understanding relevant factors and conditions which can directly or indirectly affect the credit quality and risk profile of the institution.

Immediately report a change in the risk profile or credit portfolio to the concerned authority for consideration. The bank management should consistently organize credit training programs to equip its personnel with adequate knowledge about the institution's credit standards and culture (Kapoor, 2017).

## **2.4.5 Incorporation of Effective Information System**

Banking institutions must have an information system in place to effectively manage the inherent credit risks in its activities.

The information system should enable the bank to:

- Use analytical to maintain a database for credit research.
- Report high exposures.
- Track the status and account performance.
- Monitor and control limits.

Financial service providers should tally its credit risks with the overall spread of an account relationship. Credits should be priced in such a way that, together with other revenues earned from an account, it would compensate all the associated costs and risks incurred by the institution (Kapoor, 2017).

## **2.5 Types of Financial Risk**

### **2.5.1 Credit risk**

According to the Bank for International Settlements (BIS), credit risk is defined as the potential that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms. Credit risk is most likely caused by loans, interbank transactions, trade financing, foreign exchange transactions, and bonds and so on. In simple words, if person A borrows loan from a bank and is not able to repay the loan because of inadequate income, loss in business, death, unwillingness or any other reasons, the bank faces credit risk. Similarly, if you do not pay your credit card bill, the bank faces a credit risk (Aboli, 2015).

Factors like unsteady income, low credit score, employment type, collateral assets and others determine the credit risk associated with a borrower. As stated earlier, credit risk can be associated with interbank transactions, foreign transactions and other types of transactions happening outside the bank. If the transaction at one end is successful but unsuccessful at the other end, loss occurs. If the transaction at one end is settled but there are delays in settlement at the other end, there might be lost investment opportunities (Aboli, 2015).

### **2.5.2 Market Risk**

McKinsey defines market risk as the risk of losses in the bank's trading book due to changes in

equity prices, interest rates, credit spreads, foreign-exchange rates, commodity prices, and other indicators whose values are set in a public market. Bank for International Settlements (BIS) defines market risk as the risk of losses in on- or off-balance sheet positions that arise from movement in market prices. Market risk is prevalent mostly amongst banks that are into investment banking since they are active in capital markets (Aboli, 2015).

### **2.5.3 Operational Risk**

According to the Bank for International Settlements (BIS), operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputation risk. Operational risk can widely occur in banks due to human errors or mistakes. Examples of operational risk may be incorrect information filled in during clearing a check or confidential information leaked due to system failure (Aboli, 2015)

### **2.5.4 Liquidity Risk**

Risk stemming from the lack of marketability of an investment that cannot be bought or sold quickly enough to prevent or minimize a loss or it is the risk that may disable a bank from carrying out day-to-day cash transactions (Taleker, 2005).

### **2.5.5 Business**

Risk as the possibility that a company will have lower than anticipated profits, or that it will experience a loss rather than a profit. In the context of a bank, business risk is the risk associated with the failure of a bank's long term strategy, estimated forecasts of revenue and number of other things related to profitability (Clerc, 2008).

## **2.6 Principles of Risk Management**

### **Basel Principles for Credit Risk Management**

#### **2.6.1 Establishing an appropriate credit risk environment**

*Principle 1:*

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

*Principle 2:*

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

*Principle 3:*

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

## **2.6.2 Operating under a sound credit granting process**

*Principle 4:*

Banks must operate within sound, well-defined credit-granting criteria. These criteria should include a clear indication of the bank's target market and thorough understanding of the borrower or counterparty, as well as the purpose and structure of the credit, and its source of repayment.

*Principle 5:*

Banks should establish overall credit limits at the level of individual borrowers and counterparties, and groups of connected counterparties that aggregate in comparable and meaningful manner different types of exposures, both in the banking and trading book and on and off the balance sheet.

*Principle 6:*

Banks should have a clearly-established process in place for approving new credits as well as the amendment, renewal and re-financing of existing credits.

*Principle 7:*

All extensions of credit must be made on an arm's-length basis. In particular, credits to related companies and individuals must be authorized on an exception basis, monitored with particular

care and other appropriate steps taken to control or mitigate the risks of non-arm's length lending.

### **2.6.3 Maintaining an Appropriate Credit Administration, Measurement and Monitoring Process**

*Principle 8:*

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

*Principle 9:*

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

*Principle 10:*

Banks are encouraged to develop and utilize an internal risk rating system in managing credit risk. The rating system should be consistent with the nature, size and complexity of a bank's activities.

*Principle 11:*

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

*Principle 12:*

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

*Principle 13:*

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

### **2.6.4 Ensuring adequate controls over credit risk**

*Principle 14:*

Banks must establish a system of independent, ongoing assessment of the bank's credit risk

management processes and the results of such reviews should be communicated directly to the board of directors and senior management.

*Principle 15:*

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

*Principle 16:*

Banks must have a system in place for early remedial action on deteriorating credits, managing problem credits and similar workout situations.

### **2.6.5 The Role of Supervisors**

*Principle 17:*

Supervisors should require that banks have an effective system in place to identify measure, monitor and control credit risk as part of an overall approach to risk management. Supervisors should conduct an independent evaluation of a bank's strategies, policies, procedures and practices related to the granting of credit and the ongoing management of the portfolio. Supervisors should consider setting prudential limits to restrict bank exposures to single borrowers or groups of connected counterparties (Basel Committee on Banking Supervision, 2000).

## **2.7 Challenges to Successful Credit Risk Management**

Effective credit risk management is essential for a banks to maintain the financial strength necessary to overcome severe stress situations while securing commitments made to policyholders and customers. To firmly establish a credit risk management culture, companies are increasingly looking for help from new technology, which can assist in the set up and dissemination of new processes, but also support changes in personnel behavior. But there are more challenges to encounter credit risk management in way to be successful in management system of the banks (Tinubu Square, 2014)

1. **Inefficient data management.** An inability to access the right data when it's needed causes problematic delays.

2. **No group wide risk modeling framework.** Without it, banks can't generate complex, meaningful risk measures and get a big picture of group wide risk.
3. **Constant rework.** Analysts can't change model parameters easily, which results in too much duplication of effort and negatively affects a bank's efficiency ratio.
4. **Insufficient risk tools.** Without a robust risk solution, banks can't identify portfolio concentrations or re-grade portfolios often enough to effectively manage risk.
5. **Cumbersome reporting.** Manual, spreadsheet-based reporting processes overburden analysts and IT.

## 2.8 Empirical Review

Various studies have shown that credit risk management is an important predictor of bank financial performance thus success of bank performance depends on risk management. They consider default rate as one of the risk management indicators is a major predictor of the bank financial performance to the extent of 56% and followed by capital adequacy ratio at 25% (Aktan, and Bulut, 2008).

Credit risk management is crucial on the bank performance since it have a significant relationship with bank performance and contributes up to 22.6% of the bank performance. Among the risk management indicators, default rate management is the single most important predictor of the bank performance whereas cost per loan assets is not significant predictors of bank performance (Acharya, 2003)

In a study "Credit risk management and profitability of commercial banks in Ethiopia" by Tibebe Tefera (2011). The researcher examines the impact level of credit risk management towards the profitability of commercial banks in Ethiopia in general. It argues that credit risk management has significant impact on profitability of banks of Ethiopia. The researcher purposively takes seven banks that have ten year and above life span in Ethiopia (Tibebe, 2011). "Bank Performance and Credit Risk Management in Qatar" which was studied by Takang Felizachou & Ntui Claudine Tenguh in 2008. In their study result shows that —There is a significant relationship between bank profitability and credit risk management (in terms of loan performance). (Takang & Ntui Claudine, 2008).

Private Banks are more serious to implement effective credit risk management practice than state owned banks. A study conducted by (Kuo and Enders,2004) of credit risk management policies for state banks in China and found that mushrooming of the financial market; the state owned

commercial banks in China are faced with the unprecedented challenges and tough for them to compete with foreign bank unless they make some thoughtful change. In this thoughtful change, the reform of credit risk management is a major step that determines whether the state owned commercial banks in China would survive the challenges or not.

In relation to credit risk and banks performance the study conducted by Girma Mekasha (2011), on “Credit Risk management and its impact on performance in Ethiopian Commercial Banks.” With the aim of better understanding of credit risk management and its impact on performance (return on asset). The result of the study revealed that the most common way of communicating effectively to reduce risk is developing understanding between management team and employee. The study also reveals banks with higher profit potentials can better absorb credit losses whenever they crop up and therefore record better performances. Furthermore, the study shows that there is a direct but inverse relationship between return on asset and the ratio of non-performing loans to total loan (NPL\TL) and loan provision to total loan. Finally the study concludes that, banks with good credit risk management policies have a lower loan default rate and relatively higher return on asset.

Most Studies on risk management practice of commercial banks mostly have been conceptual in nature, often drawing the theoretical link between good risk management practices and improved bank performance. There are limited studies providing empirical evidence to the risk management practices. However, as per the researcher’s knowledge no study is conducted to see risk management practice widely. So this paper to assess the gap existing in credit risk management of the bank and how is it capable of managing the continuous changing credit risk environment in current market and to show the gap in credit risk management of the Bank in present market. Hence, this study aims to fill the gap in the literature by focusing on the risk management practices of the Dashen Bank S.C.

From the above discussion points, since risk management in general has very significant contribution to bank performance, we can say that, the banks are advised to put more emphasis on risk management. In addition, in order to reduce risk on loans and achieve maximum performance the banks need to allocate more funds to default rate management and try to maintain just optimum level of capital adequacy.

# CHAPTER THREE

## 3 .RESEARCH DESIGN AND METHODOLOGY

### 3.1 .Research Design

Kothari (2004) stated that the research design is the conceptual arrangement within which the research conducted; it constitutes the blueprint for the collection, measurement and analysis of data. Since this study assessed the risk management being practiced by the bank, it described what is being practiced as is. A research design that suits to this study therefore is descriptive design. According to Kothari (2004), descriptive research includes different kinds of surveys and fact-finding enquirers. In doing so, the study will intends to describe, and interpret the existing facts about credit management

The major purpose of descriptive research is description of the state of affairs as it exists at present. The design is used to describe the characteristics of the variables. This helped to obtain information concerning the current status of the phenomenon to describe what the current situation is with respect to the variable of the study, the practices of credit risk management. The same author asserts that in descriptive design the problem is structured and well understood and gives a report on things as they actually are. In addition to this, Adams et al, (2007) states that such type of research describes the phenomena as well as explains why behavior is the way it is. So this research has applied descriptive survey type of research since it attempts to describe the phenomenon of the study using possible descriptive statistical tools since the study has focused in assessing the existing actual practices of credit.

### 3.2 Research Approach

Mixed approach method (both qualitative and quantitative) was used to have better results out of the study by utilizing the benefits of both approaches. Quantitative data were collected through distributing questionnaires to the respective participants and also by reviewing Internal Document. For the study both the qualitative as well as the quantitative/mixed approach/ was used to have best understanding about the research problems and also to achieve better

outcome from the study. The qualitative one was to describe the perception of respondents towards credit risk management that is introduced in the Dashen Bank Gubre branch and the quantitative approach was involved the generation of data in measurable form which can be subjected to quantitative analysis. For qualitative one, the data was collected through interview.

In this connection, the quantitative data was analyzed by using possible statistical tools with the help of SPSS(software) and the qualitative one, the data was analyzed using content analysis on the basis of the similarity of the majority responses.

Finally, the data interpretation was carried out by triangulating the analysis results of the quantitative with the qualitative one and presented those using possible tables in such a way that they give meanings for the study.

### **3.3 Population and sampling techniques**

Those employees working in credit area and the managers at different level were considered as population of the study. Since the number of employees in the credit departments and managers are manageable i.e. 10, the study used all of such employees as respondents. In addition, it also included 25 individuals of credit customers which are the whole population and has long year relationship with the bank.

Finally, for having additional information from an in-depth interview, census sampling is undertaken.

#### **Sampling Frame**

For the study sampling frame lists of employees and managers who are working in credit area of Gubre Branch and customers.

### **3.4 Data Source and Data Type**

Both the primary as well as the Internal Documents were utilized for the study. And concerning the data sources, the primary data was acquired through distributing questionnaires, which included both closed and open ended questions and made structured interview with those deliberately selected participants considering their skill and knowledge that they have to the subject matter in order to substantiate the outcome of the study when the quantitative data analysis results is perceived to be not enough by the researcher.

And the Internal Documents, which , collected directly from the bank's internal documents and

records. This includes data on branch performance, customer demographics, and transaction volumes. By focusing on the bank's own records, the study ensured that the quantitative and qualitative insights are directly relevant to the specific context of the branch being investigated. This approach complemented the primary data gathered from questionnaires and structured interviews, provided a comprehensive understanding of the subject matter.

### **3.5 Data Collection Methods**

The primary data were collected through distributing questionnaires, in which both open and closed ended types of questions, were included.

Additionally, primary data were collected through conducting interviews, in person with a select group of 10 employees from the credit department at Dashen Bank S.C. These employees were chosen based on their work experience and expertise related to the subject matter. It is essential to include these interviews to gain deeper insights and enhance the quantitative findings obtained from the questionnaires. While some participants may overlap between the interviews and the questionnaire respondents, the interviews provided an opportunity for more in-depth exploration of specific issues that might not be fully captured through survey responses alone.

In this connection, interviews were made immediately after the quantitative data are collected and analyzed to have additional information to substantiate the outcome of the study in general.

### **3.6 Data Analysis and Presentation**

The qualitative data which was acquired using primary and reviewing Internal Document in terms of idea and concepts was analyzed qualitatively or contextually using content analysis (i.e., categorizing and summarizing on the basis of similarities of concepts and idea).

The quantitative data which will be acquired through primary and Internal Document analyzed using possible descriptive statistics (i.e., mode of frequencies and percentage) with the help of software known as SPSS (version 18) after the data are coded and entered in to the mentioned software. Then finally the results of both quantitative as well as qualitative were combined together by triangulating them to make the desired interpretation, conclusion and recommendations accordingly.

### **3.7 Ethical Considerations**

When questionnaires was distributed, the researcher informed respondents on the introduction part of the paper about the title and objective of the study. Besides to develop respondents confidence, they informed that their responses will be kept confidential and the information uses only for academic purpose. To avoid misunderstanding and problems related with questionnaires in acquiring information from the respondents, the researcher designed the questionnaires in clearly and understandable manner.

# CHAPTER FOUR

## 4 .DATA ANALYSIS AND PRESENTATION

### 4.1 Introduction

This chapter provides a succinct overview of the risk management practices employed by Dashen Bank's Gubre Branch to maintain the quality of credit and loans extended by the institution. Included in this chapter are the data analysis and presentation segments.

The analysis is grounded in primary data collected through the distribution of questionnaires. A total of 10 questionnaires were administered to staff members involved in credit operations at Dashen Gubre Branch, with a 100% response rate achieved, as all questionnaires were completed and returned for analysis.

By using census sampling technique 25 customers were selected. Out of the 25 participants , 22 responded, and 20 provided successful responses. The remaining 2 participants received the invitation but did not respond correctly (missing data), while the other 3 were unavailable or did not receive the invitation.

Furthermore, supplementary primary data were gathered through interviews conducted with purposefully selected staff members. These individuals were chosen based on their expertise and knowledge relevant to credit management and included higher-level management personnel whose daily responsibilities align closely with the topic at hand.

In order to enhance the findings of the analysis, specific internal documents from Dashen Bank were reviewed and incorporated into the study. These documents included the following:

**Branch Performance Reports:** These reports contained data on key performance indicators for the Gubre Branch, including metrics such as loan default rates, credit approval rates, and overall credit portfolio performance.

**Customer Demographics Reports:** This information provided insights into the profiles of credit customers, detailing aspects such as age, income levels, employment status, and credit history, which are crucial for understanding the customer base and their risk profiles.

**Transaction Volumes Data:** This data indicated the frequency and volume of credit transactions, allowing for an understanding of customer engagement and the overall activity within the credit department.

**Credit Policy and Procedures Manual:** This document outlined the policies and procedures governing credit risk assessment and management within the bank, serving as a guide for staff on the operational standards required for credit management.

**Risk Assessment Reports:** These reports included analyses of potential risks associated with the credit portfolio, including market risks, credit risks, and operational risks, as well as strategies in place to mitigate these risks.

By referencing these specific internal documents, the study ensured that the qualitative and quantitative insights were directly relevant to the context of the bank’s credit management practices, thus providing a more comprehensive understanding of the subject matter.

**Table 4. 1 Summery response rate**

Description	Distributed questionnaires	Responded Properly	Response rate in %
Employees working at Dashen bank Gubre branch	10	10	100%
Total	10	10	100%

Source: own survey 2025

Thus, the response rate was 100% and indicated that it was enough to represent and describe about the general population of the phenomenon.

## 4.2 Analysis Results of Back Ground Information

**Table 4. 2 Background information of the respondents**

No.	Description	Response	Respondents	
			No.	%
1	Educational Background	Certificate	0	0%
		Diploma	0	0%
		BA Degree and above	10	100%
		Total	10	100%
2	How long have you been in DB?	Service years	No.	%
		Below 2 years	2	20%
		2-5	4	40%
		6-10	3	30%
		And above 10	1	10 %
		Total	10	100%
3	Current position	Position	No.	%
		Managerial	2	20%
		Supervisor	2	20%
		professional	6	60%
		Other support staff	0	0%
		Total	10	100%

Sources: own survey 2025

When we see table 4.2, the educational background distributions of the respondents show that all of them have educational qualification of BA degree and above, which is 100% of the respondents.

In addition, The respondents constitutes 20% of Managerial employees working (both at higher and middle levels of the Banks ), 20% of the respondents constitute supervisors both at middle and lower levels of management , 60% of the respondents were professional (both at higher ,middle and lower levels of the corporation . This has an advantage to the research in

that it mainly comprises those managers, supervisors (in cumulative 40%) involved in the subject matter of Dashen Bank Gubre branch.

As far as the distribution of service years of the respondents are concerned, majority of the respondents (40%) stayed in the organization for more than five years. And the remain (40 %) also stayed in the bank between two and five years. only 20% of the respondents below 2 years. So the researcher can say that the data were obtained from experienced employees and the desired information can be obtained from them.

### 4.3 Matters of Direct Relevance of the Subject of Study

**Table 4. 3 Risk Management Practice**

Description	Response	Frequency	Percentage %
Do you think that the bank possibly have well organized Risk management practice?	YES	3	30%
	NO	7	70%
	TOTAL	10	100%

Source: own survey 2025

As can be seen in table 4.3 above, 7 (70%) of the respondents i.e. majority replied that ‘No ‘there is no organized risk management practice with in the bank. While the rest 3(30%) of them said ‘yes’ there is organized risk management practice with in the bank. Form this one can easily understand that, the risk management practice of the bank somehow doubtful.

Regarding, policies and procedures with in the bank are in line with the overall strategy of the bank, the researcher asks the respondents, accordingly the responses presented as follows.

As we can see from table 4.3.1 , out of those respondents who have got two years and above work experiences, majority of the respondents 30%(3) have confirmed the nonexistence of well-organized risk management practice, while less proportionate 10 % (1) number of

respondents have confirmed the existence of well-organized credit risk management practices in the organization . And from those respondents who have got less than two years of experience, 0%(0) of them have given their positive feedback to the related such question, but the remaining or more proportionate 20%(2)of them have given their negative responses towards the existence of well-organized credit risk management in the organization.

**Table 4.3. 1Summary of responses as to the practice of credit risk management relative to their work experience**

Description	Response	Service years of employees								Total	
		< 2 yrs		2-5 yrs		6-10yrs		>10yrs			
		N	%	N	%	N	%	N	%	N	%
Do you think that the bank possibly have well organized Risk management practice?	YES	0	0%	1	10%	1	10%	1	10%	3	30%
	NO	2	20%	3	30%	2	20%	0	0%	7	70%
	TOTAL	2	20%	4	40%	3	30%	1	10%	10	100%

Source: own survey 2025

So from the above discussion points we can deduce that the bank doesn't have well organized credit risk management practices and there is a gap as to the level of understanding of having and also what are the basic components should be considered to confirm or ensure that there is well organized credit risk management practice or not among the credit performers, even though less proportionate number of respondents have supports its existence.

As can be seen in table 4.4 majority of the respondent's i.e. 7 (70%) replied that 'Yes 'risk management policies and practice in line with the overall strategy of the bank. However the remaining 3(30%) said' No'. Besides this, data obtained from the management evidenced that the policy and practice of credit risk management are relatively as similar as the overall strategy.

**Table 4. 4 The Compliance between the Bank’s Policy, Practices and Strategy**

Description	Response	Frequency	Percentage %
Do you believe that credit risk management policies and practices are in line with the overall strategy of the bank	YES	7	70%
	NO	3	30%
	TOTAL	10	100%

Source: own survey 2025

From this analysis results we can imply that even though the majority of the respondents have given their positive feedback or response, on the side of the negative feedback of the respondents ,there are indications that are some area on credit risk policy and practices that are not developed and practiced in line with the overall strategy of the bank ,so still much to be done to integrate them for better achievements of the overall goals of the organization .In general, however, from this one can infer, the bank polices and practice of credit risk management is in line with overall strategy.

Based on table 4.4.1 from employees that have an experience between two and five years in Dashen bank 30%(3)gives a positive response to credit risk management police and the remains 10%(1) gives negative response to the policy. And from employees that has an experience more than 5 years 20%(2) gives positive response to policy and the remain 10%(1) gives negative response to policy. And from respondents that have experience more than 10 years 10%(1) gives a positive response to the policy, However, even if majority of respondents give positive response to the credit risk management policy we can conclude that there is a gap in the policy

**Table 4.4.1 The Compliance between the Bank’s Policy, Practices and Strategy on the basis of work Experience and Education level of the respondents**

Description	Response	Service years of employees								Total	
		< 2 yrs		2-5 yrs		6-10yrs		>10yrs			
		N.	%	N	%	N	%	N	%	N	%
Do you believe that credit risk management policies and practices are in line with the overall strategy of the Bank	YES	1	10%	3	30%	2	20%	1	10%	7	70%
	NO	1	10%	1	10%	1	10%	0	0%	3	30%
	TOTAL	2	20%	4	40%	3	30%	1	10%	10	100%

Source: own survey 2025

As can be seen item 1 of table 4.5 below, majority of the respondents i.e. 6 (60%) of them replied that, they do have the opportunity to involve or participate on the risk management developmental activities and practices process. While the rest 4(40%) of them said, 'No' and they are not participated in risk management developmental activities and its practices process of the bank.

**Table 4. 5 Participation of Employees on Risk Management Process**

Description	Response	Frequency	Percentage %
At the best of your understanding can we say risk management practice of the bank is participative?	YES	6	60%
	NO	4	40%
	TOTAL	10	100%
If your answer for the above question is Yes what type of risk management activity are conducted by the bank?	Credit risk management	6	60%
	Liquidity risk Management	3	30%
	Interest rate & foreign Exchange	1	10%
	Other	-	-
	Total	10	100%

Source: own survey 2025

Item 2 of the same table above, 6(60%) and 3 (30%) of them have to participated on credit risk and liquidity risk management activities respectively. While the rest 1(10%) of them said they involve on interest rate risk management.

Moreover, the word obtained from the management evidenced that, relatively active involvement of employees in the overall risk management activity presented in the bank manual, however due to various unforeseen reasons their application is rare. In this connection also, the interview results of majority of the respondents who are working as credit officer under the credit department, have given their negative feedback or reservation as to the existence of participations in the risk management developmental activities and in its practice process.

In general, from these analysis results, even though most of the respondents agreed on such matter, it is very difficult to conclude that, employees are active participant in credit risk management process.

**Table 4.5.1 Summery of response as to the Participation of Employees on Risk Management Practices in relation to their educational background**

Description	Response	Educational back ground								Total	
		Certificate		Diploma		BA Degree and above		Others			
		N.	%	N	%	N	%	N	%	N	%
At the best of your understanding can we say risk management practice of the bank is participative?	YES	-	-	-	-	6	60%	-	-	6	60%
	NO	-	-	-	-	4	40%	-	-	4	40%
	TOTAL	0	0	0	0	10	100%	0	0	10	100%

Source: own survey 2025

As we can see from the above table 4.5.1, 60%out of BA Degree and above holders have witnessed as to the practices of CRM being participatory, while, the remaining 40% of BA

Degree and above holders have given their negative responses towards its being participatory. From this analysis results we can say that there is still a gap on CRM practices in being participatory.

**Table 4. 6 Effectiveness of Risk Management**

Description	Response	Frequency	Percentage %
Are you satisfied with the effectiveness of credit risk Management system Adopted by Dashen Bank?	YES	4	40%
	NO	6	60%
	TOTAL	10	100%

Source: own survey 2025

As can be seen in table 4.6 above, 6(60%) of the respondents i.e. majority said they are not satisfied by the quality of credit risk management system of the bank, because, the system could not consider possible factors that should incorporate; while the remaining 4(40) said ‘yes‘ they are satisfied. This implies that, the management of the bank have some inconsistency and poor activities with regard to the quality of credit risk assessment.

**Table 4. 7 Credit Risk Identification Practice**

Description	Response	Frequency	Percentage %
To what extent you credit risk are identified properly by the Bank?	To very great extent	-	-
	To great extent	3	30%
	To some extent	6	60%
	To lower extent	1	10%
	To very lower extent	-	-
	Total	10	100%

Source: own survey 2025

As can be observed in table 4.7 above, Majority of the respondents i.e. 6(60%) replied that, to some extent credit risk identified properly with in the bank under study. While the rest, 3(30%) and 1(10 %) of them said to great extent and lower extent respectively to credit risk is identified properly. From this, one can easily understand that the bank has the possibility of minimizing credit risk but a lot have to be done to properly or effectively identify the possibility of credit risk by including that could be incorporated in the identification process.

**Table 4. 8 Credit Risk Management System of the Bank**

Description	Response	Frequency	Percentage %
To what extent you know about the credits risk management system adopted by Dashen Bank?	To very great extent	-	-
	To great extent	3	30%
	To some extent	7	70%
	To lower extent	-	-
	To very lower extent	-	-
	Total	10	100%

Source: own survey 2025As shown in table 4.8, Majority of the respondents i.e. 7(70%) replied that, to some extent they are aware of credit risk management system of the bank, whereas the remaining, 3(30%) of them said they rate their awareness to great extent. This implies that, it is difficult to say respondents have a proper understanding in credit risk and its management.

**Table 4. 9 Qualification of Credit Officers**

Description	Response	Frequency	Percentage %
To what extent credit employees are Qualified to handle their job effectively based on their level of education and their position?	To very great extent	-	-
	To great extent	8	80%
	To some extent	2	20%
	To lower extent	-	-
	To very lower extent	-	-
	Total	10	100%

Source: own survey 2025

Table 4.9 above indicated that, majority of the respondents i.e. 8(80%) replied that to great extent the credit officers of the bank are qualified to handle their job. The rest 2(20%) of them

said credit officers are to some extent qualified to handle their job. This indicates that the bank have no doubt with regard to competence of its credit officers.

As can be seen table 4.10 below, majority of respondents i.e. 6(60%), replied that, sometimes the bank assess borrowers’ profile. Whereas the remaining, 4(40%) of the respondents replied that, they are neutral/ do not know about the question asked. This implies that, there is poor practice in relation to borrower’s assessment which exposes them to credit risk.

**Table 4. 10 Assessment of Borrower’s Profile by the Bank**

Description	Response	Frequency	Percentage %
How often does the bank Assess borrower’s profile?	Very often	-	-
	Often	-	-
	Neutral /do not know	4	40%
	Sometimes	6	60%
	Not at all	-	-
	Total	10	100%
To what extent the Bank’s loan fall under NPL?	To very great extent		
	To great extent		
	To some extent	5	50%
	To lower extent	3	30%
	To very lower extent	2	20%
	Total	10	100%

Source: own survey 2025

When we come to Item 2 of the same table above, Majority of the respondents i.e. 5 (50%) rate, to some extent the bank’s loan fall under NPL. While the rest 3(30%) and 2(20%) of the respondents agreed to lower and very lower extent the bank’s loan fall under NPL. From this one can confirm that, the level of loans disbursed to customers have great possibility exposed to credit risk. Moreover, according to the data obtained from the management indicted that, the bank take an assessment of its borrower always before lending the loan, but the level of its tightness may not be insurable.

As it is depicted in table 4.11 item 1 below, all of the respondent’s i.e. 10 (100%) replied that the

bank has its own follow up mechanism to its customers after granting the loan. While none of them complain the presence of follow up mechanism.

**Table 4. 11 Follow up Mechanism of the Bank**

Description	Response	Frequency	Percentage %
Is there any follow up mechanism of your customers after granting a loan?	Yes	10	100%
	No	-	-
	Total	10	100%
If your answer in the above questions is yes how often?	Monthly	2	20%
	Quarterly	7	70%
	Semi annually	1	10%
	Annually	-	-
	Total	10	100%

Source: own survey 2025

Item 2 of the same table indicted that, majority of the respondents i.e. 7(70%) replied follow up of customers undertake on quarterly base. From this one can infer, the frequency of conducting follow up of its customer is taken on quarterly base. In addition to the response obtain from respondents, the management of the bank testify the availability of following up mechanism and it is conducted in every three months of the year.

As can be seen table 4.12 below, majority of respondents i.e. 115 (70%), replied that, the bank use risk prevention orientation. Whereas the remaining, 50 (30%) of the respondents replied that, the bank use risk reduction handling orientation. This implies that, the bank remedial action ahead of time in order to prevent the occurrence of credit risk over the bank as well as the customer.

**Table 4. 12 Credit Risk Handling Orientation of the Bank**

Description	Response	Frequency	Percentage %
What kind of credit risk handling orientation used by the bank?	Risk prevention	7	70%
	Risk reduction	3	30%
	Risk avoidance	-	-
	Others		
	Total	10	100%

Source: own survey 2025

Finally data obtained from open ended questions indicated that, the bank has somehow good credit, risk management system. However, most of them remain on paper and /or they are not converted in to practical actions. This may weaken the effectiveness of its credit risk management system.

### **4.3 Summary of Analysis of Interview**

In order to aid the research, the following information were gathered and summarized on the basis of their similarities by the way of interview from the management member of Dashen Bank who were selected deliberately on the basis of their skill and knowledge that they have towards the study. The following findings are essential points that were gathered through the interview

- ✓ Most of the respondents of members of the management have said that to some extent bank tried to apply the risk management science and believed that much has to be done to be effective enough to apply it.
- ✓ Majority of the respondents (i.e., members of the management) evidenced that the policy and practice of credit risk management are relatively as similar as the overall strategy.
- ✓ Majority of the respondents of the management evidenced that, relatively active involvement of employees in the overall risk management activity presented in the bank manual, however due to various unforeseen reasons their application is rare.
- ✓ Majority of the respondents of the management of the bank testify the availability of

following up mechanism and it is conducted in every three months of the year.

- ✓ Most of the respondents of the management have indicated that, the bank take an assessment of its borrower always before lending the loan, but the level of its tightness may not be insurable.
- ✓ Most of the respondents have given their negative feedbacks as to the frequency of assessing the borrowers profile periodically.

### Analysis of Data Obtained from Customer

**Table 4. 13 Duration of stay at the Bank**

Description	Response	Frequency	Percentage %
For how long have you been Customer of the bank?	Less than on year	-	-
	1-2 years	9	45%
	3-4 years	6	28%
	More than four years	5	27%
	Total	20	100%

Source: own survey 2025

As can be seen table 4.13 above, majority of respondents i.e. 9(45%), replied that, they are customer of the bank for the last two years. Whereas the remaining, 6(28%) and 5(27%)of the respondents replied that, they are customer of the bank between three and four years , and greater than four years respectively . This implies that, customers of the bank are well informed about the credit risk management practice of the bank.

**Table 4. 14 Credit Facility of the Bank**

Description	Response	Frequency	Percentage %
Credit facility of the bank is very efficient?	Strongly agree	-	-
	Agree	5	23%
	Neutral	-	-
	Disagree	15	77%
	Strongly disagree	-	-
	Total	20	100%

Source: own survey 2025

As can be observed in table 4.14, majority of respondents i.e. 15(77%), replied that, they are disagreed by the efficient facility of the bank credit facility. Whereas the remaining, 5(23%) of the respondents replied that, they are agreed with the efficient credit facility of the bank. This indicated that, the credit facility of the bank needs some sort of amendment by the management.

**Table 4. 15 Loan Approval Requirement of the Bank**

Description	Response	Frequency	Percentage %
How do you rate loan approval requirement of the Bank?	Very good	-	-
	Good	2	10%
	Medium	7	36%
	Poor	11	54%
	Very poor	-	-
	Total	20	100%

Source: own survey 2025

As can be seen from table 4.15 above, majority of the respondents i.e. 11(54%) of them replied that the loan approval requirement of the bank is poor. While the rest 2(10%) and 7(36%) of them said good and medium respectively. This implies that the task left by the management of the bank in making amendment on it.

**Table4. 16 Credit risk faced by the customer**

Description	Response	Frequency	Percentage %
Have you ever been faced with credit risk?	YES	14	68%
	NO	6	32%
	TOTAL	20	100

Source: own survey 2025

As can be observed in table 4.16, majority of respondents i.e. 14(68%), replied that, ‘yes ‘they face credit risk during the relation they have. Whereas the remaining, 6(32%) of the respondents replied that, no they are not faced credit risk ever before. This indicated that, customers of the bank faced credit risk and this may affect the credit worthiness of the bank.

Finally, according to the data obtained from open ended question indicated, some of the customers are not satisfied by the service obtained from the bank, due to this reason they may shift to other banks those provided better credit facility.

#### **4.14 Internal Document Review**

This research employs an internal document review to critically assess the Credit Risk Management practices at Gubre Branch of Dashen Bank. The study involved a thorough examination of relevant internal documents including branch-specific reports, policy manuals, operational guidelines, and performance summaries. These data sources were essential in understanding the current state of credit risk management within the branch, focusing on its existing position rather than predicting future trends.

Dashen Bank, established to align with the Ethiopian investment code and the commercial code, encompasses Gubre Branch, which plays a vital role in the bank's strategy of enhancing customer service and expanding its market presence through a combination of expert financial management and local market knowledge.

Gubre Branch has significantly contributed to the overall growth of Dashen Bank through strategic branch initiatives and the adoption of digital banking solutions. The branch has successfully implemented various customer engagement strategies, leading to an increase in customer deposits, which reflects effective marketing efforts and robust service offerings. The proportion of Savings Deposits within the branch has proven critical for maintaining funding stability, aligning with the bank's overarching strategy to optimize its funding sources.

The outstanding loans and advances at Gubre Branch have experienced substantial growth, indicating successful credit deployment strategies that meet the needs of individuals and businesses in the area. The branch's Loan-to-Deposit ratio remains balanced, signaling effective liquidity management in relation to its credit exposure. As an intermediary, Gubre Branch specializes in mobilizing deposits from surplus units and delivering credit to those in need. Key activities include managing various account types (savings and demand deposits) and providing transactional services such as local and international money transfers, credit facilities, and mobile banking.

To ensure sound risk management practices, Gubre Branch has integrated a comprehensive risk

management framework into its operational processes. This involves periodic assessment of risk exposure against established key performance indicators (KPIs), enabling proactive identification and mitigation of risks.

Performance summaries from the internal documents reviewed highlighted the branch's achievements in various areas, including customer satisfaction ratings, loan performance metrics, and growth trends in deposit accounts. These summaries provided insights into the branch's operational effectiveness and areas for improvement.

Recognizing the dynamic nature of the banking sector, Gubre Branch operates under the policies established by the Board of Directors of Dashen Bank. Management at the branch remains aware of the evolving banking landscape, characterized by increased competition, regulatory changes, and fluctuating economic conditions. Therefore, the branch prioritizes comprehensive risk management policies that encompass credit, liquidity, operational, and market risks.

To maintain a robust risk management environment, the management at Gubre Branch adheres to several key principles:

- a) The branch's risk exposure remains within the limits set by the Board of Directors.
- b) Decisions concerning risk-taking align with the strategic objectives outlined by the Board.
- c) Anticipated returns adequately compensate for the risks undertaken.
- d) Risk-taking decisions are transparent and well-communicated.
- e) The branch maintains sufficient capital reserves that correspond with its risk exposure.

In conclusion, Gubre Branch of Dashen Bank integrates credit risk management into its core operational functions, utilizing an internal document review to continually refine its practices. This approach assists the branch in navigating the complexities of the banking environment while effectively meeting the diverse needs of its clientele. The analysis focuses on identifying specific risk management practices at the branch level that align with Dashen Bank's strategic goals, fostering a strong risk management culture as part of daily operations.

# CHAPTER FIVE

## 5. SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

### 5.1 Introduction

- ✓ This chapter summarizes the findings from the analysis conducted in the previous section, focusing on the risk management practices employed by Dashen Bank's Gubre Branch. Building upon the gathered data, this section presents key findings, draws pertinent conclusions, and provides actionable recommendations for the bank's management to enhance its credit risk management practices.

### 5.2 Summary of Findings

- ✓ The principal findings derived from the responses of participants are outlined as follows:
- ✓ **Educational Background and Experience:** The majority of respondents possess at least a bachelor's degree and have been employed at the bank for more than two years, indicating a relatively experienced workforce.
- ✓ **Organization of Risk Management Practices:** The risk management practices at the branch level were found to be inadequately organized, which hampers daily operations and effective risk mitigation.
- ✓ **Alignment with Strategic Objectives:** A significant portion of respondents (70%) affirmed that the policies and practices of credit risk management align with the bank's overall strategic objectives.
- ✓ **Participation Levels:** The study indicated that 60% of respondents have limited participation in credit risk management activities, suggesting a need for greater involvement and engagement from employees.
- ✓ **Understanding of Credit Risk Management:** There is noteworthy uncertainty among respondents regarding their understanding of credit risk management, demonstrating that borrower profile assessments are not conducted satisfactorily.
- ✓ **Customer Follow-Up Mechanism:** The bank utilizes a customer follow-up mechanism, which is implemented quarterly, allowing for regular engagement with clients post-loan

disbursement.

- ✓ **Credit Risk Prevention Strategies:** Credit risk prevention strategies are employed by the bank as part of its overall risk management approach, yet their efficacy may require further enhancement.
- ✓ **Customer Satisfaction:** Customer satisfaction regarding the efficiency of credit facilities is notably low, which poses risks to the bank's reputation and customer loyalty.
- ✓ **Exposure to Credit Risk:** The credit facilities provided expose customers to significant credit risk, indicating a pressing need for more robust risk management procedures.
- ✓ **Opportunities for Improvement:** There are opportunities for the bank to minimize credit risk through enhanced assessment factors and thorough analysis of borrower profiles.
- ✓ **Management Inconsistencies:** Responses indicated inconsistencies and inadequacies in management regarding credit risk assessment and execution.
- ✓ **Documentation and Recruitment Concerns:** Respondents largely disagreed with the assertion that the bank has well-documented risk management guidelines or actively recruits qualified personnel for risk management roles.

✓

### 5.3 Conclusions

Based on the findings summarized above, the following conclusions have been drawn:

- ✓ Dashen Bank has established adequate policies, procedures, and granting criteria for credit risk management, supported by a dedicated risk management department accountable to the bank's Board. This alignment is crucial for enhancing operational integrity.
- ✓ The bank has implemented relevant management information systems aimed at effectively identifying, measuring, monitoring, controlling, and reporting various risks.
- ✓ Employee engagement in credit risk management appears moderately positive, contributing to the effective implementation of policies, albeit with room for improvement in involvement.
- ✓ However, the overall quality of the risk management system presents challenges that hinder effective risk prevention and protection efforts.
- ✓ A significant gap exists in employees' understanding of credit risk and its management, potentially increasing the likelihood of credit risk occurrences within the bank's operations.

- ✓ Although the bank's credit risk prevention measures are beneficial, they may require enhancement to adequately protect both customers and the bank from potential losses.
- ✓ Low customer satisfaction regarding credit facilities may adversely affect the bank's customer retention and competitiveness in the market.
- ✓ Effective controls are in place for compliance with the bank's risk management framework, and quarterly customer follow-ups are conducted to mitigate credit risk exposure.
- ✓ A solid governance structure is evident, alongside approved policies and procedures for managing various risks, ensuring the bank recognizes risk management as an integral aspect of its operations.

## 5.4 Recommendations

Given the sensitivity and high-profit nature of the banking sector, which demands stringent controls and close supervision, the following recommendations are presented for Dashen Bank's Gubre Branch to improve its risk management practices:

- ✓ **Methodologies:** Develop risk management mechanisms tailored to the specific market conditions in which the bank operates to optimize the application of the risk management system effectively.
- ✓ **Policies:** Further enhance risk management policies and practices to ensure they are closely aligned with strategic objectives, facilitating the successful achievement of organizational goals.
- ✓ **Management Structure:** Establish an independent credit review department to reinforce credit risk management. Building on employee participation in credit management is essential to strengthen oversight and ensure effective monitoring.
- ✓ **Employee Training:** Implement comprehensive training programs designed to elevate employees' understanding of credit risk management. This initiative will help minimize errors and increase overall proficiency in identifying and managing credit risks.

- ✓ **Stress Testing:** Conduct regular stress tests at least biannually, in line with the bank's credit risk follow-up principles, to enhance customer risk assessments and inform debt collection strategies.
- ✓ **Monitoring and Evaluation:** Continuously evaluate and update credit risk management practices to ensure compatibility with the evolving financial landscape and regulatory framework.
- ✓ **Exposure Limits:** Set internal limits on exposure to individual customers to manage risk effectively, thus enhancing customer retention by improving the efficiency and responsiveness of credit facilities.
- ✓ **Infrastructure Investment:** Invest in robust infrastructural improvements to support advanced risk management systems, ensuring reliability in addressing credit risk challenges efficiently.

By addressing these recommendations, Dashen Bank Gubre Branch can enhance its risk management framework and better position itself in the competitive banking industry, ensuring sustainable growth and improved customer relationships. In addition, further research will be better if they conduct in a comparison way by taking into account different organizations in the banking industry.

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## APPENDICES A

**WOLKITE UNIVERSITY**  
**COLLEGE OF BUSINESS AND ECONOMIES**  
**DEPARTMENT OF ACCOUNTING AND FINANCE**

### Questionnaires to be filled by employees of Dashen Bank

#### Dear respondent

This questionnaire is prepared by a student researcher prospective graduate of year 2017 in the field of Accounting and Finance. The outcome of this questionnaire is meant to support a research report to be presented for wolkite university . The response provided by the respondents only used for academic purpose. Therefore you are invited respectfully to provide genuine response.

#### Thank you in advance for your cooperation.

N.B:- No need to write your name

Put ‘\_’ or ‘X’ mark on your answer for close ended questions

Respond on the space provided for open ended question

### I. PERSONAL INFORMATION

1. Sex

Male  Female

2. Educational Background

Diploma

MA/MSC

1st Degree

3. Work Experience

Below 2years

6 -10 years

2-5 years

above 10 years

## II. QUESTIONS DIRECTLY RELATED TO THE STUDY

4. Do you think that the bank possibly have well organized risk management Practice

Yes

No

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

Yes

No

6. At the best of your understanding can we say risk management practice of the bank is participative?

Yes

No

7. If your answer in question No. 6 is “Yes” what type of risk management activities are conducted by the Bank?

Credit risk management

Liquidity risk management

Interest rate and foreign exchange risk management

Other

8. Are you satisfied with the quality if credit management system adopted in Dashed Bank?

Yes

No

9. If not what do you think is the problem?

-----  
-----  
-----  
-----

10. To what extent credit risks are identified properly by the Bank?

To very great extent

To great extent

To some extent

To lower extent

To very lower extent

11. To what extent you know about the credit risk management system

Adopted by Dashen Bank?

To very great extent

To great extent

To some extent

To lower extent

To very lower extent

12. To what extent credit officers are qualified to handle their job effectively?

To very great extent

To great extent

To some extent

To lower extent

To very lower extent

13. How often does the bank assess borrower's profile?

Very often

Often

Neutral/do not know

Sometimes

Not at all

14. Is there any follow-up mechanism of your customers after granting a loan?

Yes

No

1. If your answer in question No. 14 is "Yes" how often?

Monthly

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

2. What kind of credit risk handling orientation used by the Bank?

Risk Prevention

Risk reduction

Risk avoidance

Other, please specify

3. What kind of trend registered in credit risk management of the Bank?

Stable

Fluctuated

Continuous increase

Continuous decrease

**WOLKITE UNIVERSITY**  
**COLLEGE OF BUSINESS AND ECONOMIES**  
**DEPARTMENT OF ACCOUNTING AND FINANCE**

**Questionnaires to be filled by credit customers of Dashen Bank**

**Dear respondent**

This questionnaire is prepared to gather information regarding credit risk management practice of Dashen bank for the partial fulfillment of bachelor of degree in St. Mary's University College. The response provided by the respondents only used for academic purpose. Therefore you are invited respectfully to provide genuine response.

**Thank you in advance for your cooperation**

**N.B:-** No need to write your Name

Put 'X' mark on your answer for clause ended questions

Respond on the space provided for open ended question

	<b>a.</b>	<b>Personal Information</b>	
1. Sex		Male	Female
2. Age		18 – 23	30-35
		24-29	36-41
		Above 41	

3. Type of business engagement

Private business

Cooperative business

55

Some other business

**b. Questions directly related to the study**

4. For how long have you been customer of the bank?

Less that 1 year

3-4 year

1-2 year

greater than 4 year

5. Credit facility of the bank is very efficient?

Strongly agree  disagree

Agree  strongly disagree

Neutral

6. How do you rate loan approval requirement of the bank?

Very good  poor

Good  very poor

Medium

7. To what extent the bank loan provision practice expose customer to credit risk?

To a very great extent

To lower extent

To great extent  To a very lower extent

To some extent

8. Have you ever been faced with credit risk?

Yes  No

9. If you said "Yes" for the above question please specify the risks!

---

10. The bank properly follows up borrowers after disbursing the loan to reduce risk?

Strongly agree  disagree   
Agree  strongly disagree   
Neutral

11. If you said disagree/strongly disagree please specify your reason!?

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---

12. If you have any comment and/or suggestion regarding credit risk management practice of the bank please specify.

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## **APPENDICES B**

The following interview questions were delivered to the management of Dashen Bank by the study.

1. To what extent the Bank properly apply risk management practices?
2. To what extent employees participate in credit risk management?
3. How often the Bank assess borrower's profile?
4. Is there mechanism to follow up borrowers?
5. How often the Bank conducts follow up of its customers