



WOLKITE UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF ACCOUNTING AND FINANCE
ASSESSMENT OF LOAN MANAGEMENT PRACTICE IN BANK
OF ABYSSINIA

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**A RESEARCH PAPER SUBMITTED TO THE DEPARTMENT OF
ACCOUNTING AND FINANCE OF WOLKITE UNIVERSITY IN PARTIAL
FULFILMENTS OF THE REQUIREMENTS FOR BACHELOR OF ARTS
DEGREE IN ACCOUNTING AND FINANCE**

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DATE: MAY 2023

WOLKITE, ETHIOPIA

DECLARATION

I, Beza Getnet declare that this thesis entitled: “Assessment of loan management practice in bank of Abyssinia” is outcome of my own effort and study and that all sources of materials used for the study have been appropriately acknowledged. To the best of my knowledge, this study has not been submitted for any degree in this University or any other University except where I have made explicit references to the work of others. It is offered for the partial fulfillment of the Bachelor degree in Accounting and finance.

By: Beza Getnet

Signature-----

Date-----

Board of examiners Approval sheet

This is to certify that the this senior research paper prepared by Beza Getnet entitled " Assessment of loan management practice in bank of Abyssinia" submitted in partial fulfillment of the requirement for the degree of Bachelor of art in Economics complies with the regulations of the university meets the accepted standards with respect of originality and equity.

Signed by Board of examiners:

Examiner: _____; Signature: _____; Date: _____

Examiner: _____; Signature: _____; Date: _____

Advisor: _____; Signature: _____; Date: _____

Acknowledgment

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ACRONYMS

BOA	Bank of Abyssinia
SALCA	saving accounts linked with current accounts
ATM	Automated Teller Machine
OD	Overdraft
NPL	Non-Performing Loan
ML	Merchandise Loan
DTS	Domestic Trade & Service
LC	letter of Credit
NBE	National Bank of Ethiopia
ROE	Return on equity
CAR	Cumulative average return
S.C	Share company
IMF	International monitor found
MOFED	Ministry of Finance and Economic Development
EEA	Ethiopian Economic Association

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Abstract

This study attempting to examine the loan management practice in Bank of Abyssinia in wolkite branch. The general objective for the study is to assess the loan management practice in Bank of Abyssinia in wolkite branch. In the study primary data were collected from the bank through questionnaires and interview the study was conducted by using judgmental sampling techniques. The researcher was purposively selected ten (10) respondents basis of selection was these skill and knowledge of employees regarding loan management practice in the bank. After collecting the necessary data it was analyzed and interpreted by using tables and percentages. Based on the analysis and interpretation conclusion was made and finally recommendation which was assumed to be useful for the loan management of the organization was forwarded to the bank. After the data has been analysis and interpreted theme assure research finding was lack of expertise, lack of periodic evaluation and appraisal of assets as well as business of borrowers and feedback way and to borrowers towards the procedures using their loan for effective investment activities. To this problem the researcher recommend that the Bank of Abyssinia in wolkite branch. It is better to conduct periodical evaluation and appraisal of assets as well as business of borrowers in order to insure good management practice in Bank of Abyssinia in wolkite branch.

CHAPTER ONE: INTRODUCTION

1.1 Background of the study

A nation's financial and economic progress is significantly influenced by banks. An efficient banking system has a significant impact on a nation's development across several economic sectors. These banking systems' primary role is to operate as a go-between for savers and borrowers. The majority of commercial banks in Ethiopia are owned by businesses and ordinary citizens. (Annual Report of the Abyssinia Bank).

In comparison to other banking systems around the world, Ethiopia's banking structure is not particularly distinctive, apart from the number and size of each bank operating in various local communities throughout the nation. Currently, there are more than twenty banks operating in Ethiopia. Commercial banks that are owned by both the government and private entities are institutional sources of credit in Ethiopia. The commercial bank's operation will be viewed as having its heart in credit. Almost all commercial banks hold most of their assets in the form of loans, with the public providing the only source of capital. These individuals are then given credit, who in turn utilize their funds to engage in various business ventures. But practically, some of these bank credits in Ethiopia have inherent problems and risks.

One of the most significant financial organizations in the economy of the nation is the Bank of Abyssinia. It serves as the main source of credit (loan-able funds) for millions of people, families, and government entities. Additionally, these organizations are frequently the main sources of financing for large and small companies, microfinance, co-operatives, and banks for local small businesses ranging from grocery stores to auto dealers. In addition, it offers the society additional financial goods and services such financial information planning, consulting, and management. (ibid)

Our study focuses mostly on the company loan, personal loan, loan against deposit, and construction loan among these. Therefore, this study aims to evaluate bank operations, particularly with relation to loans and advances.

The objective of banks in our economy is to continuously raise daily activity profits for every firm. The primary function of banks in the economy is to facilitate the transfer of funds from

those who have a lot of money and want to earn interest by placing it in a secure location. This pertains to people who have a business idea but are looking for financing. Businesses cannot extend their operations without bank finance, and all activities are constrained. A bank can therefore connect to a community and develop its own culture, which serves as a reflection of how it conducts its own business. The bank's duties or cultural norms were violated by the actions or behaviors that came from this culture. The rules, methods, philosophy, and management style implemented by a bank to serve as a manual for the lending manager or staff as they carry out their credit management role comprise its credit culture. (Eveline, 2010)

Abyssinia Bank is one of the financial intermediaries that are engaged in banking activity which serves as a channel for loan-able funds from savers to borrowers. The source of these loan-able funds is demand deposit, saving deposit, and other types, which are made by the customers of the bank. The ability of increasing loan-able fund is a function of saving mobilization. The higher deposit mobilization implies a higher amount of credit to be granted. Hence, allocating higher amount of credit to different sectors bring about development in different sectors and induces economic growth of the country. (ibid)

The three key components of lending practice or credit management are the systematic assessment of customers' or borrowers' risk tolerance at the time of loan application, the strategies put in place to mitigate this risk once the loan is approved, and the borrowers' agreement to follow through with procedures when payments are not made on time or within the agreed-upon deadline. Financial institutions are widely acknowledged to be crucial to any economy. Financial institutions pump financial resources for economic growth from the depositories to where they are needed, analogous to how blood circulates in the human body. (Afande, 2014).

According to Boating (2011) good loan portfolio managers have concentrated most of their effort on prudently approving loans and carefully monitoring loan performance. And these activities continue to be main objectives of loan portfolio management. Loan managers expected to understand not only the comprehensive risk posed by each credit but also how the risks of individual loans and portfolios are interrelated. Banks are merely custodians of the money they lend; hence interest must be paid to depositors and dividends to the investors.

1.2 Background of the organization

A private bank in our nation, Bank of Abyssinia, was founded on February 15, 1996, in accordance with the licensing and supervision of banking activity proclamation no. 84/1994 and the Ethiopian Commercial Code of 1960. With only 131 owners and 32 employees, the bank began operations with authorized and paid-up capital of 50 million Birr and 17.8 million Birr, respectively. The bank's paid-up capital and total assets have grown significantly in the roughly 20 years since its founding.

It also attracted a larger clientele, wealthy shareholders, and several qualified staff. Even though the bank began operations by providing the most cutting-edge products, such as gift saving accounts, safe deposit boxes, and saving accounts linked with current accounts (SALCA), which allow customers to transfer money from their savings accounts to their current accounts to write checks when there is not enough money in the current account, over the past few years, the bank has implemented three strategies but has lagged behind peer competitors in its deposit, market share, and overall performance. Through its over 600 branches in the country, BoA serves over 3 million customers with 6,910 employees. BoA's well-structured financial service system is connected through the T-24 core banking system. This coupled with the 633 ATM machines placed in different locations to afford customers to access their account from anywhere at any time. This also allowed BoA to increase its capital hundred-fold from ETB50 million to ETB 5.5 billion.

The goal of Bank of Abyssinia is to deliver comprehensive domestic and international banking services through skilled and motivated staff, the use of cutting-edge technology, and socially and environmentally responsible business practices, all while maintaining profitability and growth. The principles of BOA include decency, honesty, loyalty, effective customer service, dedication, equal employment opportunity, employee happiness, teamwork, strong corporate governance, social responsibility, and innovation.

Any economic enterprise that engages in credit, regardless of its business nature, cannot overlook credit management, which is one of the most crucial activities in any company. The capacity to wisely and efficiently manage customer credit lines is one of three essential elements for good credit management (Kagoyri & Shukla 2016). The identification and recruitment of potential

credit clients is the first step in the credit management process, which concludes with the collection of all loans made by the BOA. As much as is reasonably possible, the borrower will be able to make all due payments, plus interest, on time and in full as scheduled. For extending credit to consumers, collecting payments, and reducing the risk of non-payments, policies and procedures must be followed (Bank of Abyssinia credit process, 2012).

1.3 Statement of the problem

Loans are the most precious asset for banks. Banks must determine the credit worthiness of a borrower before they can make a loan. However, the decisions might not always be right, and a borrower's creditworthiness might decline for several reasons. Banks are consequently vulnerable to credit risk. The likelihood that loans won't be repaid on time and in full as expected or agreed upon, resulting in a loss of money or non-performing loan, is known as credit risk (NPL). There is a chance that the borrower won't follow the terms of the loan agreement (Teferi, 2002)

Studies on credit management are being conducted in Ethiopia. In Ethiopia's newly established private commercial banks, credit management effectiveness was evaluated by Tekeste (2016). His research centered on how credit management methods affect bank performance and ensures that they follow standard policies and procedures for handling credit in the banking industry. The study also identifies the management, growth, and default reasons for loans as well as other credit practices. Nib International Bank S.C.'s credit risk management procedures were evaluated by Solomon (2013). His research centered on a comprehensive analysis of credit risk management methods and procedures.

Most Ethiopian scholars based their research on credit risk management. Even if researching the issues financial institutions have with credit risk management is even remotely significant. The institution's processes, policies, and credit management practices should be evaluated in order to determine which practice contributed to the institution becoming exposed to credit risk. Considering this, these studies aim to evaluate the steps taken by Bank of Abyssinia to control the flow of credit as well as how the bank resolved and resolved the issue with some borrowers who failed to return loans on time owing to diversification of funds away from the original goal.

Most researchers in Ethiopia conducted their studies on the base of credit risk management. Even if studying the problems that financial institutions face on credit risk management important at all. However, the first mechanism to identify problems should be assess the methods, policies and procedures of credit management practices of the institution, and try to identify which method led the institution to credit risk. Regarding to this, these study try to assess the procedures and measures taken at Bank of Abyssinia in order to manage credit flow and to examine how the bank overcome and correct the problem related to some borrowers whom not to repay the loan as per the payment schedule due to diversification of fund from the intended objective.

It is obvious that customers are not properly informed about their upcoming payments, branch officials are not timely reviewing their respective general ledger position to monitor potential errors, and the majority of branches are unaware of any errors that may already be present in their loan accounts given the deteriorating and rising non-performing loan (NPL) and the number of errors in loan accounts at the branch level (BoA, 2015).

1.4 Research question

- I. What are the major policies and procedures for loan?
- II. How does the bank evaluate performance and ability of customers to pay loan?
- III. How BOA manage the problem that happens at the time of loan repayment?
- IV. What techniques are used by the bank in settlement of loans from customers?

1.5 Objective of the Study

1.5.1 General Objective

The general objective of this study is to assess the credit or loan management practices of Bank of Abyssinia.

1.5.2 Specific Objective

- ❖ To assess the major policies and procedures of loan
- ❖ To assess the ability and performance of customers paying loan
- ❖ To evaluate how BoA manages the problem that happens at the time of repayment.
- ❖ To assess the techniques used by BoA in settlement of loans from customers.

1.6 Significance of the Study

The study is crucial for the bank, its clients, other researchers, and academics looking for trustworthy data on credit. Additionally, it is crucial in guiding the bank's credit management.

Additionally, the researcher will offer crucial details on credit management practices, including how Bank of Abyssinia's credit repayments might be collected.

1.7 scope of the study

The Bank of Abyssinia branches that are centered in the wolkite region, at the wolkite branch, and excel in the credit department are the subject of the study. Even if the bank conducts a wide range of activities, the study is limited to credit management strategies to keep time, money, and other factors in check.

1.8 Limitation of the Study

The following limitations are faced by the researcher during the study;

- ❖ Some respondents are involuntary to give available information and also the employer was involuntary to tell the real information regarding the loan management system of the bank.
- ❖ The capital requirement to complete this paper is too high during the time of conducting this study various costs for computer writing and other related cost to prepare the paper. .
- ❖ Shortage of time for the study.
- ❖ Lack of sufficient material in the area.

CHAPTER TWO: LITERATURE REVIEW

2.1 Theoretical literature review

Bank creates financial instruments like loans and advances by giving money to borrowers. The cost of the loans and advances less any impairment losses are reported. Impairment losses consist of both general provisions against losses that are anticipated to be present in any loan and advance portfolio as well as specific provisions against debts that have been identified as being bad and questionable.

The bank evaluates the extent of provisions for impairment losses in accordance with the SBB43/2008 directions for banking business supervision issued by the National Bank of Ethiopia. For each lender, a loan is an investment similar to bonds, equities, or other assets since it is the thing that is lent, the amount lent, the activity of lending something, or the state of being lent (BoA, 2013) On the other hand, Reed and Gill (1989) noted that historically, interest on loans accounts for 85% of commercial banks' profits, with each borrower having a loan or a debt on obligation to repay the borrowed money plus interest. As a result, loans make up the Critical majority of a bank's essential resources.

Advances are credit facilities that can be granted in the form of a written promise; they are not always backed by actual cash like loans. To evaluate the procedure for monitoring loan and advance status with specific attention before they deteriorate, and generally, to make sure that the loan and advance data is accurate and that the record is complete before being granted.

Advances are means and financial assets of a bank arising from unplanned overdrafts, loan syndication participations, the purchase of a loan from another lender, or commitment to give advance funds by a bank to customers that are conditional on their obligations of the borrowers to repay the funds either on a specified date or dates on demand, usually with interest (BoA, 2013). The term also includes a contractual obligation. (Greuning and Bratanovic, 2003) contend that commercial banks play a crucial role to very emerging economies where the majority of borrowers do not have access to capital markets. Commercial banks and the dominant financial institutions have pre-established repayment programs or not in most economies.

Loan default and non-recovery or non-repayment of loans are linked issues. A loan is classified as defaulted or non-performing when the borrower is unable to pay the interest and/or installments after they have become due (Chowdhury & Adhikary, 2002). However, because the loan stopped

performing or bringing in money for the lender banks, it is referred to as non-performing. The concept of a defaulted or non-performing loan is not "unclassy," but rather "multiclass." It means that the default/NPLs can be divided into five groups, typically according to how long the loan has been past due (Gebru, 2015).

The writers disagree on the precise meaning of the word "banking," and there is no one, accepted origin. Others contend that it is derived from the Greek word "banque," which means bench, while still others assert that it is derived from the German word "banch," which in its naive form means Joint Stock Company. Some claim that it is derived from the Italian word "banko," which means a counter desk, which is the first thing anyone sees when gets into the bank.

Banking is a very old industry. Ancient Babylon had banks, as did other classical civilizations, especially Rome. However, modern banking got its origins in the Italian Renaissance when bankers began accepting demand and time deposits in addition to purchasing and selling foreign currencies.

2.2 Evaluation/measures of loan defaulters

Credit refers to the amount of money that a borrower can obtain from a lender as well as the option to buy items on credit and then pay for them later. In the modern world, credit transactions are highly valuable for economic growth.

Key part of lending process involves 6C'SOFcredit. Bank that use credit scrolling model in corporative data from credit reporting agencies and other source that covers 6C's may loans must be evaluated using methods described below.

Character: - refers personal characteristics of the borrower honest and attitude about and commitment to repay the loan .Bank must know their customer, before they make loan and character is the place to start.

Capacity: - refers to borrower a success in running business as reflected in its financial obligation through cash flow and earnings. To determine their credit worthiness bank require prospective borrower to submit their financial statement and income tax treatment.

Capital: - represent the amount of equity capital that the borrower has and liquidated from the payment it all other means of collection of debit fail.

Collateral: - refers to asset that pledge for security in loan transaction. The fact the borrower may lose their collateral are they default on their loan services as incentive for them to perform according to loan contract.

Condition: - refers to external factor that are beyond the control of the firm. But they may affect their ability to repay the debt.

Compliance: - refers to compliant with the court decision law and regulation (Shekhar, 1985).

According to McNaughton (1996), there are five C's of bad debt, which represent things to guard against in order to help prevent problems .They include complacency, carelessness, communication breakdown ,contingency ,and completion.

Complacency :- refers to the tendency to assume that because things were good in the past they will be good in the future .Common examples are an over reliance on guarantors reported net worth or past loan repayment success because it's always worked out in the past.

Carelessness: - involves poor under writing typically evidenced by in adequate loan documentation, lack of current financial information and lack of protective covenants in the loan agreement .Each of these makes it difficult to monitor borrower's progress and identify problems before they are un manageable .Loan problems often arise when bank's credit objectives and policies are not clearly communicated .This is communication breakdown. Management should articulate and enforce loan polices and loan officers should make management aware of specific problems with the existing loans as soon as they appear.

Contingency: - refers to lenders tendency to pay down or ignore circumstances in which a loan might in default.

Competition: - involves following competitor's behavior rather than maintaining the bank's own loan standards

2.1.2 Types of loan

Abyssinia Bank offers several sorts of loans.

The loans may be classified into numerous categories depending on the standards used to classify them. The criteria may include things like the time frame within which a certain loan must be repaid, the objective for which it was created, the type of collateral used to secure the loan, etc.

Taking this into account, the following loan categories have been identified and are explained below.

Term Loan: can be defined as loan granted for a specified period with a periodic term repayment of installments, or in lump-sum at maturity with interest. The application of term loan should have a deposit account (saving or current account) or open a deposit account at the lending branch. Term loans are generally provided as working capital for acquiring income producing assets (machinery, equipment, and inventory) that generate the cash flows for repayment of the loan. Generally, term loans are classified as short-term loan, medium term loan and long term loan.

Short-Term Loan Term loan are extended by the bank to finance working capital or other short-term financial constraints of the business. The maximum term of single maturity loan three years. They are granted by banks to meet the working capital needs of business. Such loans are granted to borrowers to be repaid with in short period of time not exceeding 15 months. They are granted against the security of tangible assets like goods in stock, Shares, debenture, etc. The rate of interest charges on short term loan ranges from 12% to 18%.

Medium-Term Loan A term loan which has maturity period longer than three years The period ranges 15 months to less than 5 years. but not exceeding a maximum period seven years. hey, are granted for heavy repairs, expansion of existing units, modernization, renovation, etc. Such loans are sanctioned against the security of immovable assets. The normal interest rate range is between 12% and 18% depending up on the period, purpose, nature, and amount of loan.

Long-Term Loan A term loan which has a maturity period longer than seven years but exceeding a maximum period of fifteen years. The purpose of the loan is to finance new projects, support expansion of existing projects, investment, and net working capital.

Overdraft Loan It is the result of agreement with the bank by which a current account holder is allowed to withdraw over and above the credit balance in his account. OD is granted by bank based on written request by the customer. Overdraft loan is renewable loan arrangement in which the borrower is allowed to draw fund from her / his maintains in her / his account up to certain per determined limit. Sometimes the bank also insists on either a promissory notes from the borrowers or personal security of the borrower to ensure safety of amount withdrawn by the customer.

Merchandise Loan (ML) is a short – term credit facility granted against merchandise pledged as collateral or against agreement of regular submission of a stock list. is a credit facility provided by the bank against which the merchandise or documentary evidence (railway receipt, truck waybills, airway bills and warehouse receipt) is held as collateral for the loan. The purpose of the loan is alleviating the cash flow problem of customers when money is tied up in merchandise. The merchandise against which such loans are secured should not be perishable or subject to significant price fluctuation. There are three types of merchandize loans incorporated in the Bank’s credit manual. These are.

- ✓ One time (regular) merchandise Loan (ML-) for which the contract remains in the force up to the maturity period of the loan, usually 90 days.
- ✓ Revolving Merchandise Loan (ML-) is like one time but can be renewed periodically prior to maturity.
- ✓ Loans against railway receipts of merchandise that is in transit (in a course of shipment) supported by Railway Receipt, Truck way or Airway Bills. Legal opinion will be sought to establish the authenticity of the documents.

2.1.3 Types of Loan and Advances in BOA

DTS

the credit extended to DTS is meant for the distribution of goods either locally produced or imported for wholesale or retail trade. The credit can be used to acquire goods for resale to cover the cost of goods.

Transport

With regard to transport sector, the bank extend credit for purchase of commercial vehicles such as both trucks and trailers and other vehicles for business, procurement of machinery, equipment and furniture requires to run workshops, garages and working capital requirement.

Import and Export

A bank provide credit to open letter of Credit (LC) against payment of a margin of the value of the goods, to cover insurance expenses, to clear customer duty, to pay inland transport and other related costs. The bank can finance exports by way of extending credit to individuals and firms to purchase process and pack goods to be exported.

Industry

Industry sector used this loan to cover costs related to purchase of raw materials and payment of overhead costs. In addition, these loans are used for acquisition of fixed assets such as machinery, equipment, and furniture.

Construction

The bank provides loans to constructors to support them to purchase construction equipment or meet their working capital requirement. It finances customer who are in the business of producing building materials. Loans are also extended for construction of building for production workshops sector and office use for business and real estate development both for residential and commercial purposes.

Business (Merchandise) loan

the merchandise loans in BOA constitute commercial term loan facilities. They are extended to borrowers in a form of working capital, merchandise, medium term-loan to procure fixed assets and other facilities which include overdraft.

Personal

the bank also extends customer loan to individuals to purchase households, electronics for home use and automobiles. For all the above categorizations of loans by BOA indicated sectors can be broadly categorized as short-term, medium-term, and long-term loans depending on maturity.

Short-Term: The due date for short-term type of loan is 24 months. The minimum interest rate for this type of loan used by BOA is 10% & its maximum interest rate is 13.5%.

Medium Term: The due date for short-term type of loan is 60 months or 2-5 years. The minimum interest rate for this type of loan used by BOA is 11% & its maximum interest rate is 15%.

Long-Term: The due date for short-term type of loan is above 60 months or above 5 year. The maximum interest rate for this type of loan used by BOA is 15%. Most of the time project loans are one example of Long-Term loan.

2.1.4 Loan Approval

Loan approval that meets the criteria as well as the terms and conditions enumerated in the policy and procedurals manuals of the banks have to be submitted by loan officers to the branches loan committee. There is highest body in the screening process and is empowered to accept, amend, or differ or reject loan proposal submitted to it, Bercoff, J. J, Julian Di G and Grimard, F (2002). It is important that the committee composed of as many members as possible so that it is deliberation can have necessary balance (BoA, 2013).

2.1.5 Loan Processing

According to NBE (2012:10) in the processing of loan the following activities are undertaken.

Pre-Application Interview: This is critical step to impress borrowers. As it is usually the first opportunity for a banker to discuss with customer and show how far a bank will go to entertain its customer needs and would help to result in positive attitude towards borrowing. In this preliminary interview the following and related items would be touched.

- ✓ Purpose of the loan.
- ✓ Applicants' business experience.
- ✓ Applicant's relationship with the bank.
- ✓ How the applicant intends to pay back the loan, source of the fund and business plan.
- ✓ Applicant's commitment elsewhere.
- ✓ Basic documentation requirement like a trade license.

the application will be accepted, and the applicant will be invited for their interview.

Document Requirement: documents required in writing whenever appropriate to be presented with the application. The document requirement highly depends on the type of loan, the amount requested, the type of security offered and the nature of the applicant (Private Limited Company or Share Company).

The Loan Application: The loan application should present application for credit request, depending on the policy of the bank. The application should, among other things contain.

- ✓ Amount of loan requested.
- ✓ Purpose of the requested loan.
- ✓ Name of applicant.
- ✓ Signature by the applicant or legal agent.
- ✓ Guarantor, if any.
- ✓ Collateral.

❖ According to NBE loan application will have the following process.

Formal Credit Interview: This is an interview in which deeper insight on the loan requests will be obtained and additional information which may need evidence.

Business Visit: The purpose of the visit is to verify the information contained in the loan application and the supporting documents through observation and objective assessment of the reality of the business premises of the applicant etc.

Additional Information: Depending on the type of loan and the level of information can be collected to make the analysis result adequate.

Analysis and evaluation: are referring to the critical assessment of the customer's business strength made by lending officers and branch managers based on the already obtained information. It may include assessment of the security (collateral) as well. (Bank of Abyssinia Lending manual)

Negotiation: is clarifying the bank's intention to the borrower and make the borrowers psychologically ready.

Reporting, Recommendation and Approval: This information should be presented in a summarized and structured manner with clear recommendation and should be forwarded to the approving body. Once approval is made or obtained the borrower should be informed of the approval contents

Appeal: The leading branch or the concerned office shall clearly explain basic of the credit decision before receiving the appeal.

Disbursement and loan Administration

It is responding to borrower request for credit. However, there are some pre-disbursement and post disbursement activities. Major pre-disbursement activities include signing of the contract, registering the contract with the authorities concerned for the pledged properties, insurance of pledged properties, fulfillment of other terms and conditions, if any etc. Once the loan is disbursed, it must be seriously followed up for proper repayment, utilization etc. and the loan file should be properly administrated.

2.1.6 Loan Contract

Loan contract is an agreement specifying the term of a loan obligation of the borrower in this case after the credit request gets approval and customer agrees with the decision, appropriate to loan contract must be prepared correctly and signed by all parties concerned including witness. This contract prepared immediately in guarantors and signed by the bank's signatory lies, cosignatory laid witness and the borrower.

2.1.7 Loan appraisal and terms

This is the process of evaluating a loan application before disbursement with the view of determining whether the applicant have the ability to pay back the money borrowed without the society taking measures to enforce recovery.

2.2 Empirical literature review

The researcher has chosen two local and one international study of literature notion from the papers on the topic:

The bank exists not only to collect deposits but also to award loan and advances credit facilities, therefore it is inescapably exposed to credit risk. This is true regardless of whether such loan or advance have pre-established repayment schedules or not.

The success of the business depends more on the precise measurement and effective management of credit risk than it does on any other risk since Loan and Advances is by far the most significant risk that banks confront.

(2004)

To be effective, credit policies must be communicated throughout the organization, implemented through appropriate procedures, monitored, and periodically revised to take into account changing internal and external circumstances. One of the recommendations is that banks establish a separate department unit independent of the loan origination function in order to maintain credit discipline and to enunciate credit risk management and control process.

According to Gebru (2015), a variety of factors, including the volume of deposits, the level of domestic and foreign investment, interest rates, and the relationship between the cash reserve requirement, liquidity ratio, and interest rates, to name a few, have an impact on commercial banks' decisions to lend money.

(Martha, 2013), in the study, the researcher took 7 bank purposively that have been operating over ten years in Ethiopia. To examine their impact level, or the researcher used multiple regression models by taking 10 years ROE (dependent variable), NPLR, and also CAR (independent variable) from each bank, in addition to questionnaires was also distributed to the authorized personnel assigned to risk management position in each bank, accordingly results has concluded that the nonperforming loan ratio and capital adequacy ratio has a negative impact on Profitability of commercial banks in Ethiopia.

Tekeste (2016), the objective of the study is to assess credit management performance in emerging private commercial banks in Ethiopia: in the case of Berhan international bank S.C. the study target population is Berhan international bank S.C. Credit department employees who are involved in credit processing and administering and clients. The research uses a survey study

research methodology for the study is population census for the bank staff and convenience nonprobability sampling for clients. The type of data used in the study is qualitative data. Primary and secondary source of data were used in the study. By analyzing, the collected data the researcher summarize some points, which lead the researcher to recommendations. The result show that the bank checks the borrower's history and assessing the customers' ability to meet the obligation, but the bank not in the position to monitor or to visit the borrower's business. Moreover, the result shows the bank has not yet deployed adequate measure to recover non-performing loans. The study also shows there is the centralized decision-making process and the study also indicates there is time taking at the 13 time of decision making. The recommendation set by looking the findings on the bank should visit the customers' business periodically. The other recommendation on the process of decision making the bank should hired the skilled and sufficient manpower for the credit area.

The effect of credit risk management on the financial success of Kenyan banks has been researched by Musyoki (2012).The study's goal was to evaluate several aspects of credit risk management as they relate to bank financial performance. The study's parameters were the default rate, bad debt expenses, and cost per loan asset.

Financial reports from ten banks were utilized to examine the profitability ratios for the seven years (2000–2006). The profitability ratios were compared to the default rate, the cost of debt collection, and the cost per loan asset, which were all provided in descriptive regression. According to the study, each of these factors has an opposite effect on the bank's financial performance in relation to the other credit indicator control of risk. The advice given to banks is to develop and implement plans that would increase their profitability and competitiveness while minimizing their exposure to managing credit risks.

2.3 Knowledge gap

Research gap is a problem which has not been addressed of arena particular field. It is the gap which should be filling by new research to span the differences or spaces between issues; it is the difference between what existed knowledge is and what is require do targeted and what should be done. When comes to my research gap the former researcher focus on identification of the relationship between bank of Abyssinia and loan management as a result he identified that there is a positive relation between them that means bank played major role loan

management. But I am tried to assess loan management practice. For this purpose on the research objective additional questions is add to get answer regarded with its additional objective.

CHAPTER THREE:

DATA ANALYSIS AND RESEARCH METHODOLOGY

3.1 Research design

The research adopts a descriptive survey research design. The major purpose of descriptive survey research design is to describe the situation as it is at present. A descriptive survey research design help in collecting data to answer questions concerning the status of the subjects in the study.

3.2 Research method

The researcher uses descriptive research method. Because in descriptive research, most of the facts to be gathered are both qualitative and quantitative in the nature which is mixed assign and enables the researcher to describe loan performance of the bank. By the help of the questionnaire the researcher will be able to analyze the drawbacks and sort out solutions.

3.3 Data source

To conduct this study the researcher was used primary data. Primary data were collected through questionnaire from employees. Researcher was distribute questionnaires to the selected population, and after the précised and exact response, the researcher were collect the distributed questionnaires and analyze for further interpretation.

3.4 Research approach

For this study the researcher used cluster and stratified random sampling approaches, the researcher also used one branch to assess the objective the general manager, customer service manager, auditor, or credit officer who was chosen for the sampling that are designed for both descriptive and explanatory research.

3.5 Population, Sampling techniques and sample size

3.5.1 Population

Target population of the study is employees (cashier, accountant and auditor) and manager of bank of Abyssinia in wolikte branch. All credit department employees and branch-level credit officer has responded to the questionnaires that the researcher distributed for them.

3.5.2 Sampling techniques

Here the sampling technique helps for the researcher to reduce some constraint such as time and finance. Therefore the researcher in this paper study was used purposive (judgmental) sampling technique. Because in order to get relevant and accurate information about the assessment of loan management practice from manager of the bank, loan officer, auditor, two vice manager and accountant based on his experience or knowledge about the research topic.

3.5.3 Sample size determination

In purposive sampling the sample is determined by according to the researcher knowledge that has experience about loan management practice to be sampled. Therefore in Abyssinia bank of wolkite branch there are nineteen (19) employees. Among these employees the researcher selects purposively ten (10) employees because there is enough knowledge about assessment of loan management practice (Ary.D, 2002).

3.6 Methods of data analysis

After the data collection, the next step is data processing and analyzing followed by interpretation. A data process is by classifying, organizing, and editing the information to make it suitable for analysis. The data collected has been analyzed with the use of analysis tool frequency and percentage. The research uses both method of data analysis, tables, and interpretational data.

CHAPTER FOUR

4. Data analysis and interpretation

This chapter deals with the major findings of the study. All relevant data gathered from the bank employees are analyzed and interpretation. All Data was obtained using questionnaires containing both closed and open ended format and interview by distributing 10 questionnaires to the bank employees, ten (10) all of them are filled.

4.1 Response from the employees of the bank

Table 1 Personal detail of the employees?

	frequency	Percentage (%)
sex		
male	7	70%
female	3	30%
total	10	100%
age		
18-25 years	7	70%
26-35 years	3	30%
36 -45 years	0	0%
above 45 years	0	0%
total	10	100
Level of education		
Diploma.	0	0%
BA degree	9	90%
Master degree	1	10%
other	0	0%
total	10	100%
experience		

below 10 years	8	80%
10-20 years	2	20%
20-30 years	0	0%
above 30 years	0	0%
total	10	100%
responsibility		
Manager	1	10%
vice manager	1	10%
Auditor.	2	20%
Loan officer	3	30%
Accountant	3	30%
total	10	100%

Source, Survey questionnaire, 2023

As it's shown in the above table4.1: regarding gender of the employees 7(70%) were males and the other 3(30%) are female. With regarding to age 7(70%) of the employees were between 18-25 years and 3(30%) of employees were between 26-35 years old. Regarding to their educational level 90(90%)of employees were first degree (BA degree) and 1(10%) of employee were Master degree .This shows the bank has more qualified and educated employees in running its overall activity including loan management. This table shows all of the bank employees are responsible for their family members. Regarding the experience of the employees in below 10 years 8 (80%) and10-20 years 2(20%).This shows the bank has experienced employees.

4.2 The Policies

Table 2 Do you think that the policy of bank of Abyssinia is tight?

	frequency	Percentage (%)
yes	9	90%
No	1	10%
total	10	100%

This question is the most important and basis for the study and it simplify the works in smooth way. As indicated in table (4.2) 9 or 90% of respondents believed that the credit policy of the bank is strongly tight and 1 or 10 %respondents believed that it is not tight. Generally the basis for any credit for any commercial banks is their loan polices. What the researchers observed is that a number of responses indicated that the lending policies of bank of Abyssinia are more or less stringent, i.e. the lending policies are tight ones. So, this may leads the borrowers to shift in to the other competitive banks, which have a flexible credit policy, and this leads to the bank out of competition and not to retain in the market.

4.3 Information collected from the customer

In modern lending and borrowing activity between lenders and borrowers collecting information about the customer becomes famous activity. Before granting loan to the borrowers the bank collects sufficient information from the borrowers to evaluate the ability of the borrowers to repay the loan as well as to grant the loan the right borrowers (Gefner, 2013).

Table 3 Does the bank collect enough information about the borrowers before granting the loan?

	frequency	Percentage (%)
yes	10	100%
No	0	0%
total	10	100%

Source, Survey questionnaire, 2023

The above table4.2: indicates that 10 (100%) of respondents repay that before granting the loan to the borrowers the bank collect enough information about the borrowers. To confirm their ability whether the borrowers are strong enough to return the granted loan, to check legally working in the market or defaulter .This helps to minimize the financial risk that the customer

have not the capacity to repay the loan. This shows that before collecting information about the borrowers the bank did not grant any amount of loan to the borrowers.

4.4 Asking for investment proposal or business plan

Before the implementation of one project, preparation of business plan or investment proposal is necessary and inevitable. Investment proposal or business plan used as means of communication with the outsider and the bank ask the borrowers to submit their investment proposal or business plan to evaluate the viability of their proposed project (Koch, 1994).

Table 4 Does the bank asks the borrower to submit their investment proposal or business plan?

Source, Survey questionnaire, 2023

	frequency	Percentage (%)
yes	10	100%
No	0	0%
total	10	100%

As indicate the above table 3: 10(100%] of the employees witnessed that the bank asks the borrower to submit their investment proposal of business plan. This table shows that to get loan from this branch ,the borrowers all have submit their investment proposal or business plan to shows the economic vitality of their business activities .by assessing the internal and external conditions. And also it used to analysis the amount of proposed money demand by the borrower and what purpose do the borrower borrow money .it supports the country development projects and to audit it the proposals whether good or not for the government development goals. In general without their business plan the loan is meaningless plus to that the bank lend depending on their investment or business plan.

4.5 consultancy service given to borrowers

When the bank decides to grant loan to the borrowers, giving direction regarding how to invest and repay is necessary .The bank give consultancy service to the borrowers to reduce risk of default due to the failure of business and to establish strong relationship with the customers (Nelson, 2002).

Table 5 does the bank give consultancy service to the borrowers regarding how to invest and repay?

	frequency	Percentage (%)
yes	10	100%
No	0	0%
total	10	100%

Source, Survey questionnaire, 2023

As it's indicating in the above table 4: 10(100%] of the employees witnessed as the bank give consultancy service to the borrowers. This table shows as the bank gives consultancy service regarding how to invest and repay.

4.6 Types of loan grant

The loan provide by any bank can be categorized in different loan can be classified based sector to whom it is provided (manufacture, agriculture, industrial, merchandise and service loan) based on maturity (short term, medium term and long term) and based on security (secured and unsecured) loans (Gontaezie, 1996).

Table 6 Which types of loan the bank mostly grant?

	frequency	Percentage (%)
secured	10	100%
unsecured	0	0%
total	10	100%

Source, Survey questionnaire, 2023

As it's indicate on the above table 4.5: 10 (100%) of respondents repay that the bank give only secured loan .This shows as the bank did not give unsecured loan and only secured loan are granted to ensure the future repayment of loan.

4.7 Amount of loan grant

When the borrowers request the bank to take the loan, the bank did not grant total amount of loan requested. The amount of loan grant can be limited by country's central bank, the bank itself and the value of the collateral pledged by the borrowers (As amah, 2007).

Table 7 is there a limit regarding the amount of loan advanced?

	frequency	Percentage (%)
yes	7	70%
No	3	30%
total	10	100%

Source, Survey questionnaire, 2023

It indicates on the above table 4.6: 7(70%)of employees of the bank repay as the bank has limitations in amount of loan granted and 3(30%)repay as the bank does not have limit in the amount of loan granted .This table shows as the bank provides loan based on the value of collateral offered by borrowers.

4.8 Most considered 5C's credit

Five C's of credit on method used by lenders to determine the credit worthiness of potential borrowers. The system weights five characters of the Borrowers, attempting to judge the chance of default .Five C's of credit are capacity, capital and character, collateral and quantitative measured (Ditcher, 2003).

Table 8 What the bank consider most important when deciding a loan?

	frequency	Percentage (%)
Collateral	5	50%
Capacity	4	40%
Characters	0	0%
Condition	0	0%
Capital	0	0%
All c's select	1	10%
total		

Source, survey questionnaire, 2023

As indicated the above table 4.7: 50 (50%) of respondents repay that as the bank consider mostly on collateral offered by borrowers 4(40%) of respondents replay that as the bank consider capital as most important 1(10%) of respondent repay that the bank consider all C's (capital, collateral, capacity, character and conditions are the most important instrument to secure the loan. If the bank not consider 5C's of credit the major implication of this bank

cannot conduct effective loan provision procedures for borrowers and banks cannot be conduct effective loan advising procedures in the attractive manner for customers in addition to this it leads to poor communication and coordination between the borrowers and the bank during loan providing procedures.

4.9 Training given to loan officer

Training is act given to trainee to upgrade from existing position .most of the time big institutions including the bank give training to their employees to increase their effectiveness efficiency in their respective activity improving their efficient helps the organization to reduce the risk associated and cost incurred (Nsereko ,1995).

Table 9 Does the bank gives any training to loan officer?

	frequency	Percentage (%)
yes	8	80%
No	2	20%
total	10	100%

Source, Survey questionnaire, 2023

As it's indicated on the above table 4.8: 8(80%] of the employees replay as the bank give professional training to loan officer and 2(20%] of employees replay as the bank not give professional training to loan officer. This table shows as some of employees replay as bank gives training to loan officer to monitoring and evaluation of loan management practice efficiently and effectively .How ever some of the employees replay as the principle exists but practically is not applicable.

4.10 collateral accepted by the bank

Collateral refers to asset that pledged for security on credit transaction. The fact that, the borrowers any loss their collateral, if they default on their loan service as incentive for them to perform according to loan management (David, 2003).

Table 10 Does the bank take collateral?

	frequency	Percentage (%)
yes	10	100%
No	0	0%
total	10	100%

Source, Survey questionnaire, 2023

As indicate in the above table 4.9: 10(100%) the bank employee repays as the bank accept collateral before granted the loan to the borrowers. This table shows as the bank did not give any amount of loan without taking collateral from the borrowers to ensure repayment of the loan. If the bank cannot accept collateral the major implication includes borrowers are lack of trust worth regarding repayment of loans ,its cause bankrupt of bank as well as it cause in effective collection of repayment between the borrowers and the bank and its leads to banks large amount of un collective loans in the bank.

4.11 types of collateral mostly accept

Collateral is promise to gives to the bank, if you do not pay back the loan it is often needed to obtain to secure loan .there are some items used as the collateral, building, equity ,vehicle, business inventory, equipment, account receivable and cash be used as the collateral (Gefner ,2013).

Table 11 What type of collateral mostly accepts?

	Frequency	Percentage (%)
Building	8	80%
Vehicle	0	0%
Other security	0	0%
All properties	2	20%
total	10	100%

Source, Survey questionnaire, 2023

As indicated the above table 4.10: 8(80%) of the employees repay as the bank accept building as a collateral and 2(20%) of the borrowers of the bank offer other security as a collateral. This

shows that building is widely offered collateral by the borrower to take the bank loan and accepted by the bank next to that vehicle are preferable collateral.

4.12 valuation of collateral

When the collateral offered by the borrowers to the bank in order to secure the loan, the bank does not take it as valid collateral. Rather the value of the collateral is estimated by professional experts. This is to compare amount of loan requested and value of collateral on the market (Nsereko, 1995).

Table 12 Does professional expert make the valuation of collateral?

	frequency	Percentage (%)
yes	10	100%
No	0	0%
total	10	100%

Source, Survey questionnaire, 2023

Based on the above table 4.11: 10(100%) of the bank employees reply that the bank make valuation of collateral offered by professional expert before loan granted. The values of collateral pledged to the bank are estimated by engineer survey, out body technical and employees of the bank itself. This table shows as there is no collateral accepted from the borrowers before they are valued by experts. Generally when the borrower asks money from the bank the collateral of the borrower's asset evaluated by the experts that represent the asked fund amount or not. If the collateral of borrower equal or greater than the asked amount the bank lend to the borrower.

4.13 sectors to which the bank mostly granted loan

Growth of one country is not born single or one sector development in the economy. There are many sectors in one country economies and the bank can corporate with most of them for common benefits. Agriculture, industrial, manufacturing, merchandise and service sectors are the most dominant sector or economic division in Ethiopia (Ditcher, 2003).

Table 13 To which sector the bank mostly grant loan?

	frequency	Percentage (%)
Agricultural	0	0%
Trade	6	60%
Industry	1	10%
Manufacturing	0	0%
Service	0	0%
All sector	3	30%
total	10	100%

Source, Survey questionnaire, 2019

As indicated in the above table 4.12: 1(10%) of the bank employees repay that the bank mostly grant loan to industrial sector and 3(30%) of the bank mostly grant all sectors because these are the priority sectors of the bank and also all are the most accepted areas to grant loans and 6(60%) the bank grant trade sector. This table shows as the bank grant loan for mostly risky sector of the economy.

4.14 Inspection made on the collateral pledged by the borrower.

It is accepted by the bank as collateral and loan is granted the borrower, the bank inspects the collateral and regulate base. This is done mostly to overlook the existence and reduction in the value of the asset such like inspection made of the collateral is like building and vehicle and of they are in the hand of the borrower (Gontaezie, 1996).

Table 14 Does the bank conducted regular inspection on the collateral pledged?

	frequency	Percentage (%)
yes	10	100%
No	0	0%
total	10	100%

Source, Survey questionnaire, 2023

As indicate on the above table 4.13: 10(100%) of employees of the bank verify as the bank conducted inspection on the collateral pledged.

4.15 late payment

Late payment is the amount you loan take from the bank is not repaired on time, including principal and agreed interest. Late payment is not default of loan. The payment of principal and interest is made often due date is over (Shekhar (1985).

Table 15 Is there late payment?

	frequency	Percentage (%)
yes	6	60%
No	4	40%
total	10	100%

Source, Survey questionnaire, 2023

As indicate on the above table 4.14: 6(60%) of the employees of the bank admit the existence of late payment from the borrower and 4(40%) of the employee of the bank admit the existence of on time payment from the borrower. Those respondent reveal that the reason of late payment are failure of business activities ,fluctuations of market and income ,lack of debtor capacity to cover repayment ,lack of supervision and follow up ,unsecured expected whether condition, unsecured willingness or borrower to pay on intended time frame ,inflation price fluctuation ,forgetting due date. Default is the major of late payment .All this respondent forward measure take during collateral, negotiation, giving advice. If it happens unknowingly arranging the way how to repay and prudent lending .So, this table explained existence of late payment in the bank and response of employees show there is cause for late payment and measures taken by the bank.

4.16 default of the loan

Default of loan is breach of one or more condition or terms management. If the borrower cannot meet this requirement the lender may fore close against collateral to recover any loss. The most common form of default of loan occurs when payment of principal and interest are not made when due date. This technically termed as of loan delinquency (Gefner, 2013).

Table 16 Is there default of loan?

	frequency	Percentage (%)
yes	10	100%
No	0	0%
total	10	100%

Source, Survey questionnaire, 2023

As indicated on the above table 4.15: 10(100%] of the employees of the bank suggests presence of the default of the loan in the bank. The respondents also respond that major cause for the default are deficient analysis of the project viability, un realistic time table of the repayment, lack of follow up measure, default due to market fluctuation, inadequacy of collateral security against loan are the major cause for default and they also reveal measures taken by the bank when default occurs such as negotiation with borrowers, sell of collateral vacation and taking legal action to recover loan loss. So the table above shows their existence of loan default and measures taken by the bank to recover the when default occurs.

4.17 communications with borrowers

After loan is granted to the borrowers the bank establish strong communication with the borrowers to see the activity of the borrowers. Establishing strong and regular communication can ensure future repayment of the loan for the bank (N.Kumar, 2002).

Table 17 Does the bank have strong and regular communication with the borrowers?

	frequency	Percentage (%)
yes	10	100%
No	0	0%
total	10	100%

Source, Survey questionnaire, 2023

As indicate on the above table 4.16: 1(100%) of the employees of the bank prove as the bank have a strong and regular communication with borrowers. This table shows that the bank does not have pathetic and rough communication with the borrowers.

4.18 means of communication used

Means of communication are channels which help the bank and the borrowers ‘communication. The bank used many ways to communicate with the borrowers (Brealey, 2003).

Table 18 What means of communication mostly used by the bank?

	frequency	Percentage (%)
Physical contact	7	70%
Telephone line	3	30%
E-mail	0	0%
Social network	0	0%
Both Telephone line & Physical contact	0	0%
Other	0	0%
total	10	100%

Source, Survey questionnaire, 2023

As indicate on the above table 4.17: 7(70%) of the employees of the bank respond that the bank use physical contact (face to face contact) and 3(30%) of employees respond that the bank used telephone line.

4.19 action taken if borrower dies or flees

Lending and borrowing activities the bank may face different problems after loan is given to the borrowers’ .most problems of loan recover. When they mature bank takes different measures to overcome the problem starting from personal negotiation to taking legal action (David, 2003)

Table 19 What action the bank takes, if the borrower dies or flees?

	frequency	Percentage (%)
Negotiate with family	4	40%
Sell of collateral legally	4	40%
Use of loan loss reserve	0	0%
Other	2	20%
total	10	100%

Source, Survey questionnaire, 2023

As indicate on the above table 4.18: 4(40%) of the respondents repay when the borrower dies or flee the bank first negotiates with the family of the borrowers, 4(40%) of the respondents replied that, the bank sell collateral legally. 2(20%) of the respondent replied that the bank uses other method. This shows that, as the bank negotiate with the family of the borrowers first, if the borrower die or flee. If this cannot be done they take legal action by selling collateral on action as well as other methods.

4.20 Problems of loan management

According to employees response there are many problems related to loan management practice such as knowledge gap of employees, gap between loan request, saving culture in the banking sector ,irrelevant loan request ion of customers ,lack of professional in the area of trade and credit service ,mostly borrowers ask to borrow money above their capital /asset either fixed or flexible ,moral hazard ,weak in following up to retrieve loans and on business, delay of loan disbursement ,third party services because employees becomes busy, no training is given, in sufficient size of loan, lack of business management knowledge as well as late payment and information asymmetry (Survey questionnaire,2023).

CHAPTER FIVE

5. Summary, Concussions and Recommendation

5.1 Summary

The analysis of the data collected from the employees' shows that, most of the bank borrowers are not new in borrowing from the bank and most of the borrowers does not have strong relationship with the bank. However the bank face different problems such as lack of periodical evaluation and appraisal of asset as well as business of the borrowers and lack of regular training and feed back to the borrowers towards the ways and procedures of using their loan for effective investment activities and lack of develop effective coordination and communication between borrowers and the bank. When the bank gives loan to the borrowers, it gives consultancy service to the borrowers. However borrowers face different kind of risk after they borrow from the bank such as failures of the business and fluctuations of income. This leads to late payment and loan default.

According to the analysis of the responses of the employees, some of the borrowers are ready to repay the loan they took from the bank. And some of the borrowers are not ready to repay the loan they took from the bank. The employees responds that the bank does not grant loan without obtaining sufficient information about the borrowers and in some extent the bank takes investment proposal or business plan of the borrowers.

5.2 Conclusion

From the above finding the bank cannot conduct periodical evaluation and appraisal of assets as well as business of borrowers and lack of regular training and feed back to borrower towards the way and procedure of the loan. From this the researcher concluded that there is the problem of effective loan management practice .This leads late payment and default of loan to the bank.

When the bank gives the loan to the borrowers, it gives consultancy service to the borrowers. And the bank does not grant the loan to any borrowers without given consultancy service. In lending and borrowing activities of the bank communication with the borrowers was mostly used physical communication as well as telephone line. Late payment and default if the problem that the bank face in lending and borrowing activity the most common form of default

occurs when payment of principal and interest are not made due. Late payment is occurred when the amount of loan taken from the bank is not repaid on time, including principal and agreed interest. The bank takes different measurements for these problems when borrowers die or flee. The bank first negotiates with the family of borrowers. If this is not possible, selling of the collateral can take place. To ensure future repayment of the loan, the bank gives secured loans. The bank provides a limit on the loan amount given to the borrowers, and that is due to lending capacity, which is restricted by the value of the collateral on the market when the bank decides to grant the loan. Collateral pledged by the borrower to the bank is given the highest consideration, more than the character and capacity of the borrowers.

5.3 Recommendations

The researcher recommends the following points to the Bank of Abyssinia in Wolaita branch.

- It is needed to conduct periodical evaluation and appraisal of assets.
- It is also needed to conduct the business of borrowers and make regular training and feedback to borrowers towards the ways and procedures of using their loan for effective investment activities.
- It would also be effective if the head quarter of the bank of Abyssinia allows branches to lend money without any preconditions that involve traveling from town to town for the purpose of loan.

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APPENDIX I

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COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF ACCOUNTING AND FINANCE
DEAR RESPONDENTS

The question to be responded by employees of Abyssinia Bank wolkite. Questionnaire is designed for the purpose of doing a research entitled "the assessment of loan management practice in abyssinia bank of Ethiopia wolkite branch. The collected data would be used only for the academic purpose. Therefore, I cordially request your esteemed organization for volunteer to respond the questionnaire and provide accurate and complete data to the data collector and you are assured with my moral that your privacy is strictly kept.

Thank you for your time and cooperation.

Instruction

- ✓ No need of writing your name
- ✓ The question provided for the employees of Abyssinia Bank wolkite branch
- ✓ Put "circle" on the provided answer.
- ✓ Write short and precise answer on the space provided where ever possible.

A, personal details of employees

1, sex A, male B, female

2, Age A, 18-25 years B, 26-35 years C, 36 -45 years D, above 45 years

3, Level of education A. Diploma. B. BA degree C. Master Degree

D, other

4, How many years you been working with the banking sector including in this branch?

A, below 10 years B, 10-20 years C, 20-30 years D .above 30 years

5, what is your responsibility? A, Manager B, vice manager C, Auditor. D,

Loan officer E, Accountant

B, Question related to the bank and processing loan application.

1, do you think that the policy of bank of Abyssinia is tight?

A Yes B No

2, does the bank collect enough information about borrowers before granting the loan?

A. Yes B. No

.If question number 1 is yes why? -----

3. Does the bank ask the borrower to submit their investment proposal or business plan?

A. Yes B .No

.If the question number 2 is yes, why?
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4. Does the bank give consultancy service for the borrower regarding how to repay?

A. Yes B. No

5. Which types of loan the bank mostly grant?

A. Secured B Unsecured

6. Are there a limit regarding the amount of loan advanced? A. Yes B .No

7. What the bank considers the most important, when deciding a loan application?

A. collateral B. character C. capacity D. capital E. all c's select

8. Dose the bank gives any training to loan officer to increase their efficiency and effectiveness in loan management?

A. Yes B .No

9. Dose the bank acceptable collateral?

A. Yes B. No

10. What type of collateral, the banks mostly offered and accept?

- A. building B. vehicle C. other security D. all properties

11. Dose professional expert make the valuation of collateral?

- A. Yes B. No

12. To which sector the bank mostly grant loan?

- A. Agriculture B. Trade C. Industry D. Manufacture

13. Dose the bank conducted regular inspection on the collateral pledged?

- A. Yes B. No

14. Is there late payment?

- A. Yes B. No

.If the question number 13 is yes, why?

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15. Are there default of loan?

- A. Yes B. No

16. Dose the bank has strong and regular communication with borrower?

- A. Yes B. No

17. Which means of communication mostly used by the bank in order to communicate with borrowers? A. Physical contact B. Telephone line C. E-mail D. Social network E. Other

18. What action the bank takes if the borrowers dies or flees?

- A. Negotiate with family B. Sell of collateral legally C. Use of loan loss reserve
D. Other

19. What are the problems face the bank with regards to loan management practice?

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THANK YOU FOR YOUR COOPERATION!