ASSESSMENT OF CREDIT RISK MANAGEMENT PRACTICES IN NIB INTERNATIONAL BANK (CASE STUDY IN WOLKITE TOWEN BRANCHES)



Wolkite University
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WOLKITE UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING AND FINANCE

RESEARCH PAPER SUBMITTED TO DEPARTMENT OF ACCOUNTING AND FINANCE FOR PARTIAL FULFILLMENT OF BACHELOR OF ARTS DEGREE IN ACCOUNTING AND FINANCE

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STATEMENT OF DECLARATION

This research is done on the topic of credit risk management practice in the case of NIB international bank. This research work is my work. It is carried out independently with the guidance and support of the research advisor.

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First and foremost, I would like to thank almighty God who gave me healthy and strength. Secondly, I would like to thank my advisor Dr.Aron Abraham for his patience and valuable advice throughout the work time of this research paper.

TABLE OF CONTENT

ACKNOWLEDGMENT II

Table of content III

List of Tables V

List of Figure V

Abstract VI

CHAPTER ONE 1

INTRODUCTION 1

1.1Background of Study 1

1.2. BACKGROUND OF THE ORGANIZATION 2

1.3. STATEMENT OF THE PROBLEM 2

1.4Research Objectives 3

1.5. Significance of study 4

1.6 Scope of the Study 4

1.7 Organization of the Paper 4

Chapter two 5

LITERATURE REVIEW 5

2.1 Theoretical Review 5

2.2. Empirical Literature 14

2.3 Knowledge Gap 15

2.4 conceptual framework 16

CHAPTER 3 17

Research Methodology 17

3.1. Research Design 17

3 .2 Source of Data 17

3.3. Method of Data Collection 17
3.4population Size and Sampling Technique 17
3.5 Method of Data Analysis 17
Unit four 18
4.1Data Presentation and Analysis 18
4.2 Analysis and interpretation of questionnaire result in table form 18
Chapter 5 26
Summary of Major Findings, Conclusions, and Recommendations 26
5.1 Summary of Major Findings 26
5.2 conclusion 27
5.3 recommendation 28
Reference 30
Appendix 31

LIST OF TABLES

Table 4.1 Demographic characteristics of respondents---------- 22

Table 4.2 Employees' opinions towards credit policies and guidelines at the bank---------- 24

Table 4.3- Employee's opinions towards credit appraisal & granting process at the bank------- 25

Table 4.4 -Employees' opinions towards the credit monitoring practice at the bank ---------- 26

Table 4.5 Employees' opinions towards the credit risk mitigation strategies and tools ---------- 27

LIST OF FIGURE

Figure 2.1; conceptual framework……..……..……18

ABSTRACT

The objective of this study is to examine the practice of credit risk management at NIB international bank. To address this objective, the study targeted 15 professional workers who currently work at three NIB bank branches in Wolkite town. The primary data were collected through questionnaires. The collected data were analyzed using the descriptive analysis method. The findings showed that there is a well-designed credit risk strategy and policy that indicate and recognizes areas of credit engagement and the risks inherent in these engagements. The findings also indicated that respondent employees believed there is a good level of credit appraisal and granting process at the bank that check borrower's history, financial condition, and collateral requirements before granting the loan. Furthermore, the study showed that NIB Bank has an appropriate internal risk scoring system, good risk control and monitoring system, employs risk based scientific pricing and has an independent risk management function. But results also indicated there is a room for improvement about credit portfolio concentration limits and offering customer's sufficient training on loan usage. In line with the findings of the study, it was suggested to the bank enhance its credit portfolio concentration limit and improve training to customer on loan usage

CHAPTER ONE

INTRODUCTION

1.1Background of the Study

Banks are one of the most important financial intermediaries whose primary function, as well as their reason of existence is to mobilize funds and pass them over or lend to those which need to finance businesses or projects. In other words, banks act as a bridge between those sections of society which save and those who seek to invest but do not have the financial means to do.(GETANEH and HALEPHOM and MERON , 2014)

Because of their intermediary function, banks also serve as a vehicle for the economic and social development of a country. This is particularly true in the less developed countries like Ethiopia where capital markets are either under developed or virtually non-existent to meet the credit needs of society. (GETANEH AND HALEPHOM AND MERON, 2014)

Banks are exposed to different types of risks, which affect the performance and activity of these banks, since the primary goal of the banking management is to maximize the shareholders‟ wealth, so in achieving this goal banks‟ managers and loan related staffs should assess the cash flows and assumed risks as a result of directing its financial resources in different areas of utilization.(DANIEL ,2019)

Credit risk is one of the most significant risks that banks face, considering that granting credit is one of the main sources of income in commercial banks. Therefore, the management of the risk related to that credit affects the profitability of the bank (Li and Zou, 2014)

In Ethiopia, the banking sector has evolved a lot since Bank of Abyssinia was first established based on the agreement between Ethiopian government and National bank of Egypt in 1905. During the finale decade of the last century, notable structural change in the financial sector has laid the ground for the establishment of several private commercial banks According to NBE Currently in 2022 there 29 commercial banks in Ethiopia. The National Bank of Ethiopia (NBE) believes such growth should be matched to strong risk management practices. This study, therefore, attempted to assess the actual credit risk management practice of NIB international bank.

1.2. BACKGROUND OF THE ORGANIZATION

Nib International Bank (NIB) was established on 26 May 1999 under license no. LBB/007/99 by the Commercial Code of Ethiopia and the Proclamation for Licensing and Supervision of Banking Business Proclamation no. 84/1994 with the paid-up Capital of birr 27.6 million and authorized capital of Birr 150 million by 717 Shareholders. The Bank commenced its operation on 28 October 1999 with 27 employees. It joined the banking industry as the sixth private bank licensed in the country.

Other than rendering fulfilled Domestic and International Banking services, the Bank implemented Mobile and Internet Banking through which it issues NIB cards. The Bank has placed it ATM's at various locations throughout the Country to provide its diversified products in convenient ways to esteemed customers. Moreover, to enhance the application of modern banking technologies and provide competitive service via a wide range of card banking services, the Bank has established a strategic partnership with MasterCard, VISA and Union Pay branded cards which is one of the breakthroughs to provide international payment service.

To introduce products, other than the previous innovative products and services, Nib Mar Saving, NIB Social Saving, NIB Donation Saving and NIB Entrepreneur's saving were developed. In addition, the Bank is working with Tele Birr and E-birr (Product name – NIB E-birr) to be a better competitor in this digital world of banking. (https://www.nibbankssc.com)

1.3. STATEMENT OF THE PROBLEM

It is believed that generally banks face credit, market, liquidity, operational, compliance (legal) regulatory and reputation risks among which credit risk is known to have the adverse impact on profitability and growth. Hence, the success of most commercial banks lies on the achievements in credit management justifying risk to the acceptable level (Hagos, 2010)

Credit risk arises from the bank's dealing with or lending to corporate, individuals and other banks or financial institution. High credit risk will reduce earnings and capital, increase administration cost of the bank and induce liquidity problems affecting cash flow. That is why it is essential that management's focus much of its attention on managing the loans.

The organization's ability to effectively monitor and manage its credit risk can mean the difference between success and failure. Effective credit risk management attracts today more

attention than before. Interest income and interest expense are the main determining factors for the profitability of private banks in Ethiopia (Yigremachew, 2008).

In Ethiopia, to the knowledge of the researcher, many researches were conducted in this area of credit risk management. Studies they are more focused on credit risk management and their impact on profitability. However, most of literatures with regard to the topic made in Ethiopian context were focused to part of credit management aspect such as performance, profitability, credit exposures instead of assessing the credit risk management. Thus, researcher tries to fill the gap and contribute to the literature by giving addressing problems of credit risk management of NIB international bank. Moreover, previous researches were conducted in country level and they are more focus on urban area. Consequently, the researcher was try fill the gap by assessing the effect of credit risk management practice in Wolkite town.

In light to this, the study attempts to address the problem and find answers to the following research question: -

- ⇨ What are the existing credit guidelines and procedures at NIB International Bank?
- ⇨ What aspects are considered in the bank's client appraisal and credit granting process?
- ⇨ What mechanisms are used to measure and monitor credit at Nib International Bank?
- ⇨ What are methods are employed to control and mitigate credit risk at NIB international bank?

1.4Research Objectives

1.4.1. General objective

The general objective of the study is to assess the credit management practice in the case of NIB International Bank.

1.4.2. Specific objectives

In line with general objective of the study, the following specific objectives are identified: -

- ➢ To examine credit guidelines and procedures NIB International Bank
- ➢ To assess the client appraisal and credit granting process at NIB effective is the preventive techniques
- ➢ To assess the mechanisms are used to measure and monitor credit at NIB international bank
- ➢ To assess the effectiveness of the preventive techniques

1.5. Significance of the study

In light of the essence of the objectives it sets out to achieve, the study is a vital input for the improvement of the process of credit risk management. It also enables the bank to review its credit management practices.

Furthermore, the study can serve as: -

- To be honored a degree in accounting and finance
- A reference material for any interested reader on the subject
- To show the strong and the weak points in credit risk management of NIB international bank
- The result of the study will be expected to give certain knowledge how to manage credit for the manager of the bank as well as for the customer.
- It will also provide solution that enable the bank to improve service of credit provision and efficient payback on due date

1.6 Scope of the study

The study will be conducted on NIB International Bank of wolkite town. The study focuses on assessment of credit management practice.

1.7 Organization of the Paper

The paper is consisted of five chapters. Chapter one is introduction. The second chapter focuses on literature review. The third chapter deals with research design and methodology. Chapter four presents data presentation and analysis. The final chapter deals about the summary, conclusion and recommendation of the study.

CHAPTER TWO
LITERATURE REVIEW

2.1 Theoretical Review

2.1.1 Definition of Risk

There is no single definition of risk. Economists, behavioral scientists, risk theists, statisticians, and actuaries each have their own concept of risk. Therefore, the researcher will try to give different authors view and definition for the word risk.

Risk (or uncertainty) refers to the variability of expected returns associated with a given investment. Risk, along with the concept of return, is a key consideration in investment and financial decisions (Schaum's Outline of Theory and Problems of Financial Management 2nd Edition)

Risk is a condition in which there is a possibility of an adverse deviation from a desired outcome that is expected or hoped for. Accordingly, some explain risk as a situation where there is unfavorable (harmful) deviation from what has been expected.

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. To sustain its operation, a business has to earn revenue/profit and thus has to be involved in activities whose outcome may be predictable or unpredictable. Hence, risks don't disappear, they gave users a choice; which to retain and which to shed (Bagch, 2006).

2.1.2 Definition of credit risk

A credit risk is the risk of default on a debt that may arise from a borrower failing to make required payments. In the first resort, the risk is that of the lender and includes lost principal and interest, disruption to cash flows, and increased collection costs. Currently the risk that is bothering all the banks the most is the Credit risk.

Banks make money by providing services that their customers want and by granting their credit. There are some risks with this service and the most significant risk is credit risk.

Credit risk is the most obvious risk of a bank by the nature of its activity. In terms of potential losses, it is typically the largest type of risk. The default of a small number of customers may result in a very large loss for the bank. (Tony, 2009, Credit Risk Management)

Credit risk is the risk that a borrower defaults and does not honor its obligation to service debt. It can occur when the counterpart is unable to pay or cannot pay on time. There can be many reasons for a default. In most cases, the obligor is in a financially stressed situation and may be facing a bankruptcy procedure. He can also refuse to comply with its debt service Obligation, e.g., in the case of a fraud or a legal dispute. Technical defaults result from a misunderstanding because of the flaw in the information system or technology. A credit loss also occurs when the bank invests in debt of a high-quality borrower of which the risk profile has deteriorated. In the case of a liquidation, the price at which the debt is sold on the market is lower than the price at which the debt was bought by the bank, which makes a net loss. In the case of a default, the loss for the bank is not necessarily high. The loss in the case of default depends on the percentage that one can recover from the defaulted counterpart and the total exposure to the counterpart. The recovery depends, i.e., on the presence of collateral and guarantees. A good risk management tries to avoid large exposures on high-risk counterparts. Credit risk consists of pre-settlement and settlement risk:

- **Pre-settlement risk:** Pre-settlement risk is the potential loss due to the counterpart's default during the life of the transaction (loan, bond, derivative product). Pre-settlement risk can exist over long periods, often years, starting from the time it is contracted until settlement. In addition to the counterpart default risk, there is also a risk that the counterpart is prohibited to pay when its country of domiciliation defaults and blocks all foreign payments. This risk is called sovereign transfer risk.
- **Settlement risk:** One is exposed to settlement risk because the payment or the exchange of cash follows is not made directly to the counterpart, but via one or multiple banks that may also default at the moment of the exchange. The risk is present as soon as an institution makes the required payment until the offsetting payment is received. The longer the time between the two payments, the higher the risk. Large payments and payments in different time zones and in different currencies have a higher settlement risk. A major example of settlement risk was the failure of Herstatt Bank in Germany in 1974. Some of the money of payments that counter made via the bank was not yet transferred to the recipients when the bank defaulted. One way to reduce settlement risk is netting: by transferring only net amounts, the amount exposed to settlement risk is reduced. (Tony, 2009, Credit Risk Management)

2.1.3 Common Causes for Credit Risk

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

there are three sets of causes

- ***Credit concentration***

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

- ***Credit granting and/or monitoring process***

- ineffective appraisal system and pre sanction care with lack of supplemented by an appropriate and prompt post- disbursement supervision and follow-up system

- ***Credit exposure in the market and liquidity-sensitive sectors***

associated to absence of compact analytical system to check for the customers' vulnerability of liquidity problem (Bagchi,2006)

2.1.4 Credit risk management

It is the practice of mitigating losses by understanding bank's capital adequacy and loan loss reserves at any point in time. The major goal is to maximize risk adjusted rate of return by maintaining credit risk exposure within acceptable parameters.

Credit risk management is a systematic process of identification, analysis, measurement, and decision making relating to various factors of credit risk to an individual or an entity, in respect of goods sold or services provided on a credit basis or grant of loan and such management also involves limiting the risk as well as eliminating risks.(Ratnesh Sharma)

Credit risk management involves examining a series of steps to ensure the amounts are lent to reliable hands. The lenders are expected to evaluate the loan applications from borrowers thoroughly. In addition, they must ensure that borrowers can make monthly payments in the future.

The lenders must examine their current financial situations and their credit history and score. It builds trust towards the borrowers, who understand whether they can be trusted with the money. Once the borrowers are found creditworthiness, the loan application gets approved. On the other hand, if the applicants are found untrustworthy, the loan application gets disapproved.

The lenders should have an eye for detail to guess it right. Proper evaluation is a must. They have to be particular about the current financial status of the loan seekers, along with being ready for the warning signs that their past credit records indicate to them. The evaluation is normally done concerning the five Cs of credit – character, capacity, capital, conditions, and collateral.

In case the assessment turns out to be wrong, and the possible trustworthy borrowers turn into defaulters, it affects the financial stability of the lending institution, which plays an important role in ensuring the economy's financial stability. (Wallstreet mojo Team)

2.1.5 Credit Risk Management System in the Bank

A comprehensive credit risk management system, which is in place in the bank, encompasses the following processes:

1) **Credit Risk Identification**

   In order to take informed credit decisions, it is necessary to identify the areas of credit risk in each borrower as well as each industry. Risk Management Division HO, in coordination with other HO divisions involved in disbursal of credit and also the risk management departments of various zonal offices identifies these risks areas and develops necessary tools and processes to measure and monitor the risk.

2) Credit Risk Measurement

Risk quantification is an assessment of the degree of the risk which a particular transaction or an activity in exposed to. Though the exact measurement of risk is not possible but the level of risk can be determined with the help of risk rating models

In order to measure the credit risk in banks' portfolio, the bank has developed various models in order to ascertain the risk in estimated manner. It is important to understand that the risks arise because of uncertainty and change in the circumstances. There could be some risks which can be foreseen and which cannot be anticipated at the time of undertaking the transaction.

2) Credit Risk Control Risk control, risk mitigation and risk aversion

Is the stage in risk management where the financing institutions take steps to control the risk with the help of various tools like transaction risk, intrinsic risk, concentration risk In bank lending operations, the ground level functionaries generally carry the belief that by obtaining collateral security, the risk can be mitigated or controlled. This approach is required to be re-examined and it needs to be clearly understood that securing a loan to cover prospective default by abstention of collaterals amounts to underwriting the transaction and is different from determining the risk cause and then taking steps to eliminate the causes that result in default by the borrower due to genuine difficulties

.4) Credit Risk Monitoring

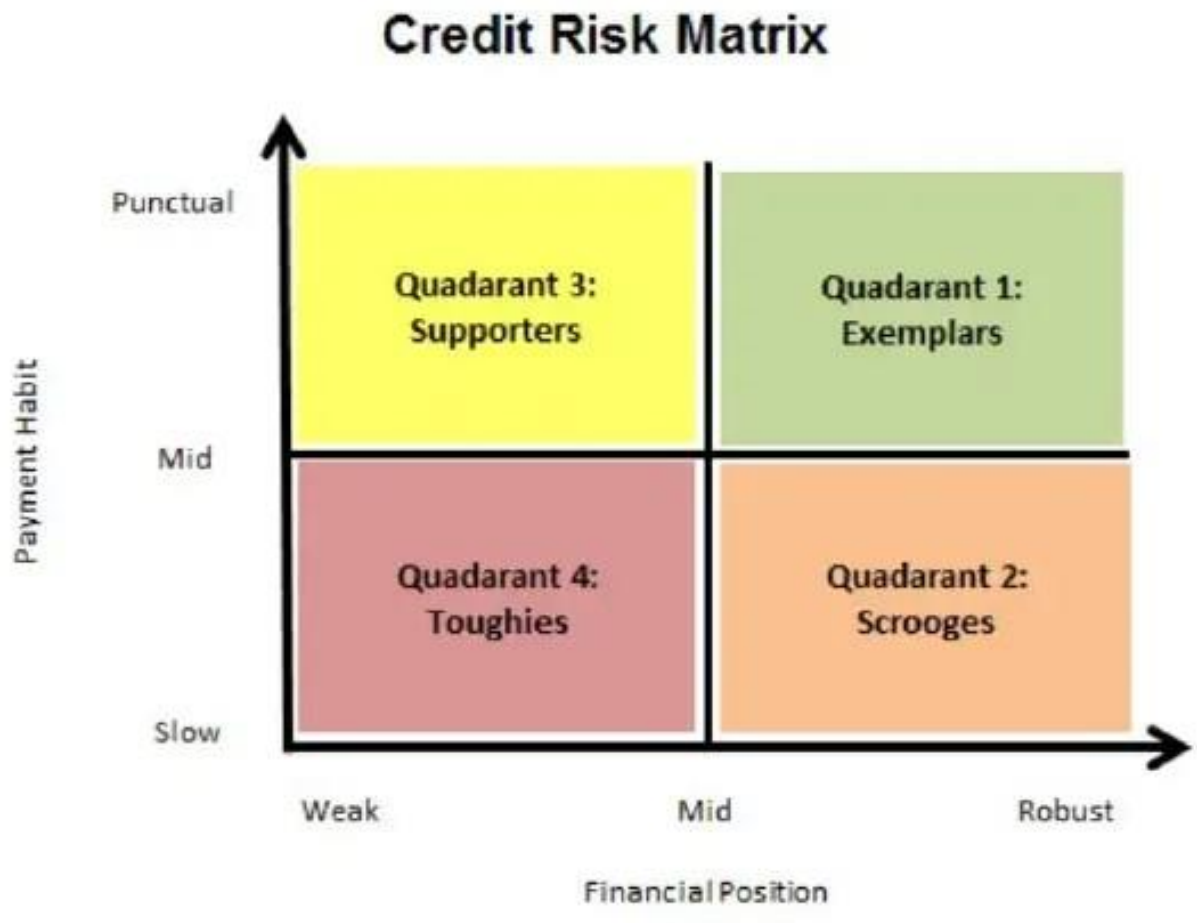
In monitoring the bankers have to fix up the parameters on which performance of a supported business is to be tested to be sure that there is no risk to viable existence of the financed unit or investment of the bank. Risk monitoring has to be a regular exercise to be undertaken on anon going basis for taking a view of changes in the position of the supported organizations and to determine cost to be fixed for the borrowers in terms of interest or other charges.

2.1.6 Credit Risk Matrix

It is a visual tool which tags a client's account to the risk portfolio. When these individual risk profiles are aggregated, we can get an overall idea of the credit risk profile of the receivables portfolio. It brings up following advantages:

* Easily understandable
* compels development of risk mitigation plans appropriate for each of the risk profiles
* Tracks changes of receivables over time.

With Financial Position and Payment Habit as bases, the following credit risk matrix is constructed:



Quadrant 1 (Exemplars)

–Robust financial position being coupled with punctual payment habit. This is an ideal credit risk profile. Clients who belong to this group are not a lot, thus there is a need to exert utmost effort to keep the ones you already have.

Quadrant 2 (Scrooges)

–Robust financial position but with slow payment habits. One can have trouble while collecting payment from this client and it isn't because they don't have the means to do so. For this group, it is really important to understand their payment processes and align collection process to theirs. Thus, having a good relationship with the client is an added advantage.

Quadrant 3 (Supporters)

–Weak financial position but with punctual payment habit. They may not have deep pockets, but they are very much eager to fulfil their obligations. As their financial position is not strong, it's important to keep tab of their operations and detect signals (big or small) that indicate any deterioration to their financial position.

Quadrant 4 (Toughies)

–Weak financial position coupled with slow payment habit. They're not the best of client's credit wise so have to be carefully managed. Having a bond or security in place is helpful, as does setting strict credit limits.

2.1.7 Principles for the Assessment of Banks' Management of Credit Risk

A . 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.

B . 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 a 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 a 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.

C. 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.

D . Ensuring sdquate 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.

E. THE ROLE OF SUPERVISOR

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.

2.1.8 IMPORTANCE OF CRIDIT RISK MANAGEMENT IN BANKS

Risk is always associated with banking activities, and taking a risk is an important part of any banking operation, there is hardly any banking operation without the risk. Most of the bankers are said to be sound when they have a clear overview of what is the amount of risk involved in the current transaction and they make sure that some of the partly earnings are therefore kept for these risks. The granting of any form of credit is the common form for any bank and this risk is very common and this is the source of risks the banks are always exposed to.

By being exposed to credit risk banks have been faced with a lot of problems. The bank's couple of years ago realized that credit risk is important and the bank's need to monitor, identify,

control, and measure it is very significant. Due to this, the effective management of credit risk has become a critical component of approaching risk management. This approach will be especially important in terms of the long-term success of any bank. Banks now ensure that they have a large amount of capital against any form of credit risks so that they can be in a position to adequately tackle any risks which will be incurred.

The credit risk is in the entire portfolio of any bank and also the risk that is associated with individual credits or any other transactions has to be managed adequately. It is always ascertained that the relationship between the credit risk and other forms of risks need be considered very seriously into account, in order to

- Increase shareholder value through value creation, value preservation, and value optimization
- Increase confidence in the market place
- Alleviate regulatory constraints and distortions

The Basel II Accord specifies that banks must have new procedures for measuring against credit risks. (MBA Knowledge Base

2.2. Empirical literature

Banks that charge high interest rate would relatively incur a higher default rate. In this regard, a study by Sinkey & Greenwalt (1991) on large commercial Banks in US revealed that a high interest rate charged by banks is associated with loan defaults.

Kwaku, (2015) studied assessing credit risk management practices in the Banking Industry of Ghana: Processes and Challenges and obtained the following findings. Some of the key findings from the study revealed that the bank has documented policy guidelines on credit risk management with a senior manager having oversight responsibility for implementation. However, the study showed that there were some implementation challenges of the credit risk policies which have resulted to low quality of loan portfolio of the bank. It is being submitted that bank's risk policies should be reviewed frequently.

Impact of credit risk management on credit risk exposure private banks in Ethiopia was studied by Martha in 2012; the scholar used four purposively selected private banks in Ethiopia. In her

study she used four variables in SPSS regression model to illustrate impact of credit risk management on credit exposure of the bank. Based on the study she has concluded that statistically credit risk management and credit risk exposure have inverse relation.

Hagos (2010) in his study found that Most of the loans provided are on short term repayment schedule (Mostly for the purpose of working capital). This is may be due to the limitation of capital base of the bank. However, it is currently causing burden of installment repayment and most of loan clients preferred to be improved as most of the time faces difficulty to manage it accordingly. It is one of the causes for loan client termination.

Assessment of Credit Risk Management Practices in Nib International Bank S.C. Studied by Daniel Teka, 2019 in his study found that Lack of adequate knowledge (being illiterate or unskilled) on how to use loan granted may lead to defaulting. In this connection loan diversion is a problem of such borrowers, because they may have low returns that could not cover the repayment resulting in default.

Credit Risk Management Practice In Privae Banks Case Study Bank Of Abyssinia studied
By Yohannes Argaw, 2016 found that The key challenges on implementing credit risk management activities of the Bank are lack of management information system and also the timeliness and quality of information, which are the key variable to make proper credit assessment and able to forecast the probability of any occurrence

2.3 Knowledge Gap

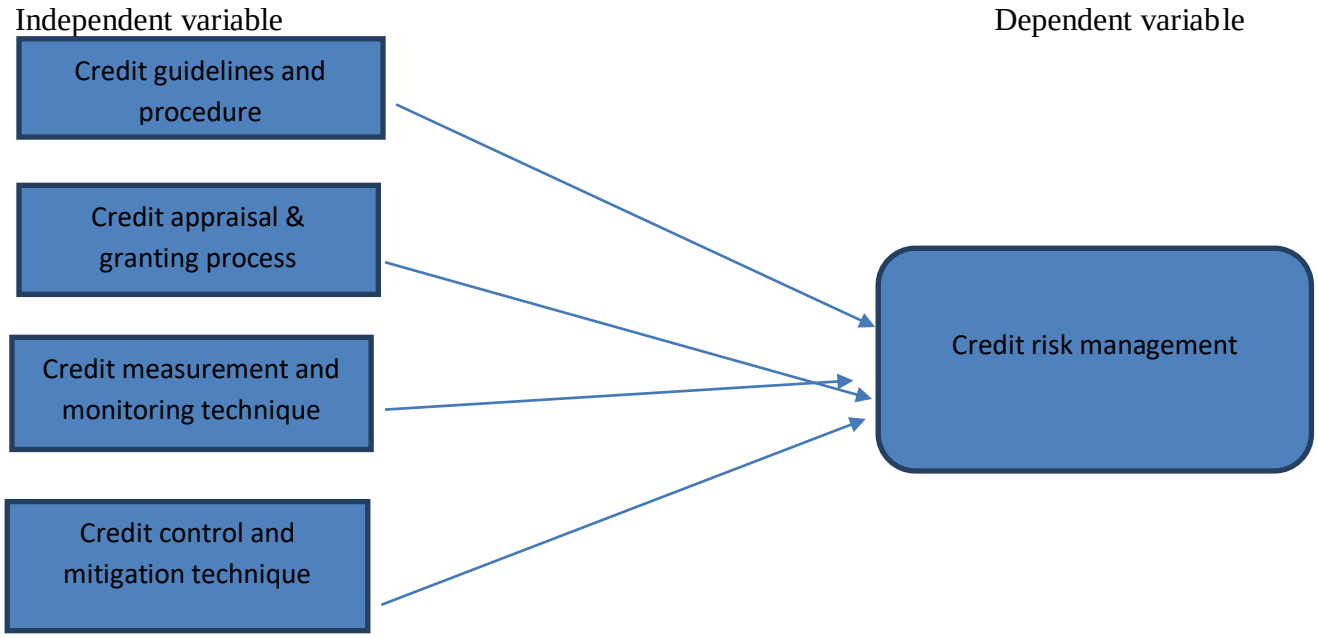
In general, from above literatures on credit risk management has decisive role in overall performance of the bank activity. The study conducted in Ethiopia had showed that the strong credit risk management has positive impact overall performance of the business.

Most of the studies reviewed focuses were on factors affecting the credit risk management and their impact of tackling credit default, assessment of determinants of Nonperforming loans (NPLs) and its performance on banks. Thus, researcher tries to fill the gap and contribute to the literature by giving addressing problems of credit risk management of NIB international bank. Moreover, previous researches were conducted in country level and they are more focus on urban area. Consequently, the researcher was try fill the gap by assessing the effect of credit risk management practice in Wolkite town.

2.4 conceptual framework

In order to attain the objectives stated earlier, the independent variables in this research are the four i.e. credit guidelines and procedure, credit appraisal and granting process, credit measurement and monitoring technique and credit control and mitigation technique. In contrast, the credit risk management is dependent variable for the study.

Figure 2.1: the conceptual framework of the study



Source: compiled by the researcher

CHAPTER 3

RESEARCH METHODOLOGY

3.1. Research Design

This research used descriptive research design. Descriptive research was employed as a main research method of this study to describe credit risk management practice at the bank. As described by C.R. Kothari, (2004) Descriptive research includes surveys and fact-finding enquiries of different kinds. The major purpose of descriptive research is description of the state of affairs as it exists at present.

3 .2 Source of Data

In this study, primary data was collected. Primary data from using structured questionnaire.

3.3. Method of Data Collection

To collect the required data from respondents structured questionnaire was employed. The primary data was collected from all key personnel from the credit and risk management workers and other professional workers using close ended questionnaire.

3.4population size and Sampling technique

The study populations drowning from Nib International Bank professionals and clerical employees those are working at wolkite town selected three branches. There are 15 professional employees working on the bank and throughout 3 branches.

In order to select relevant respondent used censes method for all professional staff members of the bank. According to C.R. Kothari, (2004) Censes method is a complete enumeration of all items in the population. It can be presumed that in such an inquiry, when all items are covered, no element of chance is left and highest accuracy is obtained. This method is selected by the researcher Because, such measure was enabling the researcher to get accurate data from small population.

3.5 Method of Data Analysis

As the research methodology is qualitative and quantitative in nature, i.e. descriptive elaborations discussions are employed to analyze the data. The information obtained from different source presented more in descriptive method.

UNIT FOUR

4.1DATA PRESENTATION AND ANALYSIS

The general objective of this study was to assess the credit risk management practice at NIB international bank wolkite branch. To attain the objective of the study, data from primary source was collected through questionnaires distributed to employees working in the NIB international bank wolkite branch. In this chapter data presentation, interpretation and discussion are presented.

4.2 Analysis and interpretation of questionnaire result in table form

In this point of the study the data gathered from primary sources are analyzed and interpreted.

A total of 15 questions were distributed to the employees of the bank which is related to the problem of the study area.

Table 4.1 Demographic information or summary of the number and percentage of respondent by age, sex and educational qualification

Item		Respondent	
		Numbers	Percentage (%)
sex	Male	8	53.3%
	Female	7	46.7%
	Total	15	100%
Age	25 to 30	8	53.3%
	31to 35	4	26.7%
	36 to 40	3	20%
	Above 40	-	-
	Total	15	100%
Education qualification	TVET certificate	-	-

	Diploma	-	-
	Degree	15	100%
	Master	-	-
	Total	15	100%
Work experience	*Below 5 year*	*11*	*73.3%*
	6 to 10	*4*	*26.7%*
	11 to 20	-	-
	Above 20	-	-
	Total	*15*	*100%*

Source: own survey

The above table (table 4.1) shows Demographic information or summary of the number and percentage of respondent by age, sex and educational qualification. We can see from the table 53.3% of respondents are male and 46.7% are female. This shows that most of the employees of the bank are male. Also, the researcher can see the second item of the table which is age range of the respondents. Out of the total number of respondents 53.3% belongs to age group of 25 to 30 years, while 26.7% belongs to the age range of 31 to 35 years and the remaining 20 % belongs to the age range of 36 to 40 years and this shows that most of the bank employees are found in the adult age. This implies that most of employees of the banks are fresh. Then the researcher had seen the educational qualification. As we know education is the best instrument for the development of the country. The credit activities are facilitated easily if the people involved are educated. And According to the sample of the respondents about 100% of respondents are Degree holders. So that the researcher can conclude that all of employees are literate but it is not enough. Finally, the researcher views the experience of each respondent in the bank under their current job. It has been 73.3% of respondents working experience is less than five year, 26.7% is between 6 to 10years. From this the researcher can conclude that most of the employees of the bank are not new for the bank service at some extent and know about the study area and this is good for researcher in order to get full information about the problem under study.

TABLE 4.2: *employee's opinions towards credit policies and guidelines at the bank*

Question	Measurement	Strongly agree	Agree	neutral	Disagree	Strongly disagree
The bank has well-designed credit risk Strategy and policy	Freq.	5	4	2	4	-
	%	33.3%	26.7%	13.3%	26.7%	-
The existing credit policy of the Bank explicitly indicate general areas of credit in which the bank is prepared to engage	Freq.	2	7	6	-	-
	%	13.3%	46.7%	40%	-	-
The existing credit policy of the Bank incorporate sound and prudent credit portfolio concentration limits	Freq.	2	2	11	-	-
	%	13.3%	13.3%	73.4%	-	-
The credit policy of the Bank clearly defined appropriate levels of delegation of approval, and provision or write- off authorities	Freq.	3	9	3	-	-
	%	20%	60%	20%	-	-
The Bank has credit risk policy that clearly set out how bad credits are to be managed	Freq.	9	6	-	-	-
	%	60%	40%	-	-	-

Source: own survey

As presented in table 4.2 above, employees were first asked to indicate their feelings towards the presence of well-designed credit risk strategy and policy at the bank. Around 60.3% respondents were agreed in credit risk strategy and policy of the bank and around 13.3% and 26.7% of respondents were neutral and disagree. This shows that there is a little gap needed to be improved in credit risk strategy and policy of the bank.

Item 2 in table 4.2 above inquired the opinion of the respondents regarding the presence of credit policy that indicates areas of engagement and the ability of the credit strategy to incorporate risks inherent in activities on which the Bank engages.60% of respondents were agreed. This result

indicates respondents believe that the credit policy and strategy at NIB Bank indicates and recognizes areas of credit in which the bank engage in and the risks associated with the activities the bank engages in.

According to table 4.2 item 3 above 73.4% of respondents were neutral with regard to the presence of credit policy that incorporates sound and prudent credit portfolio concentration limit. This implies respondents have not a knowledge about this policy.

In item 4 respondents were asked whether the bank's credit policy and procedures clearly define appropriate levels of delegation with regard to approval and provision of credit.80% of respondents were agreed. This implies respondents believe the existing credit policy of the Bank clearly states delegation of loan approval. This helps to distinguish who is responsible to carry out credit related tasks.

Furthermore, as shown in table 4.2, item 5 all of respondents were agreed with the statement the Bank has credit risk policy that clearly set out how bad credits are to be managed. This implies that the when the bank encounter bad loans the bank's credit policy has set out a way to deal with bad loans.

In general, from this and the results presented in table 4.2 above, more of result is above average it can be implied that the existing credit policy of bank is good.

TABLE 4.3: Employees opinions towards credit appraisal &granting process at the bank

Question	Measurement	Strongly agree	Agree	neutral	Disagree	Strongly disagree
The Bank conducts comprehensive Credit worthiness analysis properly before granting loan.	Freq.	11	4	-	-	-
	%	73.3%	26.7%	-	-	-
The bank checks the borrower history and financial ability to meet obligation before granting loans	Freq.	9	4	-	2	-
	%	60%	26.7%	-	13.3%	-
The bank has a clear established process for approving a new credit as	Freq.	8	5	2	-	-
	%	53.4%	33.3%	13.3%	-	-

well as amendment, renewal and re-financing of existing credits						
Adequacy, marketability and enforceability of collateral requirement is properly evaluated and measured by professional personnel or expertise	Freq.	4	7	2	2	-
	%	26.7%	46.7%	13.3%	13.3%	-
The banks credit granting and approval process establishes accountability of the decision makers	Freq.	7	6	-	-	2
	%	46.6%	40%	-	-	13.3%

Source: own survey

Table 4.3 above presents results of respondents' opinion regarding the credit appraisal and granting process of the bank. In this regard, as presented in table 4.3 above, the first item sought respondents' opinion weather the bank conducts comprehensive Credit worthiness analysis properly before granting loan. All of respondents agree that the bank conducts worthiness analysis properly before granting loan.

Item 2 in table 4.3 above inquired the opinion of the respondents if the bank checks the borrower history and financial ability before granting loans. 86.7% of the respondents agree the bank checks the borrower history and financial ability and collateral requirement before granting loans.

According to table 4.3 above, 86.7% of respondents were agreed with regard to the presence of clear established process for s amendment, renewal and re-financing of existing credits. This finding shows that respondents' opinion is relatively favorable regarding the presence of clear established process for the amendment, renewal and re-financing of existing credits.

According to last item of table 4.3, 86.6% of respondents were agree regard to the presence of credit granting and approval process that establishes accountability of the decision makers.

TABLE 4.4: Employee's opinions towards the credit monitoring practice at the bank

Question	Measurement	Strongly agree	Agree	neutral	Disagree	Strongly disagree
The Bank has a well-structured documentation tracking system for credit and collateral files	Freq.	7	6	2	-	-
	%	46.6%	40%	13.3%	-	-
The bank strictly monitors if loan terms and conditions are being met	Freq.	3	11	1	-	-
	%	20%	73.4%	6.6%	-	-
The Bank monitors the business of clients after granting credits on regular interval basis	Freq.	4	2	9	-	-
	%	26.6%	13.3%	60%	-	-
The Bank regularly asses value and existence of Collateral coverage	Freq.	3	12	0	-	-
	%	20%	80%	0%	-	-
The bank sends timely notices notifying customers their obligations	Freq.	2	11	2	-	-
	%	13.3%	73.4%	13.3%	-	-

Source: own survey

As it is presented in table 4.4 above, the first item inquired respondents' opinion about the presence of a well-structured documentation tracking system for credit and collateral files at the bank. 86.6% of respondents were agreed, which implies respondents agree that there is well structured documentation tracking system for credit and collateral files at the bank. Similarly, the second item presented to the respondents was to learn whether or not the bank regularly assesses loan terms and conditions. Respondents rated their agreement 93.4% were agreed this implying that the bank put regular effort to assess if borrowers are in line with the terms and conditions of their loan.

In contrast, table 4.4 shows that, respondents don't agree that the bank regularly monitors the business of clients after granting credits. This was reflected with the 60% neutral response. This result shows that the banks effort to assess the business activities of clients after granting the loan is below average.

According to table 4.4 above, the last two items show the bank regularly asses value and existence of collateral coverage and that the bank sends timely notices notifying customers of their obligations. This result shows that the banks effort to assess the collateral situation during loan term and providing prior notices for customers is good.

TABLE 4.5: Employees opinions towards the credit risk mitigation strategies and tools

Question	Measurement	Strongly agree	Agree	neutral	Disagree	Strongly disagree
The Bank employs risk based scientific pricing	Freq.	4	9	2	-	-
	%	26.7%	60%	13.3%	-	-
The bank has appropriate internal risk scoring system that distinguishes high and low risk areas	Freq.	7	4	2	2	-
	%	46.7%	26.7%	13.3%	13.3%	-
Proper credit limit is established by the Bank for particular economic sector, geographic region-specific products, and a group of associated borrowers	Freq.	7	4	4	-	-
	%	46.6%	26.7%	26.7%	-	-
The bank offers training for employees on credit risk management	Freq.	4	11	-	-	-
	%	26.7%	73.3%	-	-	-
The bank offers customers sufficient training on loans usage	Freq.	2	7	6	-	-
	%	13.3%	46.7%	40%	-	-

Source: own survey

Table 4.5 above shows opinions of respondents about the credit risk mitigation strategies and tools employed at the bank. As presented in table 4.5, the first item asked employees' opinion if they believe the bank employee risk based scientific pricing method it was indicates that 86.7% of respondents were agreed on this question. it was indicates that the bank is good in pricing technique, which is in turn help mitigate risk faced by the bank.

The second item asked employees' opinion on appropriate internal risk scoring system at the bank that distinguishes high and low risk area. More than half of respondents were agree and

around 26% of respondents were not agreed. This show that based on respondents answer the bank is good on internal scoring system but it is not enough.

The 3 item asked on table 4.5 was asked the opinion of employees on establishment of proper credit limit by the bank based on economic sector, geographical region and of borrower the response of employees show that the bank is good on this regard and it is help full technique to reducing risks related to credit.

Finally, the last two questions are related to training on credit risk management offer by the bank to employees and customers. This result indicates employees believe there are sufficient training s provided for employees on credit risk management. On customer side 54% of respondents were agreed and 40% of respondents were give neutral opinion on the question, it indicates the bank not offer sufficient training to customers on loan usage.

CHAPTER 5

SUMMARY OF MAJOR FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary of Major Findings

This study was conducted with the main objective of assessing the credit risk management practice of NIB international bank. This study has assessed existing credit policies and guidelines, client appraisal and credit granting process, credit risk control and monitoring practice and the methods employed control and mitigate credit risk at NIB international bank. The study used descriptive research design and the study was carried out through collecting data by questionnaires from the employees at wolkite branches. So far, the researcher has summarized the major finding of the study as follows:

- ✓ In simple descriptive analysis majority of the bank's staff fall between 25 – 35 years of age, this implies that the banks human resource is more of young aged.
- ✓ Demographic characteristics of the bank revealed that the bank is in good position in terms of the necessary educated manpower and experienced staffs as all staff are have at least BA degree.
- ✓ The result how that majority of respondents were agreed the bank has well designed credit risk strategy and policy.
- ✓ 60% of respondents were agreed the bank policy explicitly indicate general area of credit in which the bank is prepared to engage and 40% of respondents give neutral opinion
- ✓ The result found that 80% of respondents were agreed on appropriate level of delegation of approval and provision or write off authority
- ✓ All of respondents were agreed the bank has credit risk policy that clearly set out how bad credit are to be managed.
- ✓ Results in the study found that respondent employees agreed that the bank conducts comprehensive credit worthiness analysis properly before granting loan

- ✓ The result shows the bank properly assesses the borrower history financial ability before granting loan
- ✓ More than half of respondents agreed on the process of approving a new credit and amendment, renewal and re-financing of existing credit.
- ✓ The results in the study revealed that respondent employees agreed with regard to the availability of credit granting and approval process that establishes accountability of the decision makers
- ✓ The result show that bank has well-structured documentation tracing system for credit and collateral files
- ✓ With regard to credit monitoring practices of the bank, results in the study showed that

60% of respondents give neutral opinion that the bank monitors the business of clients after granting credits on regular interval basis

- ✓ All of respondents were agreed the bank regularly asses value and existence of collateral coverage
- ✓ 86.7% of respondents believes the bank send timely notice notifying customers their obligation
- ✓ The results presented in the study also showed that respondent employees believe that the bank uses appropriate internal risk scoring system (73.4%) and that the bank employs risk based scientific pricing (86.7%)
- ✓ The respondents agreed that the bank gives training's for employees on credit risk management (100%) and provides advice for customers on loans usage (60%).

5.2 CONCLUSION

It is argued in the literature that appropriate credit risk environment mainly depends on a development of a comprehensive credit risk strategies and policies that can address the identification of existing and potential credit risk, the activities the bank engages in and credit portfolio concentration limits (Basel, 2008). The findings in the study revealed that that the

existing credit policy of bank possess the valuable ingredients needed to sustain a healthy credit management. Results showed that there is a well-designed credit risk strategy and policy that indicate and recognizes areas of credit engagement and the risks inherent in these engagements.. It is stated that banks should follow a thorough credit evaluation process to assess whether clients are credit worthy or not before granting loans. To properly evaluate loan requests banks should be able to determine the repayment ability of the potential borrower. This requires assessing the business and the financial position of the potential customer and the overall economic conditions (Kakuru, 2003)., the results of the study showed that the bank considers important aspects like; borrowers' history, financial condition, and collateral.

Another aspect of a sound credit risk management process is a sound monitoring practice intended to ensure credit is orderly and fully repaid. This involves monitoring the portfolio performance, conducting site visits, regular contact with clients, and reviewing clients' files and documents. In this aspect, findings in the study showed there is strong credit risk control and monitoring about monitoring activities undertaken at NIB international bank; regularly inspecting the business of clients, assessing the value and existence of collateral coverage, and communicating with customers to be able to notify them of their obligations.

Credit risk management also involves building a capacity that can mitigate and transfer the risk to reduce losses. To achieve this risk management objective banks use tools and strategies through which credit risk is mitigated (Raghavan, 2003). With this regard the findings in the study raveled that NIB international bank uses an appropriate internal risk scoring system, employs risk-based scientific pricing, and has an independent risk management function.

5.3 RECOMMENDATION

The study recommends the following points based on the findings;

- One of the important methods to reduce credit risk is the credit portfolio concentration limit. In this regard, the study shows that the bank has a lack of credit portfolio concentration limit. The bank must make corrective action on the credit portfolio concentration limit
- Once a credit is disbursed, the existence of a well-developed constant monitoring process is imperative and forms a substantial part of the monitoring function in a bank. One method of carrying out this monitoring process is by inspecting the business of clients on a regular

interval basis after granting credits. The findings of the study showed there is room for improvement in this regard at NIB international bank. Therefore, this study suggests the bank undertake regular inspections that can enable the bank to compare the actual performance of the borrowers. This can be achieved by timely analysis of the financial accounts of loan customers and comparing it to the projections accepted at the time of appraisal of credit facilities. This helps the bank to timely identify accounts showing symptoms of strain and put them under constant monitoring.

- To increase the high quality of credit service, all customers should get sufficient training on loan usage. The training should be given continuously like every six months and every year to refresh what they know and through group discussion, they may share their ideas and finally come to some solution for the appropriate use of loan. The study shows that the bank gives training to customers on loan usage but it's not enough must make some improvement.

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APPENDIX

Wolkite University

College of Business and Economics

Department of Accounting and Finance

Questionnaire to be filled by Stuffs

Dear Respondent,

This questionnaire is designed to gather information for the research to be conducted on "Credit Risk Management practice at NIB international bank". The purpose of the study is to fulfill the requirements for the BA degree in accounting and finance. Your response to this questionnaire is extremely important for the successful completion of my research and also to serve as a great input to the Bank.

The information that you will provide will only be used for the study and kept strictly confidential.

I would like to thank you for your cooperation and for sparing your valuable time for my request.

NB • Writing your name is not necessary

- Please put "X" for your choice in the box

Part 1. General background of the employee

1. Sex/Gender/: Male (_____) Female (_____)

2. Age (in a year): 25 to 30 (____), 31to 35 (____), 36 to 40 (___), above 40 (____)

3. Level of education: TVET certificate (__), Diploma (___), Bachelor's Degree (__), Master's Degree (_____) or others specify_____

4. Work experience; Below 5 yrs (_____),6-10 yrs (_____), 11-20yrs (_____), Above 20 yrs (_____)

Part 2 Questions related to the study

Answer the following questions and put "X" in the box that is given in each of the cells below

The values of scales are 5= strongly agree, 4= Agree, 3= Neutral, 2= Disagree, 1= strongly disagree

Questions related to existing credit policies and guidelines

No	Question	1	2	3	4	5
1	The bank has a well-designed credit risk Strategy and policy.					
2	The existing credit policy of the Bank explicitly indicates general areas of credit in which the bank is prepared to engage					
3	The existing credit policy of the Bank incorporates sound and prudent credit portfolio concentration limits					
4	The credit policy of the Bank clearly defined appropriate levels of delegation of approval, and provision or write-off authorities					
5	The Bank has a credit risk policy that set out how bad credits are to be managed					

Questions related to client appraisal and credit granting process

No	Question	1	2	3	4	5
6	The Bank conducts a comprehensive Credit worthiness analysis properly before granting the loan.					
7	The bank checks the borrower's history and financial ability to meet obligations before granting loans					
8	The bank has an established process for approving a new credit as well as amendment, renewal, and re-financing of existing credits					
9	Adequacy, marketability, and enforceability of collateral requirement is properly evaluated and measured by professional personnel or expertise					
10	The bank's credit granting and approval process establishes accountability of the decision-makers					

Questions related to credit risk control and monitoring

No	Question	1	2	3	4	5
11	The Bank has a well-structured documentation tracking system for credit and collateral files					
12	The bank strictly monitors if loan terms and conditions are being met					
13	The Bank monitors the business of clients after granting credits on a regular interval basis					
14	The Bank regularly asses value and existence of Collateral coverage					
15	The bank sends timely notices notifying customers of their obligations					

Questions related to overall credit risk mitigation strategies

No	Question	1	2	3	4	5
16	The Bank employs risk-based scientific pricing					
17	The bank has an appropriate internal risk scoring system that distinguishes high and low-risk areas					
18	The proper credit limit is established by the Bank for particular economic sectors, geographic region-specific products, and a group of associated borrowers					
19	The bank offers training for employees on credit risk management					
20	The bank offers customers sufficient training on loans usage					