Journal of Poverty, Investment and Development www.iiste.org
ISSN 2422-846X An International Peer-reviewed Journal
Vol.16, 2015

Assessment of Credit Risk Management in the Case ABay International Bank (AIB) Alahmeta Branch

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Abstract
Credit management is the most sensitive part of the banking system and where most problems arise. Because of this reason and other credit management should be given due care to safeguard and improve the banking industry, if something went wrong in managing credit improper way; the banking industry and the general economy will collapse. The main reason for studying is to determine and find how efficiently and effectively Abay International Bank (AIB) Alahmeta Branch is managing the credit process. The study here is applied sampling technique non-probability sampling particularly pervasive sampling to gather relevant data more concerned and those who are deemed knowledge about the topic are selected. At present in Abay International Bank Share Company Alahmeta Branch the researcher was used 15 Employees as a sample from the total population; because they are concerned bodies to the topic, a primary source of data which is a questionnaire to the staff members (officers) were prepared 15 questionnaires to the targeted officers, and a source of secondary data from the branch official documents like financial statements that indicate the disbursed; collected and uncollected amount of loan were conducted with concerned body of branch manager. The data that were collected from primary and secondary source of data were presented by table and analyzed through descriptive with help of statistical program of SPSS 2005, version 16 result. The finding from this study is the borrower was late in making the mortgage payment, has less efficient risk monitoring and controlling system and there is any good collection techniques loan from the clients.
Keywords: Collection techniques, Credit management, Follow up and Requirements borrowers.

1. Introduction

A commercial bank is a type of financial intermediary and a type of bank. After the Great Depression, the US Congress required banks only engage in banking activities, whereas investment banks were limited to capital market activities. Since the two no longer have to be under separate ownership, some use the term "commercial bank" to refer to a bank or a division of a bank primarily dealing with deposits and loans from corporations or large businesses. Commercial bank is the term used for a normal bank to distinguish it from an investment bank (Khambata, 1996).

Bank credit is a scarce resource; hence it should be optimally utilized under all circumstances. For industrial unit, it has become scarcer. Now there are more contenders, for bank credit: Agriculture, small scale industry, farmers, small man and many others. Public enterprises also approach commercial bank for their working capital requirements. The share of bank credit to large scale industry has diminished. On the other hand; the share of small industry and public enterprise is steadily increasing. In view of the growing demand on bank funds from all sectors; industrial companies have no option but to use bank funds in the most efficient way. In the past they misused or mismanaged the bank funds. Bank credit primarily meant for working capital finance was found to be used for long term purpose and to finance subsidiaries and associated companies. Not only this; cheap credit available from banks have been used to build up disproportionate stocks of materials to realize trading profits (Brigham, 1995).

Credit is also pervasive that the world's economic system is often characterized as a credit economy. Credit touches the lives of everyone often in several different roles. An understanding of the nature, uses, and general function of credit is, therefore essential for business, economists and customers alike. A much more thorough knowledge of credit in all its phase, however, is necessary for those charged with its management (Ibid, 1955).

Adequately managing credit risk in financial institutions (FIs) is critical for the survival and growth of the FIs. In the case of banks, the issue of credit risk is of even of greater concern because of the higher levels of perceived risks resulting from some of the characteristics of clients and business conditions that they find themselves in.

Banks are in the business of safeguarding money and other valuables for their clients. They also provide loans, credit and payment services such as checking accounts, money orders and cashier's checks. Banks also may offer investment and insurance products and a wide whole range of other financial service in accordance with the 1999 Financial Services Modernization Act by the US.

Most of the time the subject of credit is treated from the standing point of commercial bank; credit is defined as follows:

"Credit is the power or ability to secure goods or service in exchange for a promise to pay

for them (banks) later,", "Credit is the power or ability to secure money by the borrowing process in return for a promise to repay the obligation is the future" and "Credit is the permissions to use another's capital" (Beckman, 1955).

From the above definitions; a conclusion can be made that futurity is a basic characteristic of credit and risk, which is necessarily connected with the time elements.

Frequently Used Ratios in Credit Analysis

Category	Ratio
Operating Performance	Earnings before interest, taxes, depreciation and amortization(EBITDA)/Sales Net Income/ Sales Net Income/ Net Worth Sales/ Fixed Assets
Debt Service Coverage	EBITDA/ Interest Payment>1.5 Free Cash-flow expenditure/ Interest payments Free Cash-flow expenditures-dividend/Interest
Financial Leverage	Long-term debt/Capitalization Long-term debt/Tangible net worth Total liabilities/Tangible net worth Current liabilities/Tangible net worth
Liquidity	Current ratio (current assets/current liabilities) Quick ratio (current assets-inventory/current liabilities) Inventory turnover(inventory/Net sales) Inventory to Net working capital Current debt to Inventory Raw materials, WIP, and finished goods as a percentage of total Inventory
Receivables	Aging of receivables:30,60,90,90+days

Source; Caoutte, et al, 1998

Credit management is the most sensitive part of the banking system and where most problems arise. Because of this reason credit management should be given due care to safeguard and improve the banking industry, if something went wrong in managing credit improper way; the banking industry and the general economy will collapse. The main reason for studying is to determine and find how efficiently and effectively AIB is managing the credit process.

In light of these study (research) tried to find out the basic credit management components and based on analysis is computed that provides efficient and effective credit management on the overall performance of the Alahmeta Branch of Abay international bank share company and its mission is to implement the objectives of Abay international benk (AIB) as per the requirement set by the head office. The following question raised by the researcher from the credit risk management in Abay International Bank (AIB) Alahmeta Branch:

1. What are the requirements borrowers should fulfill to get loan from the AIB in Alahmeta Branch?
2. What types of collection procedure follows the AIB in Alahmeta Branch?
3. What does it seems the follow up by the bank for its clients?
4. What are the cause that clients unable to repayment their loan on time?
5. What is the collection process that follows AIB in Alahmeta Branch?

1.2. General Objective of the Study

The general objective of the study is to assess the credit risk management in Abay International Bank (AIB) Alahmeta Branch.

1.2.1. Specific Objective of the Study

The specific objective will only concern about the banking industry especially private commercial banks and in our case AIB Alahmeta Branch and its credit management system.

1. To identify the requirements borrowers that could be fulfilled to get loan from AIB in Alahmeta Branch.
2. To assess the trend of the bank's credit management processes.
3. To examine the follow up by the bank for its clients.
4. To identify the causes that clients unable to repay their loan on time.
5. To assess the collection process that follows AIB in Alahmeta Branch.

2. Method of the Study

2.2.1. Sampling Technique

The respondent is selected with non-probability sampling particularly pervasive sampling to gather relevant data more concerned and those who are deemed knowledge about the topic are selected. At present in Abay international bank Share Company Alahmeta Branch the researcher was used 15 Employees as a sample from the total population; because they are concerned bodies to the topic. The study subjected to the fact that population was used to represent the target population. Apart from this to ensure the reliability of the study and to give equal chance of being selected for each stratum simple random sampling was used.

2.2.2. Data Collection Method

For the study, the source of secondary data from the branch official documents like financial statements that indicate the disbursed; collected and uncollected amount of loan were conducted with concerned body of branch manager. In addition to secondary source of data the researcher handed primary source of data which is a questionnaire to the staff members (officers) were prepared 15 questionnaires to the targeted officers. In addition to the secondary data is gathered from the branch and has been given broachers (2013) and magazine (2014) which show the overall picture of AIB Alahmeta Branch.

2.2.3. Method of Data Processing and Analysis

After the needed data was collected, data analysis was carried out. After all data reduction was made; which is the process of transcribing data from individual data sheet to a summary form and then coding and edition of data was followed. This process helps the researcher to discover invalid data, missing data and outliners, after checking all data and make correction, and then the researcher was passed to a descriptive analysis in using different tools; like, tabulation and percentages with help of statistical program of SPSS 2005, version 16.
The data that were collected from the questionnaires presented on the table, charts and graph with help of statistical program of SPSS 2005, version 16. The data collected were more of qualitative in nature; thus, they were presented by using descriptive analysis. Hence, the nature of the study is a descriptive.

Using the tools helps to manipulate the information gathered and make them easy to analyses. To facilitate comparison and to avoid an unnecessary descriptive statement that helps the researcher to conduct the research simply within a given time. Finally; the researcher conducted data interpretation.

3. Data Presentation and Analysis

3.1. Characteristics of the Respondents

The data that was collected using primary sources was first analyzed by showing the distribution of respondents by each of the pertinent variables. Percentage in a tabular form was then conducted At least the researcher's conclusion and recommendation was set. In the organization the sample elements to collect primary source of data was selected based on personal judgment. The sample elements were comprised of 2 Auditors 2 Accountants 2 Bankers; 4 Tellers and 2 clerks who are served by the organization (branch bank's).The distribution of respondents by Gender, Qualification, and years of experience is given in table 3.1 below.

Table 3.1 Distribution of Respondents by Gender, Qualification and Years of Experiences

No	Items	Respondents											
		Auditors		**Accountants**		**Bankers**		**Tellers**		**Clerks**		**Total**	
1	Gender	No	%	No	%	No	%	No	%	No	%	No	%
	Male	1	50	2	100	2	100	3	75	-	-	8	67
	Female	1	50	-	-	-	-	1	25	2	100	4	33
	Total	**2**	**100**	**2**	**100**	**2**	**100**	**4**	**100**	**2**	**100**	**12**	**100**
2	Qualification	No	%	No	%	No	%	No	%	No	%	No	%
	BA degree	2	100	2	100	1	50	3	75	1	50	9	75
	Diploma	-	-	-	-	1	50	1	25	1	50	3	25
	Total	**2**	**100**	**2**	**100**	**2**	**100**	**4**	**100**	**2**	**100**	**12**	**100**
3	Years of experiences	No	%	No	%	No	%	No	%	No	%	No	%
	0-3years years	-	-	1	50	-	-	2	50	2	100	5	42
	4-6years	1	50	-	-	2	100	1	25	-	-	4	33
	7-10 years	1	50	1	50	-	-	1	25	-	-	3	25
	Total	**2**	**100**	**2**	**100**	**2**	**100**	**4**	**100**	**2**	**100**	**12**	**100**

Source: Survey and own computations (2014)

The purpose of the above table 3-1 is to treat information about back ground of the target population as can be seen from item number one of the same table; i.e. 8 (67%) were males and the rest 4/33%/of the respondents were females this reveals that the portions of females to the males is very low. Especially in the accountants and Bankers job titles were no females.

With regarding to the respondents' qualification the majorities, i.e. 9(75%) of the respondents were BA Degree and about 3 (25%) of the total target population were diploma holders.

According to Table 3.1 respondents' service years were most of the respondents i.e. 5(42%) have served from 0 to 3 years. Whereas 4 (33%) from 4 to 6 years and the reset 3(25%) from 7 to 10 years experiences. This shows that the majorities of the respondents were not well job experienced.

Table 3-2 Respondents on the Six Risk Management Aspects

No	Risk management aspect	A. Yes		B. No		C unknown		Total	
		No	%	No	%	No	%	No	%
1	Understand risk & risk management (URM)	11	92	-	-	1	8	12	100
2	Risk identification (RI)	9	75	2	17	1	8	12	100
3	Risk assessment & analysis (RAA)	6	50	5	42	1	8	12	100
4	Risk monitoring (RM)	6	50	5	42	1	8	12	100
5	Risk management practice (RMP)	10	83	1	83	1	8	12	100
6	Credit risk analysis (CRA)	10	83	-	-	2	17	12	100

Source: Survey and own computations (2014)

Carey (2001) indicates in this regard that risk management is more important in the financial sector than in the parts of the economy. The purpose of financial institutions is to maximize revenues and after the most value to shareholders by offering a variety of financial services and especially by administering risks.

In the above table 3-2 the six aspects of risk and risk management asked to give their responses on the understanding risk and risk management (URM); risk identification (RI); Risk management practices (RMP); and credit risk analysis (CRA); The responses are 11(92%), 9(75%), 6(50%), 6(50%), 10(83%) & 10(83%) respectively. These results show that all of the above aspects are reliable. According to Nunn, A. (1978) states as a general rule; a coefficient greater than or equal to 0.7(70%) is considered acceptable and a good indication of construct reliability.

- With regard to Understanding risk and risk management: On the above table 3.2 shows that the respondents answer on the first question that is 11(92%); this indicates the branch bank's staff understands risk and risk management which might give an indication about the ability of these bank to manage efficiently in the future.
- With regard to risk identification: is very important step in risk management aspects table 3-2 item number2; It can be seen 9(75%) that indicates branch bank has clearly identified the potential risks relating to their declared aim and objectives.
- This implied to risk assessment and analysis**:** The result of the respondents is 6(50%) representing a positive answer on the third of our research quest ions. which means the respondents viewed the branch has less efficient assessment risk and analysis: as stated above a general rule 0.7(70%) when comparing to the rest respondents.
- According to risk monitoring: can be used to make sure that risk management practices are in line with desired practices. Proper risk monitoring also helps bank Management to discover mistakes early. The questionnaire addressing risk monitoring on table 3-2 item number four summarizes the sample respondents on these question is 0.5(50%) of the respondents have given position answers which indicates that the branch bank's has less efficient risk monitoring and controlling system is under 0.7(70%) compared with the general rule.
- According to respondent risk management practices**:** might be considered the most important aspect of risk management. Even if the bank staff understand risk & the bank adopts sophisticated methods in risk assessment and risk analysis; it still may not be the case that there are efficient risk management practices on the table 3-2 item number five the respondents answers 10(83%), which indicates that the branch bank are efficient in risk management practices.
- As responded to Credit risk analysis**:** It was mentioned earlier that credit risk of the branch bank represents the most important type of risk, and also that the branch bank did encounter a credit risk and that they might face this type of risk again in the future. As credit risk is the most important type of risk; on table 3-2 item number six responses10 (83%), which indicates the branch bank has efficient credit risk analysis.
- The most important answers were undertaking credit worthiness analysis, undertaking a specific analysis including the client's character; capacity, capital, conditions, and requiring sufficient collateral.

Table 3-3 Response that the five C's of bad credit representing to guard against to help prevent problem.

Bad credit factors	Respondents	
	No	%
A. Complacency	1	8
B. Carelessness	2	17
C. Communication break down	-	-
D. Contingencies	-	-
E. Competition	-	-
F. All	9	75
Total	**12**	**100**

Source: Survey and own computations (2014)

Golden and Walker (1993) further identified that the five C's of bad credit representing things to guard against to help prevent problems.

- **Complacency:** Refers to the tendency to assume that because things were good in the past they will be good in the future.
- **Carelessness**: Involves poor under writing typically evidenced by in adequate loan documentation.
- **Communication breakdown:** loan problems often arise when a bank's credit objectives & policies are not clearly communicated.
- **Contingencies**: refers to lenders tendency to lie down or ignore circumstances in which a loan might default.
- **Competition**: involves following competitors behavior rather than maintaining the bank's own credit standards.

As indicated on table 3-3 above, most of the respondents i.e. 9(75%) replied that the organization use all the above mentioned five C's of bad credit factors as one criterion even in accepting or rejecting clients.

Table 3-4 Response on the policies should appropriately address valuation of any internal credit risk assessment models.

Responses	Respondents	
	No	%
A. Yes	11	92
B. No	1	8
C. Unknown	-	-
Total	**12**	**100**

Source: Survey and own computations (2014)

The final decision as to whether the loan requires should be approved or declined is reached by comparing the statements made by the applicant with the information derived through the investigation process and by analyzing the various credit factors previously described a balanced and sound lending decision will be achieved largely or the following bases of assessments.

1. Appraise the borrower's business and financial status based on audited financial statements, provisional financial statements or the commercial credit reports or the commercial credit report which was filled by the customer and later checked by the branch manager.
2. Appraise the borrower's credit history in respect to:-
   - Repayment habits with other banks if any.
   - Applicant's credit worthiness to other conditions which can be obtained from informal sources.
   - Check as much as possible if borrowers have gone through bankruptcy.
3. Assess the type and value of collateral in relation to the amount regulated.
4. **Line of business**: the borrower's line of business must be assessed. properly as to:
   - Possible or already tight completion.
   - Can be survive the competition?
5. Management and organizational setup.
   - Check or resource fullness; integrity and continuity of the applicant's management in general.
   - Ensure availability of proper operational accounting and control system
6. Recommendation /decision/based on the finding of some of factors stated above.
7. A decision can be appealed up on higher level credit committee; Which offer studying the reasons surrounding the decision either can up held it or over side the decision; but based on clearly expressed reason or explanation.
8. Branch's recommendation to head office credit committee;
   - Reason for recommendation must be expressly given.

- Terms and conditions must be defined; the type of credit facility; duration; applicable in tersest rate; types of collateral any grace period and other terms or conditions as may be applicable

All above mentioned the Abay International bank share company's policies that address valuation of any internal credit risk assessment models.

Therefore; on the table 3-5 the respondents asked to give their responses; accordingly; most of the respondents; that is 11 (92%) of the target population replied that based on bank's policies the branch manager makes a recommendation or decision either positively or negatively. If It is negative; a polite "No "must be given to the applicant but stating the reason very clearly customers are in titled to a write response to their applicant and the response for the decision.

As respondent is indicated on the above a bank's policies should appropriately addressed valuation of any internal credit risk assessment. The credit policies of banks' are conditioned; to an extent; by a national policy; within the national policy frame work; every banker has to apply his /her judgment for arriving at a credit decision.

Table 3-5 Responses on the Trend of the Bank's Credit Management Process

Responses	Respondents	
	No	%
A. Review	2	17
B. Follow up	8	67
C. Inspection	1	8
D. Write-off	-	-
E. All	1	8
Total	**12**	**100**

Source: Survey and own computations (2014)

According to Morton G, L. (2003), stated as the loan review effort is directed at reducing credit risk as well as handling problem. Loan has liquidating assets of failed borrowers? Effective credit management separates loan review from credit analysis, execution and administration.

As Singh (1983), described, Follow up may be defined as a contentious activity aimed at ensuring observance of stipulation laid down by the bank, picking up signals on the health status of clients position, remedial action and ensuring results of actions on off funds, boarding's, a risk management and inefficiencies at periodical intervals on continuous basis.

As it can be seen from table 3-5 above, most of the respondents that is 8(67%) replied that based on Singh (1983) described above follow up is a continuous activity aimed at ensuring observance of stipulations laid down by the branch bank.

It is clear that the respondents were responses the credit follow up mechanisms of the branch. The ultimate objective of follow up is to ensure safety of bank funds and the end use of bank credit an ongoing basis.

Table 3-6 Responses on failure to pay the loan granted, the branch take any other alternatives to recover the customer.

Responses	Respondents	
	No	%
A. Yes	4	33
B. No	8	67
C. Unknown	-	-
Total	**12**	**100**

Source: Survey and own computations (2014)

According to the above table 3-6 most of the respondents, that is 8(67%) of responses are in case of failure to pay the loan granted the branch bank does not take any other alternatives to recover the customer. Unfortunately the borrower may lose job, fail ill or simply fall baring on the mortgage payment. But these are not valid reason to miss mortgage payment when originally applied for a loan, the borrower likely verified aspect reserves that prove to the bank that he/she can differed the loan for attain amount of months. Even if fail to receive any additional income. But some of the respondents i.e. 4(33%) responses the client may be fail to pay the loan the branch take any other alternatives to cover the customer.

This implied that the borrower was late in making the mortgage payment and that legal action may be taken. This legal proceeding is known as a for closure, and will result in the loss of the borrower's home, additional fore closure fees, legal, fees and possibly a deficiency judgment if the outstanding clients exceed the current value of the property.

Table 3-7 Responses on what types of securities are most preferred by the branch in case of collateralization requirement

Responses	**Respondents**	
	No	**%**
A. Buildings	8	67
B. Cars (Machines)	-	--
C. All	4	33
D. Unknown	-	-
Total	**12**	**100**

Source: Survey and own computations (2014)

Collateral; Is any assets the owner pledges to the bank as security for repayment of the loan .If the client defaults on the loan, The bank has the right to the sell the collateral and use the proceeds to satisfy the loan. Therefore; the Responses i.e. 8 (67%) responded that the branch bank has been preferred buildings than other fixed assets.

On the other hand 4 (33%) of responded the branch bank securities not only buildings but also cars (machines) are preferred as a collateral.

Table 3-8 Factors considered in Granting credit to customers

Credit Factors	Respondents	
	No	%
A. Characters of customer	1	8
B. capacity of customers	–	–
C. capital of customers	3	25
D. collateral of customers	–	–
E. condition of customers	–	–
F. All of the customers	8	67
Total	**12**	**100**

Source: Survey and own computations (2014)

According to I.M pandey (1999); the principal to Factors be taken in to consideration in deciding whether or not to grant (loan) in what amount and on what terms and conditions. The credit manager should be able to form a reasonable judgment regarding the chances of default; the credit manager should be considering Five C'S.

As indicated on Table 3-10 above most of the respondents i.e. 8(67%) replied that the organization use all of Five C'S factors as one criterion even in accepting or rejecting client. Clients history and credit worthiness is studied during the information of groups which is an activity accomplished before granting any credit.

A client may be honest in character but he/she is deficient in ability his/her desire to pay may be of no avail. Therefore it is very significant to satisfy oneself with the capacity of the credit requesting entity.

On the other side about 3 (25%) of the respondents answered that the organization considered the capital of customers as an important Factors before giving any credit.

As it seen in the above Table 3-10 the respondents replied and from an observation; in the organization primarily considers the character of customers as prominent factors to extend credits to customers or not. Some of the time capacity, capital, collateral, and conditions were used as second, third, fourth, and fifth factor respectively in granting credit to their clients.

Table 3-9 Responses on the types of collection (techniques) used by the organization.

Techniques	**Respondents**	
	No	**%**
A. Telephone call	6	50
B. Letter writing	1	8
C. Legal action	–	–
D. personal visit	4	34
E. All	–	–
F. unknown	8	67
Total	**12**	**100**

Source: Survey and own computations (2014)

The collection system (techniques) of the organization is the prominent thing to determine the collection of loans. Otherwise the organization uses the techniques of collection system by considering the condition of the company /character/ and character of customers; it will loosen its profitability and may face lose.

Facts on Table 3-9 above indicate that most of the respondents i.e. 6(50%) replied that the organization collect loan from its client by Telephone calls.

Some others respondents that are 4(34%) answered that the organization used all types of collection system. i.e. Telephone call, Letter writing, Legal action, and personal visit are the means of collection loan from their clients. The rest of the target population that is 1(8%) respondents replied that the organization uses letter writing and personal visit respectively to collect loan from clients.

From the respondents replied /answered/ and from an observation understand that the only telephone call did not an effective system to collect loan from clients; But the organization using, letter writing, and personal visit are good collecting techniques of loan from customers and uses legal action as a last measurement to collect loan promptly.

Table 3-10 Responses on the effectiveness of the collection system of loan.

Alternatives	Respondents	
	No	%
A. High	1	8
B. medium	11	92
C. Low	-	-
Total	**12**	**100**

Source: survey and own computations (2014)

The adoption of better collection system or the use of standardized system is not an end by itself rather it is a means to an end. The end of adoption of different mechanism or system is applicable. So that the above table 3-10 shows that the application of the collection system properly as it is replied the respondents are medium and High that is 11(92%) and 1(8%) of respectively of the total target population replied that the application of the system in the organization is high and effective.

From the analysis above the organization follows effective collection system of loan from client leads to minimizing risk and become profitable.

Table 3-11 Responses on the trend of uncollectible loan in the company.

Responses	Respondents	
	No	%
A. Increased	–	–
B. Decreased	11	92
C. Constant	1	8
Total	**12**	**100**

Source: Survey and own computations (2014)

As indicated table 3-13 above majority of the respondents that is 11 (92%) replied that UN collectability of loan become decreased; This shows that as per the contractual agreement the borrowers are expected to pay back their debts in time. However; sometimes; some borrowers may not come with the prescribed contract. In such cases the bank reminds these borrowers through Telephone and memorandum and as result most of them effect the payment.

From this result it is possible to conclude that the bank become profitable and effective due to reminded the borrowers through as recommended table 3-11 above letter writing and personal visit are better collection techniques; and the uncollectability loan becomes decrease from time to time.

Table 3-12 Responses on all troubled loan reclassified as special mention accounts (SMA)

Responses	Respondents	
	No	%
A. substandard	1	8
B. Doubtful	–	–
C. Bad/ losses	1	8
D. All	8	67
E. unknown	2	17
Total	**12**	**100**

Source: Survey and own computations (2014)

According to Bangladesh Financial forum, (2005), all troubled loans are then further re- classified as special mention accounts (SMA) like :.

- Substandard
- doubtful and
- bad/losses to comply with international norms of loan classification
- Further, in order to keep the management up to date about the status of loans; bank managers review the loan quality on a quarterly basis.
- With some exceptions; the banking sect oral person follows a norm of six months overdue for deeming a

loan none performing.

- The rate of provision on classified loans follows norms of 5%, 20%, 50%, and 100% against special mention accounts; substandard; doubtful; and bad/losses; loans respectively.
- To note; that A loan is depositor's money or a type of financial aid; which must be repaid with interest.
- It also refers to an amount of money borrowed by person to start or run a business.

As it seen in the above Table 3-12 most of the respondents that is 8(67%) answered that the all troubled loans are further re-classified as special mention accounts (SMA) and bank manager review the loan quality on a quarterly basis.

On the others hand 2(17%) responded that they do not know about all troubled loans re-classified as special mention accounts (SMA).

From the analysis above the bank manager review the loan quality on a quarterly basis and send to the head office and;

- From the various models evaluated the loan assessment system design was based on the bank's Financial model like
- Balance sheet.
- Income statement.
- Internal rate of return.
- Other investment analysis

Table 3-13 Responses suitable techniques and strategies on uncollectible loan

Alternatives	Respondents	
	No	**%**
A. High	–	–
B. Moderate	10	83
C. Low	–	–
D. Unknown	2	17
Total	**12**	**100**

Source: survey and own computations (2014)

On a bank lends to a customer; the bank and borrower effectively become partners. The bank wants the customer to repay the debt and purchases others bank services. The customer looks to the bank to provide useful accounting, financial, and taxation. Both the bank and borrower should recognize this partnership when negotiating credit terms and it is important that each party protect its interest covenant may either be negative indicating financial limitations and prohibited events or positive, indicating specific provisions to which the borrower must other.

According to Morton Glints (2003), the basic covenants' in every term loan agreement should be constructed around four principles:

1. Limitation of other indebtedness
2. Probation of secured obligations or obligations ranking ahead of the commercial term loan.
3. A provision for the maintaining of a certain minimum working capital.
4. Furnishing financial statement.

According to the above from Table 3-13 that is 10(83%) of the respondents responded it is moderate that the company has suitable techniques and strategies. This is used by the company to estimate and determining the amount of uncollectible loan.

On the other hand small number of respondents that is 2(17%) of responded that they do not know about the effectiveness of the techniques and strategies used by the company to estimate the amount of uncollectible loan.

From the above information can be concluded that the directives of the techniques and strategies of the company is moderate.

Table 3-14 Responses on the effectiveness of customer selection system

Responses	Respondents	
	No	%
A. Strongly agree	2	17
B. Agree	8	66
C. Disagree	–	–
E. unknown	2	17
Total	**12**	**100**

Source: Survey and own computations (2014)

If a borrower or the applicant is new to the bank; it is particularly to obtain as much information as possible. Such information may usually be related to his honesty, ability, stability, managerial capacity, operational efficiency of the firm, financial history etc.

The information can be gathered from various sources; including banks, trade partners, supplier, and the like.

Credit information from banks must be requested at the easiest possible time, while other lending formalities continues, to over unnecessary delays in processing the loan application.

Therefore table 3.14 shows that most of the population that is 8(66%) their response is agree to banks method of selection system of costumer's effectively applicable and easiest possible time to overcome unnecessary delays in processing the loan application.

Table 3-15 Responses on management give attention due to the low of uncollectible loan in keeping in the tradeoff between profitability and risk.

Responses	Respondents	
	No	%
A. Yes	5	42
B. No	4	33
C. unknown	3	25
Total	**12**	**100**

Source: Survey and own computations (2014)

As it can be observed that from table 3.15 above the respondents that are 5 (42%) responded that loan from customers frequently represent in substantial part of the organization strong accounting control and effective management of loan should typical characteristic of the organization to keep the tradeoff between profitability and risk.

Generally other respondent that is 4 (33%) responded that; the management of the organization not as such gives attention to the low level of uncollectible in keeping with the tradeoff between profitability and risk.

Finally; It can be analyzed the strong accounting control and effective management due to attention to the low level of uncollectible loan in keeping the tradeoff between profitability and risk.

Table 3-16 Responses on the reason become uncollectible loan.

Responses	Respondents	
	No	%
A. rproblem of Administration	–	–
B. problem of customers (delay)	2	17
C. problem of collection system	–	–
D. All	2	17
E. unknown	8	66
Total	**12**	**100**

Source: survey and own computations (2014)

As it can be observed that from table 3-16, above the respondents asked to give responses on the reasons loan become uncollectible. Accordingly; most of the respondents that is 8 (66%) of the target population replied that they know nothing in the branch which is the loan become uncollectible. The rest of the respondents that is 2 (17%) of responded bank has effective collection techniques and strategies that problem of customers (delay) in paying their credit. And other respondents replied all mentioned problems are responsible for the loan become uncollectable respectively.

As it is indicated above most respondents responded that the branch bank has effective lone collection system as indicated table 3-10 above. Therefore there is no uncollectible loan in the branch bank uncollectable loan.

Table 3-17 Response on risk management over look low basic types of risk associated with payment and securities follows

Responses	Respondents	
	No	%
A. credit risk	1	8
B. operational risk	7	58
C. Fraud risk	1	8
D. systematic risk	-	-
E. all	2	17
F. Unknown	1	8
Total	**12**	**100**

Source: Survey and own computations (2014)

According to Paul F., (1993) one reason credit managers over look operating credit risk the unintentional smoke screen created by other risks that surround corporate services definition of low basic types of risk associated with payment and securities follow.

On the table 3-17 above the respondents that is 7 (58%) of the target population replied that operational risk is the risk of loss due failure to per from when executing customer's transaction. The failure can be the banks' the customer or other parties. Operational risks include errors, system failures and disruption caused by natural disasters employee, actions power failure and the like. There is no necessity credit expertise to mange operational risk. The other respondents that is 2 (17%) of the respondents responded that all definitions of low basic types of risks associated with payment and securities follow. The rest of respondents that is 1 (8%) responded that credit risk management or look low basic types of risk associated with payment and securities follows.

As it indicated above Paul F., (1993) stated credit managers over look operating credit risk that the most respondents were responded the same.

4. Conclusion

According to risk monitoring: can be used to make sure that risk management practices are in line with desired practices. Proper risk monitoring also helps bank Management to discover mistakes early. The questionnaire addressing risk monitoring is 0.5(50%) of the respondents have given position answers which indicates that the main branch bank's has less efficient risk monitoring and controlling system is under 0.7(70%) compared with the general rule.

As responded to Credit risk analysis**:** It was mentioned earlier that credit risk of the branch bank represents the most important type of risk, and also that the branch bank did encounter a credit risk and that they might face this type of risk again in the future. As credit risk is the most important type of risk; on responses 10 (83%), which indicates the branch bank has efficient credit risk analysis.

Most of the respondents, that is 8(67%) of responses are in case of failure to pay the loan granted the branch bank does not take any other alternatives to recover the customer. Unfortunately the borrower may lose job, fail ill or simply fall baring on the mortgage payment. But these are not valid reason to miss mortgage payment when originally applied for a loan, the borrower likely verified aspect reserves that prove to the bank that he/she can differed the loan for attain amount of months. Even if fail to receive any additional income. This implied that the borrower was late in making the mortgage payment and that legal action may be taken. This legal proceeding is known as a for closure, and will result in the loss of the borrower's home, additional fore closure fees, legal, fees and possibly a deficiency judgment if the outstanding clients exceed the current value of the property.

The collection system (techniques) of the organization is the prominent thing to determine the collection of loans. Otherwise the organization uses the techniques of collection system by considering the condition of the company /character/ and character of customers; it will loosen its profitability and may face lose. The result indicate that most of the respondents i.e. 6(50%) replied that the organization collect loan from its client by Telephone calls. So that the only telephone call did not an effective system to collect loan from clients.

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