ST. MARY'S UNIVERSITY

BUSINESS FACULTY

DEPARTMENT OF ACCOUNTING

AN ASSESSMENT OF CREDIT MANAGEMENT AND LOAN PERFORMANCE IN BANK OF ABYSSINIA

BY

KIDIST NIGUSSIE

GENET ZEKARIYAS

TIZITA ANCHEMO

JULY 2014

ADDIS ABABA

AN ASSESSMENT OF CREDIT MANAGEMENT AND LOAN PERFORMANCE IN BANK OF ABYSSINIA

A SENIOR ESSAY SUBMITTED

TO THE DEPARTMENT OF ACCOUNTING

BUSINESS FACULTY

ST. MARY'S UNIVERSITY

IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF BACHELOR OF ARTS IN ACCOUNTING

BY

GENET ZEKARIAS

KIDIST NIGUSSIE

TIZITA ANCHEMO

JULY, 2014

ADDIS ABABA

ST. MARY'S UNIVERSITY

AN ASSESSMENT OF CREDIT MANAGEMENT AND LOAN PERFORMANCE IN BANK OF ABYSSINIA

BY

GENET ZEKARIAS

KIDIST NIGUSSIE

TIZITA ANCHEMO

FACULTY OF BUSINESS

DEPARTMENT OF ACCOUNTING

APPROVED BY THE COMMITTEE OF EXAMINERS

Department Head	Signature
Advisor	Signature
Internal Examiner	Signature
External Examiner	Signature

Table of Contents

List of Tables

List of Charts

Page

Acronyms

BOA	Bank of Abyssinia
NPL	Non Performing Loan
NBE	National Bank of Ethiopia
OD	Over Draft
DTS	Domestic Trade & Service

Acknowledgment

First and for most we would like to thank our almighty God who help us to complete this senior essay successfully.

We are also grateful to our Advisor Mr. Meseret Kinfe for his valuable comments and advices given after reading the entire research paper.

Next we would like to express our gratitude and appreciation to bank of Abyssinia employees for their contribution. We would like to thank Mr. Tesfaye Abebe who is the director of Bank of Abyssinia's Credit Review, Work Out & Portfolio Management Department and Mr. Tarekegn Hailu Bank of Abyssinia's Senior Workout Officer for giving the valuable time to respond our interview.

Last but not list we would like to thank peoples who helped us morally, specially our dear families.

THANK YOU ALL!!!

Acknowledgements

God, this success would not been possible with the absence of your help. Your invisible hands pay a great role in changing our life, therefore, the first and foremost praise and Glory goes to you.

Secondly our deepest and heartfelt gratitude goes to our families for their constant support and encouragement from beginning up the end of college life. In fact we are in there debt, if not, always.

Thirdly, we owe great thanks to our advisor, Abera Yilema for his helpful and cooperative advice from its inception to completion of this paper.

Last but not least, we also indebted to all loan officers loan managers with important materials and information in preparing the paper.

CHAPTER ONE

INTRODUCTION

1.1. Background of the Study

Economic activities such as the production process, marketing, agriculture activities, trade transaction and service etc, had played greater role in the development of banking system. The need for bank lending service is a crucial point to facilitate the buying and selling activities within the nation and the world at large. (www.un-documents.net/ocf-03.htm)

One of the important factors of economic growth is the establishment of strong financial sector. In this regard, one of the main objective of financial institutions is mobilizing resources and channeling them to investors and generate a profit out of it. Banks are mainly concerned with accepting deposits for the purpose of lending or investment in any country economy, there will be people and institutions with surplus fund which they do not require for their immediate use, and wished to place these surplus funds in an institution both for security and also to gain some income from interest. These institutions would then lend the money to the borrower at an interest ultimate best rate higher than what they pay to their depositors (G/Hiwot, 2007:35).

Loans are the most important assets held by banks and bank lending provides the bulk of bank income. It is equally true that bank loans, as they are profitable, are equally risky among other things, bank loans fluctuate and influenced by the changes in economic policy and the economy in general. Therefore, it is very important for the banks to formulate the loan policy in order to minimize the risk associated with them. Besides, sound and complete loan policy has great advantage to the banks. It helps the officials to handle loan issues uniformly, avoid confusion and misunderstanding and easy management.

Banks are the most important intermediaries in the financial world. In the current competitive environment more and more lines of business, which need a huge investment are being opened. These huge investments are financed through different sources. One of these financial institutions is bank. With this respect, banks play a major role in the overall economic development of country.

Credit risk management has become an important topic for financial institutes, especially since the business sector of financial services is related to conditions of uncertainty. The confusion of the financial industry emphasizes the importance of effective risk management procedures. Consequently, this hypothesis studies “Credit Management and Loan Performance in Bank of Abyssinia”.

Credit risk has always been a district of concern not only to bankers but to all in the business world because the risks of a trading partner not fulfilling his obligations in full on due date can seriously put at risk the relationships of the other partner. The axis of this study is to have a clearer picture of how Bank of Abyssinia (BOA) manages its credit risk.

Therefore, extending loans to the public, banks have to be certain about efficient and effective performance of loans and advances. Thus this research focuses on assessing the credit management and practice and its impact on the banks performance.

February 15, 1906 marked the beginning of banking in Ethiopia when the first Bank of Abyssinia was inaugurated by Emperor Menelik II. The Bank provides a wide range of financial services including current and savings accounts, time deposits, NR/NT Accounts (NR/NT is Non- Resident/ Non-Transferable account which is used by or given to a foreigner or Diaspora), overdraft facilities, term loans, merchandise loans, letters of credit, guarantees, and money transfer. Presently, the bank has 90 branches (www.bankofabyssinia.com).

On 15 February 1996, ninety years to the day following the establishment of the first Bank of Abyssinia, a new privately-owned bank with this historic name, but otherwise not connected with the older bank, came into existence.

The subscribed capital of the new Bank of Abyssinia (BOA) was Birr 25 million and its authorized capital Birr 50 million, with 131 shareholders, all Ethiopian.

As “Abyssinia” is the ancient name of our great nation and that of the pioneer bank of the land, Bank of Abyssinia’s vision is to live up to this legacy through continuous innovation and provision of world-class banking services.

The mission of Bank of Abyssinia is to provide full-fledged domestic and international banking services through qualified and motivated employees, utilization of modern technology, and through socially and ecologically responsible practice, as well as ensuring profitability and growth.

Integrity, honesty, loyalty, efficient customer service, commitment, equal employment opportunity, employee satisfaction, team spirit, good corporate governance, social responsibility, innovation, and fair return to shareholders are the values of BOA.

1.2. Statement of the Problem

Loans are the most important resources held by banks. Lending activity requires banks to make judgment related to the credit worthiness of a borrower. However, the judgments do not always prove to be accurate and the credit worthiness of a borrower may decline due to various factors. Consequently, banks face credit risk. Credit risk is the risk that obligations will not be repaid on time and fully as expected or contracted, resulting in a financial loss or Non performing Loan (NPL). The borrower may fail to meet the terms of the understanding loan agreement (Teferi, 2002:15).

The very nature of the banking business is so sensitive because more than 85% of their liability is deposits from depositors (Saunders, Cornett, 2005). Banks use these deposits to generate credit for their borrowers, which in fact is a revenue generating activity for most banks. This credit creation process exposes the banks to high default risk which might led to financial distress including bankruptcy. All the same, beside other services, banks must create credit for their clients to make some money, grow and survive stiff competition at the market place (Mekasha, 2011:13).

BOA is one of the private banks in Ethiopia playing an important role in country's economy and social life. Among the various services provided by the bank, lending has been the primary activity for over a decade. It advances a large sum of its income to borrowers. It is equally true that bank loans, as they are profitable equally risky. Bank loans fluctuate and influenced by the change in the economic policy and the economy in general. It is very important for the banks to formulate and update their loan policies in order to minimize risk associated with them.

"*Caution Adds to Abyssinia Bank's Waning Loans Performance*" this was headline on the weekly English news paper on Addis Fortune (Vol. 209) reported on March 01, 2009. This report shows that the BOA has been facing a declination in its loan performance which has a great impact on the BOA's short term and long term loan performances.

1.3. Research Questions

The research is conducted to identify problems that are related with Credit Management & Loan Performance and provide the appropriate solution. The research tried to answer the following questions.

1. Among the loans given by the bank, which type of loan is not repaid timely?
2. What are the major policies and procedures for loan?
3. What is the effect of credit risk management on the profitability of the bank?
4. What techniques are used by the bank in settlement of loans from customers?

1.4. Objective of the Study

It is important to conduct critical assessment of the viable factors, which determine approval of credit mechanisms and evaluation of acceptability of loan request presented using appropriate standards. The objectives of this study are described as follows.

1.4.1. General Objective

The main objective of the study is to evaluate credit management and loan performance of BOA and also give some possible suggestion and recommendation based on the fact of the study.

1.4.2. Specific Objectives

This study identifies the major types of loans which are not paid timely and the major policies and procedures that are adopted by BOA. The paper is also tried to identify the effect of credit risk management on the profitability of the bank and finally this paper identify the major techniques which are used in settlement of loans from customers.

1.5. Significance of the Study

The study has the following significances

- To implement the theoretical knowledge of student researcher practically.
- To use as partial fulfillment for Bachelor of Arts in Accounting.
- To help as a preliminary study for others who are more interested in this area.

1.6. Scope of the Study

Credit management is one of the wider and core system which needs due consideration in meeting the objective of the bank. Thus, it should be studied in depth. Meanwhile the paper will not be enough to incorporate all the necessary details. BOA is the first bank in Ethiopia and it has 90 branches. Due to shortage of time the student researchers concerned only on Head Office. The study also focused on their annual report for the period of five years (2001-2005 E.C.)

1.7. Limitation of the Study

In conducting this study the student researchers faced a number of constraints. Some of the constraints are lack of time and lack of resource that may delay the successful accomplishment of the paper. In addition to the above two major factors, data limitation is also the other limitation which is the bank restricted to provide some of the information like history of NPL and their amount which they held as secrete.

1.8. Definitions of Terms

Credit Risk: is the risk that obligations will not be repaid on time and fully as expected or contracted, resulting in a financial loss or non performing loans (NBE, 2012:2).

Non Performing Loan: according to NBE's directive NPL means loans whose credit quality has deteriorated such that full collection of principal and/ or interest in accordance with the contractual repayment terms of the loan or advance is in a question (NBE, 2012:4).

Collateral: is the security held to back up the loan in the event of possible default. It can be anything of value, which is readily saleable. (Berhanu, 2002:29)

Credit control: is a vital part of business operations as it maintains cash flow by ensuring receiving payment from customers as quickly as possible (Hajela, 1998:91).

1.9. Research Design and Methodology

1.9.1. Research Method

The student researcher's uses descriptive research method. Because in descriptive research, most of the facts to be gathered are both qualitative and quantitative in the nature which is mixed assign and enables the researcher to describe loan performance of the bank.

1.9.2. Population and Sampling Technique

The total populations used in this research are 14 staffs who are working in Credit Review, Workout & Portfolio Management Department of BOA. Due to limited number of population viable to undertake the student researchers are required to use the whole population as a census unit.

1.9.3. Types of Data Used

In this study the student researchers used both primary and secondary data sources. Primary data was gathered from employees of BOA who are working in the department of Credit Review, Workout & Portfolio Department. With regarding of the secondary source of data, data was gathered from manuals, annual reports, bulletins, websites and other relevant reference materials from BOA.

1.9.4. Methods of Data Collection

The primary data was collected through Interview & questioner. The student researchers were used interview with a concerned official of the Credit Review, Workout & Portfolio Management Department on the issue related to credit management and loan performance. The questioners were distributed to concerned bodies. The secondary data was collected through review of manuals, bulletins, websites, & other relevant documents.

1.9.5. Data Analysis Methods

In attempting to assess the credit management data collected from interview and questioner are presented in tabular form, chart, graph, percentages and give meaningful interpretation of the data.

1.10. Organization of the Study

This study is organized in four Chapters. The first Chapter deals with Background of the Study, Statement of the Problem, Research Questions, Objective of the Study, Significance of the Study, Delimitation of the Study, Definition of Terms, Research Design and Methodology, and Organization of the Study. The second Chapter focused on Reviews of Related Literature. The third chapter deals Interpretations and Presentation of Data. Finally the last chapter deals with Summary, Conclusion and Recommendations based on the findings.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

Loans and advances are financial instruments originated by the bank by providing money to the debtors. The loans and advances are stated at cost less impairment losses. Impairment losses comprise specific provisions against debts identified as bad and doubtful and general provisions against losses which are likely to be present in any loans and advances portfolio. The bank follows the NATIONAL BANK OF ETHIOPIA, supervision of banking business directives SBB43/2008 in determining the extent of provisions for impairment losses.

2.1. Overview of Credit Management

Credit management is the process for controlling and collecting payments from your customers. A good credit management system will help you reduce the amount of capital tied up with debtors (people who owe you money) and minimize your exposure to bad debts. Good credit management is vital to your cash flow. It is possible to be profitable on paper and but lack the cash to continue operating your business (Pandy, 1999:872).

As stated by Gestel and Baesens (2009:94) a sound credit risk management is built upon a good-quality portfolio of performing assets. The pricing of the loans has to reflect the risk. A good selection strategy aims to avoid high losses. Credit scoring is a credit risk management technique that analyzes the borrower's risk. A good credit scoring model has to be highly discriminative: high scores reflect almost no risk and low scores correspond to very high risk, (or the opposite, depending on the sign condition). The more highly discriminative the scoring system, the better are the customers ranked from high to low risk. In the past, credit scoring focused on measuring the risk that a customer would not fulfill his/her financial obligations and run into payment arrears. More recently, credit scoring evolved to loss and exposure risk as well. Scoring techniques are nowadays used throughout the whole life cycle of a credit as a decision support tool or automated decision algorithm for large customer bases. Increasing competition, electronic sale channels and recent banking regulation have been important catalysts for the application of (semi-)automated scoring systems. Since their inception, credit scoring techniques have been implemented in a variety of different, yet related settings.

The 5 Cs of customers that should be given in identifying the borrowers are the following.

Character: measures the borrower's character and integrity (e.g., reputation, honesty)

Capital: measures the difference between the borrower's assets (e.g., car, house) and liabilities (e.g., renting expenses)

Collateral: measures the collateral provided in case payment problems occur (e.g., house, car)

Capacity: measures the borrower's ability to pay (e.g., job status, income)

Condition: measures the borrower's circumstances (e.g., market conditions, competitive pressure, and seasonal character).

2.1.1. Methods of Credit Control

According to Hajela (1998:92), there are nine methods of credit control which may be used by central banks. These are;

1. The lowering or raising of their discount and interest rates with a view to lowering or raising money rates generally and encouraging the expansion or contraction of credit.
2. The buying or selling of securities or bills of exchange in the open market with a view to putting additional funds into the market or withdrawing funds there from and thus expanding or contracting credit.
3. The rationing of credit as an alternative or an addition to raising discount and interest rates.
4. The taking of 'direct action' either in the form of coercive measures against any offending bank or other financial institution or in the form of directives to banks generally concerning their lending and investment operations, in order to assist the central bank in controlling the quantity of credit as well as securing a better qualitative distribution of credit.
5. The lowering or raising of the minimum cash reserves to be maintained by the commercial banks, as an additional means of enabling the central bank to expand or contract their capacity to create credit.

6. The imposition of minimum secondary reserve requirements to be maintained by the commercial banks in the form of government securities and other specified assets, in order to restrict their capacity to extend credit for general business purposes.
7. The regulation of the terms and conditions under which credit repayable in installments may be granted for purchasing or carrying consumers' durable goods as a means of exercising some direct control over the volume of outstanding consumer credit.
8. The regulation or margin requirements in connection with purchase of stock exchange securities, as an instrument for exercising some direct control over the volume of credit used in the security markets.
9. The use of moral suasion and publicity to achieve the desired objectives.

2.2. Types of Loan

According to National Bank of Ethiopia Directives (2012:7), bank shall classify all loans in to three major categories. They are term loan, overdraft and merchandise loan, which are elaborated here after.

2.2.1. Term Loan

Asset based short-term (usually for one to five years) loan payable in a fixes number of equal installments over the term of the loan. Term loans are generally provided as working capital for acquiring income producing assets (machinery, equipment, and inventory) that generate the cash flows for repayment of the loan. Are grouted for more than year and repayment of such loan is spread over a longer period. The repayment is generally made in suitable installment of a fixed amount. Term loan is required for the purpose of starting new business activities, renovation, modernization, expansions or extension of existing unit purchase of plant and machinery, purchase of land for setting up a factory construction or purchase of other immovable assets. Generally term loans are classified as short term loan, medium term loan and long term loan.

2.2.1.1. Short-Term Loan

They are granted by banks to meet the working capital needs of business. Such loans are granted to borrowers to be repaid with in short period of time not exceeding 15 months. They are granted against the security of tangible assets like goods in stock, Shares, debenture, etc. The rate of interest charges on short term loan ranges from 12% to 18%.

2.2.1.2 Medium-Term Loan

The period ranges 15 months to less than 5 years. They are granted for heavy repairs, expansion of existing units, modernization, renovation, etc. Such loans are sanctioned against the security of immovable assets. The normal interest rate range is between 12% and 18% depending up on the period, purpose, nature and amount of loan.

2.2.1.3 Long-Term Loan

It is a loan that has a maturity period of five to 15 years. The purpose of the loan is to finance new projects, support expansion of existing projects, investment and net working capital.

2.2.2 Overdraft Loan

It is the result of agreement with the bank by which a current account holder is allowed to withdraw over and above the credit balance in his account. OD is granted by bank on the basis of written request by the customer. Sometimes the bank also insists on either a promissory notes from the borrowers or personal security of the borrower to ensure safety of amount withdrawn by the customer.

2.2.3 Merchandise Loan

Merchandise loan is a credit facility provided by the bank against which the merchandise or documentary evidence (railway receipt, truck way bills, airway bills and warehouse receipt) is held as collateral for the loan. The purpose of the loan is alleviating the cash flow problem of customers when money is tied up in merchandise.

Types of Loan and Advances in BOA

DTS

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

Transport

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

Import and Export

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

Industry

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

Construction

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

Business (Merchandise) loan

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

Personal

The bank also extends customer loan to individuals in order to purchase households, electronics for home use and automobiles.

For all the above categorizations of loans by BOA indicated sectors can be broadly categorized as short-term, medium-term, and long-term loans depending on maturity.

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

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

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

2.3. Loan Processing

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

2.3.1. Pre-Application Interview

This is critical step to impress borrowers. As it is usually the first opportunity for a banker to discuss with customer and show how far a bank will go to entertain its customer needs and would help to result in positive attitude towards borrowing. This is not the main interview session. It should be exercised only to determine whether or not the loan request is appropriate and deserves acceptance of the application. Therefore, it should be friendly discussion aimed at obtaining factual information pertaining to the credit request before accepting the application. (NBE, 2012:10)

In this preliminary interview the following and related items would be touched.

- Purpose of the loan
- Applicants business experience

- Applicant's relationship with the bank. Deposit account in bank or in other branch of the bank.
- How the applicant intend to pay back the loan, source of the fund and business plan.
- Applicant's commitment elsewhere.
- Basic documentation requirement like a trade license.

If the result of the pre-application interview is satisfactory, the application will be accepted and the applicant will be invited for their interview after the application is thoroughly looked into and all items subject to discussion are clearly listed out.

2.3.2. Document Requirement

Up on arriving of satisfactory pre-application interviews result the customer will be provided with list of documents required in writing whenever appropriate to be presented with the application. The document requirement highly depends on the type of loan, the amount requested, the type of security offered and the nature of the applicant (Private Limited Company or Share Company). (NBE, 2012:10)

However, the following could be among the major documents that are commonly requested by bank:

- Renewed license, it can either be trade license, investment and other relevant licenses as applicable.
- Registration Certificate for companies and Identification Card for individuals.
- Financial statements: Balance sheet, income state, cash flow, cash forecast.
- Business plan
- Feasibility study (if it is project)
- Performa Invoice (if appropriate)
- Investment permit (if it is project)
- Article and memorandum of association (if it is private limited company and share company)
- Building or vehicle valuation reporting form.
- Power of attorney (if the loan is requested through a legal agent)
- Credit information from National Bank of Ethiopia.
- Current account and loan statement of applicant.
- Tax payer identification certificate.

- Value Added Tax Payer Certificate (if any). (Bank of Abyssinia lending manual)

2.3.3. The Loan Application

The loan application should present application for credit request, depending on the policy of the bank. An already developed application format can be used not to miss basic information that should be included in the application. Bank of Abyssinia, for example used to have loan application from. The application should, among other things contain.

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

According to NBE loan application will have the following process.

2.3.3.1. Formal Credit Interview

This is an interview in which deeper insight on the loan requests will be obtained and additional information which may need evidence and further checking during the business visit. Helpful in determining the credit worthiness of the applicant will be collected. Major interview issues to be covered in the interview would include;

- Life of business or project, experience of applicant and management profile in general.
- Whether or not the customer has a valid trade license.
- Any outstanding loan from other creditors (name amount involved)
- Type of collateral the applicants can offer for the loan and capacity to present evidence of owner ship for collateral offered for the loan.
- Nature of business or project, business conditions such as production, sales, etc.
- Source of income for loan repayment.

This is a critical phase that needs systematic approach and note taking (if necessary) to determine consistency of the information gathered during the interview. It is helpful to arrive at certain conclusions regarding the reliability of the applicant or its representatives (if it is company). The personal guarantor if proposed should also interview for credit worthiness.

2.3.3.2. Business Visit

Once the loan application is received, formal credit interview is conducted and the supporting documents are checked, the next step will obviously be arranging a visit to the applicant's business. The purpose of the visit is to verify the factual information contained in the loan application and the supporting documents through observation and objective assessment of the reality of the business premises of the applicant etc.

The concerned staff from the branch or head office will conduct the visit. Costs related to the visit are to be covered by the applicant or by the bank depending on situations. The visiting team will make a check on whatever information collected through the loan application, interview or documents supplied by the applicants are reliable or not.

The basic task during the visit shall include among other things:

- Verification of information in the financial statements of the applicant.
- Conducting stock count and identification of fixed assets, particularly when professional financial statements are used as source of financial information.
- Gathering qualitative information on the ability of the management, labor relations, general business experience, financial management system, type of business, location and site compared to market place, collateral offered if necessary etc.
- Determining the address of customer and guarantor for subsequent visit.

2.3.3.3. Additional Information

Depending on the type of loan and the level of information can be collected to make the analysis result adequate, the following are some of the additional information needed;

- Industry wide profitability liquidity
- Market situation
- Market share, where applicable
- Intensity of competition
- Industry characteristics
- Macro and Micro economic data

This information can be found from:

- Research organs of the bank
- Industry associations
- Publications of central statistics office. National Bank of Ethiopia, etc

If the bank is not satisfied with the information it should provide explanation. If the customer fails to explain or if information is inadequate it shall be wait the applicant to provide the additional information for some time before declining the request.

2.3.4. Analysis and evaluation

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

This is largely a data processing steep that requires analytical skill and highest ethical and professional standards of conduct. The quality and adequacy of data is not enough to come up with valuable information to tell in advance what the fate of the loan would be if granted. If the judgment parts of the analysis lack experience or integrity the resulting information could be misleading and will not be helpful for the bank and even for borrower.

This step will help the lending officer to determine the customer's business viability, stability, repayment capacity and profitability. In addition to analysis of various risks (including financial liquidity, leverage, profitability, market and related risks), it should contain analysis on management capability, financial information systems and previous repayment habit, etc.

2.3.5. Negotiation

This step is very critical step, as more loans end up to be non performing because borrowers were not involves when arrangement are made regarding repayment schedules, duration of the credit facility, terms and conditions of the loan etc. Negotiations clarify the bank's intention to the borrower and make the borrowers psychologically ready. (NBE, 2012:10)

The loan should not be processed further if the borrower is not in a position to come to an agreement on the issues or should be reported in presenting the request to the approving committee. It has been noted, however, that not all of these are negotiable. Some of them are needed to notify the lending officer (Branch manager or officer), so that the borrower informed above the issues before approval and disbursement. (NBE, 2012:10)

2.3.5.1. Purpose or End Use of the Loan

The borrower's explicitly expressed contractual commitment that the loan will be used exclusively for the purpose specified in the loan application and that will not be diverted to other purposes and the borrower should be notified the sequences of diversion calling bank the loan increasing interest rate, foreclosure, etc.

2.3.5.2. Duration of the Credit Facility

It is the time period within which the loan will be repaid fully-based on the borrower's cash flow generating capacity. This has to consider:

- The type of credit
- Applicant's proposal
- The credit policy
- Analysis result and projected cash flow
- Collateral strength

2.3.5.3. Disbursement

Disbursement refers to sequence and intensity consistent with the purpose of the loan. Disbursement could be lump sum (full) or partial (phased). The borrower should be made aware that violating conditions or covenants would result in with holding remaining disbursements or foreclosing the pledged collateral. (NBE, 2012:10)

2.3.5.4. Repayment

Repayment refers to repayment schedule based on the projected cash flow and collateral value.

Major points to be considered include:

- Repayment structure, monthly, quarterly, semi-annually, annually, etc.
- Commencement date of repayment.

- Grace period for project finance or trade finance in light of cash generation lags due to late completion of projects or extended lead time in trade transaction (example, from delivery to collection of receivable).
- Penalty for default, penalty rate, etc.

2.3.5.5. Loan Price

Will be established based on the credit rating a bank may set in its terms and tariffs. The borrower should be informed about the interest rate and the conditions under which it may be lowered or increased. The borrower shall also be communicated about other charges associated with credit, such as charges for property estimation, insurance, visit, salaries of controlling staff, storage costs, etc whenever applicable.

2.3.5.6. Collateral Issues

Collateral issues inform the effect of the collateral strength on credit rating, which in turn affects the interest rate. Also inform the borrowers and pledging parties or mortgagers on the following items:

- Estimated value of the collateral.
- Foreclosure low.
- Insurance requirements and the borrower will pay the premium and it is the bank that keeps the insurance certificate and that the bank will be a co-beneficiary of the insurance policy. And that insurance should be renewed before the expiry date.
- Registration requirements.

2.3.5.7. Agreement/ Covenants

That may be included in the loan contract, depending on the case, should be informed to the borrower. The covenants may include:

- Maintenance of standard accounting system, annual submission of audited or interim financial statements, business plan, stocks, etc.
- Allowing the bank’s authorized personnel to have access to the books, records as well as the business and the collateral of the borrower.
- Minimum working capital, ratios, equity, dividend payments, etc.
- Limit further indebtedness (from other bank or creditor)
- Disallow change of business, sale asset, etc without knowledge of the bank.

2.3.6. Reporting, Recommendation and Approval

Once all the accessory information is gathered, analysis is made and proper negotiation is conducted. This information should be presented in a summarized and structured manner with clear recommendation and should be forwarded to the approving body. Once approval is made or obtained the borrower should be informed of the approval contents. (NBE, 2012:10)

2.3.6.1. The Reporting Format

Any information on credit issues should be recorded on a standard format. The standard format is the principal credit document in which all relevant information for decision making (the request, summery of analysis, recommendation and the decision itself) is to be recorded. All credit issued whether new loan request, renewal, scheduling, legal action or appeal, etc should be presented using the standard format.

The concerned lending officer should fill all aspects provided in the standard format to facilitate the credit decision. If it lacks proper completion, it can be a major cause for delay in credit decision (longer loan processing time). The format can be filled in multiple copies depending on the number of organs that should receive a copy of the approval (per credit procedure of the bank).

2.3.6.2. Credit Recommendation

After the standard format is completed the lending officer should clearly put recommendation accompanied by at least three valid reasons extracted from the analysis presented in the format. No credit case shall be forwarded to credit committee without clearly articulated recommendation. The branch manager or the next level supervisor should always confirm the officer's recommendation; the different should be clearly stated in the format. In branches without officers the branch manager shall make the recommendation.

2.3.6.3. Dispatching the Format to Credit Committee

The standard format, the documentation checklist and the supporting document shall be forwarded to the appropriate credit committee, through the bank's document dispatch system to ensure accountability, for credit decision or approval.

The branch should always keep one copy of documents dispatched to other credit committees to be used as a tracer. The documents to be dispatched are categorized in to three. These are the standard format, supporting documents and documentation checklist.

2.3.6.4. Credit Decision or Approval

The respective credit committee reviews and recommended or approvals credit request that fail under its discretionary limit. Credit committees are jointly and severally accountable for approvals they make. Therefore, they shall conduct meetings and check and review the following before approving.

- Documentation check list is complete and singed.
- The amount is within their discretionary limit.
- Amount in words and figures are in agreement.
- Date and information on the standard format is complete.
- Recommendations are explicit and the format is signed.
- Deletions and corrections are accompanied by signature.

When irregularities are observed or suspected in the format the credit committee shall request for the original comment to verify information or seek clarification from the parties credited.

Finally all committee members shall sign on the format and reasons for reeducation or decline should be clearly stated. The data of review, recommendation and approval should be written on the standard format.

2.3.6.5. Communicating Credit Decisions

The approving committee shall send:

- One copy to the next higher organ of the bank, where appropriate.
- The original copy to the lending branch together with:
  - A covering letter signed by the chairperson or the secretary of the committee
  - Original copies of relevant pages of the minutes, and
  - All other supporting documents with the standard format.
- One copy shall be kept by the approving office up on receipt of the approval, the lending branch or organ shall immediately communicate the decisions to the applicant in writing.

2.3.7. Appeal

Up on informed about the bank's direction, the applicants may not be satisfied with the decision and may need to appeal. The leading branch or the concerned office shall clearly explain basic of the credit decision before receiving the appeal. If the applicant insists, she/he should appeal in writing within some specified period; from the data the credit decision is communicated. (NBE, 2012:10)

The appeal will forwarded to the next higher credit committee (over the approving committee). The decision by this next higher credit committee or the concerned shall be final.

2.3.8. Disbursement and loan Administration

Loan disbursement is the final steep in responding to borrower request for credit. However, there are some pre-disbursement and post disbursement activities.

Major pre-disbursement activities include signing of the contract, registering the contract with the authorities concerned for the pledged properties, insurance of pledged properties, fulfillment of other terms and conditions, if any etc. Ones the loan is disbursed, it has to be seriously followed up for proper repayment, utilization etc and the loan file should be properly administrated. (NBE, 2012:10)

2.4. Non-Performing Loan (NPL)

Non-performing loan as stated by NBE (2012:4) is a loan that is in default or close to being in default. Many loans become non-performing after being in default for three months, but this can depend on the contract terms. NPL is a loan where the borrower is not likely to pay neither any interest nor the principal.

A loan is non-performing when payment of interest and principal are past due by 90 days or more or at least 90 days of interest payments have been capitalized, refinanced or delayed by agreement or payment are less than 90 days overdue.

NPL classifications

It is observed that following the regulatory standard of national bank of Ethiopia and based on the credit risk, loan service performance and financial conditions of borrowers, BOA has classified NPL loans in to

1. **Substandard:** NPL past due 90 days or more but less than 180 days is classified under this category.
2. **Doubtful:** NPL past due 180 days or more but less than 360 days is classified as doubtful.
3. **Losses:** NPL past due 360 days is classified as losses.

2.5. Major Source of Loan Fund

Banks need funds to lend money to their customers. They use different source of funds. The major sources of loan funds are deposits from their customers, borrowings from other banks and bank's equity capital. (McCarty, 1982:50).

2.5.1. Deposit

A principal liability of banks is deposit accounts. The major sources of deposits are demand/current deposit, saving deposit and time deposit.

2.5.1.1. Demand/Current Deposit

These accounts are generally maintained by the traders and businessmen who have to make a number of payments every day. Money from these accounts can be withdrawn in as many times and in as much amount as desired by the depositors. No interest is paid on these accounts. Rather, the depositors have to pay certain incidental changes to the bank for the service rendered by it.

2.5.1.2. Saving Deposit

The aim of this account is to encourage and mobilize small saving of the public. Certain restrictions are imposed on the depositors regarding the number of withdrawals and the amount to be withdrawn in a given period. Check facility is provided to the depositors. Rate of interest paid on these deposits are low as compared to that of time deposits (Fabozzi, 1992:46).

2.5.1.3. Time Deposit

It is also called fixed deposit. Money in this account is deposited for fixed period of time (say one, two or five years) and cannot be withdrawn before the expiry of that period. The rate of interest in this account is higher than that of other types of deposits. The longer the period, the higher will be the rate of interest (Fabozzi, 1992:47).

2.5.2. Borrowing

Banks also obtain funds by borrowing from the Federal Reserve System, other banks and corporations. Borrowing from federal are called discount loan (Pandy, 1999:156).

2.5.3. Bank Equity Capital

These funds raise by selling new equity (stock) or from retained earnings.

2.6. 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. 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 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 on the presence of collateral and guarantees. A good risk management tries to avoid large exposures on high-risk counterparts.

According to Gestel & Baesens (2009:24) credit risk consists of pre-settlement and settlement risk which are elaborated below.

2.6.1. 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.

2.6.2. Settlement Risk

One is exposed to settlement risk because the payment or the exchange of cash flows 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 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.

2.7. Credit Risk Management

Credit risk is managed in various ways. The most important techniques to manage credit risk are selection, limitation, diversification & credit enhancement (Gestel & Baesens, 2009:43).

2.7.1. Selection

A good credit risk management starts with a good selection of the counterparts and products. Good risk assessment models and qualified credit officers are key requirements for a good selection strategy. Important credit decisions are made at credit committees. For counterparts with a higher default risk, more collateral is asked for to reduce recovery risk. Recovery risk is also reduced by requiring more stringent covenants, e.g., on asset sales. A good selection strategy also implies a good pricing of the products in line with the estimated risk.

2.7.2. Limitation

Limitation restricts the exposure of the bank to a given counterpart, it avoids the situation that one loss or a limited number of losses endanger the bank's solvency. The total amount of exposure to riskier counterparts is more restricted by a system of credit limits. The limit setting of the bank determines how much credit a counterpart with a given risk profile can take.

2.7.3. Diversification

The allocation process of banks will provide a good diversification of the risk across various borrowers of different types, industry sectors and geographies. Diversification strategies spread the credit risk in order to avoid a concentration on credit risk problems. Diversification is easier for large and international banks.

2.7.4. Credit enhancement

When a bank observes it is too exposed to a certain category of counterparts, it can buy credit protection in the form of guarantees from financial guarantors or via credit derivative products. By the protection, the credit quality of the guaranteed assets is enhanced. This is also known as credit risk mitigation.

CHAPTER THREE

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

This research paper deals on "Credit Management and Loan Performance in the case of BOA". In order to collect data the student researchers used both primary and secondary sources of data which are gathered through interview, questionnaire, and review of relevant reference materials. Totally 14 questionnaires were distributed and 11 of them (79%) are collected. The remaining 3 questionnaires (21%) were not collected. The interview was conducted from two employees of BOA who are working in the credit department. BOA Annual reports, bulletins, credit policy and other relevant documents were reviewed. Based on the collected data the student researcher would try to present, analyze and interpret as follows.

Table 3.1 Characteristics of Respondents

Item No.	Description	Options	#	%
1	Sex	Male	9	81.8
		Female	2	18.2
2	Educational Background	Certificate	-	-
		Diploma	-	-
		1st Degree	11	100
		2nd Degree & Above	-	-
3	Work Experience	Below 3 years	5	45.5
		3 – 6 years	3	27.3
		6 – 9 years	2	18.2
		9 – 12 years	1	9.1
		Above 12 years	-	-

Source: compiled from questionnaire result

As shown in Item No. 1 of Table 3.1, 9(81.8%) of respondents are male & while the rest 2(18.2%) of them are female respondents. This shows that most of the workers in credit departments are males.

Regarding to their educational background as indicated in Item No. 2 of Table 3.1, all respondents i.e. 11(100%) are first degree holders. This shows that all of them are professionals and they have the required skills and knowledge to perform the assigned tasks.

When we come to their work experience as shown in Item No. 3 of Table 3.1, 9(45.5%) of respondents have served the bank below 3 years. 2(27.3%) of them served the bank for the last 3-6 years. The other 2(18.2%) of them have from 6-9 years of work experience. The remaining 1(9.1%) of them serve the bank from 9–12 years. This indicates that majority of employees are with less experience.

According to the data workout officers, credit appraisal officers, relationship manager & principal credit follow-up officers are those who shared by giving the relevant information to this research. This indicates that all of our target groups have a direct relationship with the research topic.

Table 3.2 Credit Policy & Internal Control

Item No.	Description	Options	#	%
1	The Existence of Credit Policy	Yes	11	100
		No	-	-
2	The Existence of Internal Control over Its Loans	Yes	11	100
		No	-	-
3	The Evaluation of Internal Control	Excellent	2	18.2
		V. Good	7	63.6
		Good	2	18.2
		Poor	-	
		Very Poor	-	

Source: compiled from questionnaire result

Regarding credit policy over the loan as shown in Item No. 1 of Table 3.2, 11(100%) of our respondents agreed that BOA have credit policy. Not only respondents but the student research also tried to see the credit policy of the bank.

Regarding to the internal control over their loan as shown in Item No. 2 of Table 3.2, 11(100%) of respondents agree that there is internal control over its loans.

Based on Item No.3 of Table 3.2 those who say “Yes”. In Item No. 2 of Table 3.2 asked to evaluate the internal control. When they evaluate the internal control over the loan given by the bank, 2(18.2%) of respondents believe that the internal control is excellent. The majorities 7(63.6%) of respondents evaluate the internal control as very good. The remaining 2(18.2%) of respondents rate as good. This shows that the internal control system over loan is very good.

According to BOA’s loan policy and interview result, the main procedures for loan are credit origination (by customer or by bank), customer screening (Preliminary screening, financial statement analysis, sectoral feasibility analysis, & past credit experience analysis), application & analysis/ appraisal.

There are four loan approval departments. These are

1. Credit department credit committee
2. Head office credit committee
3. Senior management credit committee
4. Board credit committee

Finally the processed loan will be transferred to one of the above concerned department.

There are many types of collaterals. Building (Factory), Residential (Commercial), Merchandise Inventory, Vehicle & Machinery, Personal Guarantee (like organization letter to employees to get loan from banks), Bank Guarantee (Certificate of Deposit), Import/ Export Document, and Financial Securities (cash, share certificates, bonds) are some types of collaterals.

Table 3.3 Collateral Type

Types of Collaterals	1	2	3	4	5	6	7	8	Neutral	Total Score	Over all Rank
Building	1	6	2	1	1	-	-	-	-	71	2
Merchandise Inventory	-	-	2	2	4	1	1	-	1	43	6
Financial Securities	1	2	4	2	1	1	-	-	-	63	3
Bank Guaranties	-	2	1	3	1	2	2	-	-	49	5
Personal Guaranties	1	-	-	-	1	-	1	7	1	21	8
Residential	9	-	1	-	1	-	-	-	-	82	1
Vehicles & Machineries	-	1	4	2	1	3	-	-	-	54	4
Import or Export Documents	-	-	-	2	2	1	4	1	1	30	7

Source: compiled from questionnaire result

N.B: For table 3.3 the total score calculated as 8 point given for first rank, 7 point given for second rank, 6 point given for third rank, 5 point given for fourth rank, 4 point given for fifth rank, 3 point given for sixth rank, 2 point given for seventh rank and 1 point given for eighth rank.

According to the data collected for the regarding types of collaterals as shown in Table 3.3, building score 71 points, Merchandise inventory scores 43 points, Financial securities scores 63 points, Bank guaranties scores 49 points, Personal Guaranties, Residential, Vehicles & Machineries, Import or Export Documents scores 21,82,54 and 30 respectively. This indicates that Residential home is the first collateral type used by BOA. The second type of collateral used by BOA is Building. The third commonly used collateral type is Financial Securities. On the contrary Personal guarantee is the least type of collateral used by BOA.

Based on credit policy of BOA, the bank grants loan to different sectors such as Domestic Trade & Service (DTS), Transport, Import & Export, Industry, Construction, Agriculture, Business (Merchandise) and Personal loans. The loans extended to this sector take a form of short, medium, and long-term ones.

Table 3.4 Distribution of loan amount - Sector wise in BOA during Period 2009-2013

Types of Loans	Years									
	2009		2010		2011		2012		2013	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
DTS	755,190,123	27.9	1,074,017,015	34.1	1,145,674,315	34.6	1,689,161,216	43.3	2,194,046,132	46.7
Import	287,877,618	10.6	372,041,744	11.8	435,688,699	13.1	486,886,861	12.5	835,933,548	17.8
Construction	418,167,278	15.4	419,112,170	13.3	527,482,526	15.9	528,918,800	13.6	716,948,761	15.2
Transport	150,953,574	5.6	116,404,123	3.7	115,793,020	3.5	86,923,701	2.2	135,184,339	2.9
Industry	425,879,329	15.7	323,740,605	10.3	307,759,576	9.3	235,927,894	6.1	221,875,893	4.7
Export	223,452,617	8.2	349,837,447	11.1	480,430,037	14.5	552,542,183	14.2	543,548,424	11.6
Advance Against Import Bills	22,572,875	0.8	20,858,942	0.7	24,212,035	0.7	39,549,272	1.0	0	0.0
Merchandise	69,564,828	2.6	134,612,457	4.3	137,391,645	4.1	106,608,809	2.7	0	0.0
Loans In Legal Department	272,593,424	10.1	201,808,620	6.4	67,031,821	2.0	40,029,384	1.0	0	0.0
Personal	18,956,892	0.7	32,930,806	1.0	41,178,788	1.2	72,554,259	1.9	46,387,893	1.0
Agriculture	11,795,500	0.4	5,011,279	0.2	5,349,149	0.2	4,350,218	0.1	8,149,122	0.2
Advance Against Export Bills	51,960,683	1.9	91,096,684	2.9	17,743,363	0.5	33,265,288	0.9	0	0.0
DBE Export Credit Guarantee	0	0.0	0	0.0	0	0.0	4,425,731	0.1	0	0.0
Advance Against Sales Contract	0	0.0	11,772,568	0.4	9,952,958	0.3	16,263,085	0.4	0	0.0
Sub Total	**2,708,964,741**	**100**	**3,153,244,460**	**100**	**3,315,687,932**	**100**	**3,897,406,701**	**100**	**4,702,074,112**	**100**

Source: Annual report of BOA

As we can see from the Table 3.4 in 2009 the bank granted more loans for DTS (27.9%), Industry (15.7%), followed by Construction (15.4%), Import (10.6%), loan in legal department (10.1%), and Export (8.2%). And also the bank granted proportional amount of loan for Transport (5.6%), merchandise (2.6%), and advance against export bill (1.9%) which are less than the above mentioned sectors. In this year Advance Against on Import Bills (0.8%), personal loan (0.7%), and agriculture (0.4%) are the least provided loans.

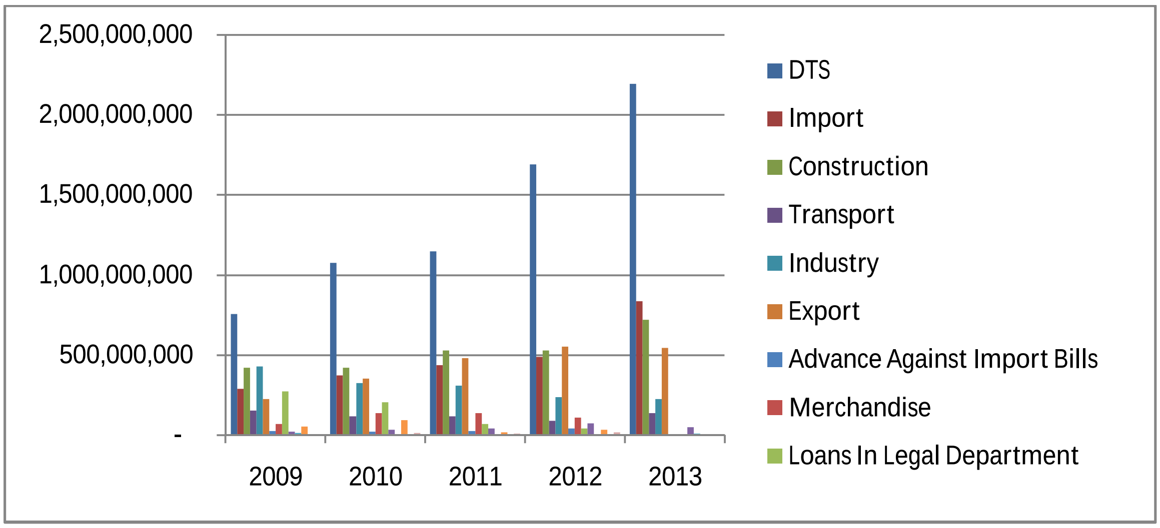
In 2010 the bank granted more loans to DTS (34.1%), and construction (13.3%). The next largest amount of loan is granted for import (11.8%), and export (11.1%). Export loans are showing a growth in compare to the previous year. Followed by the above mentioned sectors industry (10.3%), loan in legal department (6.4%), merchandise (4.3%), transport (3.7%), and advance against export loan (2.9%) are showing proportional rate. The remaining personal (1%), Advance Against on Import Bills (0.7%), advance against sales contract (0.4%), and agriculture (0.2%) are still the least amount of loan granted by BOA. In this year the new loan type called "Advance against sales contract" is granted. The total loan granted in 2010 shows an increment of 16.4% as compare to loans granted in 2009.

When we see the loan granted in 2011, DTS (34.6%), and construction (15.9%) still took the highest amount of loan. The next highest amount of loan is provided to export (14.5%), import (13.1%) industry (9.3%), and merchandise (4.1%) respectively. The remaining seven sectors transport (3.5%), loan in legal department (2%), personal (1.2%), Advance Against on Import Bills (0.7%), advance against export loans (0.5%), advance against sales contract (0.3%), and agriculture (0.2%) took the least shares respectively. In this year the total granted loan shows an increment of 5.1% as compare to loans granted in the previous year (2010).

In the year 2012, DTS (43.3%), and export (14.2%) has took the highest shares followed by construction (13.6%) and import (12.5%) respectively. On the other hand industry (6.1%), merchandise (2.7%), transport (2.2%) and personal (1.9%) have got proportional rate which are followed by loans in legal department (1%), Advance against on Import Bills (1%), Advance Against on Export Bills (0.9%), Advance Against on Sales Contract (0.4%), DBE export credit guarantee (0.1%) and agriculture (0.1%), those provided less loan in compare to the above mentioned sectors. In this year the total granted loan shows an increment of 17.5% as compare to the previous year 2011.

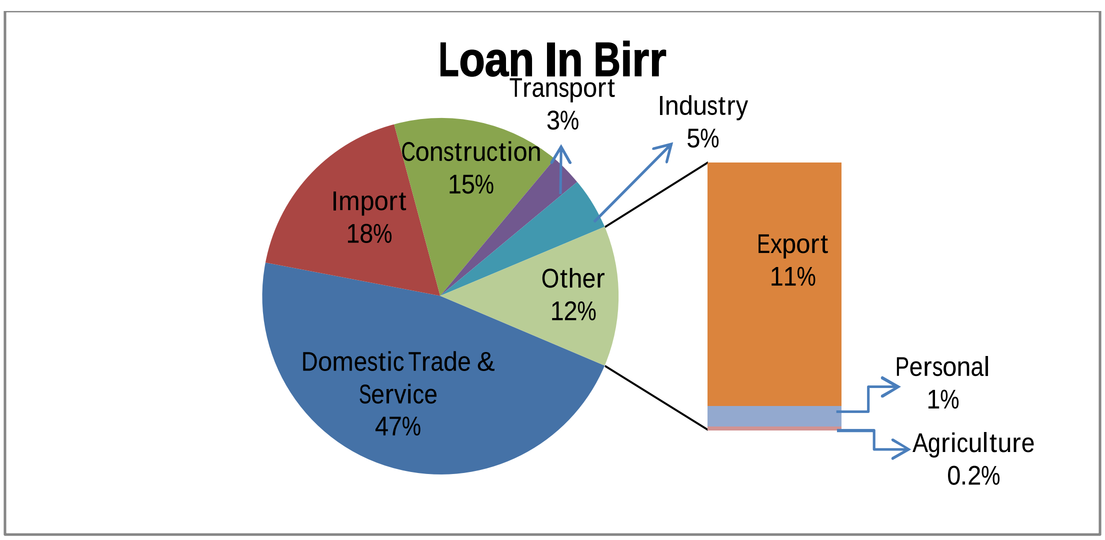
When we come to the last year 2013 distribution of loan amount, the bank still grant more loans to DTS (46.7%), and import (17.8%). The next higher priority is for construction (15.2%) and export (11.6%). The remaining industry (4.7%), transport (2.9%), personal (1%), and agriculture (0.2%) provides less amount of loan compare to the others. In this year, total granted loan shows an increment of 20.6% in compare to the previous year 2012. DTS loan shows an increment of amount in each year from 2009-2013. This shows that most of the time the bank grants more amounts to DTS type of loan because of mostly customer's are engaged on this business sector.

Chart 3.1 Distribution of loan amount - Sector wise in BOA during Period 2009-2013.



Source: compiled by researchers from BOA five years annual report

Chart 3.2 Distribution of loan amount - Sector wise in BOA during Period 2013



Source: compiled by researchers from BOA annual report

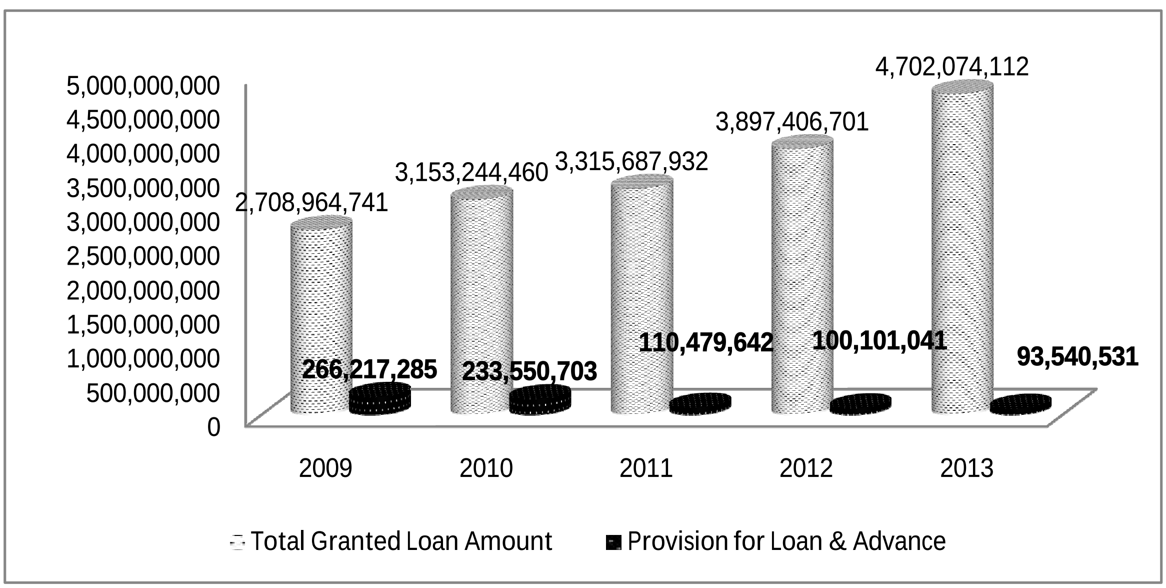
Table 3.5 Trends of decrement rate of provision for loans & advances amount for the years 2009-2013

Year	Total Granted Loan Amount	Provision for Loan & Advance	%
2009	2,708,964,741	266,217,285	9.8
2010	3,153,244,460	233,550,703	7.4
2011	3,315,687,932	110,479,642	3.3
2012	3,897,406,701	100,101,041	2.6
2013	4,702,074,112	93,540,531	2.0

Source: compiled from BOA's Annual report

In Table 3.5 provision for doubtful loans and advance account shows a decrement from year to year. In 2009 this account balance was 9.8% of the total loan granted. In the year 2010, it shows a decrement of 2.4% and it becomes 7.4% of the total granted loan. In the 3rd year 2011, it shows a much better decrement and it becomes 3.3% of the total granted loan. In 2012 & 2013, this account balance become 2.6% & 2% of the total granted loan respectively.

Chart 3.3 Trends of decrement rate of provision for loans & advances amount for the years 2009-2013



Source: compiled from BOA's Annual report

Table 3.6 Rate of NPL in Economic Sector

Types of Loans	1	2	3	4	5	Neutral	Total Score	Over all Rank
Industry	2	3	2	1	1	2	23	6
Agriculture	2	0	4	3	0	2	26	5
Merchandise	1	3	4	2	0	1	27	3
DTS	5	0	1	1	3	1	27	3
Import	4	2	4	0	0	1	20	8
Export	3	1	3	2	0	2	22	7
Transport	1	4	2	2	1	1	28	2
Real Estate & Construction	0	3	3	2	2	1	33	1
Personal	8	0	0	0	1	2	13	9

Source: compiled from collected data

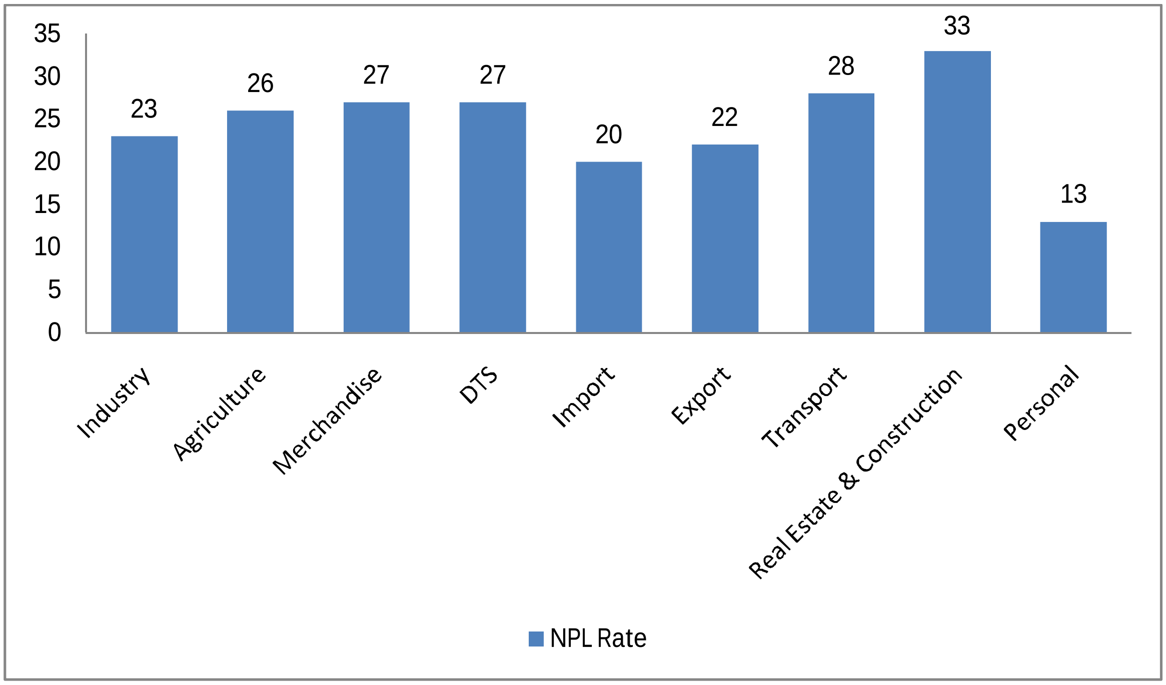
N.B: For table 3.6 the total score calculated as 1 point given for first rank, 2 point given for second rank, 3 point given for third rank, 4 point given for fourth rank, 5 point given for fifth rank.

Table 3.6 shows that, real estate & construction sector scores 33. Transport sector scores 28, merchandise sector scores 27, DTS scores 27, agriculture sector scores 26, industry sector scores 23, export industry scores 22, and personal loan scores 13. As per interview made with work out officer of BOA and table 3.6 indicates that real estate & construction loan is the highest rate to be exposed for NPL. The reason will be most of the time real estate & construction loans are long term loans. The time period or maturity date will affect the probability of the loan to become NPL or to be collected on time. The next highest rate to be exposed for NPL is Transport, DTS and Merchandise sector respectively. On the contrary personal loan has the least rate to be exposed for NPL.

Based on the interview result of student researchers, among the loans given by BOA, DTS and Import sector loans are the major types of loan in which the bank face un collectability or not paid timely. There are many causes for this problem. One of the main causes for Import loans to be exposed for NPL are shortage of foreign currency and local market speculation

(Seasonal Market). The other causes for DTS loan to be exposed for NPL are shortage of market and diversion of borrowers fund to other purpose.

Chart 3.4 Rate of NPL in Economic Sector



Source: compiled from collected data

Table 3.7 Causes of NPL at Bank Level

Cause at Bank Level	1	2	3	4	5	Neutral	Total Score	Over all Rank
Lack of continuous follow-up and proper risk assessment	0	2	3	2	3	1	36	1
Lack of consultation and communication with defaulter	1	1	2	4	2	1	35	2
Lack of credit information from other commercial banks	8	0	1	0	1	1	16	5
Mistake on estimation of collateral and evaluating the borrower's financial reports	5	1	2	2	0	1	21	4
Problems associated with loan eligibility criteria's	2	5	1	1	1	1	24	3

Source: compiled from collected data

N.B: For table 3.7 the total score calculated as 1 point given for first rank, 2 point given for second rank, 3 point given for third rank, 4 point given for fourth rank, 5 point given for fifth rank.

The higher point indicates the higher cause for NPL & the lower rate indicates the least cause for NPL at bank level. Table 3.7 shows that lack of continuous follow up and proper risk assessment get 36 points where as lack of consultation and communication with defaulter achieve 35 points. Lack of credit information from other commercial banks scores 29. Mistake on estimation of collateral and evaluating the borrower's financial reports gain 21 points. Finally 24 point is get Problems associated with loan eligibility criteria's. This is a sign of a good continuous follow up and proper risk assessment will reduce unpaid loan while most of the time credit information from other commercial banks are sufficient that's why credit information is the least cause for NPL at the bank level.

There are also many causes for NPL at borrower's level just like bank level. Division of the borrowed fund to other purpose, insufficient credit awareness, and unwilling customer to disclose the information required, contingencies at borrower level (like death, sickness), lack of proper business plan and unwillingness to pay back are some causes of NPL at borrowers level.

Table 3.8 Cause of NPL at Borrowers Level

Cause at Borrower Level	1	2	3	4	5	Neutral	Total	Over all Rank
Diversion of the borrowed fund to other purpose	1	0	1	1	8	0	48	1
Insufficient credit awareness	0	0	6	2	3	0	41	2
Unwilling customer to disclose the information required	2	4	1	1	2	1	27	4
Contingencies at borrower level e.g. death, sickness etc	4	2	3	2	0	0	25	6
Lack of proper business plan	1	2	2	3	3	0	38	3
Unwillingness to pay back	3	5	1	0	2	0	26	5

Source: compiled from collected data

N.B: For table 3.8 the total score calculated as 1 point given for first rank, 2 point given for second rank, 3 point given for third rank, 4 point given for fourth rank, 5 point given for fifth rank.

As Table 3.8 shows Diversion of the borrowed fund to other purpose has get a point of 48, Insufficient credit awareness attain 41 points, Unwilling customer to disclose the information required get 27 points. Contingencies at borrower level like death, sickness etc. gets 25. Lack of proper business plan gets a tally of 38 and also Unwillingness to pay back keep a tally 26. This indicates that borrowers diversify the loan to different purposes rather than the purpose of the loan. Failure to apply or be unsuccessful to implement the main loan purpose may be the major cause for NPL. Rather contingencies at borrower level occur infrequently & they are the least causes for NPL.

Table 3.9 Evaluation of Credit Risk Management Bank's Assessment Mechanisms about Borrower's Past Financial History

Item No.	Description	Options	#	%
1	Evaluation of credit risk management	Excellent	-	-
		Very Good	1	9.1
		Good	10	90.9
		Poor	-	-
		Very Poor	-	-
2	Banks assessment mechanisms about borrower's past financial history	Excellent	2	18.2
		Very Good	4	36.4
		Good	5	45.4
		Poor	-	-
		Very Poor	-	-

Source: compiled from collected data

As per Item No. 1 of Table 3.9, 10(90.9%) of respondents evaluate the credit management of the bank as good. The remaining 1(9.1%) of them evaluated as very good. This tells us BOA's credit risk management is not good and not bad rather it looks medium. This will needs some improvement in the future.

According to interview result, BOA's credit risk management is mostly to minimize NPL. Proper customer screening in the major thing that BOA used to minimize the rate of nonperforming loans. Nonperforming loans become decreased the bank's profit will be maximized.

As per Item No. 2 of Table 3.9, 5(45.4%) of respondents evaluate bank's assessment mechanism about borrowers past financial history such as credit worthiness, and perform detail financial analysis before extending loans as good. 4(36.4%) of them indicate that the assessment is very good. The remaining 2(18.2%) of them evaluate as excellent. This indicates that BOA assess about the past financial history of borrowers. This has its own advantage to the bank. In some extent past financial history tells about the business existence.

According to the data collected through questionnaire & interview, BOA has the following mechanisms to collect loans which face certain problem of collectability.

- **Consultation:** the bank will consult the borrower how to pay his loan.
- **Warning letter:** written warning letter in three stages will be given to the borrower.
- **Restructure:** the bank will arrange to increase the loan amount.
- **Reschedule:** the bank will arrange to expand the time of repayment.
- **Disposal of collateral:** the final mechanism will be disposal of collateral.

CHAPTER FOUR

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

4.1. Summary

The student researchers were eager to investigate the performance of Bank of Abyssinia on granting loan and its performance on paying back the granted loan. In order to gather data the student researchers distributed 14 questionnaires but 11 of them were filled and returned. Data are presented, analyzed and interpreted based on the collected questionnaires and observation of secondary data. Interview was made with work out officer of BOA and document of the bank was observed and analyzed.

Based on the student researcher's observation and analysis the major findings are as follows

- While 9(81.8%) of the respondents were males, the rest 2(18.2%) of them were females.
- 11(100%) of respondents are first degree holders.
- 5(45.5%) respondents have below 3 years work experience, 3(27.3%), 2(18.2) and 1(9.1) of the respondents have a work experience of 3-6, 6-9 and 9-12 years respectively.
- 11(100%) respondents say "Yes" for the existence of credit policy and internal control over its loans.
- Out of the total respondent 7(63.6%) of them say "Very good", and 2(18.2%) respondents say "good" to evaluate internal control over its loan
- Residential home, Building, Financial securities, Vehicles and machineries, Bank Guaranties, Merchandise inventory, Import or Export documents and Personal Guaranties are type of collaterals used by BOA.
- The bank provides different commercial banking activities to entertain or attract customers in the competitive environment. Some of these activities are deposit mobilization, credit facility and money transfer etc… to customers.

- From the sector that the bank classified as type of loan it usually emphasize on domestic trade & service that takes the highest share followed by import, construction and industry. But personal and agriculture sector took the least share among all other sectors.
- The total granted loan in the year 2010, 2011, 2012 and 2013 shows an increment of 16.4%, 5.1%, 17.5% and 20.6% percent respectively.
- The provisions for loan and advance are 9.8%, 7.4%, 3.3%, 2.6% and 2% of the total granted loans in the year 2009, 2010, 2011, 2012 and 2013 respectively.
- While among the type of loans by economic sector, DTS and Import loans are the higher rate to be exposed for NPL.
- The highest causes of NPL at bank level are Lack of continuous follow-up and proper risk assessment and Lack of consultation and communication with defaulter respectively. The least Causes of NPL at bank level is Lack of credit information from other commercial banks.
- The highest causes of NPL at borrower level are Diversion of the borrowed fund to other purpose and Insufficient credit awareness respectively. The least Causes of NPL at borrower side is Contingencies at borrower level like death, sickness etc.
- 10 respondents evaluate the credit risk management of BOA as “Good”. The remaining 1 respondent says as “Very Good”.
- Before extending the loans BOA’s assessment mechanisms about borrowers past financial history such as Credit worthiness and detail financial analysis is rated as Good, Very Good and Excellent.
- Consultation, Warning letter, Restructure, Reschedule and Disposal of Collateral are the major mechanisms to gather loans which face certain problem of collectability.
- Credit control and monitoring in BOA is one of the main tasks of branches and credit department at a head office to assist the management of the bank to determine the quality and collectability of credit existence in the portfolio of the bank.
- The bank improves its risk profile by reducing loan granted to overdraft facility and by increasing term loan facility.

4.2. Conclusions

From the findings of the study, the student researchers make the following conclusions

- Our respondents are professionals and they have the required skills and knowledge to perform the assigned tasks.
- BOA's total outstanding loans are growing up year to year.
- BOA provides various credit lines to different economic sectors. These economic sectors also defined as loan categories in banking industry. Loan disbursed by banks to different economic sectors are classified to different loan categories based on their end use. DTS, Building & Construction and Import take the largest share of outstanding loans followed by Export and Industry during the periods under the study (2009-2013). Even in Ethiopia economy is characterized by agriculture the loan disbursed to this sector takes the least share out of the total outstanding loan balances.
- Among the loans given by the bank, DTS and Import loans are the types of loan which are highly exposed for NPL or not repaid timely. On the contrary personal loan is the least exposed for NPL
- According to the study, the causes of NPL in BOA are the result from both at the bank level and at the borrower level. Among these, Lack of continuous follow-up and proper risk assessment and Lack of consultation and communication with defaulter are the highest causes of NPL at the bank level while, Diversion of the borrowed fund to other purpose and Insufficient credit awareness are the highest causes of NPL at the borrower level.
- BOA's credit risk management is mostly to minimize NPL. Proper customer screening in the major thing that BOA used to minimize the rate of nonperforming loans. Nonperforming loans become decreased the bank's profit will be maximized.
- In the current competitive environment, more and more lines of business, which need a huge investment, are being opened. With this respect, BOA plays a role in most of the economic development of the economy. To do this, an appropriate credit approval procedure and management practice is vital so as to make the disbursed loan productive, effective and profitable. However, if these financed funds (loans) are not collected or paid back to the bank regularly, they have deteriorating effect on the development of the economy.

- Consultation, Warning letter, Restructure, Reschedule and Disposal of Collateral are the major mechanisms to gather loans which face certain problem of collectability.

4.3. Recommendations

Thus, from the summary of the major findings and conclusions drawn, the following recommendations are forwarded to improve credit management and loan performance in BOA.

1. One of the most important tasks in the credit risk ranking process is evaluation of portfolio risk. A bank may suffer losses if its large percentage of loan concentration falls in one particular sector or business. Therefore, the bank should assess the risk associated with extending of business in view of the risk inherent in sector in which that business operates.

2. The bank should frequently follow-up and assess the risks in the borrowers business to create long lasting relationship and assure future payments and reduce NPL. Emphasis should be made to the importance of strength credit follow up activities as per credit is disbursed. These credit follow-ups include Automatic notification when a customer's invoices are past due or credit limits are exceeded, Create a future message to follow-up on payment promises, Display customized lists of customers so that the bank can review and document collection issues and commitments, Set up delinquency notices with different text, depending on the aging or severity level of the invoice, Set up policies that the bank can modify to fit the customer base, and Generate delinquency fees that escalate proportionately to the amount of time that invoices are past due or assess a fixed flat amount.

3. The bank should create credit awareness among its borrowers. Among those, the bank should consult the borrowers who did not use the loan for the specified purpose and give advice not to use the amount for other purpose.

BIBLIOGRAPHY

Beams, Floyd A. and Others (2012). *Advanced Accounting* (11th Ed.) London: Pearson Prentice Hall.

Bullirat, Glen F. (2010). *Credit Management (*6th ed.*)* London: MPG Books Group

Fabozzi, F. J. (1992). *Capital Markets* (2nd ed.) New York: Prentice Hall Publishers.

G/Hiwot, M. (2007). Credit Management. (Unpublished).

Gestel, T. V., & Baesens, B. (2009). *Credit Risk Management.* NewYork: Oxford University Press.

Hajela, T. (1998). *Money, Banking and International Trade* (7th revised ed.) New dlehi: New Age International Privet Limited Publishers.

McCarty, M. H. (1982). *Money and Banking* (1st ed.) Boston: Addison-Wesley Publishing Company.

Mekasha, G. (2011). *Credit Risk Management and Its Impact on Performance on Ethiopian commercial Banks.* Addis Ababa: AAU

NBE. (2002). *Licensing and supervision of banking business Directives No. SBB/32/2002*

NBE. (2012). *Licensing and supervision of banking business Directives No. SBB/52/2012*

Negussie, H. A. (2012). *Determinants of Bank Profitability.* Addis Ababa: AAU

Needles, Belveld E. & Marian Powers (2011). *Principles of Financial Accounting* (11th ed.) USA: South-Western Cengage Learning.

Pandey, I. (1999). *Financial Management* (8th ed.) London: Sangam Books Ltd.

Retrieved from www.bankofabyssinia.com: http://www.bankofabyssinia.com

Retrieved from www.un-documents.net/ocf-03.htm: http://www.un-documents.net/ocf-03.htm

Teferi, L. (2002). Credit Management. (Unpublished).

Appendices

ST. MARY'S UNIVERSITY
BUSINESS FACULTY
DEPARTMENT OF ACCOUNTING

The objective of this interview is to assess the credit management and loan performance of Bank of Abyssinia in partial fulfillment of the requirements for the degree of Bachelor of Arts in Accounting.

Interviewee: ____________________ Date of Interview: _______________

Place: _________________________ Time of Interview: _______________

Duration of Interview: ___________

Responsibility: _________________

Interview questions

1. Among the loans given by the bank, which type of loan is not repaid timely?
2. What are the major policies and procedures for loan?
3. What are the impacts of credit risk management on the profitability of the bank?
4. What techniques are used by the bank in settlement of loans from customers?
5. How much loan is granted by the bank during the last recent five years?
6. To which sector does the bank grant more loans? Why?

ST. MARY'S UNIVERSITY

BUSINESS FACULTY

DEPARTMENT OF ACCOUNTING

Questionnaire

The objective of this questionnaire is to assess the credit management and loan performance of Bank of Abyssinia in partial fulfillment of the requirements for the degree of Bachelor of Arts in Accounting. Your kind cooperation in answering the questions will help the researcher to make an analysis of the data and reach a concrete conclusion.

Note:

- ❖ Please put "✓" in the box provided. Open-ended questions will be answered in the space provided.
- ❖ The researcher would like to thank you in advance for dedicating your time for answering the questions.

1. Sex:

   Male ☐ Female ☐

2. Educational background

   Certificate ☐ Diploma ☐

   1st Degree ☐ 2ndDegree& above ☐

3. Position ____

4. How long have you been working in your current position?

   Below 3 years ☐ 3-6 years ☐ 6-9 years ☐

   9-12 years ☐ Above 12 years ☐

5. Does the bank have credit policy?

   Yes ☐ No ☐

6. Does the bank have an internal control over its loans?

   Yes ☐ No ☐

7. If your answer for question no. 6 is yes, how you do evaluate the bank's internal control?

   Excellent ☐ V. Good ☐ Good ☐ Poor ☐ V. Poor ☐

8. Can you indicate the rate of commonly accepted collaterals level by the bank by selecting from 1 up to 5. (1 indicates the most commonly used type of collateral by the bank while, 8 indicates the least used one.)

_____Building (Factory)
_____Residential (Commercial)
_____Merchandise Inventory
_____Vehicles & Machineries
_____Financial Securities (Cash, Share Certificate)
_____Import or Export Documents
_____Bank Guaranties (Certificate of Deposit)
_____Personal guaranties (like organization letter to employees to get loan from banks)

9. Can you indicate the rate of NPL among the loans given by the bank selecting from 1 up to 5. (5 indicates the higher rate of NPL while, 1 indicates the least rate.)

Type of Loan By Sector	1	2	3	4	5
Industry Loan					
Agriculture Loan					
Merchandise Loan					
Domestic Trade & Service Loan					
Import Loan					
Export Loan					
Transport Loan					
Real Estate & Construction Loan					
Personal Loan					

10. Can you indicate the causes for NPL at Bank level selecting from 1 up to 5. (5 indicates the rate of major cause for NPL at bank level while, 1 indicates the least cause)

	1	2	3	4	5
Lack of continuous follow up and proper risk assessment					
Lack of consultation and communication with defaulter					
Lack of credit information from other commercial banks					
Mistake on estimation of collateral and evaluating the borrower’s financial reports					
Problems associated with loan eligibility criteria’s					

11. Can you indicate the causes for NPL at Borrower level selecting from 1 up to 5. (5 indicates the rate of major cause for NPL at borrower level while, 1 indicates the least cause)

	1	2	3	4	5
Diversion of the borrowed fund to other purpose					
Insufficient credit awareness					
Unwilling customer to disclose the information required					
Contingencies at borrower level e.g. death, sickness etc					
Lack of proper business plan					
Unwillingness to pay back					

12. How do you evaluate the applicability of credit risk management system adopted by BOA?

    Excellent ☐ V. Good ☐ Good ☐ Poor ☐ V. Poor ☐

13. Bank's assessment mechanisms about borrowers' past financial history such as credit worthiness and perform detail financial analysis before extending the loans

    Excellent ☐ V. Good ☐ Good ☐ Poor ☐ V. Poor ☐

14. When the borrower faces a certain problem and unable to pay the loan, what mechanism do you apply in order the loan to be collected?

Thank you in advance for your cooperation

Your due attentions in answering these questions will contribute a lot to our paper.

BALANCE SHEET

In Millions of Birr					
	2009	**2010**	**2011**	**2012**	**2013**
Assets					
Cash On Hand	612.15	661.58	792.52	811.93	831.14
Cash At Bank					-
Reserve Account With NBE	1,693.59	1,606.02	1,322.61	886.08	764.57
Deposit With Foreign Banks	374.93	637.71	587.06	812.49	371.42
Deposit With Local Commercial Banks	15.63	56.70	193.72	12.61	4.08
Treasury Bills	-	-	-	-	448.97
Items In Course Of Collection From Other Banks	131.30	228.22	133.18	138.76	95.65
Investment-NBE Bills	-	-	816.60	1,461.23	2,090.35
Other Investments				1.26	5.03
System Suspense					6.13
Trust Fund - Time Deposit With NBE					365.41
Deposit & Repayments	10.59	15.52	32.64	42.49	67.87
Sundry Debtors & Other Debit Balances	118.06	75.86	80.09	111.08	-
Total Loans & Advances	2,442.75	2,919.69	3,205.21	3,797.31	4,608.53
Leasehold Land	0.49	0.48	0.47	0.46	0.45
Differed Expenditures	1.15	1.64	27.38	68.26	0.69
Customers Liability	-	-	-	-	-
Fixed Assets	76.00	76.12	86.08	95.56	499.83
Total	**5,476.64**	**6,279.54**	**7,277.56**	**8,239.52**	**10,160.12**
Liabilities					
Deposits	**4,494.19**	**5,138.84**	**6,075.26**	**6,771.24**	**8,496.15**
Demand Deposits	1,211.31	1,219.36	1,591.37	1,630.50	2,058.34
Saving Deposits	3,049.75	3,783.28	4,422.86	4,923.71	5,896.34
Fixed Deposits	233.13	136.20	61.03	217.03	541.47
Foreign Banks	-	-	-	-	-
Trust Fund	-	-	-	-	-
Short Term Loans	-	-	-	-	-
Other Credit Balances	328.91	329.82	358.89	315.28	306.39
Margin Held On L/C	89.33	169.68	102.77	171.11	160.74
Long Term Loans	-	-	-	-	-
Provision For Taxation	44.97	55.70	77.42	72.25	77.36
State Dividend	-	-	-	-	-
Other Provisions	-	-	-	-	-
Bank Liability On L/C Per Contra	-	-	-	-	-
Differed Tax Liability	-	-	2.49	3.03	11.84
Bank's Liability	**4,957.40**	**5,694.04**	**6,616.83**	**7,332.91**	**9,052.48**
Capital & Reserve	519.23	585.49	660.76	906.59	1,107.63
Authorized & Paid	313.14	315.00	315.00	478.90	577.03
Share Premium	2.83	2.83	2.83	2.83	2.83
Legal Reserves	103.85	139.00	183.61	237.55	303.74
General & Special Reserves	25.92	25.92	25.92	25.92	25.92
Retained Earning	73.49	102.75	133.40	161.40	198.12
Profit & Loss A/C	-	-	-	-	-
Total Capital And Reserve	**519.23**	**585.49**	**660.76**	**906.59**	**1,107.63**
Total Liabilities, Capital And Reserves	**5,476.63**	**6,279.54**	**7,277.59**	**8,239.51**	**10,160.12**

INCOME STATEMENT

In Millions Of Birr					
	2009	**2010**	**2011**	**2012**	**2013**
Descriptions					
Interest Income	275.89	261.88	372.08	497.49	583.51
Interest Expense	(112.07)	(127.31)	(163.72)	(208.45)	(258.23)
Net Interest Income	**163.82**	**134.57**	**208.36**	**289.04**	**325.28**
Service Charge & Commission Income	35.85	45.59	89.18	112.01	150.03
Net Gain From Dealing In Foreign Currencies	68.58	108.16	128.75	85.38	105.17
Provision For Doubtful Loans And Advances	-	11.49	-	-	-
Prior Period Adjustment	-	7.50	-	-	6.50
Other Income	24.49	34.33	28.06	28.20	19.32
Total Non Interest Income	**128.92**	**207.07**	**245.99**	**225.59**	**281.02**
Net Interest Income & Non Interest Income	**292.74**	**341.64**	**454.35**	**514.63**	**606.30**
Employees Salary & Benefit	(65.91)	(79.29)	(90.81)	(106.29)	(134.28)
Provision For Doubtful Loans	(15.64)	-	(19.00)	(23.63)	-
General Expenses	(65.80)	(66.01)	(79.42)	(95.62)	(120.10)
Provision For Other Receivables	-	-	(6.74)	(0.51)	(0.45)
Total Non Interest Expenses	**(147.35)**	**(145.30)**	**(195.97)**	**(226.05)**	**(254.83)**
Prior Year Adjustment	-	-	-	-	-
Profit Before Tax	**145.39**	**196.34**	**258.38**	**288.58**	**351.47**
Tax	(45.03)	(55.75)	(77.46)	(72.26)	(77.90)
Deferred Tax	-	-	(2.49)	(0.55)	(8.81)
Net Profit After Tax	**100.36**	**140.59**	**178.43**	**215.77**	**264.76**
Transfer To Legal Reserve	(25.09)	(35.15)	(44.61)	(53.94)	(66.19)
	75.28	105.44	-	-	-
Retained Earnings Brought Forward	102.75	73.49	102.75	133.40	161.40
Less: Transfer To Special Reserve	(12.49)	-	-	-	-
Less: Dividends Paid	-	(73.49)	(102.75)	(133.40)	(161.40)
Less: Directors' Shares On Profit	(1.79)	(2.69)	(0.43)	(0.43)	(0.45)
Retained Earnings Carried Forward	**73.49**	**102.75**	**133.40**	**161.40**	**198.12**
Earnings Per Share (Par Value Of Birr .25)	8.02	11.18	14.16	13.59	12.54
Earning Per Birr 100 Shares	32.09	44.71	56.65	54.36	50.15

DECLARATION

I the undersigned, declare that this senior essay is my original work, prepared under the guidance of Mr. Meseret Kinfe. All sources of material used for the manuscript have been duly acknowledged.

Name of Advisor	**Signature**
Mr. Meseret Kinfe	___________________

Name of Advisee'	**Signature**
Genet Zekarias	___________________
KidistNigussie	___________________
TizitaAnchemo	___________________

Place of Submission: Addis Ababa

Date of Submission: July, 2014