St. Mary's University

School of Graduate Studies

(MBA Program)

A RESEARCH PROJECT ON ASSESSMENT OF NPLS AND EVALUATION OF THEIR CAUSES IN ETHIOPIAN PRIVATE BANKS WITH SPECIFIC REFERENCE TO BOA

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(ID.No. SGS/0044/2009B)

June, 2019
Addis Abeba

Statement of Declaration

I, the under signed Dagne Kitaba, hereby declare that the project work entitled "The assessment of Non-performing Loans (NPLs) and Evaluation of their causes in Ethiopian Private Banks with specific reference to Bank of Abyssinia (BOA)" is submitted by me in partial fulfillment of the requirement of the degree of Masters of Business Administration at St, Mary's University, School of Graduate studies. It is my original work and has not been presented for the award of any other Degree, Diploma, Fellowship or other similar titles of this or any other University or institution.

Place: Addis Abeba

Date: June, 2019

Signature: ----------

Name: Dagne Kitaba

ID. No. SGS/0044/2009 B

Statement of Certification

This is to certify that this Project work entitled "The assessment of Non-performing Loans (NPLs) and Evaluation of their causes in Ethiopian Private Banks with specific reference to Bank of Abyssinia (BOA)" is carried out by Dagne Kitaba. Certified further, that the work is original and is suitable for submission for the reward of the MBA degree in General Management.

Place: Addis Abeba

Date: June, 2019

Signature: ----------

Advisor: Asmamaw Getie

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St. Mary's University

A THESIS SUBMITTED TO ST. MARY'S UNIVERSITY SCHOOL OF GRADUATE STUDIES

IN PARTIAL FULFILLEMENT OF THE REQUIREMENT FOR THE DEGREE OF MASTERS OF BUSINESS ADMINISTRATION

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Abstract

While financial institutions used to face difficulties for a multitude of reasons, the major cause of serious banking problems continues to be directly related to the occurrence and rise of NPLs as a result of many macro and micro factors. Hence, this study was conducted to assess the status of Non-performing Loans (NPLs) and evaluate their causes especially the seven bank specific causes (poor credit risk assessment, poor credit monitoring, collateral, Granting loan to highly levered borrowers, Loan divert ion, Borrowers orientation, Credit size) that were considered to contribute to NPLs in Ethiopian Private Banks with specific reference to BOA. To this effect, the researcher has selected 12 senior private commercial banks in Ethiopia to fetch for relevant data for the last ten years as secondary sources of data. However, due to the secrecy of some data keeping principle of the banks no sufficient data especially on NPLs records could be found. These data were collected from NBE and the respective banks archive records. The collected data was subject to descriptive analysis to answer the research questions. The analysis was made using the SPSS software package. These included frequencies, descriptive statistics of means and standard deviations. As far as the secondary data sources were concerned the NPLs trend is showing a down ward sloping. With respect to the primary source of data, however, the contribution of most of the independent variables to the status and occurrence of NPLs is quite significant. The finding revealed that all the causes have a direct relationship with the rise in NPLs. While tested with each other, the correlation of the independent variables discovered the existence of both negative and positive relationships. Among the seven independent variables the two variables that the researcher focused on more, namely; Loan divert ion and providing loan to Highly levered borrowers were finally concluded to have been the major contributing factors for the occurrence and rise of NPLs in Ethiopian Private banks with specific reference to BOA. Finally, Private Banks were also recommended to focus on all aspects of impacts of the above mentioned independent variables in order to mitigate solution they may pose on the occurrence of NPLs. Future researchers who may have an interest to conduct a research on similar topic can use this research paper as an input by applying an increased size of the samples through wider perspectives of research methods in order to come up with a more reliable and comprehensive research outcome.

Key words: *Non-performing Loans, bank specific causes (factors), macroeconomic factors*

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Acronyms

ACH=Automated Clearing House

AIB=Awash Bank

ATM=Automated Tellers Machine

BB=Birhan Bank

BIB=Bunna International Bank

BOA=Bank of Abyssinia

CBB=Construction and Business Bank

CBE= Commercial Bank of Ethiopia

CBK=Central Bank of Kenya

CBO=Cooperative Bank of Oromia

DB=Dashen Bank

FSI=Financial Soundness Indicator

GDP=Gross Domestic Product

HO=Head Office

IMF=International Monetary Fund

NBE= National Bank of Ethiopia

NIB=Nib International Bank

NPL=Non-performing Loan

OIB=Oromia International Bank

PL=Performing Loan

RM=Relation Manager

SNA=Statistical National Account

UK=United Kingdom

CHAPTER ONE

1. Introduction

1.1. Background of the study

In the modern world, Financial Institutions (FIs) are very important to support sustainable development of any economy as they facilitate the intermediary role of mobilization of finance, which will be supported with the control and risk aspect of probable uncertainties of business operations and the most essential and highly susceptible economic elements. Among the major financial Institutions, commercial banks do play the most crucial role in facilitating the intermediary role through the mobilization of funds(savings) in different forms of deposits from different sources; including the general community, business firms, government organizations, non government organizations and associations, which in return will be allocated for different investment segments. Financial Institutions (FIs) are very important in any economy as they mobilize savings for productive investments and facilitating capital flows to various sectors in the economy, thus, stimulating investments and increase productivity (DFID, 2004)and Beck, 2001, There is strong empirical evidence that robust financial sector support economic growth (Rajaraman and Visishtha, 2002). They play even a most critical role to emergent economies where most borrowers have no access to capital markets (Greuning and Bratanovic, 2003).

On the other hand, however borrowers may fail to repay the borrowed fund in accordance with the contractual agreement signed with the lender (the bank or other financial institution). Here is the point where deterioration of loan asset emerges. Non-performing loan (NPL) is a worldwide issue that adversely affects financial market stability in general and smooth operation of banking industry in particular.

In a more comprehensive term, Non Performing Loan (NPL) is a credit facility in respect of which the interest and or principal amount has remained past due for a specific period of time. Non-performing Loans represent bad loans, the borrowers of which failed to satisfy their repayment obligations.

In many countries the high level of non-performing loans in the banking industry has been a hindrance to economic stability. When these loans and advances become non-performing, banks liquidity and relative earnings are adversely affected. Moreover NPLs create problems for the banking sector's balance sheet on the asset side. They also create a negative impact on the income statement as a result of provisioning for loan losses. In the worst scenario, a high level of NPLs in a banking system poses a systemic risk, inviting a panic run of depositors and sharply limiting financial intermediation, and subsequently investment and growth.

The most important reasons for Non-performing Loans are insufficient appraisal of loan proposals and also inadequate monitoring of the loans given out. Aggressive lending by banks to big corporate houses is also to be critically investigated. The adverse effect of NPLs is attributable to bank managers' adverse selection of borrowers (Brownbridge, 1998). NPLs are determined by different factors such as level of GDP, inflation , unemployment, volume of deposit, return on equity, return on asset, capital adequacy, total loan, liquidity, bank size, excessive lending, interest rate and credit growth. There are also various macroeconomic and bank specific factors that impact asset quality of banks. Low economic growth, less exports due to a weak global economy, diversion of the loan to other purpose other than the one originally agreed upon, delay in granting administrative clearance to infrastructure and industrial projects are a few macroeconomic factors that lead to the occurrence and rise in Non-performing Loans. A sharp fall in currency exchange rates also causes importers to default on loans, (Ahmad and Bashir,2013). These factors are studied by different researchers in different countries (Mileris,2012, Tomak,2013, Ahmad and Bashir,2013, Shingjerji,2013 and etc.). In most NPLs victim countries, most of the above factors have contributed to their loan asset quality deterioration.

Credit evaluation and lending decisions made in the past by lending institutions put a lot of emphasis on security than other similar important considerations (Santomero, 1997). There are instances in the past when it was easier to get a loan from a financial institution as long as the borrower had security to be charged rather than the ability to service the loan. Cash flow projections, viability of the project, character of the borrower, previous loans completion and ability to repay were not considered as important parameters. This way a number of lending institutions ended up with many loan defaults due to incomplete, poor and unprofessional credit

risk assessment and valuation particularly using all the 5C's of credit appraisal model that is: capacity, credibility, capital, collateral and character. Effective loan portfolio management begins with oversight of the risk in individual loans (Sundarajan 2007). Prudent risk selection is vital to maintaining favorable loan quality. Therefore, the historical emphasis on controlling the quality of individual loan approvals and managing the performance of loans continues to be essential.

The distinguishing feature of the study is that it assists to assess the status of Non-performing Loans and evaluate the major bank specific causes contributing to the occurrence and rise in Non-performing Loans in private Commercial Banks in Ethiopia with specific reference to Bank of Abyssinia.

Until 1980's the credit worthiness culture of the borrowers coupled with credit administration were so conservative to accommodate default. However, a little bit before the year 1997/98, the moment where Foreclosure law was promulgated, things have been changed and NPLs reached its peak up to a little bit higher than 50% of the loan asset of Commercial Bank of Ethiopia (CBE) and Construction and Business Bank (CBB). To arrest the problem, mitigating mechanism employed by these banks was too costly. For example CBE employed huge cost marshal of loan collection campaign by mobilizing hundreds of loan collection officers, applying recovery strategy devised by National Bank of Ethiopia (NBE); such as work out and rescheduling, full collection, foreclosure, proceedings of litigation and finally cleaning its balance sheet by instituting write off (removal of NPLs balance from the bank's Balance sheet) mechanism.

In its later time record, however, the net non-performing loans (NPLs) ratio in the banking system was slowed down towards the normal minimum ratio of 5% and even less. The intervention of Government organ- National Bank of Ethiopia (NBE), to non-performing loan recovery strategies have contributed much in the non exasperation of its condition.

In spite of all such intervention and the prevailing efforts, however, things seem to be changing slightly. As per the release of Capital, the official NEWS letter, on April 18, 2018 the ratio of

NPLs has increased, reversing the previous trend, since the government devaluated the birr by 15 percent against major hard currencies.

Following the Directives that the National Bank of Ethiopia (NBE) has issued, mandating that the NPLs be less than five percent of the outstanding loans of all banks, coupled with recent devaluation of birr by 15%, a lot of changes have been exhibited. According to experts, it is now more common for debtors not to make their payments on time and there have been more defaults. This has occurred after the Central Bank issued a directive limiting banks' outstanding loans yearly growth rate by 16.5 percent or less compared with the preceding year if the person they are loaning the money to is not engaging in an export-related business. Furthermore, as per the release of Capital, there is a challenge that some smaller banks, which rash to exploit their opportunities have already maxed out on the number of loans they are allowed to disburse. This situation will no doubt create a negative impression "If a debtor knows they are not going to be able to get a new loan until next year they are less likely to use the money they earn to pay off their loan," that is occurring especially in private banks (Capital NEWS 2018). "Even though there is a five percent limit on NPLs before this trend started in most banks one can only see three percent of NPLs. It was explained that the current condition may affect the youngest banks. Larger banks have more capital, allowing them to follow the National Bank's 16.5 percent credit ceiling circular Ref.No. MFAD/306/2017 dated NOV.27, 2017. The private sector has claimed that the new law hinders it from obtaining adequate loans while they are also facing a shortage of hard currency.

1.2. Statement of the Problem

Naturally, Non-performing Loans (NPLs) are one of the most attention drawing issues of economic disturbing agents (Boudriga, 2009). For deterioration in banks' performance, Non-performing Loans is one of the major causes of financial fragility. Past experience shows that a rapid build-up of bad loans plays a crucial role in banking crises (Demirgüç-Kunt and Detragiache, 1998, and González-Hermosillo, 1999).

In practice, the rise in NPLs is emanated from the activities of lending the major portion of the deposited fund collected from individuals, organizations, different public sectors and associations, on the basis of a reasonable spread rate of interest, with the aim to earn more profit

that accounts the lion share of income of the banks, but when the loaned fund failed to be repaid within the agreed upon terms and conditions then the issue of Non-performing Loans comes into picture. Bank profitability decisions to lend or not to lend influences the economic development of its community becomes critical. As the lending process affected not only the banking activity, but also the development process could also be stuck (Masood 2009, and Bhasin 2016a). So risks should be avoided as much as possible. As a matter of fact most bank failures may be traced to faulty policies and lenders awkward implementation of sound policies in respect of loans and advances (Hardy, 1998, and Dimitrious P. Louzis, 2012).

Regular monitoring of loan quality, possibly with an early warning system capable of alerting regulatory authorities of potential bank stress, is thus essential to ensure a sound financial system and prevent systemic crises. In line with Basel II accord asset quality is regularly monitored by supervisory authorities- central banks to ensure their well being. Impaired assets or non - performing loans signal which calls for rapid intervention to protect the public fund the banks mobilized. In this regard the intervention role being played by National Bank of Ethiopia (NBE) in devising a road map, setting standards and supervising implementation is so great.

As per the release of Capital, the official NEWS letter, on April 18, 2018 the ratio of NPLs has increased, reversing the previous trend, since the government devaluated the birr by 15 percent against major hard currencies. According to experts, it is now more common for debtors not to make their payments on time and there have been more defaults. This has occurred after the Central Bank issued a directive limiting banks' outstanding loans yearly growth rate by 16.5 percent or less compared with the preceding year if the person they are loaning the money to is not engaging in an export-related business. Furthermore, in the financial industry, there is a challenge that some smaller banks, which rash to exploit their opportunities have already maxed out on the number of loans they are allowed to disburse. This situation will no doubt create a negative impression "If a debtor knows they are not going to be able to get a new loan until next year they are less likely to use the money they earn to pay off their loan," experts explained, that this is occurring in private banks.

Being said all that, the intention of this paper is to assess the status of Non-performing Loans and evaluate their causes in Ethiopian private Banks with specific reference to BOA.

In addition, it is also imperative to this study is that to focus on the effects of the two major bank specific factors, namely; i) divert ion of the loan to other purpose other than the one originally agreed upon, and ii) excessive lending, which the researcher of this study believed that they are not well addressed in various studies conducted so far on the topic at hand.

1.3. Objectives of the Study

This study is carried out to fulfill the following objectives:

1.3.1. General objective

The main objective of this study is to assess the status of Non-performing Loans and evaluate their bank specific causes in Ethiopian private banks.

1.3.2. Specific Objectives

1. To assess the status of NPLs of Ethiopian Private Commercial Banks.
2. To assess the status of NPLs of BOA.
3. To investigate the major bank specific causes contributing to Non-performing Loans of Bank of Abyssinia (BOA) in their rank orders.
4. To identify the impact that the cause (independent variables); namely Diversion of the loan to other purpose other than the one originally agreed upon, have on Non-performing Loans of Bank of Abyssinia (BOA).
5. To identify the impact that the cause (independent variable); namely excessive lending, have on Non-performing Loans of BOA.

1.4. Research Questions

The objectives of the research cited above have been met by searching for appropriate answers to the following research questions:

1. What do the statuses of NPLs of Ethiopian Private Commercial Banks in general and NPLs status of BOA in particular looks like?
2. How to evaluate the major bank specific causes contributing to Non-performing Loans of Ethiopian Private Commercial Banks with specific reference to BOA.
3. How to assess the impact that the cause (independent variable) namely Diversion of the loan to other purpose other than the one originally agreed upon, have on Non-performing Loans of private banks with specific reference to BOA?
4. How to assess the impact that the cause (independent variable); namely excessive lending, have on Non-performing Loans of private banks with specific reference to BOA?

1.5. Scope of the study

The scope of this study have an exclusive focus on the assessment of Non-performing Loans (NPLs) and evaluate their Bank specific causes of private banks of Ethiopia with specific reference to Bank of Abyssinia (BOA) through secondary data collection from achieves of senior private banks.

Moreover, a survey of the perception of Bank of Abyssinia's (BOA's) management and staff involved in credit activities, which accounts to the total population of 93 professionals have been used to evaluate Bank specific causes of NPLs of private banks. Out the 93 professionals, 66 of them were targeted to be selected. These include the managers of 3 corporate branches and 11 grade III branches, 3 managers of credit units, 19 H/O and District office Relation managers (RMs), 30 officers (from Risk management officers, Credit review officers, portfolio officers, credit analysis officers, credit administration officers).

Out of the total number of biggest branches' credit units managers, relations managers (RMs) and credit officers involved in credit related operations, 73.6% the biggest branches managers, 75% of credit units managers, 66.7% Relations Managers (RMs) and 72.7% of credit officers were taken as a target population; however only 58 of them have actually responded.

Further, the study has not incorporated branches of grade II and I at all and branches and district offices lying out of the city of Addis Ababa.

This has been deliberately limited to address the brevity of time and the cost implication that really worth the researcher. Given the above scope, the researcher believed that the carefully selected representatives greatly helped to bring sound findings which will lead to a rational generalization.

1.6. Significance of the Study

The result of the research is of much importance to different stakeholders of private Banks in general and BOA's Management and Employees in particular. Moreover, the researcher believes that the research output will contribute for the development of the qualities of applicable credit management and NPLs handling mechanism to management and employees of BOA in particular and private banks in general. In specific terms, this study will help the banks to identify and prioritize the causes affecting NPLs by examining the findings and recommendations.

The study will initiate the banking industry to give due emphasis on the application of identified variables.

In addition, it will give a hint to other researchers who may have interest to conduct somehow detailed study on the subject.

1.7. Limitation of the Study

With respect to the specificity of the project, the research is confined to the research objective and methodologies and doesn't incorporate other theoretical and conceptual matters in spite of their relation to the study topic.

In addition, the scarcity of time has enforced the researcher to focus on only the main variables; this may affect the generalization spectrum of the researcher.

1.8. Organization of the paper

This paper is organized into five chapters. Chapter one starts with presenting background of the study, and statement of the problem. The second chapter focuses on review of related literature. The third chapter deals with the research methodology. Chapter four deals with the data analysis

and presentation and the fifth chapter contain the conclusion and recommendation of the study including the direction for further study

Chapter Two

2. Review of Related Literature

2.1. Historical Background of Banking In Ethiopia

The Ethiopian banking history reveals that banking in its modern sense, began towards the end of the reign of Emperor Menilek II by the name **Bank of Abyssinia** that was an affiliate of the **National Bank of Egypt**, and was founded in 1905. Since then, the banking industry has served the country's economy with redundant ups and downs as a result of the instability of government changes, political and economic policy formulations until the early 1990's, where the advent of the idea of Economic Transformation that was widely propagated by the lately structured Federal Government of Ethiopia.

To realize its ambition towards fast economic development, the government has devised a multi faceted economic liberalization policy in the country in 1994. Among the contents of policies of the government the most crucial one was the reform of financial institutions drawn in the attraction of private sector banks that allowed the entry of new players and products which smoothly facilitated financial operations through; (Monetary and Banking business proclamation No. 83/1994) and (Licensing and Supervision of Banking Business proclamation No. 84/1994) and consecutive amendments. Following the proclamations, 16 private banks have been established, step by step, up to end of the year 2016 GC to play their financial Intermediary role in the country. Among them Bank of Abyssinia (BOA) was established and stayed in operation since February 1996.

2.2. Conceptual Framework

Referring concepts and definitions from the previous studies for the basement of the research is appropriate. Therefore, the conceptual framework is intended to develop awareness and understanding of the situation under scrutiny and communicate this effectively. According to (Mugenda and Mugenda, 2003), conceptual framework involves forming ideas about relationships between variables in the study.

This study is focused to identify the major bank-and borrower-specific causes for the occurrence of NPLs of DBE central region. International Journal of Scientific and Research Publications, Volume 6, Issue 5, May 2016 661 ISSN 2250-3153 www.ijsrp.org

Accordingly, based on the objective of the study, the following conceptual model has been framed. Non-performing Loans are affected by bank specific, customer specific and macroeconomic factors as discussed in the literature review part. Bank specific factors include poor credit assessment and credit monitoring, credit size, aggressive lending, compromised integrity in approving and bank's great risk appetite, high interest rate, lenient/lax credit terms whereas customer/borrower specific causes are loan diversion, poor credit culture of customers, willful defaulting (Wondimagegnehu, 2012; Keeton and Morris, 1987; Rajiv & Dhal, 2003; Pasha, S. & Khamraj, T., 2005; Jimenez and Saurina, 2005).

2.3. Financial (Loan) Asset

"Asset" is the resource that people owns, containing economic values. A financial asset is an asset that allows future benefit in the form of a claim to cash (Pamela Peterson Drake, Frank J. Fabozzi, 2010). Stock, bonds, options are examples of the financial asset.

There are creditors who own the financial asset and receive benefits from. Besides, there are debtors, who will exploit benefits from someone's financial assets, and agree to make a payment for that. Accordingly, financial assets can be defined in the relationship between creditors and debtors.

2.4. Banks

Banks are the intermediaries, facilitating transactions in the capital market. Accordingly, banks will account for creating more reliable transactions in the capital market. Banks will accomplish two main functions, including funding from lenders and creditors, and lending the funds to debtors. (Pamela Peterson Drake, Frank J. Fabozzi, 2010)

Banks act as payment agents by conducting checking or current accounts for customers, paying cheques drawn by customers in the bank, and collecting cheques deposited to customers' current accounts. Banks also enable customer payments via other payment methods such

as Automated Clearing House (ACH), Wire transfers or telegraphic transfer, and automated teller machines (ATMs).

Banks borrow money by accepting funds deposited on current accounts, by accepting term deposits, and by issuing debt securities such as banknotes and bonds. Banks lend money by making advances to customers on current accounts, by making installment loans, and by investing in marketable debt securities and other forms of money lending.

Banks provide different payment services, and a bank account is considered indispensable by most businesses and individuals. Non-banks that provide payment services such as remittance companies are normally not considered as an adequate substitute for a bank account.

Banks can create new money when they make a loan. New loans throughout the banking system generate new deposits elsewhere in the system. The money supply is usually increased by the act of lending, and reduced when loans are repaid faster than new ones are generated. In the United Kingdom between 1997 and 2007, there was an increase in the money supply, largely caused by much more bank lending, which served to push up property prices and increase private debt. The amount of money in the economy as measured by M4 in the UK went from £750 billion to £1700 billion between 1997 and 2007, much of the increase caused by bank lending. If all the banks increase their lending together, then they can expect new deposits to return to them and the amount of money in the economy will increase. Excessive or risky lending can cause borrowers to default, the banks then become more cautious, so there is less lending and therefore less money so that the economy can go from boom to bust as happened in the UK and many other Western economies after 2007.

2.5. Loans, and Performing Loans

The main functions of the banks are to fund and to lend. In other words, funds will be invested or lending as loans. Loans are featured by a criterion, the performing capability. In finance, a **loan** is the lending of money by one or more individuals, organizations, or other entities to other individuals, organizations etc. The recipient (i.e. the borrower) incurs a debt, and is usually liable to pay interest on that debt until it is repaid, and also to repay the principal amount borrowed.

The document evidencing the debt, e.g. a promissory note, will normally specify, among other things, the principal amount of money borrowed, the interest rate the lender is charging, and date of repayment. A loan entails the reallocation of the subject asset(s) for a period of time, between the lender and the borrower.

The interest provides an incentive for the lender to engage in the loan. In a legal loan, each of these obligations and restrictions is enforced by contract, which can also place the borrower under additional restrictions known as loan covenants. Although this article focuses on monetary loans, in practice any material object might be lent.

Acting as a provider of loans is one of the main activities of financial institutions such as banks and credit card companies. For other institutions, issuing of debt contracts such as bonds is a typical source of funding.

A performing loan is a debt on which the borrower has historically made payments on time. For example, if a homeowner takes out a mortgage and pays his home loan faithfully each month, his mortgage is considered a performing loan. In some cases, loans in which payments are less than 90 days late may be considered performing.

As defined by the Federal Financial Institutions Examination Council, a loan that is less than 90 days past due, has not been placed on nonaccrual,or is not in workout status.

Performing loans are loans that are paid principals and interest timely back to banks. Performing loans ratio is an important criterion for managing an effective bank.

2.5.1. Non-performing loans

Non-performing loans are loans that are in default, or close to being in default (Investopedia. com). Similar to other business areas, capital market contains different types of risk with a certain level. Internationally, people have listed out various types of risk in lending market, in which the most notable is credit risk. "Credit" is the monetary lending relationship in which debtors pay the obligation of principal and interest in the period regarding loan term. The credit risk is the risk of the situation in which debtors are unable to pay either principal or interest, or both.

A non-performing loan is a debt on which the borrower is late on making payments or is in danger of missing payments. Loans where the borrower is 90 days late on payments are considered non-performing, but any loan in default or near default may also be called non-performing. Lenders take a variety of steps to avoid and mitigate the impact of non-performing loans, such as denying loans to especially risky borrowers and charging higher interest rates to borrowers with lower credit scores.

2.5.2. The Definition of Non-Performing Loans

The most common international recognized definition of non-performing loan, known as NPL was actually developed by the IMF in the framework of the Financial Soundness Indicators (FSIs) endorsed by the IMF Executive Board. On March 2006, the Financial Compilation Indicators stated that loan would fall under the non-performing loan when the payment of its principal and interest had passed the due date by the period of 3 months or 90 days or more. Non-performing loan can also be defined as an interest payment, which is the same as 3 months or 90 days interest or more that has been capitalized, refinanced, or rolled over. The 3 months or 90 days criterion is the time period that is most widely used by the countries to determine whether or not a loan is non-performing.

Non-Performing Loans are popularly known as non-performing assets. Commercial Banks loans are of various types. All those loans which generate periodical income are called as Performing Loans (PLs). While all those loans which do not generate periodical income are called as Non-Performing Loans (NPLs). If the customers do not repay principal amount and interest for a certain period of time then such loans become non-performing loans (NPLs). Thus non-performing assets are basically non-performing loans (McNulty *et al*, 2001). A loan that is not earning income and: (1) full payment of principal and interest is no longer anticipated, (2) principal or interest is 90 days or more delinquent, or (3) the maturity date has passed and payment in full has not been made.

(Andrew Crockett 2003) argues that originally non-performing loans (NPL) may not appear to have a severe negative result. Banks remain liquid and depositors maintain their confidence in the system. Over time, however, the size of the problem grows, especially if banks are allowed to accrue interest on their non-performing loans (NPL). Besides that, (Zeng, 2012), in his paper supports the following hypothesis by considering the situation in China: the equilibrium values

of the bank NPL is dependent on micro-economic factors but influenced by macro-economic factors include the degree of openness to the outside world and government policy. Based on the model, to obtain a decrease in the NPLs in China, the banks' internal management effort must be enhanced. Furthermore, (Washington, 2012) in his paper showed that the macroeconomic environment is viewed as a critical driver for Non-performing Loans.

2.6. Loan factors

According to (Derban et al. 2005), the causes of non-repayment could be grouped into three main areas: the inherent characteristics of borrowers and their businesses that make it unlikely that the loan would be repaid. Second, the characteristics of lending institution and suitability of the loan product to the borrower, which make it unlikely that the loan would be repaid. Third, is systematic risk from the external factors such as the economic, political and business environment in which the borrower operates.

The study found that Domestic credit and inflation to private sector by the commercial banks was found negative and related to credit risk. However, lending interest rates were positive and significant to credit risk.

The SNA 1993 (Statistical National Account) defined the principles for every country to follow, rather than to make a specific recommendation for country accounting standards. The principle of the non-performing loans is therefore, to clearly state the loans given the fact that contractual payments may not be done and also to identify the potential losses to both income and capital. (Ijbm.ccsenet.org International Journal of Business and Management Vol. 12, No. 2; 2017)

2.7. Non-performing loans provision

Non-performing loans provision is a mechanism over expected losses of Non-performing Loans. Practically appliance showed that the high ratio of non-performing loans requires the larger amounts of efficient provision. (Hasan and Wall, 2004)

Banks and credit unions are in the business of lending money to individuals, families and businesses. But not every loan is repaid in full; in fact, many banks lend to risky borrowers by

charging high interest rates. To stabilize earnings and remain solvent in bad times, banks estimate losses and seek to hold enough capital to absorb future write-offs.

A loan loss provision is an expense set aside as an allowance for uncollected loans and loan payments. This provision is used to cover a number of factors associated with potential loan losses, including bad loans, customer defaults, and renegotiated terms of a loan that incur lower than previously estimated payments

2.8. The level of success of NPLs mitigating actions

Since banking crises in emerging economies has multiple causes, there is no single solution to them (Tirapat 1999). However, (Goldstein and Turner 1996) suggest that there are several measures that can significantly reduce the incident of each of the factors underlying banking crises. For example, greater macroeconomic stability, a larger role for foreign owned banks, the wider use of market-based hedging instruments and higher levels of bank capital would help to make the consequences for the domestic banking system less damaging.

Limiting the allocation of bank credit to particularly interest-rate-sensitive sectors, close monitoring of lending by weakly capitalized banks and employing the right mix of macroeconomic and exchange rate policies would similarly limit vulnerability to lending booms, asset price collapses and surges of capital inflows, content (Goldstein and Turner 1996). Strict asset classification and provisioning practices could reduce the increases of bad loans and protection against loan losses (Tirapat 1999) agrees with Goldstein and Turner on the role of Government in determining to a great extent the success of efforts to managing such crises. It starts out by reviewing the banking structure, problems faced and some of the causes of recent banking crises. Drawing from the experience of 23 countries Tirapat gives some of successful guidelines all of which show the important role of government in its regulatory role.

According to the (Bank of Japan 2003), the remedies to the problem of Non-performing loans can be grouped into three broad categories, all of which work towards enhancing the banks' earning power. First is to further improve efficiency through cost reduction. Secondly is to pursue a new lending strategy backed by appropriate credit risk evaluation, and third is to provide new financial services to increase fee income.

In China for example, one method that has been successfully used is turning over the non-performing assets/loans to Asset management companies (China Daily, 2002). According to (Reddy 2002), appropriate provisioning for non-performing assets (up to 50% of gross nonperforming assets) has been successfully used to cushion banks agents the debilitating effects of non-performing loans.

According to the (Central Bank of Kenya CBK 1999), Formation of a Credit Reference Agency where banks can exchange information on the bad borrowers is one method on trial. Furthermore, a private sector credit reference bureau is now in operation, but its full operation has been hampered by lack of legislation that may allow banks to exchange information.

According to (CBK 2001), improvement in the County's judicial system is critical for a speedy resolution to the NPLs problem. While formation of Credit Reference Bureaus and improvement in the credit risk assessment may prevent future loans becoming delinquent, the current stock of the non-performing loans needs to be quickly resolved.

The success of this would be possible if the judicial and court systems are operating efficiently. A number of initiatives have been taken (Nelson M. Waweru & Victor M Kalani 2009.).

2.9. Empirical Evidence.

2.9.1. Empirical evidence of non-performing loans in some countries

Researchers suggest that what is largely missing from the research literature related to the field of financial institutions is an analysis of the relationships between problem loans and cost efficiency. Recent empirical literature suggests at least three significant links between these two topics.

First, a number of researchers have found that failing banks tend to be very cost inefficient, that is, located far from the best-practice frontiers. Cost-inefficient banks may tend to have loan performance problems for a number of reasons; For example, banks with poor senior management may have problems in monitoring both their cost and their loan customers, with the losses of capital generated by both these phenomena potentially leading to failure. This has been referred to as the "bad management" hypothesis. Alternatively, loan quality problems may be

caused by an event exogenous to the bank, such as unanticipated regional economic downturns. The expenses associated with the non-performing loans that results can create the appearance, if not the reality, of low cost efficiency. This has been referred to as the "bad luck" hypothesis. The second empirical link between problem loans and productive efficiency appears in studies that use supervisory examination data. A relationship between asset quality and cost is consistent with the failed bank data, and suggests that the negative relationship between problem loans and cost efficiency holds for the population of banks as a whole as well as for failing banks. Third, some recent studies of bank efficiency have directly included measures of non - performing loans in cost or production relationships. Whether this procedure improves or hinders the estimation of cost efficiency depends upon the underlying reason for the relationship between costs and Non-performing Loans.

Empirical evidences and results from studies show similar trends on the negative effect of non-performing loans on bank performances. Current global financial crisis attests to this direction.

In Turkey, Karabulut and Bilgin (2007) carried out a study with the purpose of examining the impact of the unlimited deposit insurance on Non-performing Loans (NPLs) and market discipline. They argued that deposit insurance program play a crucial role in achieving financial stability. Governments in many advanced and developing economies established deposit insurance schemes for reducing the risk of systemic failure of banks.

The report shows that deposit insurance has a beneficial effect of reducing the probability of a bank run. However deposit insurance systems have their own set of problems. Deposit insurance systems create moral hazard incentives that encourage banks to take excessive risk. Turkey established an explicit deposit insurance system in 1960. Until 1994, the coverage was determined by a flat rate but in that date, Turkey experienced a major economic crisis. In April 1994, Turkish government had to establish an unlimited deposit insurance scheme to restore banking system stability. In conclusion, the study shows that unlimited deposit insurance caused a remarkable increase at Non-performing Loans (NPLs). What this means is that deposit insurance institutions established by monetary authorities must re-examine the current policy of blanket guarantee of deposits in the banking sector.

In Taiwan, Hu, Li and Chu (2004) carried out their own study examining how ownership structure affects Non-performing Loans (NPLs). Their findings revealed that an increase in the government's shareholding facilitates political lobbying. On the other hand, private shareholding induces more Non-performing Loans (NPLs) to be manipulated by corrupt private owners. The results show that the rate of NPLs decreased as the ratio of government shareholding in a bank rose (up to 63.51%), while the rate thereafter increased. The report posits further that joint ownership has the lowest rate of NPLs among Taiwanese public, mixed and private commercial banks. The joint ownership effect on NPLs ratios is negative and its magnitude is sufficiently large in Taiwan's banking industry. Bank size is negatively related to the rate of NPLs, which supports their argument that larger banks have more resources for determining the quality of loans.

In Africa, Fofack (2005) investigated the determinants of non-performing loans in sub- Saharan Africa using correlation and causality analysis. The analysis was based on data drawn from 16 African countries. The sample selection was dictated by the scope of the database and availability of financial information on these countries. The data are provided on an annual basis end-of-period, between 1993 and 2002, included. The minimum length of the panel covers a period of 3 years for the shortest series (Chad and Rwanda), and up to 10 years for the longest series, producing an unbalanced panel. The correlation and causality analysis focuses on a number of macroeconomic and microeconomic (banking-sector) variables. At the macroeconomic level, the study investigates the correlation between Non-performing Loans and a subset of economic variables: per capita GDP, inflation, interest rates, changes in the real exchange rate, interest rate spread and broad money supply. At the microeconomic level, it focuses on the association between Non-performing Loans (NPLs) and banking-sector variables. The key banking variables include return on asset and equity, net interest margins and net income, and inter-bank loans. These variables were chosen in the light of theoretical considerations and subject to data availability. Non-performing Loans (NPLs) are adjusted for specific provisions (non-performing loans as a proportion of loans loss provisions) to provide the basis for cross-country comparisons. In the correlation analysis, the results showed a negative

association between real GDP per capita and non-performing loans expressed as a percentage of loans loss provision.

This implies that falling per capita income is associated with rising scope of Non-performing Loans (NPLs) to the extent that changes in per capita income is proxy for changes in economic growth. The negative association with non-performing loans may reflect the impact of cyclical output downturns on the banking sector; a result that is expected in the literature (Gonzalez-Hermosillo (1997)). The sign of the coefficient is consistent across state and private banks, though the magnitude of the correlation is stronger for state banks and financial institutions.

As per Empirical Evidence on NPLs in the context of Pakistani Banking Sector, all NPLs do not directly influence financial crisis in any country but these have a negative impact on economy of a country. This concept is supported by studies of Drees & Pazrbasioglu (1998) and Kaminsky and Rreinhart (1999). During the years 1997 to 1999, the rate of NPLs has shown an increasing trend (from 9% to 50%) in Asian countries like Singapore, Hong Kong, Malaysia, Philippines and Taiwan. NPLs in Pakistan are on a roller coaster ride because according to report of State Bank of Pakistan (SBP), amount of NPLs of banking sector, in the year 2012, has reached to Rs.176.77 billion. Therefore, there is dire need of studying about Non-Performing Loans and its factors. The study of Brownbridge (1998) explains that Non-Performing Loans are one of the chief reasons for the failure of many banks in the world. In addition if these Non-performing Loans are not controlled then the resources of a concern are blocked and thus resulting in low profitability.

Banks in recent years are facing default risk, which is one of the major causes of banks' failure. Pakistani banking sector is facing four types of risks. These are Market risks, Credit risks, Liquidity risks and Operational risks. Problem arises when the borrowers fail to return the loans, thus increasing Non-Performing Loans (NPLs) and declining profitability (Haneef, et al., 2012). Therefore, there is a need to study the factors of Non-Performing Loans in setting of Pakistani banking sector.

2.9.2. Empirical Evidence on factors affecting non-performing loans

Many researchers have conducted a lot of study on determinants of Non-performing Loans (NPLs), due to its significance for the bank's failure. Accordingly, the following subsection, presents factors affecting Non-performing Loans in other countries.

Credit approving that has not properly considered the credit terms would potentially lead to occurrence of loan default. As per the study by Jimenez & Saurina (2005) on the Spanish banking sector from 1984 to 2003 NPLs are determined by lenient credit terms. The authors indicated that the causes for the leniency were attributed to disaster myopia, herd behavior, moral hazard and agency problems that may entice bank managers to take risk and lend excessively during boom periods. This has International Journal of Scientific and Research Publications, Volume 6, Issue 5, May 2016 660 ISSN 2250-3153www.ijsrp.org been supported by Rajiv & Dhal (2003) who found that terms of credit determines occurrence of non-performing loans.

On the other hand, banks that charge high interest rate would relatively incur a higher default rate or non-performing loans. In this regard, a study by Sinkey & Greenwalt (1991) on large commercial Banks in US revealed that a high interest rate charged by banks is associated with loan defaults. Rajiv & Dhal (2003) who used a panel regression analysis indicated that financial factors like cost of credit have got significant impact on NPLs. Bloem and Gorter (2001) also indicated that "bad loans" may substantially rise due to abrupt changes in interest rates. The authors discussed various international standards and practices on recognizing, valuing and subsequent treatment of non-performing loans to address the issue from view point of controlling, management and reduction measures. Similarly, a study by Espinoza and Prasad (2010) focused on macroeconomic and bank specific factors influencing NPLs and their effects in GCC Banking System found that higher interest rates increase non-performing loans but the relationship was not statistically significant.

Other studies such as Sinkey & Greenwalt (1991) indicated that loan delinquencies are associated with rapid credit growth. The authors found that excessive lending explain loan loss rate. This was confirmed later by Keeton (1999) who used data from commercial banks in the United States (from 1982 to 1996) using a vector auto regression model showed that there was

association between default and rapid credit growth. Likewise, Salas and Saurina (2002) in their study on Spanish banks also revealed that credit growth is associated with non-performing loans. Also, study by Bercoff *et al*. (2002) confirmed that asset growth explains NPLs. Skarica (2013) also conducted a study on the determinants of NPLs in Central and Eastern European countries. By employing the Fixed Effect Model and seven Central and Eastern European countries for 2007-2012 periods, the study revealed that loan growth, real GDP growth rate, market interest rate, unemployment and inflation rate as determinants of NPLs. The results show that GDP growth rate and unemployment rate have statistically significant negative association with NPLs with justification of rising recession and falling during expansions and growth has impact on the levels of NPLs. This implies that economic developments have a strong impact on the financial stability. The result also discovered that inflation has positive impact on NPLs with a justification that inflation might affect borrowers' debt servicing capacities. Similarly, Jimenez and Saurina (2005) provide evidence that non-performing loans are determined by GDP growth, high real interest rates and lenient credit terms. Meanwhile, Rajiv & Dhal (2003) utilize panel regression analysis and reported that favorable macroeconomic conditions and financial factors such as maturity, cost and terms of credit, banks size, and credit orientation impact significantly on the non-performing loans of commercial banks in India. Likewise, Keeton (1999) revealed evidence of a strong relationship between credit growth and impaired loans. Specifically, Keeton (1999) showed that rapid credit growth, which was associated with lower credit standards, contributed to higher loan losses in certain states in the US. Boudriga *et al.* (2009) studied on the lender specific factors and the role of the business and the institutional environment on loan default in the MENA countries for 2002-2006 periods using random-effects panel regression model for 46 countries. The variables included were credit growth rate, capital adequacy ratio, real GDP growth rate, ROA, the loan loss reserve to total loan ratio, diversification, private monitoring and independence of supervision authority on Non-performing Loans. They reported that credit growth rate was negatively related to Non-performing Loans. Capital adequacy ratio was positively and significantly affecting loan default implying that highly capitalized banks are not under regulatory pressures to reduce their credit risk and take more risks. In the contrary, their findings reported that ROA has negative and statistically significant influence on NPLs.

2.9.3. Empirical Studies in Ethiopia and highlights of the knowledge gap emerged from survey of empirical literature.

In his study "determinants of NPLs on commercial banks of Ethiopia" Wondimagegnehu (2012) revealed that underdeveloped credit culture, poor credit assessment, aggressive lending, messed up loan monitoring, lenient credit terms and conditions, compromised integrity, weak institutional capacity, unfair competition among banks, willful defaults by borrowers and their knowledge limitation, fund diversion for unexpected purposes and overdue financing has significant effect on NPLs. Conversely, the study indicated that interest rate has no significant impact on the level of commercial banks loan delinquencies in Ethiopia.

Similarly, Mitiku (2014) studied the "Determinants of Commercial Banks Lending: Evidence from Ethiopian Commercial Banks using panel data of eight commercial banks in the period from 2005 to 2011 with the objective of assessing the relationship between commercial bank lending and its determinants (bank size, credit risk, GDP, investment, deposit, interest rate, liquidity ratio and cash required reserve). Based on seven years financial statement data of eight purposively selected commercial banks and using Ordinary Least Square (OLS) technique, the study found that there was significant relationship between commercial bank lending and its size, credit risk, gross domestic product and liquidity ratio. While interest rate, deposit, investment, and cash reserve required do not affect Ethiopian commercial bank lending.

In view of the above discussions, numerous studies were conducted on the determinants of Non-performing loans. Most of these studies focused on Bank specific and Macro-economic determinates of NPL. However, in the previous empirical analysis no study has been conducted on customer-specific factors influencing non-performing loans. Besides, most of the empirical studies reviewed and discussed in the above paragraphs were made in other countries; and studies in Ethiopian commercial banking sector are scant. Moreover, despite a single study by Wondimagegnehu (2012) on the determinants of NPLs of commercial banks in Ethiopia, no further research has been conducted in the banking sector in general and on Development Bank of Ethiopia (DBE) in particular. Therefore, this study is expected to fill the gap by assessing the association between bank-and customer-specific factors and level of Non-performing Loans (NPLs).

Chapter Three

3. RESEARCH METHODOLOGY

3.1. Introduction

The study was aimed to make assessment on Non-performing Loans (NPLs) and Evaluation of their causes in Ethiopian Private Banks with specific reference to BOA. This chapter touches on the overall methodology used in the study. It will adopt the following structure: First the research design was described, then population and sample, data collection methods, research procedures and data analysis methods to be followed in the research process.

This study has been conducted on the basis of both primary and secondary data sources. Primary data was collected through questionnaire and short interviews of management and staff of the BOA. Both quantitative and qualitative research methods have been applied in this research. The quantitative and qualitative data was used to address the research questions.

Secondary data on the other hand were depend on archive records of 12 private banks and reviews of related literature from books, websites and outputs of past researchers who conducted a research on similar topics.

3.2. Research Design

Research design is a plan of action specifying the methods and procedures for collecting and analyzing the required data. As stated by (John, 2007) the choice of research design depends on objectives that the researchers want to achieve. With this perspective, therefore, this research was a descriptive research that adopted the survey and content analysis research. Survey research is used for collecting primary data based on verbal or written communication, in our case questionnaire and interview. whereas content analysis is used to make replicable and valid inferences by evaluating, interpreting and coding textual material or archival data, which base itself on secondary source of data.

Since this study was designed to assess the status of NPLs of private banks and to evaluate the relationships between NPLs and bank specific causes for the occurrence and rise of NPLs, a logical reasoning mainly related to deductive reasoning is required. Because deductive reasoning is applicable for quantitative research. Thus, due to quantitative nature of data, the researcher used deductive reasoning in order to make descriptive analysis. However, a sort of qualitative nature of data is also given due respect. To this end therefore, the researcher tried to use an archival data that extends from 2009 to 2018 period on twelve private banks on top of data collected through questionnaire and interview.

3.3. Target population

A population is the total collection of elements about which we wish to make some inferences. The collection of all possible observations of a specified characteristic of interest is called a population while a collection of observations representing only a portion of the population is called a sample.

The population to be used in this research comprised of Management and staff members of BOA who are necessarily involved in the credit operation were treated as the population of this study.
The total size of population is 93 in number. Out of the 93 Managers and staffs involved in credit operation, 66 (which accounts to 71%) of them were selected as they were ascertained to reside in the city of Addis Abeba. More specifically the targeted population (managers and staffs) are composed of 3 corporate branch managers and 16 grade III branch managers, 25 Relation managers (RMs), 5 different credit units managers, and 20 officers (i.e., 3 risk management officers, 8 compliance officers, 6 loan portfolio officers, 3 loan workout officers) , 17 credit analysis and appraisal officers, 7 loan review and monitory officers, out of which 66 were selected. Apparently, questionnaires were distributed to all these 66 respondents. Out of them only 58 respondents have dispatched the questionnaires with their response except one sent unresponded.
Besides, opinion and expert advice have been sought through interviews from four management members of BOA.

3.4. Sampling Technique

The sampling technique used in this research is Non probability sampling within which Deliberate or Purposive sampling method has been employed for the survey questionnaire. Cooper and Schindler (2001) define this sampling frame as a list of elements from which the sample is actually drawn, which is closely related to the population. The sample of 66 management and other staffs of BOA was drawn, based on the experience they have on credit operation

This method was used because it enabled the researcher to use judgment in selecting cases that best enable the researcher to answer the research questions and to meet the objectives (Saunders et al, 2000). More specifically, critical case sampling was used.

According to Saunders et al, this method selects critical cases on the basis that they can make a point dramatically or they are important. The focus of data collection was to understand what happens in each critical case so that logical generalizations could be made. The research findings can then be applied to other private banks as they all follow the same operational procedure and experience and attract similar credit customers. The sample size was determined using purposive technique to reach at somewhat reliable conclusion.

3.5. . Data Collection Techniques

Quantitative Data – The source of the quantitative data used for this research is the survey questionnaire and interview. Moreover, secondary data was also collected from archives of the twelve senior private banks.

Qualitative Data – Qualitative data used for this research was expected to be generated through questionnaire, from management and officers involved in credit operation at corporate and grade III branches, Head office and District offices residing in the city of Addis Ababa. Moreover, it is also generated through interviews that were held with: 1 Department Director, 1 Division Manager, 1 Branch Manager, and 1 Relation Manager.

3.6 Data Analysis and Presentation

The collected data passed through a process of cleaning to get rid of any overlaps or unnecessary data or mismatching the research theme.

The collected data was subject to descriptive analysis to answer the research questions. The analysis was made using the SPSS software package. These included frequencies, descriptive statistics of means and standard deviations. Spreadsheets were also used in order to come up with appropriate tables for data presentation, while total scores were used to rank the responses.

Moreover, triangulation and narrative data analysis was also comprised the analysis of the qualitative data.

3.7. Dependent variable

The major item specified in the statement of the problem that triggered the conduct of this research paper is the Non-performing Loans (NPLs) that occurs in private commercial banks of Ethiopia considered to be Dependent Variable.

3.8. Independent Variables

Independent variables are the bank specific factors evaluated by the researcher of this thesis which have their own impression on the occurrence of NPLs in Bank of Abyssinia (BOA). These independent variables include; poor credit risk assessment, poor credit monitoring, collateral, Granting loan to highly levered borrowers, Loan divert ion, Borrowers orientation, and Bank size,

3.9. Model Specification

The model designed for the conduct of the evaluation part of the causes of NPLs that is majorly used to show the cause and effect relationship of the independent variables selected to be evaluated with that of the dependent variable.

This model is specified to determine how the seven bank specific factors (independent variables), including; poor credit risk assessment(PCRA), poor credit monitoring(PCM), collateral(C),

Granting loan to highly levered borrowers (LHLB), Loan divert ion(LD), Borrowers orientation(BO), and credit size(CS); do impact the occurrence and rise of NPLs (the dependent variable).

The regression model which is existed in most literature has the following general form;

$Yit = \beta o + \beta Xit + \varepsilon it$

Where: - Y_{it} is the dependent variable for firm 'i' in year 't', β_0 is the constant term, β is the coefficient of the independent variables of the study,

-X_{it} is the independent variable for firm 'i' in year 't' and ε_{it} the normal error term.

Thus, this study is based on the conceptual model adopted from (Fawad and Taqadus 2013). Accordingly, the estimated models used in this study are modified and presented as follow;

$$NPL_{it} = \beta_0 + \beta_1(PCRA)_{it} + \beta_2(PCM)_{it} + \beta_3(C)_{it} + \beta_4(LHLB)_t + \beta_5(LD)_{it} + \beta_6(BO)_{it} + \beta_7(CS)_{it} + \varepsilon_{it}$$

Where;

- β_0 is an intercept

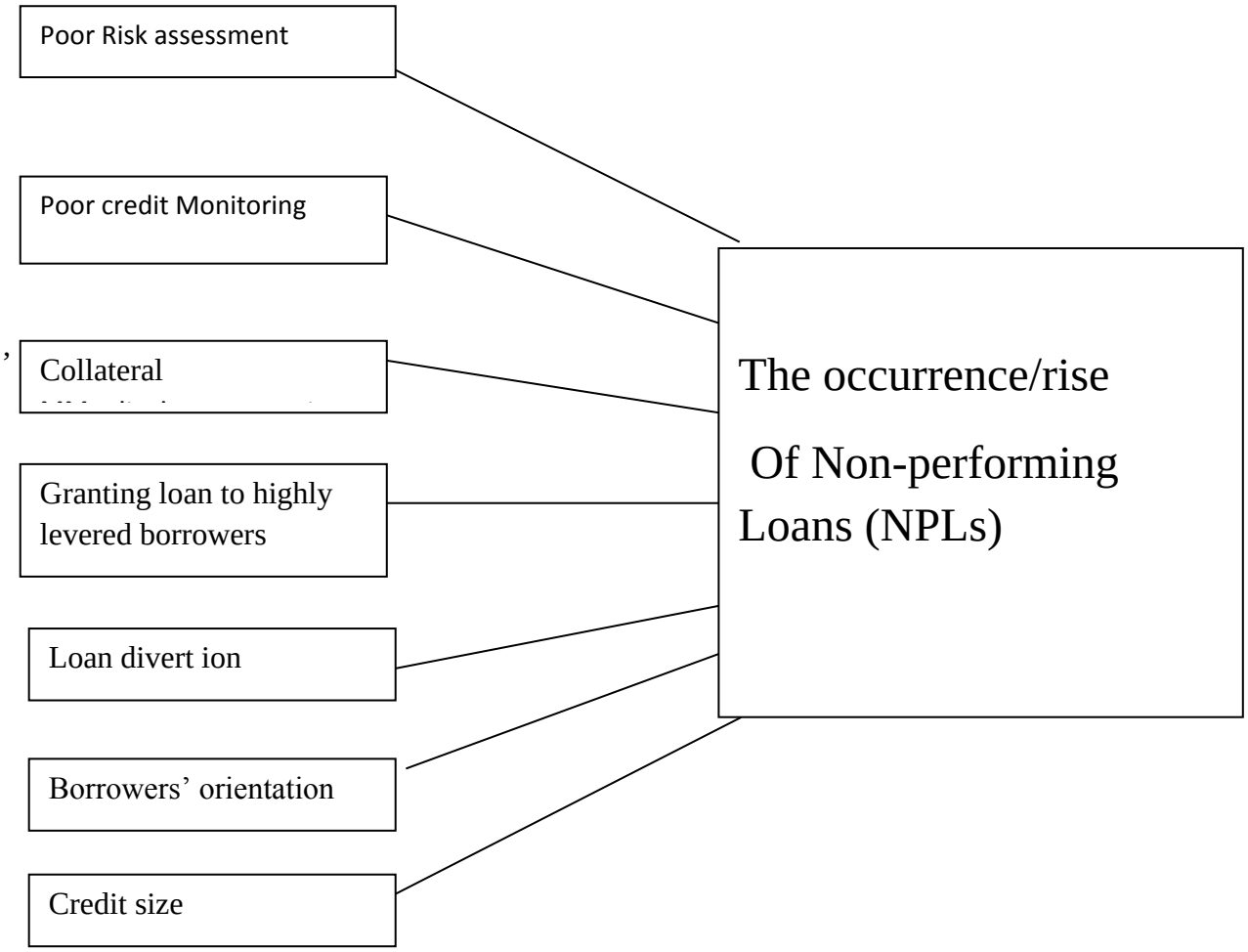
- $\beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6, and\ \beta_7$ represent estimated coefficient for specific bank *i* at time *t* ,

-PCRA, PCM, C, LHLB, LD, BO, and CS represent poor credit risk assessment(PCRA), poor credit monitoring(PCM), collateral(C), Granting loan to highly levered borrowers (LHLB), Loan divert ion(LD), Borrowers orientation(BO), and credit size(CS), respectively

-ε_{it} represents error terms for intentionally/unintentionally omitted or added variables. It has zero mean, constant variance and non- auto correlated. The coefficients of explanatory variable were estimated by the use of ordinary least square (OLS) technique.

Model specifying how the selected independent variables impact the occurrence and rise of NPLs

Fig. I



Chapter Four

4. Findings and Discussions

4.1. Introduction

The purpose of this paper is to present and explain the data collected in the course of the thesis work. The findings are presented and analyzed on the basis of the research questions, which are related to the assessment of NPLs and evaluation of their causes in private banks of Ethiopia.

4.2. Data collected from Private commercial Banks.

The purpose of secondary data collected from Private Banks is to enable the researcher make assessment on the condition of Non-performing Loans (NPLs) of private Banks.

The data collected in this regard were an archive data of the last ten years (from 2009-2018GC) that were found highly scarce due to conservative nature of the Banks in keeping the secrecy of some of their records, especially records of NPLs. As a result, out of the past ten years data requested, only data of NPLs of the last three years on most Banks were managed to be collected.

Therefore, the researcher is obliged to make analysis on the data available at hand.

As per the assessment made on the data collected, NPLs status of private Banks has been significantly reduced even by far below the 5% requirement set by National Bank Ethiopia (NBE), except few Banks like Wegagen Bank 12.99% in 2018, and Zemen Bank 5.48% in 2018 failed to minimize the NPLs records of their Bank to the level of NBE requirement.

Out of the entire data set collected, the following table represents the last three years Non-performing Loans (NPLs) and NPLs ratio data of the captioned twelve Banks

Table 4.2.1 Three Years NPLs data of Private Banks

Banks	Type of Data	2016	2017	2018
BOA	NPLs	**170,301**	**195,151**	**234,578**
	NPLs ratio	**2.10%**	**1.38%**	**1.30%**
Awash	NPLs	**304,694.00**	**437,163.00**	**582,880.00**
	NPLs ratio	**1.86 %**	**1.94 %**	**1.97 %**
Dashen	NPLs	**795,657.00**	**625,326.00**	**795,657.00**
	NPLs ratio	**3.42 %**	**3.46 %**	**3.42 %**
United Bank	NPLs	**156,919.0**	**91,768.00**	**308,410.0**
	NPLs ratio	**1.84 %**	**0.76 %**	**2.05%**
Wegagen	NPLs	**129,041.00**	**131,797.00**	**1,954,255.00**
	NPLs ratio	**1.69 %**	**1.27 %**	**12.99 %**
NIB	NPLs	**390,466**	**359,443**	**655,720**
	NPLs ratio	**5.11 %**	**3.30 %**	**4.78 %**
CBO	NPLs	**1,278,424**	**575,228**	**534,203**
	NPLs ratio	**2.07%**	**5.79%**	**3.52%**
Lion	NPLs	**98,258**	**138,700**	**172,841**
	NPLs ratio	**2.24%**	**2.24%**	**2.24%**
Bunna	NPLs	**121,485**	**148,444**	**268,269**
	NPLs ratio	**3.29%**	**2.83%**	**3.86%**
OIB	NPLs	**164,104**	**244,850**	**389,402**
	NPLs ratio	**3.12%**	**3.41%**	**3.87%**
Zemen	NPLs	**205,679**	**823,259**	**285,831**
	NPLs ratio	**6.04%**	**19.79%**	**5.48%**
Birhan	NPLs	**DNA**	**DNA**	**DNA**
	NPLs ratio	**DNA**	**DNA**	**DNA**

Source: own computation based on surveyed Banks DNA= Data not available

As displayed in the table above, the performance of all private banks from which the above data were collected, in terms of NPLs, is in a good position, (i.e., below 5% of the requirement of NBE) except Wegagen and Zemen Banks scored a record high negative performance of 12.99% and 5.48%, NPLs ratio, respectively, during the year 2018. This shows that the economic environment is not a threat for private banks especially in terms of NPLs management. If at all it happens, it is the problem of the Banks management failure.

4.3. Respondents View collected through Interview on different issues related to NPLs of BOA.

This section discusses items worth to mention about view points of management staff of BOA on the course of Interview session.

The major point stressed here was that NPLs position that appears at quarterly reports are usually escalating up but when it comes to annual reports the NPLs ratio goes down to the level of the requirement of NBE. The reason for such incidence is that customers used to be lenient while making monthly, quarterly and even sometimes semiannual repayment specially when the repayment course fall during middle terms. Whereas, they usually rash to make their repayments when the period falls at the end of yearly closing.

Besides, all the management staff stressed that the two most important factors triggering the occurrence and rise of NPLs are; loan divert ion and highly levered lending. From this the researcher concluded that the caption two factors are the most important reasons for the occurrence and rise of NPLs of BOA.

4.4. Respondents view on Bank specific factors attributed to NPLs in Bank of Abyssinia (BOA).

As well discussed in the thesis banks used to face difficulties for a multitude of reasons, the major cause of serious banking problems continues to be directly related to NPLs as a result of many macro and micro factors. However, the very nature of this study was to specifically examine seven bank specific factors (independent variables), including; poor credit risk assessment, poor credit monitoring, collateral, Granting loan to highly levered borrowers, Loan divert ion, Borrowers orientation, and Credit size that were considered to contribute to the occurrence and rise of NPLs (dependent variable) in BOA. To evaluate the above factors (causes of NPLs) respondents' viewpoints have been collected and summarized as follows.

4.5. The summary of general profile of the respondents

Although the targeted number of respondents was 66 in total, only 58 of them have returned the questionnaire with their full response, except one questionnaire that was left unattended. The general profile of these respondents is summarized in table 4.5.1 below.

Table 4.5.1. Summary of general profile of the respondents

		Frequency	percentage (%)
Position in the Bank	Loan officer	13	22.8%
	Credit Analyst	10	17.5%
	Monitoring/Recovery officer	6	10.5%
	Relationship Manager	6	10.5%
	Credit Director	0	0.0%
	Chief Officer	0	0.0%
	Others	22	38.6%
Experience in Banking Industry	Less than One Year	0	0.0%
	1-5 Years	5	8.8%
	6-10 Years	24	42.1%
	11-15 Years	22	38.6%
	Above 15 Years	6	10.5%
Experience in credit processes	Less than one Year	0	0.0%
	1-5 Years	20	35.1%
	6-10 Years	37	64.9%
	11-15 Years	0	0.0%
	Above 15 Years	0	0.0%
Ownership of the Bank you work for	Private	57	100.0%
	State owned	0	0.0%

Source: own computation based on surveyed Banks Using SPSS software

As shown in table 4.5.1. above about 40% of the respondents were composed of loan officers and credit analysts in their position and about 38% categorized under other were composed of corporate and grade III branch managers and different credit units' managers.

With respect to the experience the respondents have in the banking industry, about 80% of them have 6-15 years of experience in the sector and all of the respondents have 1-10 years of experience in credit operations. This shows that the targeted respondents are more professionals and are well experienced officers. Hence the researcher came to conclude that the respondents experience helps to reach acceptable reasoning and valid generalization.

4.5.2. Regarding the clarity of determinant factors of NPLs, the view points of the respondents are presented under table 3 below.

Table 4.5.2. Determinants of NPL are obvious

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	42	72.4	73.7	73.7
	Neutral	12	20.7	21.1	94.7
	Disagree	3	5.2	5.3	100.0
	Total	57	98.3	100.0	
Missing	System	1	1.7		
Total		58	100.0		

Source: own computation based on surveyed Questionnaire Using SPSS software

Table 4.5.2. revealed that about 72% of respondents have shown their agreement by ticking "**Agree'** with the clarity of determinant factors of NPL and about 21% of them have taken the position of '**Neutral**'. This shows that determinant causes of NPLs are well known by the majorities of the credit and credit related workers**.**

4.5.3 Identifying important determinant factors of NPLs in Ethiopian private banks by their importance.

Table 4.5.3 Ranking the factors of NPLs in BOA

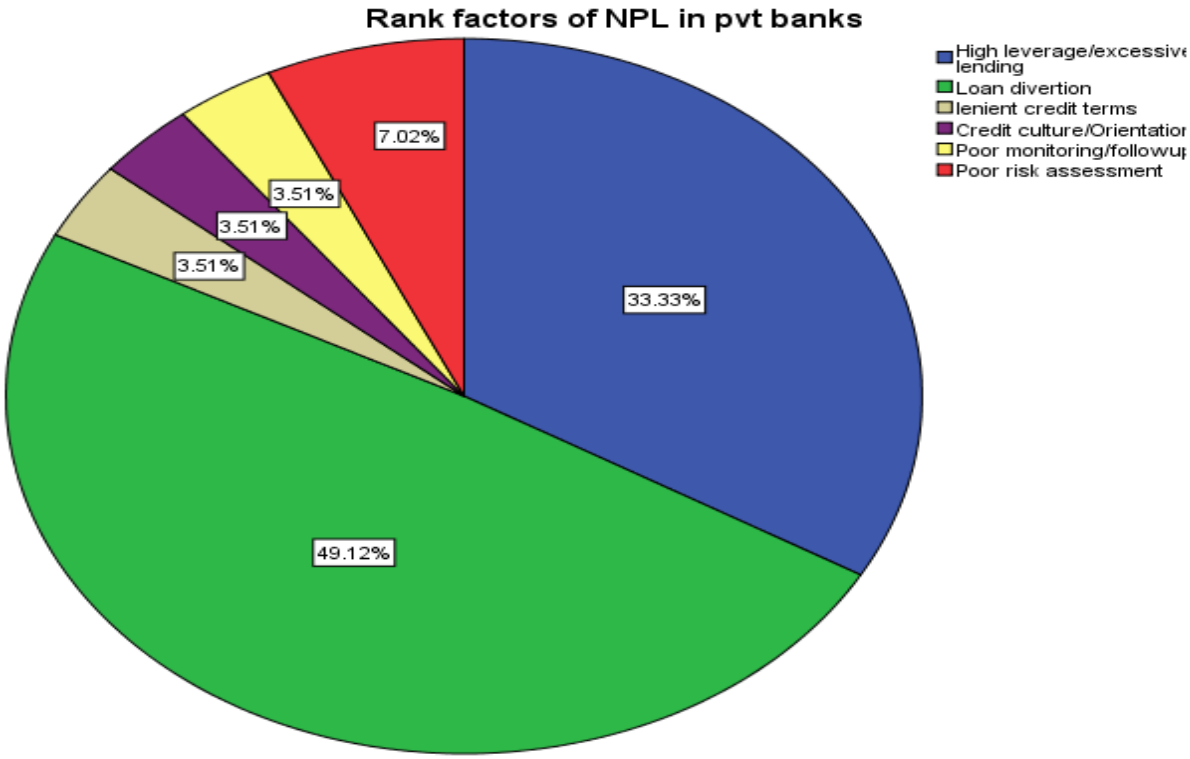
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	High leverage/excessive lending	19	32.8	33.3	33.3
	Loan divertion	28	48.3	49.1	82.5
	lenient credit terms	2	3.4	3.5	86.0
	Credit culture/Orientation	2	3.4	3.5	89.5
	Poor monitoring/followup	2	3.4	3.5	93.0
	Poor risk assessment	4	6.9	7.0	100.0
	Total	57	98.3	100.0	
Missing	System	1	1.7		
Total		58	100.0		

Source: own computation based on surveyed Banks Using SPSS software

As depicted in table 4.5.3, Loan divert ion (by 49% of respondents) and High Leverage/excessive lending (by 33.3% of the respondents) were rated to be the 1st and 2nd most important factors that contribute to the occurrence and rise of NPLs. The factors/causes like 'poor credit Risk assessment" (7%) took the 3rd position and others; like 'poor monitoring and follow up', and 'lenient/lax credit terms' and 'credit culture' took the 4th position by 3.5% share of the entire response, each.

The pie chart portrayed below clearly depicts the rank of factors by percentage share.

Figure II



4.5.4. The effect of Poor Credit Risk Assessment

Table 4.5.4. Poor Credit Risk Assessment

		Frequency	percentage (%)
Easly admited borrowers usually default	Strongly Agree	6	10.5%
	Agree	38	66.7%
	Neutral	11	19.3%
	Disagree	2	3.5%
	Strongly Disagree	0	0.0%

KYC policy of the Bank lead to high loan quality	Strongly Agree	16	28.1%
	Agree	39	68.4%
	Neutral	2	3.5%
	Disagree	0	0.0%
	Strongly Disagree	0	0.0%
Poor credit analysis and risk assessmet lead to loan default	Strongly Agree	35	61.4%
	Agree	22	38.6%
	Neutran	0	0.0%
	Disagree	0	0.0%
	Strongly Disagree	0	0.0%
Project appraisal and selection officers and mgrs are qualified and skilled enough	Strongly Agree	8	14.0%
	Agree	42	73.7%
	Neutral	7	12.3%
	Disagree	0	0.0%
	Strongly Disagree	0	0.0%

Source: own computation based on surveyed Questionnaire Using SPSS software

Table 4.5.4. emphasizes on responses given to each of the four sub questions under the package of 'Poor Credit Risk assessment factor'. For all sub questions majority of the respondents positively showed their agreement to the researchers view point in respect to the importance of 'credit risk assessment' to avoid the occurrence and rise of NPLs by selecting 'agree' and 'strongly agree'.

In this respect about 74% of the respondents declared by saying "agree", 14% of the respondents said "strongly agree" and 13% of respondents selected "neutral". In conclusion, it is obvious that about 88% of the respondents supported that 'Poor monitoring' have a positive impact on the occurrence and rise of NPLs.

Table 4.5.4.1. Descriptive Statistics on Poor Credit Risk Assessment factor

	N	Mean	Std. Deviation
Easly admited borrowers usually default	57	2.1579	.64889
KYC policy of the Bank lead to high loan quality	57	1.7544	.50993
Poor credit analysis and risk assessmet lead to loan default	57	1.3860	.49115
Project appraisal and selection officers and mgrs are qualified and skilled enough	57	1.9825	.51725
Valid N (listwise)	57		
Mean & std deviation of credit risk assessment factor		**1.8252**	**.56680**

Source: own computation based on surveyed Questionnaire Using SPSS software

When the likert scale measurement was designed the highest point was allocated to the negative response, that is 5 for 'strongly disagree' and the lowest point was allocated for the positive response, which is 1 for 'strongly agree' and similar allocation given for the middle values accordingly. Therefore, mean and standard deviation values are determined accordingly. That is to say the magnitude of positive response will have a lower mean and standard deviation as compared to the magnitude of negative response. Therefore, the factor with lower mean and standard deviation will have a higher impact on the occurrence and rise of NPLs and the factor with the higher mean and standard deviation will have a lower impact on the occurrence and rise of NPLs.

In the table 4.5.4.1 above the average mean and standard deviation of the factor 'poor credit risk assessment is 1.8252 and .56680, respectively. The importance and position of the factor is shown below in comparison with other factors.

4.5.5. The effect of Poor Credit monitoring factor on NPL

Table4.5.5. Poor Credit monitoring

		Frequency	percentage (%)
Strict monitoring ensures loan performance	Strongly Agree	16	28.1%
	Agree	39	68.4%
	Neutral	2	3.5%
	Disagree	0	0.0%
	Strongly Agree	0	0.0%
Poorly assessed and advanced loans may perform well	Strongly Agree	0	0.0%
	Agree	2	3.5%
	Neutral	5	8.8%
	Disagree	40	70.2%
	Strongly Disagree	10	17.5%
Loan follow up is directly related to occurence of NPLs	Strongly Agree	11	19.3%
	Agree	34	59.6%
	Neutral	12	21.1%
	Disagree	0	0.0%
	Strongly Disagree	0	0.0%
Banks with higher budget for loan monitoring have lower NPLs	Strongly Agree	0	0.0%
	Agree	44	77.2%
	Neutral	13	22.8%
	Disagree	0	0.0%
	Strongle Disagree	0	0.0%

Source: own computation based on surveyed Questionnaire Using SPSS software

With respect to the effect of sub question 'Strict monitoring ensures loan performance', about 96% of the respondents shown their agreement by specifically selecting 'strongly agree' (28%), and selecting "agree" (68%), respectively. For sub question 'Poorly assessed and advanced loans may perform well' about 88% of the respondents shown their 'disagreement' by selecting 'disagree' (70.5%) and 'strongly disagree' (17.2%), respectively. For the sub question 'Loan follow up is directly related to occurrence of NPLs' except 21% those shown their stand as 'neutral" all the rest (i.e.,78% of the respondents) have shown their agreement. In the case of sub question 'Banks with higher budget for loan monitoring have lower NPLs' 77% of the respondents have selected "agree" and 23% of them selected 'neutral'. In average 84.7% of the respondents have shown their agreement. From the respondents view we can conclude that 'Poor credit monitoring' factor has a direct impact on the occurrence and rise of NPLs.

Table 4.5.5.1. Descriptive Statistics on Poor Credit monitoring factor

	N	Mean	Std. Deviation
Strict monitoring ensures loan performance	57	1.7544	.50993
Poorly assessed and advanced loans may perform well	57	4.0175	.64063
Loan follow up is directly related to occurence of NPLs	57	2.0175	.64063
Banks with higher budget for loan monitoring have lower NPLs	57	2.2281	.42332
Valid N (listwise)	57		
Average Mean and Standard Deviation		**2.5044**	**.55363**

Source: own computation based on surveyed Questionnaire Using SPSS software

While making analysis on the package of Descriptive statistics of 'Poor credit monitoring' factor, the average mean and standard deviation calculated and scored the values of 2.5044**,** and .55363, respectively. The importance and position of the factor is shown in comparison with other factors at appropriate summary column.

4.5.6. The effect of collateral on NPLs

Table 4.5.6. Collateral

		Frequency	percentage (%)
Collateralized loans perform well	Strongly Agree	8	14.0%
	Agree	33	57.9%
	Neutral	14	24.6%
	Disagree	2	3.5%
	Strongly Disagree	0	0.0%
Collateralized loans help protect loan default	Strongly Agree	18	31.6%
	Agree	39	68.4%
	Neutral	0	0.0%
	Disagree	0	0.0%
	Strongly Disagree	0	0.0%
Most of the time non collateralized loans are defaulted	Strongly Agree	0	0.0%
	Agree	42	73.7%
	Neutral	11	19.3%
	Disagree	4	7.0%
	Strongly Disagree	0	0.0%

Source: own computation based on surveyed Questionnaire Using SPSS software

Under the effect of collateral factor, three different sub questions have been entertained. With respect to the sub question, 'Collateralized loans perform well' about 72% of respondents have shown their agreement with the important of the statement and about 25% of the respondents took a neutral position. In the case the sub question 'Collateralized loans help protect loan default' almost all of the respondents provided their full (100%) support. For sub statement, 'Most of the time non collateralized loans are defaulted' about 74% of the respondents have

shown their agreement by choosing "agree" and about 19.3% of them took the position of 'Neutral'. In conclusion it emphasizes that the importance of collateral has a positive impact on the occurrence and rise of NPLs.

Table 4.5.6.1.Descriptive Statistics on Collateral factor

	N	Mean	Std. Deviation
Collateralized loans perform well	57	2.1754	.71020
Collateralized loans help protect loan default	57	1.6842	.46896
Most of the time non collateralized loans are defaulted	57	2.3333	.60749
Valid N (listwise)	57		
Average Mean and Standard Deviation		2.0643	0.59555

Source: own computation based on surveyed Questionnaire Using SPSS software

In the light of Descriptive statistics on Collateral, the average mean and standard deviation is calculated to have the value of 2.0643 and 0.59555, respectively. The importance and position of the factor however, is shown in comparison with other factors at appropriate summary column.

4.5.7. The effect of Highly levered /Excessive lending factor on NPL

Table 4.5.7. Highly levered /Excessive lending factor

		Frequency	percentage (%)
Loan provided to highly levered firm(borrower) usually default	Strongly Agree	44	77.2%
	Agree	13	22.8%
	Neutral	0	0.0%
	Disagree	0	0.0%
	Strongly Disagree	0	0.0%
Loan provided to highly levered firm(borrower) have a direct relation to NPL	strongly Agree	24	42.1%
	Agree	33	57.9%

	Neutral	0	0.0%
	Disagree	0	0.0%
	Strongly Disagree	0	0.0%
Highly levered firms(borrowers) fail to honor their repayment contractual agreement	Strongly Agree	46	80.7%
	Agree	11	19.3%
	Neutral	0	0.0%
	Disagree	0	0.0%
	Strongly Disagree	0	0.0%

Source: own computation based on surveyed Questionnaire Using SPSS software

Under Highly levered /excessive borrowing factor three relevant sub statements have been presented for respondents' option and the following responses have been given. With regard to the sub statements 'Loan provided to highly levered firm (borrower) usually default', 'Loan provided to highly levered firm(borrower) have a direct relation to NPL', and 'Highly levered firms(borrowers) fail to honor their repayment contractual agreement' all of the respondents have shown their 100% agreement that the statements have a direct impact on the occurrence and rise of NPLs.

Table 4.5.7.1Descriptive Statistics on Highly levered /Excessive lending factor

	N	Mean	Std. Deviation
Loan provided to highly levered firm(borrower) usually default	57	1.2281	.42332
Loan provided to highly levered firm(borrower) have a direct relation to NPL	57	1.5789	.49812
Highly levered firms(borrowers) fail to honor their repayment contractual agreement	57	1.1930	.39815
Valid N (listwise)	57		
Average Mean and Standard Deviation		1.3333	.43986

Source: own computation based on surveyed Questionnaire Using SPSS software

As presented in the descriptive statistics table above, the average mean and standard deviation of highly levered/excessive lending factor/cause for NPLs is 1.3333 and .43986, respectively. The importance and position of the factor however, is shown in comparison with other factors at its appropriate summary column.

4.5.8. The effect of Loan Divert ion factor on NPL

Table 4.5.8. .Loan Divert ion factor

		Frequency	percentage (%)
Loan divert ion is the major cause for the occurrence of NPLs	Strongly agree	43	75.4%
	Agree	14	24.6%
	Neutral	0	0.0%
	Disagree	0	0.0%
	Strongly Disagree	0	0.0%
qLoan divert ion is mostly related to NPLs	Strongly Agree	46	80.7%
	Agree	11	19.3%
	Neutral	0	0.0%
	Disagree	0	0.0%
	Strongly Disagree	0	0.0%

Source: own computation based on surveyed Questionnaire Using SPSS software

In the case of Loan Divert ion`, the respondents have shown their 100% agreement with the two sub statements; 'Loan divert ion is the major cause for the occurrence of NPLs' and 'Loan divert ion' is mostly related to NPLs'. For each sub statements, 75% and 80.7% of the respondents have selected "strongly agree' and 25% and 19.3%, of them have selected "agree", respectively. Therefore, the researcher came to conclude that the factor of Loan Divert ion has a real 'cause and effect' relationship with the occurrence and NPLs.

4.5.9. The effect of Borrowers Orientation on NPL

Table 4.5.9. Borrowers Orientation/Culture factor

		Frequency	percentage (%)
Borrowers orientation is related to loan performance	Strongly Agree	22	38.6%
	Agree	35	61.4%
	Neutral	0	0.0%
	Disagree	0	0.0%
	Strongly Disagree	0	0.0%
Societies cultural development leads to good loan performance	Strongly Agree	50	87.7%
	Agree	7	12.3%
	Neutral	0	0.0%
	Disagree	0	0.0%
	Strongly Disagree	0	0.0%
Loans with big interest rate tend to NPL	Strongly Agree	0	0.0%
	Agree	32	56.1%
	Neutral	25	43.9%
	Disagree	0	0.0%
	Strongly Disagree	0	0.0%
Loan price affects loan performance	Strongly Agree	0	0.0%
	Agree	24	42.1%
	Neutral	18	31.6%
	Disagree	15	26.3%
	Strongly Disagree	0	0.0%
Borrowers default because they don't understand credit terms well	Strongly Agree	18	31.6%
	Agree	39	68.4%
	Neutral	0	0.0%
	Disagree	0	0.0%
	Strongly Disagree	0	0.0%
Poorly negotiated credit terms lead to NPL	Strongly Agree	43	75.4%

	Agree	14	24.6%
	Neutral	0	0.0%
	Disagree	0	0.0%
	Strongly Disagree	0	0.0%

Source: own computation based on surveyed Questionnaire Using SPSS software

The respondents have shown a 100% agreement with four of sub statements, 'Borrowers orientation is related to loan performance', 'Societies cultural development leads to good loan performance', ' Borrowers default because they don't understand credit terms well', and ' Poorly negotiated credit terms lead to NPL' by selecting "strongly agree' and 'agree'.

However, for the sub statements 'Loans with big interest rate tend to NPL', and 'Loan price affects loan performance, only 56% and 42% of the respondents have shown their agreement, respectively, and 44% and 32% of them selected 'neutral' for the two statements, respectively. and 26% 'disagreement, for the second statement. Therefore, it is concluded that 'Borrowers Orientation/Culture' factor has a direct influence on the occurrence and rise of NPLs in private banks.

Table 4.5.9.1Descriptive Statistics Borrowers Orientation/Culture factor

	N	Mean	Std. Deviation
Borrowers orientation is related to loan performance	57	1.6140	.49115
Sociyties cultural development leads to good loan performance	57	1.1228	.33113
Loans with big interest rate tend to NPL	57	2.4386	.50063
Loan price affects loan performance	57	2.8421	.81918
Borrowers default because they don't understand credit terms well	57	1.6842	.46896
Poorly negotiated credit terms lead to NPL	57	1.2456	.43428
Valid N (listwise)	57		
Average Mean and Standard Deviation		**1.9912**	**.50755**

Source: own computation based on surveyed Questionnaire Using SPSS software

The descriptive statistics of the average mean and standard deviation of Borrowers orientation is 1.9912 and 0.50755, respectively. The importance and position of this factor is however, shown in comparison with other factors at its appropriate summary column.

4.5.10. The effect of Credit size factor on NPL

Table 4.5.10. Credit size factor

		Frequency	percentage (%)
Aggressive lending leads to large NPL	strongly Agree	29	50.9%
	Agree	28	49.1%
	Neutral	0	0.0%
	Disagree	0	0.0%
	Strongly Disagree	0	0.0%
Bank's great risk appetite cause to NPL	Strongly Agree	3	5.3%
	Agree	39	68.4%
	Neutral	15	26.3%
	Disagree	0	0.0%
	strongly Disagree	0	0.0%
Compromised integrity in lending leads to loan default	Strongly Agree	49	86.0%
	Agree	8	14.0%
	Neutral	0	0.0%
	Disagree	0	0.0%
	Strongly Disagree	0	0.0%
Having large number of borrowers cause loan default	strongly Agree	2	3.5%
	Agree	8	14.0%
	Neutral	2	3.5%
	Disagree	31	54.4%
	Strongly Disagree	14	24.6%
Loan default rate is directly related to bank's size	Strongly Agree	0	0.0%
	Agree	0	0.0%

As per the response summarized in 'Table 4.5.10' above all of the sub statements under 'credit Size' factor have got the respondents agreement, but with varied magnitude. In this regard sub statements 'Aggressive lending leads to large NPL' and 'Compromised integrity in lending leads to loan default' have got 100% of respondents agreement but sub statement 'Bank's great risk appetite cause to NPL' got only 74% of the respondents agreement and 26% took the position of 'Neutral'. Hence, we can conclude that 'Credit size' factor has a direct influence on the occurrence and rise of NPLs in private banks.

Table 4.5.11 Correlations of the seven independent variables

		Poor Credit_ Risk Assessment	P oor Credit_ Monitoring	Collateral	Highly levered	Loan Diversion	Borrowers' orientation	Credit Size
Credit_Risk	Pearson Correlation	1	-.035	.417**	.062	.000	.430**	-.099
	Sig. (2-tailed)		.794	.001	.645	.998	.001	.465
	N	57	57	57	57	57	57	57
Credit_Monitoring	Pearson Correlation	-.035	1	-.194	-.158	.225	-.043	-.053
	Sig. (2-tailed)	.794		.148	.240	.092	.752	.696
	N	57	57	57	57	57	57	57
Collateral	Pearson Correlation	.417**	-.194	1	-.015	.340**	.192	-.099
	Sig. (2-tailed)	.001	.148		.909	.010	.153	.462
	N	57	57	57	57	57	57	57
Highly levered	Pearson Correlation	.062	-.158	-.015	1	-.141	-.025	-.183
	Sig. (2-tailed)	.645	.240	.909		.294	.853	.174

	N	57	57	57	57	57	57	57
Loan Diversion	Pearson Correlation	.000	.225	.340**	-.141	1	-.080	.206
	Sig. (2-tailed)	.998	.092	.010	.294		.556	.124
	N	57	57	57	57	57	57	57
Borrowers' orientation	Pearson Correlation	.430**	-.043	.192	-.025	-.080	1	-.063
	Sig. (2-tailed)	.001	.752	.153	.853	.556		.642
	N	57	57	57	57	57	57	57
CSize	Pearson Correlation	-.099	-.053	-.099	-.183	.206	-.063	1
	Sig. (2-tailed)	.465	.696	.462	.174	.124	.642	
	N	57	57	57	57	57	57	57

**. Correlation is significant at the 0.01 level (2-tailed).

Source: own computation based on surveyed Questionnaire Using SPSS software

4.5.11. Correlations of the seven independent variables

Correlations of the seven independent variables have been made and negative values indicated the non existence of relation (that means negative impact could be shown on the variable with the negative value with the change in the other variable) and the positive values indicated direct relation of the variables against each other.

For example in Pearson correlation model credit risk assessment is negatively correlated with Credit monitoring with a value of -.035 (which implies that good risk assessment leave no room for detection of discrepancies while conducting credit monitoring task) and credit size with a value of -.099 and have no correlation with loan divert ion due to .000 values. Conversely, however, poor credit risk assessment factor is positively correlated with Borrowers orientation and Collateral with higher magnitude and 'highly levered' with lower intensity.

Table 4.5.12. Summary of the importance and rank of the factors

Independent Variables	Average Mean	Average Standard Deviation	Rank
Poor Credit Risk Assessment	**1.8252**	**0.56680**	**3**
Poor Credit Monitoring	**2.5044**	**0.55363**	**6**
Collateral	**2.0643**	**0.59555**	**5**
Highly levered/Excessive lending	**1.3333**	**0.43986**	**2**
Loan Divert ion	**1.3014**	**0.43314**	**1**
Borrowers Orientation	**1.9912**	**0.50755**	**4**
Credit Size	**2.6302**	**0.59551**	**7**

Source: own computation based on surveyed Questionnaire Using SPSS software

As a result of the design of likert scale measurement the highest point was allocated to the negative response, that is 5 for 'strongly disagree' and the lowest point was allocated for the positive response, which is 1 for 'strongly agree'. Similarly, the middle values 2.3 and 4 allocated for 'agree', 'neutral' and 'disagree', respectively, were done accordingly. Therefore, mean and standard deviation values are determined accordingly. That is to say the magnitude of positive response will have a lower mean and standard deviation as compared to the magnitude of negative response. Therefore, the factor with lower mean and standard deviation will have a higher impact on the occurrence and rise of NPLs and the factor with the higher mean and standard deviation will have a lower impact on the occurrence and rise of NPLs.

Therefore, as indicated in the table, the factors; '**Loan Divert ion**' and **Highly levered/Excessive lending** factors, which scored the lowest Means of 1.3014 and 1.3333 and Standard Deviations of 0.43314 and 0.43986 have got the **1st and 2nd ranks**, respectively, in determining the occurrence and rise of NPLs in Ethiopian private Banks. By the same fashion all other factors such as '**Poor Credit Risk Assessment**' took the **3rd** position with mean and standard deviation values of 1.8252, and 0.5668, '**Borrowers Orientation'** the **4th** with mean and st. dev. of 1.9912, and 0.50755, '**Collateral'** took **5th** with mean and st.dev. values of

2.0643 and 0.59555, '**Poor monitoring' 6th and 'Credit Size,** took the last or the 7th position, respectively

4.6. Summary of the chapter

In this chapter the panel data set of secondary sources have been collected from twelve private Banks, but with only three years of the latest NPLs data. In spite of its scarcity, evaluation of NPLs records have been made and determined that NPLs position of private banks is in a good condition as compared to the requirement set by NBE.

By the same token, the primary data collected through questionnaire and interview were presented and explained. The findings were also analyzed on the basis of the research questions posed at the outset. In this regard the impact of independent variables on the occurrence and rise of NPLs have been well assessed and presented in their rank order. In other words, the cause and effect relationship of the independent variables with that of the dependent variable has also been explained.

The importance of the two critically investigated variables, namely Loan Divert ion and Highly Levered/Excessive Lending factors have been well addressed. In this regard, the findings of the thesis revealed that both factors have a 1st and 2nd rank impact on the occurrence and rise of NPLs in private Banks of Ethiopia as compared to other factors evaluated in this research paper.

Chapter Five

5. Conclusion and Recommendations

5.1. Conclusion

In conclusion the researcher has tried to discuss about the findings of the analysis that was conducted using the SPSS software. Descriptive approach and somewhat correlation analysis had been shown during the analysis. The descriptive approach displayed direct results while the correlation displayed the relationship between the seven independent variables which were considered to contribute to dependent variable, the occurrence and rise of Non-performing Loans (NPLs). Among the seven independent factors the two factors that the researcher focused on more namely; Loan divert ion and providing loan to Highly levered borrowers have been finally concluded to have been the major contributing factors for the deterioration of loan asset in Ethiopian Private banks with specific reference to BOA.

The researcher had also discussed about the implication and limitations of this study. Lastly, the researcher had provided some recommendations for the oncoming researchers who may work a research on similar topics.

5.2. Recommendations

The researcher believes that many works are still required on the investigation of factors affecting the deterioration of loan asset or non-performing loan and their relationship with the commercial banks. The above information has indicated that the major bank specific factors/causes selected to see their impact on the occurrence of NPLs at various extents.

Among the captioned bank specific factors, the researcher emphasized more on the independent variables namely; Loan Divertion and Highly levered/excessive lending factors, which have been finally concluded to have been the major contributing factors for the occurrence and rise of NPLs in Ethiopian Private Banks with specific reference to BOA.

Therefore, the researcher recommends that:

1. Private banks need to focus on all aspects of impacts of the above mentioned independent variables in order to mitigate solution they may pose on the occurrence of NPLs,

2. Future researchers who may have an interest to conduct a research on similar topic can use this research paper as an input by applying an increased size of the samples through wider perspectives of research methods in order to come up with a more reliable and comprehensive research outcome.

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(Appendix 1)

QUESTIONNAIRE

My name is Dagne Kitaba and I am currently undertaking a research of Master's Degree in General Management (GMB) at the Saint Mary's University. The research study aims to assess **''The status of Non-performing Loans (NPLs) and Evaluation of their causes in Ethiopian Private Banks with Specific Reference to Bank of Abyssinia (BOA)''**. To this effect, the study intends to gather information from selected credit related practitioners (i.e., Directors, credit managers, Relation Managers (RMs), monitoring officers, risk and compliance officers, Managers of Big braches and etc) through a self administered questionnaire. The participation is fully voluntary and responses will be handled confidentially. The results will also be reported without compromising the anonymity of respondents.

The questionnaire takes about 15 minutes to complete. I would appreciate your assistance in completing the enclosed questionnaire by ticking and recording the appropriate answers.

In case you have any questions please call:

- Mobile Phone 0912-838350 or

- email dagnekitaba@gmail.com.

Thank you in advance

QUESTIONNAIRE

(Please tick appropriate boxes)

SECTION ONE – BACKGROUND INFORMATION

1. Your current position in the Bank.

1. Loan Officer ☐ 4. Recovery/ monitoring officer ☐
2. Credit analyst ☐ 5.Credit Director ☐
3. Relationship manager ☐ 6.Vice president ☐
7. Other, please specify _____

2. Your work experience in the banking industry

1. Less than 1 year ☐ 4. 11-15 years ☐
2. 1-5 years ☐ 5.Above 15 years ☐
3. 6-10 years ☐

3. Your experience in bank credit processes

1. Less than one year ☐ 4.11-15 years ☐

2. 1-5 years ☐ 5. Above 15 years ☐

3. 6-10 years ☐

4. Ownership of the Bank you work for

1. Private ☐ State owned ☐

5. Determinants of Non-performing Loans are obvious.

1. Agree ☐ 2. Neutral ☐ 3. Disagree ☐

SECTION TWO – QUESTIONS ON THE DETERMINANTS OF NON-PERFORMING LOANS.

6. What bank specific factors do you think are causing the occurrence of Non-performing Loans in Ethiopian Private Banks?_____

_____

7. Please rank the factors that cause occurrence of Non-performing Loans in Ethiopian private banks_____

N.B Rank the factors in order of their importance in contributing to the occurrence of Non-performing Loans from 1-10

Rank

1=highest ……10=lowest

1. High leverage (excessive lending) ---------- ☐

2. Loan diversion (use of the loan for other purpose than agreed upon) ☐

3. Rapid Loan growth by banks---------- ☐

4. High interest rate---------- ☐

5. Lenient credit terms---------- ☐

6. Credit culture / Orientation---------- ☐

7. Size of the Bank---------- ☐

8. Poor monitoring/follow up---------- ☐

9. Poor risk assessment---------- ☐

10. Others, Please specify_____ ☐

_____

8. Please specify your degree of agreement or disagreement to the statements pertaining to credit risk assessment and the occurrence of NPL

		Strongly Agree (1)	**Agree (2)**	**Neutral (3)**	**Disagree (4)**	**Strongly Disagree(5)**
1	Easily admitted borrowers usually default					
2	Know Your Customer (KYC) policy of the Bank lead to high loans quality					
3	Poor credit analysis and risk assessment would lead to loan default					
4	Project appraisal and selection officers and managers are qualified and skilled enough					

9. Please indicate your degree of agreement or disagreement to the statements pertaining to credit monitoring and the occurrence of NPL

		Strongly Agree (1)	**Agree (2)**	**Neutral (3)**	**Disagree (4)**	**Strongly Disagree(5)**
1	Strict monitoring ensures loan performance					

2	Poorly assessed and advanced loans may perform well if properly monitored					
3	Loan follow up is directly related to occurrence of Non-performing Loans					
4	Banks with higher budget for loan monitoring have lower Non-performing Loans					

10. Please indicate your degree of agreement or disagreement to the statements pertaining to Collateral and the occurrence of NPL

		Strongly Agree (1)	**Agree (2)**	**Neutral (3)**	**Disagree (4)**	**Strongly Disagree(5)**
1	Collateralized loans perform well					
2	Collateralizing loans help protect loan default					
3	Most of the time non collateralized loans are defaulted					

11. Please indicate your degree of agreement or disagreement to the statements pertaining to loan granted to highly levered firm and the occurrence of NPL

		Strongly Agree (1)	**Agree (2)**	**Neutral (3)**	**Disagree (4)**	**Strongly Disagree(5)**
1	Loan provided to highly levered firm (borrower) usually default					
2	Loan provided to highly levered firm have a direct relation to NPLs					
3	Highly levered borrowers usually fail to honor their repayment contractual agreement					

12. Please indicate your degree of agreement or disagreement to the statements pertaining to loan divert ion and the occurrence of NPL

		Strongly Agree (1)	Agree (2)	Neutral (3)	Disagree (4)	Strongly Disagree(5)
1	Loan divert ion is the major cause for the occurrence of NPL					
2	Loan divert ion is mostly related to NPL					

13. Please indicate your degree of agreement or disagreement to the statements pertaining to borrower's orientation and the occurrence of NPL

		Strongly Agree (1)	Agree (2)	Neutral (3)	Disagree (4)	Strongly Disagree(5)
1	Borrower's orientation/culture is related to loan performance					
2	Society's cultural development leads to good loan performance					
3	Loans with big interest rate tend to turn to NPL					
4	Loan price affects loan performance					
5	Borrowers default because they don't understand credit terms well					
6	Poorly negotiated credit terms lead to loan nonperformance					

14. Please indicate your degree of agreement or disagreement to the statements pertaining to Credit size and the occurrence of NPL

		Strongly	Agree	Neutral	Disagree	Strongly

		Agree (1)	(2)	(3)	(4)	Disagree(5)
1	Aggressive lending leads to large NPL volume/ratio					
2	Bank's great risk appetite cause for NPL					
3	Compromised integrity in lending leads to loan default					
4	Having large number of borrowers causes loan default					
5	Loans default rate is directly related to banks' size					
6	Loan default is not related with banks ownership type (private/state owned)					

15. If you have further comments on the bank specific factors affecting Non-performing Loans of Ethiopian private Banks please use the space below-

_____

End of the questionnaire

Thank you for your participation

(Appendix 2)

Instrument for In-depth interview

1. Summary of the respondent profile (Current status, banking experience, experience on credit, and the relevant questions)

2. Views of the respondents on the factors that determine the deterioration of loan asset quality in the Ethiopian private banks in general and BOA in particular.

3. Views of respondents on which factors answered in Q2 stand at the top and rating of the factors thereof in relation to the other.

4. Opinion of respondents on the impact of the Ethiopian private Banking context that might have any bearing on the occurrence of loan default.

5. Recommendation/ if any for mitigating occurrence of Non-performing Loans proposed by the respondents.

(Appendix 3) Data provided from Surveyed Private Banks.

Bank of Abyssinia (BOA) '000

BOA	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Asset	5,476,626	6,279,540	7,277,567	8,239,514	10,160,114	11,276,391	13,667,559	16,828,069	25,324,804	31,983,036
Total Capital	519,230	585,492	660,759	906,594	1,107,635	1,528,968	1,810,547	2,124,426	2,904,814	4,245,359
Total Dep.	4,494,186	5,138,847	6,075,259	6,771,246	8,496,148	9,096,477	11,118,168	13,634,966	20,700,812	25,790,000
Total Loon	2,708,965	3,153,244	3,315,688	3,897,407	4,702,074	5,153,461	5,995,557	8,121,370	14,105,407	17,990,990
NPL	DNA	DNA	DNA	DNA	DNA	DNA	DNA	170,301	195,151	234,578
NPL Ratio	DNA	DNA	DNA	DNA	DNA	DNA	DNA	0.0210	0.0138	0.0130

Source: Own computation and surveyed private Banks

DNA= Data not available

Awash Bank '000

AWASH	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Asset	DNA	9,022,989	11,089,441	13,125,217	17,783,927	22,106,346	25,210,501	31,147,685	41,974,865	55,268,107
Total Capital	DNA	959,349	1,336,497	1,650,631	2,066,219	2,596,943	3,185,025	3,934,354	4,809,338	6,495,714
Total Dep.	DNA	6,105,940	7,743,781	9,204,358	12,545,209	15,040,715	18,520,419	22,832,029	30,590,900	43,451,378
Total Loon	DNA	3,145,686	3,986,465	5,504,610	7,709,998	9,176,360	12,482,041	15,450,777	22,576,339	31,304,221
NPL	DNA	DNA	DNA	DNA	DNA	DNA	DNA	304,694.00	437,163.00	582,880.00
NPL Ratio	DNA	DNA	DNA	DNA	DNA	DNA	DNA	1.86	1.94	1.97

Source: Own computation and surveyed private Banks

DNA= Data not available

DASHEN BANK '000

DASHEN	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Asset	9,732,583	12,353,386	14,659,795	17,520,042	19,747,175	21,962,202	24,763,886	28,576,434	34,624,602	45,425,378

Total Capital	908,695	1,123,348	1,396,402	1,827,894	2,045,699	2,597,625	2,923,894	3,357,826	3,992,984	5,866,611
Total Dep.	7,925,210.00	10,144,549.00	11,841,239.00	14,065,600.00	15,851,264.00	17,681,343.00	19,814,107.70	22,758,501.00	27,782,522.00	35,986,800.00
Total Loon	7,925,210	10,144,549	11,841,239	8,123,813	8,862,316	9,607,825	11,526,995	12,695,122	18,082,889	23,285,591
NPL Ratio	DNA	DNA	DNA	DNA	DNA	DNA	DNA	3.42	3.46	3.42
Total NPL	DNA	DNA	DNA	DNA	DNA	DNA	DNA	795,657.00	625,326.00	795,657.00

Source: Own computation and surveyed private Banks

DNA= Data not available

UNITED BANK ‘000

UNITED	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Asset	4,652,443	5,896,233	7,725,441	8,786,860	9,985,997	11,876,369	14,360,872	17,269,873	21,902,918	28,030,918
Total Capital	519,975	637,554	901,365	1,101,716	1,201,148	1,575,272	1,686,240	2,072,489	2,515,640	2,953,813
Total Dep.	3,381,837.00	4,424,517.00	5,786,707.00	6,401,588.00	7,698,860.00	8,909,069.00	11,070,779.90	13,037,642.00	16,505,125.00	23,079,045.00
Total Loon	2,152,976	2,613,609	3,276,959	4,085,376	4,710,762	5,069,624	6,860,084	8,534,359	11,996,311	15,065,836
NPL	DNA	DNA	DNA	DNA	DNA	DNA	DNA	156,919.0	91,768.00	308,410.0
NPL Ratio	DNA	DNA	DNA	DNA	DNA	DNA	DNA	1.84	0.76	2.05

Source: Own computation and surveyed private Banks

WEGAGEN BANK ‘000

WEGAGEN	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Asset	5,118,311	5,741,937	8,060,937	8,347,155	10,393,803	11,528,770	13,711,365	16,189,764	20,949,168	27,390,906
Total Capital	836,415	1,051,726	1,337,335	1,604,133	1,830,425	2,144,215	2,414,373	2,805,774	3,355,787	3,826,506
Total Dep.	6,912,518.00	7,527,983.00	5,733,716.00	5,428,297.00	7,148,159.00	8,026,270.00	9,870,945.00	11,078,547.00	14,020,235.00	20,506,129.00
Total Loon	2,112,381	2,473,872	2,910,049	3,565,675	4,690,142	4,604,416	4,518,690	7,630,323	10,377,220	15,047,640
NPL	DNA	DNA	DNA	DNA	DNA	DNA	DNA	129,041.00	131,797.00	1,954,255.00
NPL Ratio	DNA	DNA	DNA	DNA	DNA	DNA	DNA	1.69	1.27	12.99

Source: Own computation and surveyed private Banks

NIB INTERNATIONAL BANK(NIB) '000

NIB	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Asset	4,806,507	5,970,511	7,111,808	8,275,695	9,144,544	10,747,283	13,256,124	15,830,322	21,019,709	26,688,922
Total Capital	728,824	916,508	1,170,800	1,527,946	1,665,929	1,964,357	2,177,304	2,517,956	2,954,062	3,380,401
Total Dep.	3,296,390	4,127,188	5,157,401	5,838,126	6,655,213	7,923,293	9,774,115	12,423,023	16,416,437	21,619,236
Total Loon	2,220,289	2,546,136	2,766,522	3,708,900	4,542,992	5,523,500	6,999,192	7,647,138	10,888,410	13,703,965
NPL	DNA	DNA	DNA	DNA	DNA	DNA	DNA	390,466	359,443	655,720
NPL Ratio	DNA	DNA	DNA	DNA	DNA	DNA	DNA	0.0511	0.0330	0.0478

Source: Own computation and surveyed private Banks

DNA= Data not available

COOPERATIVE BANK OF OROMIA(CBO) '000

CBO	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Asset	1,022,882	1,768,615	2,500,359	3,670,726	6,537,470	7,350,372	11,462,067	10,687,348	17,724,241	29,888,034
Total Capital	156,410	189,003	245,837	417,214	695,991	1,090,376	1,410,911	1,220,947	1,517,050.11	1,517,050.11
Total Dep.	788,680.00	1,371,820.00	1,980,420.00	1,471,164.00	4,465,040.00	5,450,097.00	7,367,800.00	8,488,330.00	14,276,793.93	23,322,429.54
Total Loon	595,993	721,773	801,897	1,383,515	2,116,060	3,712,476		6,158,855	9,929,793	15,185,482
NPL	DNA	DNA	DNA	DNA	DNA	DNA	DNA	1,278,424	575,228	534,203
NPL Ratio	DNA	DNA	DNA	DNA	DNA	DNA	DNA	0.2076	0.0579	0.0352

Source: Own computation and surveyed private Banks

DNA= Data not available

LION BANK '000

LION	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Asset	952,468	1,363,612	1,808,057	2,463,032	2,942,433	3,613,339	5,859,362	8,119,232	10,975,929	14,319,598
Total Capital	191,763	241,799	352,921	441,726	541,945	627,820	822,122	1,069,860	1,448,884	1,808,872
Total Dep.	703,600.00	1,017,580.00	1,297,373.00	1,736,656.00	2,105,863.00	2,686,984.00	4,457,396.60	6,333,564.24	8,774,856.28	11,639,588.00
Total Loon	470,142	583,993	676,332	970,663	1,318,065	1,562,028	2,878,316	4,389,702	5,598,265	7,561,254
NPL	DNA	DNA	DNA	DNA	DNA	DNA	DNA	98,258	138,700	172,841
NPL Ratio	DNA	DNA	DNA	DNA	DNA	DNA	DNA	0.0224	0.0224	0.0224

Source: Own computation and surveyed private Banks

BUNNA BANK '000

BUNNA	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Asset	168,091	480,117	781,366	1,365,032	2,128,454	3,011,946	4,262,163	6,821,000	9,820,014	13,021,152
Total Capital	158,065	169,103	232,433	287,012	372,503	516,764	677,719	960,548	1,352,977	1,983,419
Total Dep.		239,262.00	491,316.00	903,306.00	1,547,609.00	2,151,591.00	2,991,287.74	5,384,603.76	6,864,812.00	9,153,260.00
Total Loon		192,257	366,262	651,941	949,429	1,359,690	2,445,968	3,694,816	5,249,627	6,942,320
NPL	DNA	DNA	DNA	DNA	DNA	DNA	DNA	121,485	148,444	268,269
NPL Ratio	DNA	DNA	DNA	DNA	DNA	DNA	DNA	0.0329	0.0283	0.0386

Source: Own computation and surveyed private Banks

DNA= Data not available

OROMIA INTERNATIONAL BANK(OIB) '000

OIB	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Asset	326,358	1,118,573	1,961,839	2,787,394	3,911,231	6,026,272	9,534,850	11,281,589	16,292,907	23,796,732
Total Capital	107,282	212,010	296,017	437,680	547,603	748,473	992,923	1,317,819	1,665,659	1,665,659
Total Dep.	189,497.	820,935.	1,526,318	2,117,297	3,050,440	4,829,026	7,290,291	9,347,000	13,414,120	16,913,738

	00	00	.84	.00	.00	.00	.90	.00	.00	.00
Total Loon	113,265	368,987	654,701	1,019,596	1,621,228	2,551,638	4,767,175	5,258,340	7,175,542	10,060,489
NPL	DNA	DNA	DNA	DNA	DNA	DNA	DNA	164,104	244,850	389,402
NPL Ratio	DNA	DNA	DNA	DNA	DNA	DNA	DNA	0.0312	0.0341	0.0387

Source: Own computation and surveyed private Banks

DNA= Data not available

ZEMEN BANK '000

ZEMEN	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Asset	462,599	1,055,623	1,613,912	2,394,242	3,248,479	3,924,769	4,874,341	7,374,132	9,669,056	12,438,906
Total Capital	90,516	158,594	240,709	280,600	493,486	657,012	764,857	1,002,021	1,314,565	1,696,783
Total Dep.	277,847.00	688,025.00	1,162,558.00	1,792,882.00	2,505,525.00	5,933,937.00	3,819,454.30	5,486,917.40	7,323,281.33	10,217,516.00
Total Loon	188,733	383,916	645,225	1,012,690	1,369,655	1,429,960	2,282,968	3,403,837	4,160,128	5,217,523
NPL	DNA	DNA	DNA	DNA	DNA	DNA	DNA	205,679	823,259	285,831
NPL Ratio	DNA	DNA	DNA	DNA	DNA	DNA	DNA	0.0604	0.1979	0.0548

Source: Own computation and surveyed private Banks

DNA= Data not available

BIRIHAN BANK '000

BIRHAN	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Asset	DNA	379,520	913,783	1,285,037	2,197,315	2,814,261	4,171,944	7,196,303	10,488,873	DNA
Total Capital	DNA	102,359	149,942	236,145	381,548	554,442	726,802	1,060,237	1,885,056	DNA
Total Dep.	DNA	153,194	331,818	499,551	978,902	1,184,696	1,901,834	3,757,388	5,331,111	DNA
Total Loon	DNA	153,194	331,818	499,551	978,902	1,184,696	1,901,834	3,757,388	5,331,111	DNA
NPL	DNA	DNA	DNA	DNA	DNA	DNA	DNA	DNA	DNA	DNA
NPL Ratio	DNA	DNA	DNA	DNA	DNA	DNA	DNA	DNA	DNA	DNA

Source: Own computation and surveyed private Banks

DNA= Data not available

(Appendix 4)

NPLs and NPLs Ratio Data of the 12 Private Banks

The following table represents the last three years Non-performing Loans (NPLs) and NPLs ratio data of the captioned twelve Banks

Banks	Type of Data	2016	2017	2018
BOA	NPLs	**170,301**	**195,151**	**234,578**
	NPLs ratio	**2.10%**	**1.38%**	**1.30%**
Awash	NPLs	**304,694.00**	**437,163.00**	**582,880.00**
	NPLs ratio	**1.86 %**	**1.94 %**	**1.97 %**
Dashen	NPLs	**795,657.00**	**625,326.00**	**795,657.00**
	NPLs ratio	**3.42 %**	**3.46 %**	**3.42 %**
United Bank	NPLs	**156,919.0**	**91,768.00**	**308,410.0**
	NPLs ratio	**1.84 %**	**0.76 %**	**2.05%**
Wegagen	NPLs	**129,041.00**	**131,797.00**	**1,954,255.00**
	NPLs ratio	**1.69 %**	**1.27 %**	**12.99 %**
NIB	NPLs	**390,466**	**359,443**	**655,720**
	NPLs ratio	**5.11 %**	**3.30 %**	**4.78 %**
CBO	NPLs	**1,278,424**	**575,228**	**534,203**
	NPLs ratio	**2.07%**	**5.79%**	**3.52%**
Lion	NPLs	**98,258**	**138,700**	**172,841**
	NPLs ratio	**2.24%**	**2.24%**	**2.24%**
Bunna	NPLs	**121,485**	**148,444**	**268,269**
	NPLs ratio	**3.29%**	**2.83%**	**3.86%**
OIB	NPLs	**164,104**	**244,850**	**389,402**
	NPLs ratio	**3.12%**	**3.41%**	**3.87%**
Zemen	NPLs	**205,679**	**823,259**	**285,831**
	NPLs ratio	**6.04%**	**19.79%**	**5.48%**
Birhan	NPLs	**DNA**	**DNA**	**DNA**
	NPLs ratio	**DNA**	**DNA**	**DNA**

Source: Own computation and surveyed private Banks

DNA= Data not available