KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

COLLEGE OF HUMANITIES AND SOCIAL SCIENCES

SCHOOL OF BUSINESS

MASTERS IN BUSINESS ADMINISTRATION

ASSESSMENT OF THE CREDIT RISK MANAGEMENT PRACTICES OF NATIONAL INVESTMENT BANK LTD.

BY

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A THESIS SUBMITTED TO THE KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY, DEPARTMENT OF ACCOUNTING AND FINANCE IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF MASTERS OF BUSINESS ADMINISTRATION (FINANCE)

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DECLARATION

I hereby declare that this dissertation is the result of my own original work and that no part has been presented for another degree in this university or elsewhere, except where due acknowledgment has been made in the text.

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DEDICATION

To my lovely husband, Isaac and my dear children Michelle, Ewuradwoa, Afua and Isaac Junior

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ABSTRACT

Credit risk management is a very essential model for any financial institution. This is because the business of granting loans by these institutions involves the corporate cost of holding risk. The banking industry in Ghana though making gains; experience the setback of credit risk. As a result, the study assessed the credit risk management practices of National Investment Bank Ltd. The research was an attempt to assess the extent to which the implementation of various credit risk management practices by the bank has reduced the amount of non-performing loans. In order to answer the research objectives, the case study approach was employed questionnaire as well as face-to face interview was conducted to collate the views of senior credit officers and customers of the National Investment Bank Ltd. on credit risk management practices. Besides, information on non-performing loans was obtained from the books of accounts while the researcher also relied on data from NIB annual reports and credit policy documents for analysis. The results from the study showed that National Investment Bank has a clear, written guideline on credit risk management with the board of directors having an oversight responsibility for implementation. It was revealed that the implementation of credit risk management by NIB has imparted positively on the loans as evident in the decline in the non-performing loans of the bank. Credit policies and procedures are periodically reviewed by the board to ensure that appropriate internal controls have been established. It is recommended that the bank tighten the credit policies to ensure a further decline in the non-performing loans to achieve the 1% impairment loss as required by the regulator.

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LIST OF ABBREVIATIONS

NIB -National Investment Bank

NPLs -Non-Performing Loans

CRM -Credit Risk Management

MIS -Management Information System

EBIT -Earning before Interest and Tax

LGD - Loss-given default

EAD - Exposure at default

PD -Probability of Default

IRB - Internal ratings board

EL - Expected loss

UL - Unexpected loss

CHAPTER ONE

INTRODUCTION

1.0 Background Of The Study

Provision of credit remains the essential business of every bank in the world despite the fact that one of the significant reasons for genuine banking issues keeps on being ineffective credit risk management. The Chartered Institute of Bankers (CIB) (2000, 2006) defines credit risk as the financial loss incurred due to the inability of a customer to repay their loan, or overdraft, or other contractual obligations; or the potential losses from the refusal or inability of credit customers to pay what is owed in full and on time. According to Duffie and Singleton (2003), credit risk can be defined as the risk of default or of reductions in market value caused by changes in the credit quality of issuers or counterparties. Thus, credit quality is viewed as an essential indicator of financial soundness and strength of banks. Interests that are charged on loans and advances constitute sizeable part of banks' assets. Default of loans and advances poses genuine setbacks for borrowers and moneylenders as well as to the whole economy of a nation. Studies of banking crises all over the world have shown that poor asset quality are the key elements of bank failures.

Stuart (2005) stressed that the increment in bad loans (non-performing loans) was as high as 35% in Nigerian Commercial Banks somewhere around 1999 and 2009. Umoh (1994) likewise called attention that expanding level of non-performing loan rates in banks' books, are caused by; poor loan handling, undue interference in the loan granting procedure, insufficient or deficiencies of loan securities and so on and this adversely affect banks profitability.

As a consequence of the immense and far reaching monetary effect regarding banks failures, the management of credit risk is a subject of great significance since the core business of every bank is credit financing. Some financial institutions have collapsed or experienced financial problems due to inefficient credit risk management systems epitomized by high levels of insider loans, speculative lending, and high concentration of credit in certain sectors among other issues.

Some financial institutions have folded up or experienced financial issues because of ineffective credit risk management frameworks exemplified by large amounts of insider loans, speculative lending, and high centralization of credit in specific areas among other issues.

Credit risk management practices and poor credit quality keep on being a predominant reason for bank failure and banking predicament around the world. Once more, Financial Institutions have been confronted with challenges over the years for various reasons. The major reason for real banking issues continues to be weak credit standards for lenders and counterparties, poor portfolio risk management, or different circumstances that can prompt a weakening in the credit standing of a bank's counterparties (Gil Diaz, 1994).

Following the removal of the 35% secondary reserves, the increment in the capital or equity of Ghanaian Banks, and the growth of Non-Bank Financial Institutions (63 as at June 2015), provision of credit facilities has expanded significantly in the Ghanaian economy. Also, serious competition among the banks to build their market share in the credit business has deepened financial intermediation in the economy. The share trading system has likew The Chartered Institute of Bankers (CIB) (2000, 2006) defines credit risk as the financial loss incurred due to the inability of a customer to repay their loan, or overdraft, or other contractual obligations; or the potential losses from the refusal or inability of credit customers to pay what is owed in full and on time. According to Duffie and Singleton (2003), credit risk can be defined as the risk of default or of reductions in market value caused by changes in the credit quality of issuers or counterparties. ise seen more firms looking for equity relative to debt in dealing with their capital structure. This implies that banks and non-banks are equipping to further reconstruct the credit market.

On the other hand, one discriminating issue that has proven very challenging for the Ghanaian banking industry and the broader economy in 2010 has been high bank lending rates and its impacts on access to credit. Generally a low inflation and low interest rate regime are expected to ease large scale financial and credit conditions and fuel economic growth of a country.

As opposed to this desire, the response of lending rates within the banking industry to the liberal money policies of the Bank of Ghana has been relaxed (Amissah-Authur, 2010).

The Annual Percentage Rates (APRs) which uncover actual lending rate in the financial industry shows that the average base rate charged on borrowings by businesses went between 27.5% and 38% towards the end of August, 2010, which is viewed as high and have impelled tight credit conditions in the economy for most part of 2010. A percentage of the supporting components that banks claim to have added to this circumstance include high Non Performing Loans (NPLs) ratios and high loan loss provisioning. Undoubtedly the nature of banks' aggregated loan book remains a source of financial sector weakness.

Increasing amounts of Non-Performing Assets in the financial statements of banks can possibly lower profitability and liquefy the capital base of financial institutions. Indicators of asset quality measured by the Non-Performing Loans (NPLs) ratios hit a peak of 20% in February 2010, declined to 16.5% in September and 16.9 % before the end of October 2010 (Amissah-Aurthur, 2010). Therefore effective risk management is completely needed. Carey (2001) observed that risk management is more imperative in the financial industry than in other parts of the economy. The issue of credit risk in banks is even of particular concern because of the higher levels of perceived risk resulting from the conduct of customers and the kind of business venture they undertake. It is along these lines that this study assesses the credit risk management practices of Ghanaian banks using the National Investment Bank Ltd. as a contextual survey.

1.2 Problem statement

The effective management of credit risk is a critical component of a comprehensive approach to risk management and essential to the long-term success of any banking organization (Basel, 1999a).

In Ghana, there has been a rise in default emanating from the low quality of the loan books written in former years resulting in non-performing assets for which financial institutions are still troubled with the related expenses. (Ghana Banking Survey, 2011). This has been referred to by numerous banks as the reason keeping them from cutting further their lending rates. In this manner, the incapacity of banks performing financially is because of the rate at which bad debt happens in the industry. The failure of defaulters to pay their loans on the required date keeps financial institutions from granting more loans to their clients. Because of the presence of bad debt provisions, there has been the tightening of loanable funds in the economy. Subsequently, some loan candidates are denied access to credits to start businesses of their own. Records from NIB from the period 2007 to 2014 shows exasperating figures for NPL and this has contrarily affected the profitability of the institution throughout the years. This is an extremely aggravating phenomenon in the light of the fact that if the abnormal state of non-performing assets in the bank's portfolio is not brought under control, it may crumple the capital base of the bank and decrease its profitability. The gloomiest situation can happen where liquidation or insolvency may occur because of the bank’s failure to deal with its credit risk effectively. Are present credit risk policies ineffective in controlling credit risk in NIB? Is there a lax in the execution of credit risk policies? This study endeavours to answer these enquiries by assessing the current credit risk management practises of the bank so as to distinguish the qualities and shortcomings and in particular make suggestions about methods for enhancing them.

1.3 Research Objectives

The core objective of this study is to assess the credit risk management practices of National Investment Bank Ltd. The specific objectives of the study are:

1. To examine the trend of bad loans of NIB from the period 2007-2014
2. To ascertain the level of compliance to the credit risk management policy
3. To analyse how NIB loans are monitored and evaluate the interventions put in place to recover NIB loans.
4. To assess the challenges encountered in loan monitoring

1.4 Research Questions

The study also attempts to answer the following research questions:

1. What is the quality of NIB loan portfolio over the period 2007-2014?
2. How efficient are the existing credit risk management practices of NIB?
3. What is the level of non-performing loans of NIB?
4. What are some of the challenges encountered in loan monitoring?

1.5 Justification of the study

Effective credit risk management practices lessen the risk of client default and help banks stay competitive in the credit market. Goodhart (1998) indicated that poor credit risk management which brings about undue credit risk is one of the significant reasons for bank failures. Also, the level to which banks deal with their credit risk have implication for the survival and development of financial sector and the economy at large. This study is in this way important to discover the reasons for high non-performing loans in NIB and how to manage the circumstance. The findings from the study would be of tremendous help to the Central bank (the government), Board of directors of NIB, employees, shareholders, the general public, and banks as well.

1.6 Research Methodology

The study adopted the qualitative approach to assess the credit risk management practices being utilized by National Investment Bank (NIB). This methodology is considered suitable studying credit risk management practices as it gives the analyst more descriptive space (see Cooper and Schindler, 2001). Chapter three gives details of the methodology used in the study.

1.7 Scope of the Study

The study was in the Ghanaian setting and it covers National Investment Bank (NIB) for the period 2007 - 2014.

1.8 Limitations of the Research

This study is restricted to National Investment Bank Credit Management Policies and in this way the findings, analysis and recommendations don't speak to the whole banking industry. The extension of the analysis to different banks may offer diverse results. Cross boarder study might likewise bring out distinctive results and regulatory policies.

1.9 Organization of the Study

The study is in five sections. Chapter one of the study covers certain early issues in the banking industry on credit risk management and in addition the objectives of the study. Chapter two reviews relevant literature on the subject matter under study. The third chapter details the methodology used in the survey. Chapter four presents the discussion and analysis of the data from the survey and chapter five contains the findings, conclusion and recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter talks about other materials or work done on credit risk management practices. Moreover, this chapter makes relative examination and endeavours to assess the credit risk management framework of financial institutions in Ghana. This literature review is critical in light of the fact that it tries to help answer question the research paper endeavours to respond to. The implementation of credit risk management devices will be assessed in the matter of whether it has helped control credit risk among financial institutions in Ghana.

2.1 Definition of Credit Risk Management

As indicated by Casu et al (2006), authors of Introduction to Banking, credit risk management is clarified as a management instrument which empowers to boost a bank's risk-balanced rate of return by keeping up credit risk presentation within satisfactory parameters. The authors further clarify that "the requirement for financial institutions like banks to oversee credit risk emerging from individual loan creditors, individual transactions and the risk expected in their whole portfolio". The key elements of credit risk management as indicated by Raghavan (2003) are to "distinguish, measure, and more essentially screen the profile of the bank". By this definition, credit risk management encourages financial institutions to have the capacity to check, track and assess their different activities keeping in mind the end goal to avert and correct credit risk. The authors additionally depict risk management as a framework which seems to be "a pro-active action in the present for the future". Moreover, Kalapodas et al (2005) portrays credit risk management as a management tool which endeavours to wipe out, diminish and manage risks, spread out the advantages and evade harm from taking risks. As a result credit risk management keeps financial institutions from credit risk and empowers them to grow in terms of financial performance. Likewise, CRM is portrayed by Gestel et al as fundamentally concerned with decreasing income volatility and maintaining a strategic distance from substantial losses in a firm. In a fitting risk management practices, one needs to recognize the risk, measure and evaluate the risk and create strategies to deal with the risk successfully.

2.2 Evolution of Credit Risk Management

As stated by Brown (2004), credit risk can be followed back thousands of years ago. According to him credit is much older than writings. Hammurabi's Code, which classified lawful intuition from 4000 thousand years back in Mesopotamia, did not outline the essential standards of credit and additionally ideas like interest, security and default (Brown, 2004). In any case, this code highlights that inability to pay an obligation is a wrongdoing that ought to be dealt with as theft and extortion. This arguing so as to write goes ahead that the Bible had documents of enslavement for debt without dissatisfaction; for instance, the account of Elisha and the widow's oil concerns the threatened enslavement of two youngsters on the grounds that their dad passed on without paying his debts. Yet, the Bible additionally goes more remote than Hammurabi in constraining the collection rights of creditors –purely as an issue of mercy. The current bankruptcy concepts of security from loan creditors and extinguishment of debt are altogether missing from both the Bible and Hammurabi. Truly, credit evasion was an offense which was deserving of death, torment and so forth. Credit risk management is a fundamental outcome of a vibrant economy. The amount of risk can be decreased through partial reserves and risk diversification but the delay in repayment may promote credit risk. "From the eighteenth century to the nineteenth century, Lewis Tappan established the Mercantile Agency which later became Dun & Bradstreet. This organization furnished businesses with every information on any particular businesses throughout the United States" (Brown, 2004). Around the same time, specific financial press also emerged. This firm converged with Standard Statistics which later became Standard & Poor's. In 1916 Standard & Poor's got its official credit rating (Brown, 2004). The principal major endeavour at quantification was W. Braddock Hickman's three-volume investigation of US corporate securities, distributed somewhere around 1953 and 1960. Because of his economics background, every fact about finance drove him to wrong conclusions. Likewise, Brown (2004) contends that, as more established practitioners took Hickman's wrong turn, the field of credit risk management opened up to youthful innovators and at the time of 1965 to 1975, individuals less than thirty years old took interest in credit risk management and performed jobs relating to credit risk.

2.3 Sources of Credit Risk

There are two primary sources of credit risk. They include internal and external risk factors. External risk factors that affect the operations of financial institutions are discussed underneath as follows:

2.3.1 Competition

Rivalry among financial institutions regarding growth, profitability and the longing to be a market leader have the tendency to lower the standards of financial institutions to improperly price their loan products. This could spare up an increase in the non-performing loans of a financial institution. (Tetteh, 2012).

2.3.2 Economic Conditions

Unfavourable economic conditions a country can have adverse effect on credit. For instance, changes in income and unemployment will have impact on credit risk through changes in interest rates, credit availability, exchange rate etc. These indicators have the potential to impact on the ability of borrowers to fulfil their financial obligations during the agreed period of the loan.

Also, the internal credit risk factors includes:

2.3.3 Underwriting benchmarks

As expressed by Tetteh (2012) the procedure to figure out what sort of, to whom, for what reason and when credit ought to be conceded is critical in credit approval of a financial institution. Legitimate credit support procedure ought to embody proper guidelines on both structure and system in assessing borrowers' credit worthiness, setting up of credit line and interest rate proper to borrowers' risk and credits. Loose credit underwriting can cause misfortunes to financial institutions particularly when debt owed cannot be demanded or security cannot be seized in time of default. A considerable measure of credit risks emerge from inadequacy in underwriting standards and credit monitoring.

2.3.4 Competence of staff

As stipulated in the NIB credits Policy, credit officers without the expertise in the exercises of their duties, be it credits, speculation, management of problem assets or new product, can prompt poor lending practices, incapable administration, and in the long run, failure to financial institution.

2.3.5 Management Information System (MIS)

As indicated by Tetteh (2012) risk will increase if management does not frequently get accurate and timely reports on credits. The reports might include imperative data identifying with underwriting process, for example, economic trends, change in the structure of industry, or market share, commodity prices, exchange rates, including past due credits, credit concentrations, and assessment of problem loans.

2.3.6 Inappropriate Assessment of Credit Quality

This issue may come about because of competitive pressure and growth in the credit base of an organisation as they have a tendency to put time constraints on getting accurate information on a borrower. Also, fast growth and/or entry into new markets can entice the management to loan without adequate financial and monetary investigation. To encourage faster decision making, management may support credit decisions based on simple indicators of credit quality, for example, borrowers' attributes, present and expected value of security or backing of a parent organization or subsidiary organizations (Tetteh, 2012).

2.3.7 Lending far beyond the Value of Collateral

Numerous financial institutions can't survey the relationship between borrowers' financial condition and income generating capacity and price changes and liquidity of the market for the collateral when credits that are allowed for acquiring or developing assets are utilized as security. Among such credits incorporates commercial credits, hire purchase, factoring, and commercial real estate lending. (Tetteh, 2012). This is on account of the borrowers' essential wage; the fundamental source of repayment is straightforwardly identified with the nature of the related asset. At the point when the borrowers' pay stream deteriorates, because of monetary issues, the value of the asset set as security is liable to decrease.

2.3.8 Lack of proper supervision

Some piece of credit risks emerge when financial institutions' board or management can't regulate different units to ensure that they properly follow the policy. Without a doubt all banks in the present-day unstable environment are confronted with a number of risks, for example, credit risk, liquidity risk, foreign exchange risk and interest rate risk, among different risks which may hinder a bank's survival and growth. As it were, banking is a business of risk; hence credit risk management is totally needed. Carey (2001) demonstrates that risk management is more critical in the financial segment than in different parts of the economy. The reason for financial institutions is to expand incomes and offer the most value to shareholders by undertaking a mixture of financial services and particularly by regulating risks.

2.4. Principles of Credit Risk Management

To audit the general standards of credit risk management can give a clearer picture on how banks complete their credit risk management, notwithstanding of the particular methodologies that may vary among banks. As indicated by Basel (1999), the sound practices of credit risk management ought to cover the accompanying four areas:

2.4.1 Establishing an Appropriate Credit Risk Environment

To build up a proper credit risk environment primarily relies upon an unmistakable identification of credit risk and the improvement of a thorough credit risk strategy and policies. To banks, the distinguishing proof of existing and potential credit risk intrinsic in the products they offer and the activities they take part in is a premise for a successful credit risk management, which requires a careful comprehension of both the credit risk attributes and their credit-granting exercises, particularly the complicated or recently developed ones. Additionally, the adoption of objective credit risk strategies and policies that guide all credit-approving activities is likewise the foundation in bank credit risk management process. It is expressed that a credit risk strategy ought to clear up the sorts of credit the bank is willing to allow and its target markets and in addition the required qualities of its credit portfolio. While credit policies express the bank's credit risk management theory and also the parameters within which credit risk is to be controlled, covering topics, for example, portfolio mix, price terms, rules on asset classification, and so on (Hennie 2003). Both the strategies and policies ought to be composed and executed well in conducting credit-lending exercises, and they help to build up a beneficial credit environment. Besides, setting up a suitable credit environment likewise demonstrates the foundation of a decent credit culture in the bank, which is the implicit understanding among individuals in the credit environment and conduct that are adequate to the bank (Strischek 2002).

2.4.2 Operating under a Sound Credit Granting Process

A sound credit approval procedure requires the foundation of very much characterized credit granting criteria and additionally credit introduction limits keeping in mind the end goal to survey the financial soundness of the obligors and to screen out the chosen ones. A bank's credit criteria are intended to shape the sorts and attributes of its preferred obligors, and they ought to set out who are qualified for the credit, the measure of the credit and the relative terms and conditions (Monetary Authority of Singapore 2006). These criteria, together with the credit exposure limits on single and groups of counterparties that typically base on internal credit rating, ought to cause financial institutions to generate adequate information using a credit risk profiles and instruct the sound credit granting process, which are appropriate to credit extension activities too.

2.4.3. Maintaining an Appropriate Credit Administration, Measurement and Monitoring Process:

Credit administration, as stressed by Wesley (1993), can assume an indispensable part in the accomplishment of any financial institution, since it is compelling in building and keeping up a sound credit environment and for the most part spares the institution from lending bad loan. In this way, FIs ought to never disregard the adequacy of their credit administration operations. At that point discussing credit risk measurement in banks, it is required that banks ought to receive compelling techniques for evaluating the credit risk intrinsic both in the exposures to individual borrowers and all credit portfolios. The last focus around the standards is identified with credit risk observing, which is without a doubt an unquestionable requirement in FIs risk management strategy. FIs ought to follow along on the borrowers' present financial conditions and guarantee their agreeability with the pledges. Both cashflows and collateral adequacy ought to be guaranteed and the potential problem credits ought to be considered. Along these lines, FIs are well in control of their credit qualities and all the related circumstances, and can respond to any future changes promptly.

2.4.4. Ensuring Adequate Controls over Credit Risk:

The methods for ensuring sufficient controls over credit risk in financial institutions lie in the foundation of various types of credit surveys. Normal credit surveys can confirm the assertion between allowed credits and the credit policies, and a free judgment can be given on the asset qualities.

2.5 Essentials of Effective Credit Risk Management in Banking

Basel II Accord distinguishes that compelling credit risk management is a discriminating part of a bank's general risk management strategy and is vital to the long–term accomplishment of any banking organisation. Generally speaking, the part of effective credit risk embodies.

- active Board and Senior management oversight
- sufficient policies, systems and limits
- adequate risk measurement, monitoring
- management information systems
- and comprehensive internal controls

2.6.0 Managing Credit Risk Using Financial Ratios

Ratio analysis is a tool utilized by firms to undertake a quantitative analysis of data in an organization's financial reports. Ratios are ascertained from current year numbers and are then contrasted with earlier years, different institutions, the industry, or even the economy to judge the performance of the organization. The use of ratio analysis is predominately utilized by advocates of fundamental research. Ratio analysis is usually calculated by researcher from the financial reports on organisations relating to the company's performance, activity, financing and liquidity ratios. Financial statement of a borrower carries a lot of information about the creditworthiness of a client. Ratios that is especially helpful in assessing the financial soundness of a client may incorporate current ratio, acid test ratio, debt to equity ratio, EBIT-Total Assets ratio and return on equity ratios.

2.6.1 Credit Risk Management Practices

A lot of financial institutions have failure or experienced financial issues because of wasteful credit risk management frameworks exemplified by high amounts of insider loans, speculative lending, and high concentration of credit in specific areas among different issues. Credit risk management practices and poor credit quality keep on being a predominant reason for bank failure and saving money emergencies around the world. The degrees to which banks deal with their credit risk have an effect on their whole financial performance or survival. The reasons for high non-performing loans are as an after effect of low credit risk management framework and this may influence profitability. Accordingly, inability to viably oversee credit risk generally adds to banks' financial crisis. Poor corporate administration, deficient risk management frameworks, inefficient expansion drives, continuous liquidity challenges, foreign exchange deficiencies and diversion from main business to speculative banking activity are a few elements that may add to the high non-performing loans. Efficient credit risk management practices decrease the risk of client default. Non-performing loan mainly causes an institutions failure and this arise mostly from inefficient lending decisions made during the appraisal stage of the loan. Goodhart (1998) states that poor credit risk management which brings about undue credit risk brings origins failure. Chimerine (1998) agrees with Goodhart (1998). These outcomes in indebtedness of banks decreases funds accessible by new advances, which inevitably prompts bank failure. Goodhart et al (1998) joined lending to the reasons for bank failure. Infrequent meetings of loan committees, false loans, huge treasury losses, high totals of unrecorded deposits and money laundering in extensive sums, add to bank failures.

2.6.2 Credit Risk Measurement

The capacity of banks to quantify credit risk unmistakably can possibly enhance risk management abilities. Andersen, et al., (2000) disclose that to a greater extent the utilization of credit risk models will empower the banks to embrace portfolio management, which considers the differing effect of business cycles on loaning. In addition the models will make it possible to survey risk and income, so that appropriate levels of trade–off between yield and the risk accepted by the bank, not only for the individual loans, but as well as whatever is left of the loan portfolio. It is essential to note, that banks will rely upon the evaluation of actual risk with an exposure details. As in customary credit appraisal, the foundation for a credit model is to focus on the risk and profit on every credit model. On the other hand, in a credit model it is not adequate to estimate income and risk on the premise of qualitative groupings. Unexpectedly, correct measures must be set for every individual exposure. As on account of risk appraisal of every credit introduction, the utilization of a credit model infers that the relationship can be measured as far as precise correlation information. It is in this way insufficient simply to have a general review of the relationships between the different types of loans. Rather, there must be a precise statistical measure of the connections to every single other kind of loans in the credit portfolio. There are distinctive types of credit risk measurement tool yet with the objective of this research, analysis will be restricted to commercial credit tools. The primary variables influencing the credit risk of a financial resource are the probability of default (PD), the loss-given default (LGD), and the exposure at default (EAD) Baixauli and Alvarez (2009).

2.6.3 Probability of Default (PD) Models

These are meant for a group of borrowers with related attributes and it can anticipate the number of borrowers that are likely to default over a particular time frame, e.g. one year (Duffie et al., 2003). Baixauli and Alvarez (2009), characterize Probability of Default (PD) as the evaluation of the probability of the borrower defaulting on its commitments within a given period. PD is computed for every customer who has a loan (for wholesale banking) or for a number of customers with related characteristics (for retail banking) de Servigny et al., (2004). The record of loan repayment of the counterparty/portfolio and nature of the investment are additionally considered to ascertain the PD.

The under listed steps are usually used to determine the probability of default:

• An analysis of the credit risk aspect of the counterparty or portfolio.

• Map the counterparty to an internal risk grade which has a related PD: and

• Establish the portfolio particular PD.

The final measure will present a weighted Probability of Default for portfolios that are accountable to a protected credit derivative. The measure makes note of the PD of the underwriter or seller of the credit derivative. After the probability of default has been evaluated, the next step is the related credit spread and the valuation of the loan.

In a general frame, the PD is given as (Cantor et al., 2006):

$$PD = \frac{EL}{LGD \times EAD}$$

2.6.4 Loss Given Default (LGD) Models

This endeavours to anticipate the extent of loss in a credit in the incident of default. It is taking into account the qualities of the portfolio, that is, security pledges and so on Duffie (2003). The LGD is characterized as the loss acquired in the event of default and it is equivalent to one minus the recovery rate at default (Baixauli and Alvarez, 2009). Moody’s LGD evaluations are assessments about expected loss given default on fixed salary commitments communicated as a percent of principal and accrued interest at the determination of the default. LGD appraisals are assigned to individual loan, bond, and preferred stock issues. The all inclusive or enterprise expected LGD rate is a weighted average of the normal LGD rates on its constituent liabilities (excluding preferred stock), where the weights equals every commitment's expected share of the aggregate liabilities at default (Cantor et al., 2006). Expected LGD is the distinction between value received at default determination (either through liquidation determination, or distressed exchange) and primary remarkable and accrued interest due at determination (Cantor et al., 2006). The LGD is expressed numerically as:

$$1 - R_i$$

Where R_i; is the value received at default determination or the recovery rate of the default instrument (Baixauli and Alvarez, 2009). Thus, the normal LGD rate is given as:

$$\frac{\text{Expected LGD}}{\text{Expected amount of principal and interest due at resoultion}}$$

2.6.5 Exposure at Default (EAD) Models

These are intended for unfunded lines of credit and it endeavours to focus the measure of amount of exposure that will exist at the event of default. It is in light of qualities and reason for the office and the conduct of the borrower (Duffie 2003). The aggregate esteem that a bank is presented to at the season of default or the ostensible estimation of the borrower's obligation is what is termed as Exposure At Default (EAD) (Baixauli and Alvarez, 2009). Every basic presentation that a bank has is given EAD esteem and is recognized inside of the bank's interior framework. Utilizing the inside evaluations board (IRB) approach, financial institutions will often utilize their own risk management default models to compute their separate EAD frameworks (de Servigny et al., 2004). For both individual loan and other credit portfolios the credit risk is measured by assessing two focal parameters: the normal misfortune and the startling misfortune. The normal misfortune (EL) demonstrates the normal level of the credit misfortune on the loan/credit portfolio and this is given as (Cantor et al., 2006).

On a basic level, EL is not part of the risk, but rather can be seen as an expense. The real risk then again, contains the unforeseen misfortune (UL). UL in this manner communicates the size of the misfortune in more amazing circumstances, i.e. in circumstances where the advancement is not expected. It must be conceivable to cover such misfortunes from the bank's own funds.

2.6.6 Non-Performing Loan and Profitability

As indicated by the International Monetary Fund, a non-performing loan is any loan in which: interest and principal payment are over 90 days past due; or over 90 days worth of interest has been renegotiated, capitalised, or delayed by agreement; or instalments are under 90 days late yet are no more expected. Once more, a non-performing loan is one in which the maturity date has passed however in any event some amount of the loan is as yet outstanding. The particular definition is dependent upon the loan's specific terms. As indicated by the Bank of Ghana (BOG), the present level of Non-Performing Loans (NPLs) among various financial institutions was affecting the balance sheets of the banks. The Central Bank, in a report, uncovered that the proportion of NPL to gross loans had declined, yet it was influencing general credit delivery in the banking industry. Park (2002) states in a study that as per the Financial Agency Services, the sum total of non-performing loans put out from the books for the whole banking industry of Japan since 1992 added up to almost 69 trillion yen, yet the new non-performing loans sprung up faster than the ones recovered. Non-performing loans have a crucial impact on how banks set rates, because those who pay their loans will need to pay for the individuals who don't. In insecure economic conditions premium rates charged by banks are quick overwhelmed by inflation and borrowers think that it’s hard to reimburse loans as real incomes fall, insider loans increase and over focus in specific portfolios expand giving an increase to credit risk. Non-performing loans have turned into a serious concern and an issue to research and discovering an answer is becoming crucial. Among the distinctive parts of the banking framework which could be assessed, the emphasis is on bank profitability. Solid and economical profitability is crucial and exceptionally imperative in keeping up the stability of the banking framework. Regardless of the fact that bank failure is high, poor profitability lessens the ability of a bank to retain negative shocks, which will in the end influence liquidation. Profitability reveals how banks are run given the nature in which they operate. Indeed, profitability ought to reflect the nature of a bank's management and the shareholders' conduct, the bank's aggressive strategies, effectiveness and risk management capacities. There is subsequently the requirement for banks to create and adopt credit scoring and appraisal systems, analyse and fix the insider loan policies and implement practical corporate governance practices keeping in mind the objective to lessen non-performing loans and thus adding to increase profitability. Tetteh (2012)

Seppala et. al (2001) and Flannery and Ragan (2002) contend that a sound credit strategy would help enhance prudential oversight of asset quality, set up an arrangement of least benchmark, and to apply a typical language and philosophy (appraisal of risk, pricing, documentation, securities, approval, and morals), for estimation and reporting of non-performing assets, loan grouping and provisioning. The credit strategy ought to set out the bank's lending philosophy and particular systems and method for observing the lending activity (Polizatto, 1990; Popiel, 1990).

Contemplations that form the basis for sound CRM framework include: policies and strategies (guidelines) that unmistakably plan the scope and allotment of a bank credit facilities and the way in which a credit portfolio is supervised, that is, the process by which loans are originated, evaluated, managed and recovered (Basel, 1999; Greuning and Bratanovic, 2003; PriceWaterhouse,1994). Screening borrowers is an action that has generally been suggested by, among others, Derban et al (2005). The suggestion has been broadly put to use in the banking industry as credit evaluation. As indicated by the asymmetric information theory, an accumulation of consistent data from loan customers gets to be basic in achieving viable screening. The appraisal of borrowers can be performed through the utilization of qualitative and also quantitative techniques. The main challenge in using qualitative models is their subjective nature (Bryant, 1999; Chijoriga, 1997). Be that as it may, borrowers traits evaluated through subjective models can be assigned numbers with the entirety of the qualities contrasted with a limit. This method is termed as "credit scoring" (Heffernan, 1996; Uyemura and Deventer, 1993). The strategy can't just minimize processing cost but additionally diminish subjective judgments and imaginable predispositions (Kraft, 2000; Bluhm et al., 2003; Derban et al., 2005). The rating frameworks if important ought to flag changes in expected level of loan default (Santomero, 1997). Chijoriga (1997) reasoned that quantitative models make it conceivable to, among others, numerically build up which figures are critical clarifying default risk, assess the relative level of significance of the components, enhance the valuing of default risk, be more ready to screen out bad loan candidates and be in a superior position to ascertain any reserve expected to meet expected future loan defaults. Obvious settled procedure for endorsing new credits and broadening the current credits have been seen to be essential while overseeing CR (Heffernan, 1996). Further, monitoring of borrowers is vital as present and potential exposures change with both the progression of time and the developments in the underlying variables (Donaldson, 1994; Mwisho, 2001), and again vital in managing moral hazard issue (Derban et al., 2005). Monitoring includes, among others, successive contact with borrowers, creating an atmosphere that the bank can be seen as a solver of issues and trusted counsel; build up the way of life of being supportive to borrowers at whatever point they are perceived to be in troubles and are endeavouring to manage the circumstance; observing the behaviour of borrower's business through the bank's record; general audit of the borrower's reports and an on location visit; upgrading borrowers credit documents and intermittently looking into the borrowers rating assigned at the time the credit was delivered (Donaldson, 1994; Treacy and Carey, 1998; Tummala and Burchett, 1999; Basel, 1999; Mwisho, 2001). Tools like agreements, security, credit rationing, loan securitization and loan syndication have been utilized by banks as a part of developing to the world in controlling credit losses (Benveniste and Berger, 1987; Greenbaum and Thakor, 1987; Berger and Udell, 1992; Hugh, 2001).

Rekha et al (2004) in Risk Management in Commercial Banks (A case study of public and private part banks) indicated that banks are in the business of managing risk, not maintaining a strategic distance from it. To the researcher, Risk is the principal component that drives financial performance. Without risk, the financial framework would be immensely streamlined. However, risk is ever-present in the real world. Financial Institutions, accordingly, ought to deal with the risk proficiently to get by in this extremely uncertain world. The fortune of banking will without a doubt lay on risk management dynamics. It is only those banks that have effective risk management framework which will endure in the business. The efficient management of credit risk is a basic segment of broad risk management fundamental for long term accomplishment of a banking establishment. The researcher realized that Credit risk is the most tested and greatest risk that bank, by virtue of its exceptional nature of business, acquires. This has on the other hand, gained centrality in recent years for different reasons. Principal among them is the wind of monetary liberalization that is blowing across the globe. Better credit portfolio broadening upgrades the possibilities of the diminished concentration of credit risk as experimentally proved by direct relationship between concentration of credit risk profile and NPAs of commercial banks. Rekha et al (2004) finish up their paper by a saying which is, a bank's prosperity lies in its capacity to accept and aggregate risk to the reasonable and manageable limits.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This part gives a brief description of the methodology use in the study including the population considered and the sample size and the sampling technique adopted. It additionally includes noticeably, the research design and data analysis employed in the study.

3.1 Research Design

Descriptive form of study is utilized in conducting the survey. Descriptive method of research is a type of research method, used to gain data relating to the current status of a phenomenon so as to characterize what as of now exists in business as usual (Key, 1997). Descriptive research is helpful for analysts because of its adaptability. It utilizes both qualitative and quantitative information. This methodology is utilized in light of the fact that it will be best suitable for the assessment of the credit policies of NIB.

Then again, exploratory survey is generally used to obtain information so as to clarify issues which are ambiguously defined. The research is an investigative attempt to gather data with regards to the Credit Risk Management practices that empowers Credit Risk Management to be effective in NIB. The researcher utilized exploratory research to gain information from respondents in order to draw logical conclusions and recommendations for the study.

The research adopts the case study technique to assess the credit risk management practices of National Investment Bank Limited. The decision of the case study technique was spurred by the way that it empowers the researcher to present an efficient enquiry into an event or a set of related events which aim to portray and clarify the phenomenon of interest.

Since the study is keen on assessing the credit risk management practices of the bank, the case study approach is regarded suitable as it empowers the researcher to undertake a top to bottom examination of the phenomenon under consideration.

3.2 Population of the Study

The focus of this study is to assess the credit risk management practices of National Investment Bank Limited. National Investment Bank Ltd. has a typical credit risk management Policy. The study population incorporates credit officers of NIB. One hundred (100) members of staff of the Bank answered questionnaires to elicit response for the survey.

3.3 Sampling Technique

The technique utilized for the research was purposive sampling. The decision of the purposive testing strategy was motivated by the way that the data on credit risk management practices is specific and in this manner an expert with the necessary experience is needed so as to gather information that is reliable. These sampling techniques were used on the grounds that they are exceptionally helpful for directing exploratory research. Additionally, the purpose behind these strategies was on account of the fact that, they are financially effective and time spent is minimal.

3.4 Sample Size

A sample size of one hundred staff members (100) was decided for the study. This comprises of key officials from the head office, branch supervisors, credit officers and other staff drawn from ten (10) branches of National Investment Bank Ltd. Also One hundred and twenty five (125) customers of the various branches were sampled.

3.5 Data Collection

The preparatory period of the study was utilized as a part of the outlining of information gathering instruments. One arrangement of market research focused on some head office and branch officials, while another set was from customers of NIB. Questionnaires and interview were used to solicit responses from the selected population.

Optional information on the establishment's policies were gathered from archives, for example, particular productions, working papers, handbooks, flyers and strategic reports or manuals and used to get additional data on the organization's operations.

3.6 Data Analysis

Charts, for example, Line graph, Pie chart and frequency tables were utilized to basically examine the information and behaviour of the study. Content investigation was likewise utilized as a part of breaking down the information gathered. Content examination is a kind of analytical tool utilized for the interpretation of content information through the methodical grouping procedure of coding and recognizing subjects or examples (Zhang et al, Pg. 1). In this way, the qualitative data content analytical tool was utilized. In addition, trend analysis of aggregate advances and non-performing loans was conducted to supplement the findings from the field survey.

3.6 Reliability

Reliable data is dictated by how the measures are conducted. For the measures to be dependable, it is essential that the expert is accurate. For reliability to be high there must likewise be a description of how the measures were conducted and that they were exact and accurate. Another necessity is that the analyst records everything done. This is on account of all things considered different researchers will have the capacity to utilize the information assembled for comparison purposes. To put it plainly, reliability is how consistent an analyst's estimations are (Cook and Campbell, 1979). Concerning the examination of the data gathered for this study, the analyst can say that different translations may give different results since questionnaires were administered, on the grounds that different researchers may get diverse answers from the respondents despite the fact that they have utilized the same questionnaire because of changes in the operations of the organization, new guidelines and regulations however the information is handled accurately.

3.7 Validity

Validity of data is controlled by the quality of conclusions, assumptions or recommendations (Cook and Campbell, 1979). Data is measured keeping in mind the relevance and validity for the issue that is analyzed. It speaks the truth seeing whether the data gathered or accumulated is significant to the issue being examined and whether the study conducted gave a response to the issue. In this study the researcher will say that the theoretical comprehension of credit risk management practices is the same as in the operational sense and to that degree, there is consistency between these. The researcher sees clear association between the theoretical and functional thought of credit risk management practices and therefore can say that the data is valid.

CHAPTER FOUR

ANALYSIS AND DISCUSSION OF DATA

4.0 Introduction

This section presents the analysis and discussion of data which were collected from respondents. The data was analysed using quantitative and qualitative approaches with the use of frequency tables, graphs and chart to illustrate some phenomenon. Inferences were drawn in light of the analysis. The data was examined taking into account the goals of the study. The primary goal of the study is to assess the credit risk management practices of National Investment Bank Ltd.

4.1 Discussion of Results

Out of the aggregate number of respondents, 60% were males whilst 40% were females. Their age groups were as per the following: 18-30 years, 10.0%, 31-40 years, 25.0%, 41-50 years, while over 50 years likewise constituted 15.0%. Among these respondents, 80.0% were married while 20.0% were single. With respect to their educational levels, 5% have had fundamental/secondary school training while 15.0% had Diploma. 50.0% had made it to the first degree level and 20.0% had masters.2.0% of the respondents had PhD. The educational levels of respondents were measured in order to ascertain the richness and reliability of data from the survey. Again, this enables the researcher to determine the level of education of the staffs involved in the implementation of the credit risk management practices of the bank.

Table 4.1: Demographic Characteristics' Of the Respondents (Staff)

Responses	Valid Frequency	Percent
Sex	60	60
Male		
Female	40	40
Total	**100**	**100**
Age groups		
18-30	10	10
31-40	25	25
41-50	50	50
Over 50	15	15
Total	**100**	**100**
Marital status		
Single	30	30
Married	70	70
Total	**100**	**100**
Level of Education		
High School	5	5
Diploma	15	15
1st Degree	50	50
Masters	20	20
PhD	10	10
Total	**100**	**100**

Source: Field survey 2015

Interview guided questionnaire was designed to solicit various responses from customers of NIB to find out from them their opinions on the implementation of credit risk management practices. The main focus was to find out whether the credit risk management practices of NIB was effective to ensure prompt repayment of the loans they access from the institution. One Hundred and twenty five (125) customers of NIB who have secured loan from the institution were randomly sampled from five different branches of the bank.

Out of the total number of customers sampled, 8% had saved with the bank for less than one (1) year, 34% had saved between 1 to 5 years whiles 45% had banked with the institution for between 5 to 10 years. Again, 20 % had been saving with the bank for between 10-15 years. A total 18% had saved for over 15 years with the bank.

This data was necessitated by the fact that, the researcher wanted to find out the number of years a customer had to save with the bank before accessing a credit facility from the institution.

Again, responses on the various sectors the customers operate was recorded.40% of the respondents indicated that they operated in the trading sector whiles 4% were engaged in the manufacturing sector, also, 9.6% are found in baking, 8% in agric and 12% in the transport industry. Moreover, 26.4% were engaged in other sectors. This gave the researcher a fair idea of the distribution of NIB loans and more so, the sector that holds the greatest proportion of NIB loan portfolio.

The question as to whether any of these customers have ever taken a loan had 48% answering in the affirmative, the remaining 52% responded in the opposite.

Asked about the duration of their loan request before approval, 20% of the customers stated that their loan request was processed within a week whiles 30% indicated that, it lasted between 1 to 2 weeks. However, 55% stated that their loan request lasted between 2 to 3 weeks. Another 15% gave different durations apart from the ones given above. This response was needed to ascertain the duration the institution spends on loan processing as delay in loan approval leads to loan diversion.

On the question of whether customers were able to repay their loans as scheduled by the bank, 64% indicated that they were able to pay within the given time period. Another 36% stated that they were unable to repay their loans within the agreed loan duration.

Also, customers were interviewed to indicate the extent to which they accepted some selected criteria in their loan appraisal process.

Firstly, on the character of the customers, 60% indicated that they highly accept whiles 33% said it was okay as an appraisal criterion. 7% stated that it was a low criterion to be considered in the appraisal process of a customer's loan request.

Table 4.2: Customer Data Analysis

Response	**Valid Frequency**	**Percent**
Number of years customer has saved with NIB		
Less than 1 year	8	6.4
1-5 years	34	27.2
5-10 years	45	36
10-15 years	20	16
over 15 years	18	14.4
Total	**125**	**100**
Customers Sector of Operations		
Trading	50	40
Manufacturing	5	4
Baking	12	9.6
Agriculture	10	8
Transport	15	12
Other	33	26.4
Total	**125**	**100**
Customer loan processing duration		
Within 1 week	25	20
Between 1 and 2 weeks	30	24
Between 2 and 3 weeks	55	44
Others	15	12
Total	**125**	**100**

Table 4.3: Criteria used in Appraising Customer Loan Request (%)

Appraisal factors	Low	Okay	High
	3	2	1
Character	12	43	70
Extent of involvement in the	51	28	46
Quality as an entrepreneur	29	36	60
Experience in credit utilization	80	25	20
SWOT analysis	65	43	17
Cash flow statement	54	26	45
Profit and loss statement	35	15	75
Security	65	35	25
Ability to pay	15	20	90
Borrower’s repayment history	10	20	95
Skills/Expertise/Stability of the management	31	14	80
Management leadership style	35	40	50
Market for the product or service	8	15	102
The size and strength of the existing market	16	25	84
Distribution channels	22	34	69
Intensity of competition	49	42	34
Competitive products pricing and quality	38	42	45
Future prospects of the business	56	40	29
Financial/capital structure	65	25	35
Liquidity/working capital activity	32	44	49
Profitability	12	18	95

Customers where questioned about the adequacy of the loan amount granted ,this is to ensure whether customers do not divert the funds due to its inadequacy, 76% of them responded that the credit given was not up to the amount requested ,whereas 24% answered positively, but within this number were mostly salaried workers.

The customers who said they were unable to pay the loan and the interest within the stipulated time had reasons which included; business failure due to some micro economic and environmental issues , diversion of funds due to its inadequacy, poor business management and many others.

4.2 Trend Analysis of Total Advances and NPAs

In this segment, the study attempts a pattern examination of aggregate advances made by the bank as against non-performing loans from the period 2007 to 2014. The rationale is to look at whether the different credit risk management practises being undertaken by NIB are yielding the results to attain amount of non-performing loans as expected by the Bank of Ghana.

From the graph in Figure 4.0, it is clear that, aggregate advances made by NIB for the period has demonstrated a rising pattern from year to year despite the fact that there was a little plunge in 2012 and 2013. This gives certainty to the credit extension drive of the bank in support of businesses in the economy. The chart further uncovered that non-performing loans has risen sharply from 2007 to 2014. Taking into account the line chart of non-performing loans, NIB's endeavours at decreasing credit risk can best be depicted as a normal effort. This is because, the organization was just ready to decrease NPLs in 2013 and 2014 yet in 2012 the ascent was sharp. It is additionally apparent from the diagram that as aggregate advances increases there is a comparing increment in NPLs. This disclosure is not exactly the same as other financial institutions. (Banks Financial Results, 2007-2014).

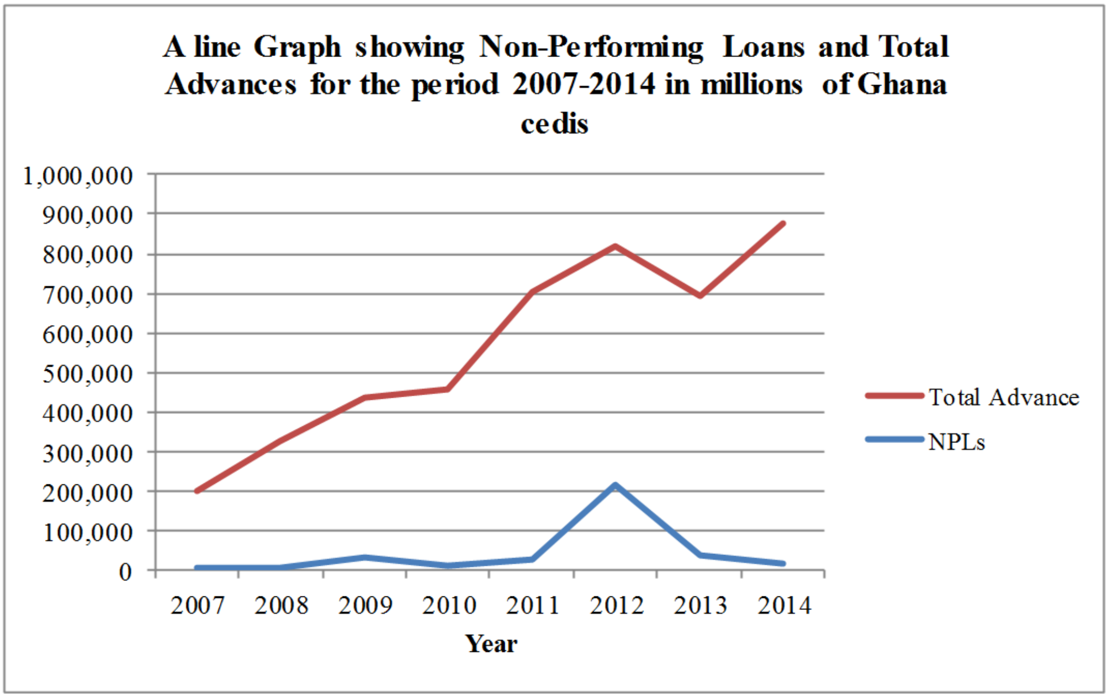

Fig. 4.0 Graph of Total Advances and Non-performing loans (2007-2014)

Source: Field survey 2015

Level of compliance: Series of appraisals are made in an attempt to grant the loans to the borrowers as seen from the survey. From the responses of the officials surveyed, the following responses were collected based on the criteria employed in the areas below. In considering character as criteria for appraising customers before they are given loans, 40.0% rated as strongly agree whilst 30.0% indicated that they agree. On the other hand, 15.0% rated as strongly disagree whilst another 10.0% claim they disagree with character of a prospective borrower as high criteria when it comes to lending out money. 5.0% of the respondents neither agree nor disagree. Fundamentally, the problem arises because lenders are imperfectly informed about the character of potential borrowers, and it may be impossible, as a result, for lenders to distinguish ‘good’ borrowers from ‘bad’ ones (Fraser, 2004). As Fraser observes, longer and broader relationships increase the amount and flow of information to lenders, enabling good borrowers to obtain better access to finance over time.

As regards the extent of a customer’s involvement in the business, 25.0% strongly agree to it as an acceptable criterion whereas 20.0% said they agree to consider this criterion before granting the loan. Meanwhile, 20.0% strongly disagree to it as criteria to be considered.

Moreover as regards the ability of the borrower to pay back the loan, 60.0% indicated that they strongly agree to the criteria whilst 36.0% said they agree. On the other hand, no respondent strongly disagree but 2.0% disagree to this criteria in appraising customer loan.

The borrower’s expertise in management as a criterion was also rated. 65.0% of respondents strongly agree whilst 20.0% agree that the management expertise of borrowers is a good criterion. Meanwhile, 5.0% strongly disagree and 4.0% disagree. There were 6.0% respondents who neither agree nor disagree.

As regards the management leadership style of the borrower, 43.0% indicated they strongly agree whilst 40.0% said they agree to it as a good criterion. On the other hand, 10.0% of the respondents strongly disagree whilst 5.0% disagree as a good criterion.

On the issue of the availability of market for the product or service, 62.0% of respondents said they strongly agree to the criterion whilst 30.0% stated that they agree. On the contrary, 2.0% strongly disagree and only 1.0% disagree.5.0% neither agree nor disagree with the criterion for appraising borrower’s loan.

On the part of the future prospects of the business, 41.0% indicated that they strongly agree whilst 30.0% agree to the criterion. Meanwhile, 14.0% strongly disagree and another 10.0% disagree.

Besides, on the issue of liquidity and working capital, 33.0% strongly agree whilst 32.0% agree to the criterion. On the other hand, 20.0% said they strongly disagree whilst 12.0% said they disagree. Another 3.0% of the respondent neither agree nor disagree to this criterion in appraising borrower's loan.

Lastly, as regards the issue of the profitability of the business the borrower intends to transact, 35.0% stated they strongly agree and 50.0% indicated that they agree to the criterion. On the contrary, 5.0% claim they strongly disagree whilst 4.0% said they disagree.

Table 4.4: Appraisal of the clients

Responses	Strongly disagree	Disagree	Neither Agree or Disagree	Agree	Strongly Agree	Total
Character	15	10	5	30	40	**100**
Credit Utilizations experience	5	2	10	40	43	**100**
Extent of involvement in the business	20	15	20	20	25	**100**
Entrepreneurial Quality	9	5	2	50	34	**100**
SWOT Analysis – Appraisal	30	20	15	10	25	**100**
Cash flow statement	10	5	5	60	20	**100**
Profit and Loss	3	2	5	40	50	**100**
Security	20	24	15	30	11	**100**
Ability to pay	0	2	2	36	60	**100**
Repayment History	30	20	10	20	20	**100**
Expertise of Management	5	4	6	20	65	**100**
Mix of management qualities	20	10	8	45	17	**100**
Management Leadership style	10	5	2	40	43	**100**
Availability of market	2	1	5	30	62	**100**
Size and strength of existing market	10	5	2	50	33	**100**
Distribution Channel	10	15	5	35	35	**100**
Intensity of competition	8	20	10	40	22	**100**
product pricing and quality	15	20	15	27	23	**100**
Expansion or the likelihood of a downturn	20	25	9	34	12	**100**
Future prospect	14	10	5	30	41	**100**
Capital Structure	10	15	10	45	20	**100**
liquidity and working capital	20	12	3	32	33	**100**
Profitability	5	4	6	50	35	**100**
Total	**291**	**251**	**175**	**814**	**769**	**2300**

Source: Field survey 2015

The extent of importance placed on the credit policy of the institution: Respondents were asked to indicate the extent of importance they place on the credit policy of the institution. On credit authority, 45.0% place very much importance on it whilst 30.0% claim it is much important. However, 5% said they were uncertain, whiles 15.0% claim that credit authority is not much important and another 5.0% indicated that it is not at all much important.

On the question of the limit on credit facilities granted, 40.0% stated that it is of very much important whilst 35.0% indicated that it is much important. 10.0% were uncertain on the limit on credit facilities granted. Also, 9.0% stated that limit on credit facilities granted is not much important whiles 6.0% claim it is not at all much important.

Again, on financial information and analysis, 38.0% indicated that it is very much important whiles40.0% claimed it is much important. On the other hand, 10.0% stated that financial information and analysis is not much important whilst 8.0% indicated that it is not at all much important. 4.0% were neutral about the importance of financial information and analysis in the credit policy.

Lastly, on collateral and structure, 50.0% indicated that it is very much important and another 40.0% stated that it is of much importance. On the contrary, only 1.0% claimed that collateral is not of much importance in the credit policy. 9.0% of the respondents were uncertain about the extent of importance of collateral and structure.

Table 4.4 the extent of importance respondents place on the credit policy (Percent)

Responses	Very Much	Much	Uncertain	Not much	Not at all Much	Total
	1	**2**	**3**	**4**	**5**	
Credit authorities	45	30	5	**15**	**5**	100
Limits on credit facilities granted	40	35	10	**9**	**6**	100
Credit portfolio distribution	30	50	2	**10**	**8**	100
category of credit	20	35	10	**20**	**15**	100
Geographic limits	25	30	15	**20**	**10**	100
Desirable types of loans	45	30	5	**15**	**5**	100
Financial information and analysis	38	40	4	**10**	**8**	100
Requirements	40	25	10	**15**	**10**	100
Collateral and structure	50	40	9	**1**	**0**	100
Total	333	315	70	115	67	900

Source: Field survey 2015

Frequency of Monitoring Loans: On the question of how often they monitor the loans, 25.0% said daily, 15.0% said weekly whilst 50.0% said they do the monitoring on monthly basis. On the other hand, 5.0% claimed they monitor on quarterly basis. Again, another 5% said the institution does not monitor loans. Hampel and others (1994) argued that a good loan policy must require diligence on the part of all lenders to detect, and attempt to correct problem loans.

A pie chart showing the frequency at which officials monitor loans

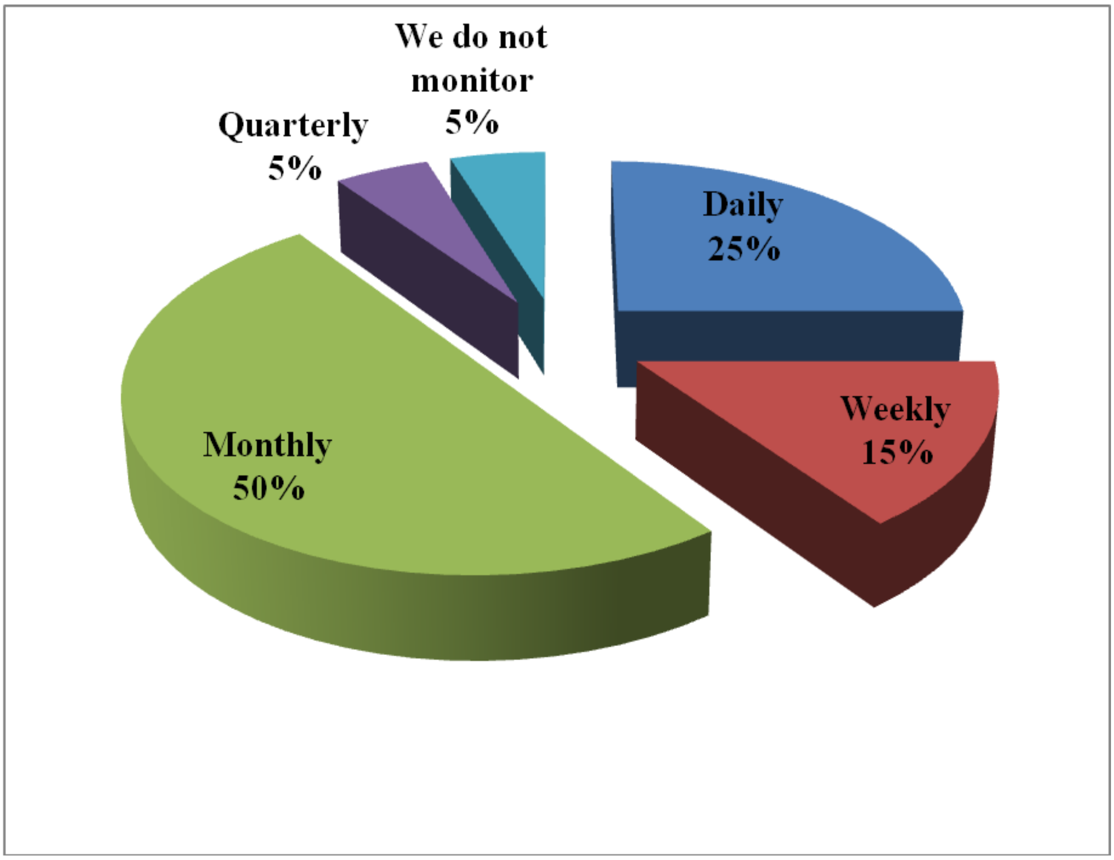

Fig.4.1 The frequency at which officials monitor loans

Source: Field survey 2015

The causes of the challenges encountered during loan monitoring: Respondents were again, interviewed on the causes of the problems encountered during loan monitoring. On inadequate appraisal, 65.0% indicated that they strongly agree whilst 20.0% stated that they agree. On the other hand, 5.0% claimed they strongly disagree whilst 4.0% disagree that inadequate appraisal was a cause of the problems encountered during loan monitoring. Also, 6.0% neither agree nor disagree to inadequate appraisal as a cause.

On diversion of loan by borrowers 65.0% agree and 31.0% strongly agree as a cause of the problems encountered during monitoring. However, only 1.0% disagrees with another 3.0% who neither agree nor disagree to diversion of loan by borrowers as a cause of the problems encountered during loan monitoring.

Again, on customer business failure, 69.0% of the respondents strongly agree and 30.0% agree that it is a cause of the problems encountered during loan monitoring. On the contrary, only 1.0% strongly disagree that customer business failure is a cause of the problems encountered during loan monitoring.

Furthermore, on inadequate documentation, 58.0% strongly agree whilst 40.0% agree that it is a cause of the problems encountered during loan monitoring. 2.0% were indifferent as to whether inadequate documentation was a cause of the problems encountered during loan monitoring.

Table 4.5 what brings about the problems encountered during loan monitoring (percent)

Factors	Strongly disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree	Total
	1	**2**	**3**	**4**	**5**	
Inadequate appraisal	**5**	**4**	**6**	**20**	**65**	**100**
Inadequate monitoring	**10**	**5**	**2**	**40**	**43**	**100**
Board imposition	**10**	**5**	**4**	**35**	**46**	**100**
Staff Influence	**5**	**4**	**2**	**50**	**39**	**100**
Staff attitude	**15**	**10**	**5**	**40**	**30**	**100**
Inadequate security	**10**	**8**	**10**	**34**	**38**	**100**
Diversion of loans	**0**	**1**	**3**	**65**	**31**	**100**
Customers business failures	**1**	**0**	**0**	**30**	**69**	**100**
Loans for social purpose	**5**	**8**	**5**	**45**	**37**	**100**
Inadequate credit staff	**2**	**10**	**15**	**40**	**33**	**100**
Inadequate documentation	**0**	**0**	**2**	**40**	**58**	**100**

Source: Field survey 2015

4.2 Assessment of Credit Risk Management Practices of NIB Ltd.

4.2.1 Credit Risk Management Policy

A well-structured financial sector with effective regulation and supervision is crucial for meeting the desired aims and objectives of the country. As indicated by the Credit Officers interviewed in the study, credit constitutes by a wide margin the biggest piece of a financial foundation's business and hence the degree to which credit risk is being overseen viably has implication for the improvement and survival of organisation. National Investment Bank Ltd. being mindful of the significance of credit risk management has executed various policies to diminish credit risk and its related issues of non-performing loans. Various findings were acquired during the field survey with customers and some senior credit officer at National Investment Bank.

After the interview it was discovered that NIB has a well composed guideline on credit risk management with the top managerial staff having an oversight obligation regarding its execution. The Bank's credit policy incorporate rules on issues, for example, : objective of the credit policy, credit approval levels at various levels of authority and approving exceptions, limit on total loans and commitments, risk Identification, measurement, monitoring and control, risk acceptance criteria, credit origination, administration and loan documentation procedures, roles and responsibilities of units/staff involved in origination and management of credit, target markets, portfolio mix, pricing and non-pricing terms, reporting requirements, off balance sheet exposure, guidelines for the management of problems loans. This report should serve as a manual for all credit officers of the bank and workers by and large with matters identifying with credit administration of the bank.

Undoubtedly having a recorded credit Policy is commendable, but on the other hand it is only the first step, how efficient the policy is being put into practice is the fundamental issue here. Mismanagement of the credit risk capacity can represent a genuine danger to a financial institution's survival, which affects the interest of depositors and all stakeholders. Tetteh (2012). In this manner the cautious management of credit risk will be of most extreme significance to financial establishment including National Investment Bank.

4.2.2 Credit Risk Management Practices

NIB's key credit risk management practice is to control its credit procedures such that it would bring about maximum credit impairment of 1% of the entire loan portfolio. It is worth noting that this practice is in accordance with Bank of Ghana's orders to banks to accomplish 1 % maximum impairment which implies that the entire credit portfolio must belong to the current category. This would imply the most effectively supervised credit portfolio in any financial institution Ghana. While trying to accomplish the 1% maximum impairment practice, a complementary practice is developed. This practice involves the realigning of a number of credits within different segments grouped into a credit portfolio relying upon environmental components, for example, political administrations, macroeconomic strategy of political administrations, new and existing regulations and enactment, social concerns of operating markets and innovative improvements within of the banking industry in Ghana. Tetteh (2012). The interview with the senior credit officers uncovered the particular strategies utilized by the bank to accomplish its credit risk management objectives. The methods are discussed underneath under three primary subtitles:

4.2.3 Risk Assessment and Approval Procedures

The study utilizes both qualitative and quantitative approaches in building up a borrower's requirements. In individual and personal loans, the bank makes use of the 5Cs to evaluate credit scoring to help form opinion on the loan application. In business loan application quantitative investigation including interpretations of, anticipated cash flows, repayment calculations, risk appraisals, value of security, and so on, and furthermore qualitative assessment of key credit data are evaluated in the appraisal process. The qualitative information investigation incorporate the background of clients, the internal and external environment, assessment of management, board, request and markets, client conduct, client segment, strategy of the business in the industry, and so on.

4.2.4 Risk Monitoring and Supervision Procedures

When a loan is approved, the duty of supervising disbursement and monitoring repayment until a facility is paid off is the responsibility embraced by the Credit Administration Unit of the Risk Management Division. It guarantees that the suitable data around a credit is made available to a client. It likewise guarantees that credit limits are not exceeded, contracts are regarded, collaterals are valued, risk evaluations are observed, credit reports are generated for management's consideration, audit, rescheduling or renegotiating of credit after recipients have submitted significant records. The unit likewise redesigns clients' records, particularly Know Your Customer information. Credit Relationship Officers follow up on client's business progress as part of loan monitoring. They visit clients' business place or shops to survey progress in sales, loan repayment, and so on. A unit of the Risk Management Division is in charge of credit mitigation, corrective measures and recovery including lawful activity prompting dispossession and auction of securities. (Source: National Investment Bank credit policies, examination and supervision strategies).

4.2.5 Risk Control Procedures

These are the strategies NIB uses to dispose of or control credit risk: These incorporate;

Avoidance: the Bank refuses the credit and proposes options of financing, for example, venture capital to the client.

Prevention: the Bank will not urge a client to submit demands for specific sorts of credits where the Bank knows it has no essential capability to oversee it.

Contingency: the Bank grants the credit yet has a predetermined arrangement of action that will be implemented as and when the risk happens.

Reduction: the Bank may ask for the client to finance a certain percentage of the total demand to demonstrate or show the client's eagerness to partake in the risks associated with the loan.

Transference: the Bank exchanges the credit risk to a third party, for example, taking an insurance policy over the credit granted.

Acceptance: the Bank tolerates the risk of credit of loans granted when its probability and effect are moderately minor or when it would be excessively unreasonable to alleviate it.

4.3 Basis for Approval of Loan and Investments

4.3.1Viability

Credit facility is granted only to those entities whose operations have been evaluated as technically, commercially and financially viable.

4.3.2 Management Competence

The Bank ensures that recipients of its credit facility are competent in their area of business and have established the necessary organization and systems to effectively carry out their objectives.

4.3.3 Creditworthiness

In addition, such requests for credit facilities are granted only when the entities and their principal proponents/managements are deemed credit-worthy (demonstrated by past repayment performance with the Bank or other financial institutions, capability to absorb debt repayments from sources external to the project, and general credit consciousness and responsibility).

4.3.4 Sufficiency

No loan or guarantee, is made unless it is sufficient, together with the owners' equity, to fully finance the proposed project. Where the Bank's proposed credit facility and owners 'equity are insufficient, it may be possible to fulfill the financing requirements through either: additional loans from other financiers; or an additional loan from the Bank which is fully secured by a guarantee from a local Bank/institution which is acceptable.

4.3.5 Leverage

The debt-to-equity ratio for entities assisted by the Bank does NOT exceed 75-25 (or 3:1) computed after the granting of the facility.

4.3.6 Collateral

Except for instances where the Bank may grant unsecured facilities, all forms of credit facilities are fully secured (i.e., not less than **130%** of the loan plus any interest capitalized. All credit facilities are subject to proper documentation, valuation, and controls. All officers concerned are completely familiar with all of the laws and regulations pertaining to security. Where possible, only the most readily realisable security is accepted.

4.4 Security

4.4.1 Security for Loans

It is a usual requirement, in the case of limited liability companies to have all the directors execute a Deed of Guarantee towards the performance of the terms and conditions of loan and other facilities, (in addition to tangible securities as listed in 4.4.2 below).

For as long as the Bank remains exposed to beneficiaries of its facilities, its collateral securities are fully protected against insurable risk, whenever applicable, by a duly-accredited insurance firm and the Bank's name noted in the insurance policy as beneficiary. Furthermore, the Bank ensures that such risk coverage is always in force until all liabilities have been fully discharged. Regular inspection (i.e., quarterly, half-yearly, and yearly) is conducted as to the existence and general state of the securities.

4.4.2 Types of Acceptable Security

i) Cash, Government Securities, Fixed Deposits, Bank guarantee, provided that the issuing Bank is certified to be acceptable (i.e., having the reputation and capacity to absorb the amount of facility upon the Bank's proper demand) in case of foreign Banks. For local Banks, it performs its own evaluation on the issuing Bank. Letter of set off must be executed for cash deposits offered as security.

ii) Real Estate (Industrial, Commercial and Residential). Subject to the consent requirements applicable to the type of property as detailed hereunder, and provided further that such property shall have been (or proposes to be) developed. If the real estate property is leased, the remaining life of the tenancy shall be equal to or more than the life of the Bank's credit facility/ies.

iii) Buildings (Industrial, Commercial and Residential).

iv) Machinery and Equipment provided that the economic life thereof shall be equal to or more than the life of the Bank's facility.

v) Vehicles (Industrial, Commercial and Private), provided that economic life thereof shall be equal to or more than the life of the facility.

Other acceptable forms of security are:

vi) Raw Material Inventories

vii) Share Stock of Companies listed on the Ghana Stock Exchange

viii) Government guarantee supported by the Bank of Ghana.

4.4.3 Verification

All landed property offered as security (primary or collateral) have an official search conducted by, and a clean report obtained from the Land Title Registry. The purpose of this verification process is to ascertain the existence of encumbrances and/or breaks in the chain of title. All real property shall be supported by appropriate vicinity and location maps for the purpose of verification of site and surroundings by the Bank's valuers.

4.4.4 Valuation of Security

i) All types of real tangible assets offered for security are reckoned at the Open Market Value but valued by the Bank at their forced sale value (FSV) for loan purposes. If the Bank does not have the expertise to assess the value of certain types of assets, the services of a reputable expert valuer or consultant is obtained by the Bank at the expense of the borrower.

ii) Shares of Ghana Stock Exchange (GSE) listed stock shall be valued at **50%** of their current market value for loan purposes. For blue chip stocks, a higher value up to **75%** of current market value may be used.

4.4.5 Cash Collateral

All cash collateralized credit facilities are subject to the normal credit approval process. If cash collateral is held in a currency other than the currency of the facility, a margin may be applied to compensate for any adverse movement in the exchange rates. For widely traded currencies a margin of **10** or **15%** is normal. Proper documentation must be obtained giving the Bank legal right to the cash pledged. If the cash is held in the name of a third party, a letter of set-off must be received.

4.4.5 Guarantees

Properly constituted and executed, guarantees are acceptable as security for credit facilities. These may take many forms: personal, corporate, bank, third party, etc. Texts of guarantees must have been vetted by legal counsel. Care must be taken to ensure that those who have issued the guarantee have the power to do so and that guarantee is legally enforceable. The value of the guarantee must be assessed and discussed in the appraisal memorandum. In cases where guarantees from the parent company are accepted, a financial analysis of the parent company's statements must be prepared in order to determine the value of the guarantee. Proper documentation must also be obtained. In cases where personal guarantees are accepted, the individual's net worth should be determined as well as the amount of the other guarantees issued by the client in favour of others.

4.4.6 Security Register

A register of securities will be maintained, giving the basic details of the security held for reference purposes.

i) A logbook is maintained recording the entry to and withdrawal from safe custody of the security. A written receipt is obtained, if security documents are issued to other departments or third parties, and customers.

ii) Account Relationship Officers and Branch Managers ensure that security conditions are fulfilled. All securities pledged are not be surrendered or substituted without the prior approval of the appropriate Credit Authority. Variable security must not be allowed to decrease without the prior approval of the appropriate Credit Authority.

4.4.8 Security Documentation Reviews

At least once years, Account Relationship Officers who are knowledgeable in documentation requirements and are independent of documentation processing undertake a review as follows:

a) A complete examination of all documentation supporting borrowing since the last review.

b) A complete review of documentation pending completion or correction.

c) A limited sample review of documentation on hand prior to the last review, to determine that proper custody and record keeping processes are in place.

A signed report is delivered to the approving loan authority with a copy to the Managing Director.

4.4.8.1 Insurance

For facilities, which are secured by landed properties or other fixed asset, insurance on such assets are obtained by the borrower with a reputable insurance company approved by the Bank. The Bank's interest is noted on the policy as a first loss payee. Annual Reviews are carried out to ensure that the assets continue to be insured during the life of the facility.

4.5 Monitoring

i. Monitoring of compliance with covenants, and events of default are carried out through the following:-

ii. Annual audited accounts during the life of the facility.

iii. Periodical, preferably half-yearly or quarterly unaudited accounts depending on operation of the accounts.

iv. Periodical visits to projects, factories and workplaces.

v. Liaise with Branch Managers/Account Relationship Officers to ensure that overdrawn and loan balances are scrutinised once weekly

4.5.1 Non-Performing Loans

Branch Management/Accountant Relationship Officers invokes default conditions if items are considered past due:-

a) Single payment loans that are unpaid ten days after maturity;

b) single payment loans with interest payable at stated intervals, where an interest payment is due and has been unpaid for ten days;

c) An installment that is unpaid (principal and/or interest) for sixty days or more. When an installment is past due, the entire unpaid balance may become eligible for immediate payment;

d) Temporary overdrafts/excesses over limits not paid within a maximum of 60 days;

e) Overdrafts which are sixty days after expiry of the time;

f) Bills negotiated under letters of credit, and cheques purchased which remain unpaid on first presentation.

4.5.2 The Recovery Process

Demand letters must make it possible for re-negotiation of terms and possible re-structuring. If re-negotiation is effected, a memorandum report is submitted for approval with full financials.

4.5.3 Non-Accrual of Interest

If interest and/or principal remain unpaid for a period of 90 days from the date due, the debt is classified, and interest debited during period is transferred to Interest in Suspense Account. The Bank then continues to pressurise the customer for repayment by letters and personal contacts.

While on non-accrual basis, interest will continue to be calculated and debited to the customer's account monthly. All confirmations of outstanding payments of the borrower will include interest covered together with the principal. Again, as soon as a transaction is signed the department ensures that there is a suitable diary system in place to monitor receipt of the necessary information. All these activities are in evidence on the credit file. Visits and details of important telephone calls are confirmed by Internal Memoranda which is then copied to Appraisal Department and Branches.

4.5.4 Annual Reviews

The department ensures that all facilities outstanding are reviewed annually. The procedure is as if appraising a new Credit facility request with latest financials. The difference will be the opportunity for the Bank to compare actual with projections and promises made earlier. The borrower provides explanations for any variances.

4.5.5 Loan Loss Provisions & Risk Rating

The Loan Accounting Section is responsible for determining and applying loan loss provisions. This task is part of the process of Risk-Rating review which will take place monthly. There will be two committees undertaking this review. The first committee consist of staff from the Loan Accounting Section while, the second consist of officers from Branch Management, Credit Appraisal Section and Account Relationship Unit reviews the work of the first committee in line with the procedures laid down by the Bank of Ghana. Provisions are determined or reviewed and applied quarterly.

4.5.6 Asset Search & Legal Procedures

The Bank conducts asset search in respect of all loans declared as loss, and a report sent to the Board. This is done while legal proceedings commence. If no asset could be traced, and legal advice suggest, recovery is not possible, such facilities are charged-off on the instructions of the Board.

4.5.7 Reports

Loan Accounting Section keeps senior management and the board informed of both performing and non-performing loans. A comprehensive report on all loans, overdrafts and contingent liabilities will be submitted to the Board quarterly under the following headings:- Outstanding Facilities Report, Non-Performing facilities report, Group Exposure report, Unauthorised or Excess facilities report

Recoveries made. Further, Credit Analysis including the following are submitted:- Purpose of facilities granted, Market/Industry analysis, Risk assessment, Security documentation check list, Status of legal issues

4.5.8 Recoveries

Bad and Doubtful debts classified as Doubtful or Loss is transferred for the management and collection by the Recoveries Section which adopts the following measures among others:- Mount pressure by asking legal officers to write to customer, pay regular visits to customer, Recommend new repayment terms which may match customer's cash flow and strengthen the bank's position by obtaining additional collateral. This is achieved by conducting 'asset search' to confirm customer's ability to repay debt and also institute legal action with a view to selling of property to defray debt owed by customer. Furthermore, by recommending to the Board that the loan be written off if asset search prove negative. (Source: National Investment Bank Credit Policies, Appraisal and Supervision Procedures)

CHAPTER FIVE

FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This section outlines and talks about the findings of the study. For some situation literature is referred to in support or to negates the findings. The study was conducted with a set of research objective as guide. It makes inferences on the whole work and makes recommendations for the study.

5.1 Findings

The study assessed the credit risk management practices of National Investment Bank Ltd. The examination was an endeavour to survey the degree to which the usage of different credit risk management practices by the bank has decreased the measure of non-performing loans. The study is extremely pertinent to partners of the banking industry and is being conducted at a time when credit risk management practices and poor credit quality keeps on being an overwhelming reason for bank failure and banking crises around the world. The literature review uncovered that banks perceive the danger posed by credit risk concentration on their profitability and therefore have established various strategies to handle the phenomenon. Generally, banks have taken asset-by-asset approach to deal with credit risk management. The methodology includes occasionally assessing the credit quality of loans and other credit exposures, applying a credit risk rating, and totalling the after effects of this examination to distinguish a portfolio's expected losses. Aside the customary asset-to-asset way to deal with credit risk management, the portfolio methodology is used to supplement risk management endeavours since the subsequent one depends on a credit model and gives a complete perspective of portfolio credit risk.

Furthermore, information on non-performing loans was gotten from the books of records while the researcher likewise depended on information from yearly reports and policy documents for the analysis of the findings. The outcomes from the study indicated that National Investment Bank has a clear, written guideline on credit risk management with the board of directors having an oversight obligation regarding its implementation. It is worth noting that, having a written policy is not enough but the extent to which it is being implemented would actualise the bank’s focus in checking credit risk.

Assessment of credit risk management policy of the bank: It was evident from the study that the bank had written down loan policy to guide credit delivery in the bank. The policies covered the extensive area that ought to be tackled in a written loan policy, paying little attention to a bank's size or area. However, the policy elements had insignificant relationship with loan's impact on client's productive activities. All said and done, the bank arrangement was not the particular case that can liberate its customers from the financial doldrums or intensify their predicaments. Against this background, there was no contrast between the banks policies and the customers' conditions at the moment.

Ascertaining the level of compliance of the credit risk management policy: The study indicated that the bank had the capacity to assign suitable assets in backing of credit risk management policy and practice. Additionally, the bank urges and gives opportunity to staff to enhance their skills in credit risk management.

Once more, there is a monitoring framework in the institution to focus on compliance with internal controls and cases of noncompliance answerable to the board. The board of directors take the appropriate steps in cases of noncompliance that are brought before them. Moreover, information on credit risk management are received by the board from the organisation's accounting, information and communication systems to enable the board make informed decisions about the credit risk management practices of the organisation. The research also revealed that the organisation had adequate work force who are skilful and learned to deal with the institution's credit risk management practices.

Analysis of how loans are monitored and the interventions put in place to recover loans: The study finds out that monitoring of compliance to avoid default are undertaken periodical, ideally half-yearly or quarterly unaudited accounts in the life of the facility. This includes periodic visits undertaken to industrial facilities and workplaces, and liaising with Branch Managers/Account Relationship Officers to guarantee that overdrawn and loan balances are investigated once a week.

Bad and doubtful loans classified as Loss is transferred for the management and monitoring by the Recoveries Section which implement some measures to ensure recoveries of the loans. Some of the measures among others include: - mount pressures by engaging legal officers to keep in touch with client, pay standard frequent visits to client, suggest new repayment plan which may match client's income and reinforce the bank's position by getting extra guarantee.

Challenges encountered in granting of loans and monitoring: The study demonstrated that the bank experienced difficulties in credit delivery and the degree of the issues was disturbing. Significant issues confronted by the bank were:

liquidity issues, high default rate, incomplete data about the clients, absence of suitable security, inaccurate house numbers, delay in giving loans, board and staff interference. The real answers for these issues by the bank as showed by the respondents were staff training and appropriate loan monitoring.

5.2 Conclusion

The study uncovered that credit risk management and internal control frameworks exist in the organization and the organisation takes the necessary steps to follow those policies. As a result of the careful credit risk management and internal control frameworks set up by the organization, the bank had the capacity do genuinely well (contrasted with the earlier years) notwithstanding the financial outrages and crisis of recent years.

The study additionally uncovered that the main credit risk management strategy of National Investment Bank Ltd. is to control its credit procedures such that it would bring about maximum credit impairment of 1% of the entire portfolio of the bank in line with credit risk management required from Bank of Ghana.

5.3 Recommendations

The credit policy of the bank must be customer oriented. It must inculcate the needs and the desire of the customers to design loan products that will be helpful to them to improve repayment of the loans within the approved period.

Management must be proactive in credit delivery to have the capacity to take care of the various issues of the bank. Management must ensure that advances are within the advances to deposit ratio as required by Bank of Ghana to have the ability to tackle the issues connected with liquidity.

The bank must verify that they get the essential data about the loan customer before any credit.

It is recommended that customers get the loan as and when expected to avert the possibility of loan diversion.

Bank officials are expected to stay away from any interference in the loan processing because that have the tendency to affect the performance of the loan.

To have the capacity to meet not less than 80% loan repayment expected by Bank of Ghana, each staff of the bank must be in charge of every loan. The obligation of loan monitoring and recovery ought to be the obligation of every staff of the bank.

The loan monitoring ought to be done on regular routine to enhance loan repayment rate of the bank.

Loan requirement should be less cumbersome for customers who have been credit worthy over the years.

All staff should be taught the loan appraisal techniques to enable them play their part effectively in the credit risk management process.

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APPENDICES

APPENDIX A

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY, KUMASI

SCHOOL OF BUSINESS

APPENDIX I: QUESTIONNAIRE FOR CUSTOMERS

Questionnaire for survey on a research work titled: **Assessment of the Credit Risk Management Practices of National Investment Bank Ltd**. You will be contributing immensely to this research by way of objectively answering the following questions. The objective of this study is purely for academic work. You are assured that all information supplied will be treated as confidential. Please respond as honestly and carefully as you can.

Section A: Respondents Particulars (Please tick as appropriate)

1. Gender: Male [ ] Female [ ]
2. Age: 18-30 [ ] 31-40 [ ] 41-50 [ ] Over 50 [ ]
3. How long have you been saving with NIB?

   Less than 1 year [ ] 1-5 years [ ] 5-10 years [ ] 10-15 years [ ] Over 15years [ ]
4. Which of the following sectors do you operate?

   Trading [ ] Manufacturing [ ] Baking [ ] Agriculture [ ] Transport [ ] Others (specify)……………………..

Section B: Assessment of the loan approval processes of NIB (Please tick as appropriate)

5. Have you ever taken a credit facility from NIB?

   a. Yes [ ]   b. No [ ]

6. How long did you operate with National Investment Bank Limited before contracting the facility?

   i. less than six (6) months [ ]   ii. More than six (6) months [ ]

7. How often did you make deposits before the facility was given?

   i. Daily [ ]   ii. Weekly [ ]   Monthly [ ]   others (specify)………………

8. What type of facility did you apply for?

   Overdraft [ ]   Personal loan [ ]   Manufacturing loan [ ] SME loan [ ]   Auto loan [ ]   Mortgage loan [ ]   Educational loan [ ]   Guarantee [ ]

9. How much did you request? (All amount in GHS)

   Below 500 [ ]   600- 1000 [ ] 1001-3000 [ ] 3001-5000 [ ] Above 5000 [ ]

10. Was the amount you applied for approved by the institution?

    Yes [ ]   b. No [ ]

11. If no, what was/were the reason for the reduction or rejection of the loan?

    Job insecurity [ ] Poor savings history [ ]   Poor credit history [ ]

    Outstanding debt [ ]

    Inadequate collateral [ ]   Inadequate deposit [ ]

12. How long did it take for your loan to be processed?

    Within 1 week [ ]   Between 1 and 2 weeks [ ]   Between 2 and 3 weeks [ ]

    Others specify ………………..

13. What criteria were used in appraising your loan?

Choose Low 3   Okay 2   High 1

Appraisal factors	**Low**	**Okay**	**High**
	3	**2**	**1**
Character			
Extent of involvement in the business			
Quality as an entrepreneur			
Experience in credit utilization			
SWOT analysis			
Cash flow statement			
Profit and loss statement			
Security			
Ability to pay			
Borrower's repayment history			
Skills/Expertise/Stability of the management			
Management leadership style			
Market for the product or service			
The size and strength of the existing market			
Distribution channels			
Intensity of competition			
Competitive products pricing and quality			
Future prospects of the business			
Financial/capital structure			
Liquidity/working capital activity			
Profitability			

Section C: Assessment of the challenges encountered in loan monitoring

(Please tick as appropriate)

14. Was the amount granted adequate for the purpose?

    YES [ ] NO [ ]

15. Did you use the loan for its intended purpose?

    YES [ ] NO [ ]

16. Were you able to pay the credit granted and the interest within the stipulated time?

    YES [ ] NO [ ]

17. If No, tick as appropriate why you were unable to pay the credit facility within the duration given.

    Business not profitable [ ] Loan used for household expenses [ ] Goods were sold on credit [ ] Loss of assets [ ]

18. How do you compare your output before and after taking the facility?

    Same [ ] Better [ ] Worse [ ]

19. How often did the bank officials contact you during the loan period?

    Daily [ ] Weekly [ ] Monthly [ ] Quarterly [ ] Semi Annually [ ]

Tick as appropriate in each of the following, the best descriptions about National Investment Bank

No.	Type service	high	medium	low
i.	Interest on overdrafts			
ii.	service charges on transaction			
iii.	Interest rates on loan facilities			
v.	Charge on loan processing and commitment fees			
vi.	Collateral requirement			

APPENDIX B

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY,

KUMASI SCHOOL OF BUSINESS

APPENDIX I: QUESTIONNAIRE FOR BANK OFFICIALS

Questionnaire for survey on a research work titled: **Assessment of the Credit Risk Management Practices of National Investment Bank Ltd**. You will be contributing immensely to this research by way of objectively answering the following questions. The objective of this study is purely for academic work. You are assured that all information supplied will be treated as confidential. Please respond as honestly and carefully as you can.

SECTION A: RESPONDENTS PARTICULARS

1. Gender: Male [ ] Female [ ]

2. Age: 18-30 [ ] 31-40 [ ] 41-50 [ ] Over 50 [ ]

3. How many years have you been working with National Investment Bank?

Less than 1 year [ ] 1-5 years [ ] 5-10 years [ ] 10-15 years [ ] Over 15years [ ]

4. In which department or branch do you work?

Please specify……………………………..

5. Highest educational level obtained

Basic/High school [ ] Diploma [ ] 1st Degree [ ] Masters [ ] PhD [ ]

Others (specify)……………………..

SECTION B: **ASSESSMENT OF THE LOAN APPROVAL PROCESSES OF NIB**

6. What types of credit facilities do you have for your customers? Tick as Appropriate

Overdraft [ ] Term Loans [ ] Guarantees [ ] All [ ]

7. What criteria were used in appraising your loan?

Appraisal factors	**Strongly disagree** **1**	**Disagree** **2**	**Neither Agree or Disagree** **3**	**Agree** **4**	**Strongly Agree** **5**
Character					
Extent of involvement in the business					
Quality as an entrepreneur					
Experience in credit utilization					
SWOT analysis					
Cash flow statement					
Profit and loss statement					
Security					
Ability to pay					
Borrower's repayment history					
Skills/Expertise/Stability of the management					
Management leadership style					
Market for the product or service					
The size and strength of the existing market					
Distribution channels					
Intensity of competition					
Competitive products pricing and quality					
Future prospects of the business					
Financial/capital structure					
Liquidity/working capital activity					
Profitability					

SECTION C: LEVEL OF COMPLIANCE OF THE CREDIT RISK MANAGEMENT POLICY

9a. Do you have credit policy in place? YES [ ]   NO [ ]

9b. If yes, please indicate in each case the extent of importance placed on the policy

This is measured as 1 Very Much, 2 Much, 3 Uncertain, 4 Not much, 5 Not at all Much

	Very Much 1	**Much 2**	**Uncertain 3**	**Not much 4**	**Not at all Much 5**
Credit authorities.					
Limits on credit facilities granted					
Credit portfolio distribution					
category of credit					
Geographic limits					
Desirable types of loans					
Financial information and analysis					
Requirements					
Collateral and structure					

10a. Tick as appropriate in each of the best descriptions about your bank

Type Service	**High**	**Medium**	**Low**
Interest rates on savings			
Safety in terms of credit repayment			
Service charges on transaction			
Interest rates on loan facilities			
Charge on credit processing and commitment fees			

10b. Tick as appropriate in each, the best descriptions about your bank.

	Strongly disagree 1	**Disagree 2**	**Neither Agree or Disagree 3**	**Agree 4**	**Strongly Agree 5**
Access to credit facility is relatively easy					
Credit approval process is quick					
Value of collateral required are always in excess of the amount of credit granted					

11. The responsibility for credit risk management within your organization is well

	Strongly disagree 1	**Disagree 2**	**Neither Agree or Disagree 3**	**Agree 4**	**Strongly Agree 5**
Documented					
Communicated					
Understood					

12. Tick as appropriate in each, the credit risk management interventions in your bank

	Strongly disagree 1	**Disagree 2**	**Neither Agree or Disagree 3**	**Agree 4**	**Strongly Agree 5**
Your organization is able to allocate appropriate resources in support of credit risk management policy and practice					
Your organization encourages and provides resources to staff to undertake relevant training to improve their skills in credit risk management					

13. Does your organization have an Audit Committee?

Yes [ ] **No [ ]**

SECTION D: ANALYSIS OF HOW NIB LOANS ARE MONITORED AND THE INTERVENTIONS PUT IN PLACE TO RECOVER LOANS

14. Tick as appropriate in each, the credit risk management practices in your bank

Practices	Strongly disagree 1	Disagree 2	Neither Agree or Disagree 3	Agree 4	Strongly Agree 5
Monitoring the effectiveness of credit risk management is an integral part of routine management reporting					
The organization's senior management is receptive to all communications about risks, including bad news					
Credit policies and procedures are periodically reviewed by the board to ensure that appropriate internal controls have been established					
There is a monitoring system in the organization to determine compliance with internal controls and are instances of noncompliance reported to the board					
The board take appropriate follow-up action in instances of noncompliance that are reported to it					
The board receive appropriate and current information from the organization's accounting, information and communication systems to make informed and timely decisions					
There are sufficient personnel who are competent and knowledgeable to manage the organization's risk management activities					
There are appropriate and sufficient reports produced by the company for the proper management and control of the company					

15. In your opinion, what brings about the problems encountered during loan monitoring?

Factors	**Overdue loans** **Strongly disagree** **1**	**Disagree** **2**	**Neither Agree or Disagree** **3**	**Agree** **4**	**Strongly Agree** **5**
Inadequate appraisal					
Inadequate monitoring					
Board imposition					
Staff influence					
Staff attitude					
Inadequate security					
Diversion of loans					
Customers business failure					
Loans for social purpose					
Inadequate credit staff					
Inadequate documentation					

Thank you