

Original research papers**CREDIT RISK MANAGEMENT IN AGRICULTURAL
DEVELOPMENT BANK IN GHANA: EVIDENCE FROM HO****ABSTRACT**

Credit risk has always been an area of concern not only to bankers but to all in the business world because the risk of a trading partner not fulfilling its obligations in full and on due date can seriously jeopardize the affairs of the other party. While financial institutions have faced difficulties over the years for multitude of reasons, the major cause of serious banking problems continues to be directly related to loose credit standards for borrowers and counterparts, poor portfolio risk management, or a lack of attention to changes in economic or other circumstances that can cause a deterioration in the credit standing of a bank.

This study assesses the effectiveness of credit risk management in Agricultural Development Bank Ghana Limited (Ho Branch). Primary sources of data was employed in the study. Well-structured questionnaire was used to collect primary data from the sampled respondents who are customers of the bank. Inferences were drawn using descriptive statistics. The result of the study revealed that the bank's objectives of managing credit risk have been mostly achieved. This is due to the mechanisms put in place by the bank's risk management department in enhancing the

20 management of credit risk. Based on the results it has been recommended that there should be a
21 platform where customers of the bank would be educated on the amount of capital the company
22 loses when they fail to payback their loans.

23 **Keywords: Credit risk, Agricultural Development Bank, Ho, Ghana**

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26 **1.0 INTRODUCTION**

27 Financial institutions are companies that provide financial and non-financial services to assist
28 individuals and organizations in their monetary and other non-monetary issues. Financial
29 institutions consist of three primary groups and these are the savers (the surplus unit), borrowers
30 (the deficit units) and the lenders (financial institutions). Financial institutions play major role in
31 the management of any economy. They provide the positive functions of bearing and managing
32 risk on behalf of their clients through the pooling of risk specialists like brokers, financial
33 institutions, intermediaries between savers and borrowers by collecting cash deposits from the
34 surplus unit and lending them out to the deficit unit. They serve as capital and debt markets and
35 responsible for transferring funds from investors to companies in need of those funds. Financial
36 institutions facilitate the flow of money through the economy.

37 Broadly speaking, there are three major types of financial institutions and these are:

- Deposit financial institutions. These are the institutions that accept and manage deposits and give out loans, including banks, building societies, credit unions, trust companies, and mortgage loan companies.
- Insurance companies who are in the insurance and assurance businesses.
- Brokers, underwriters, and investment funds.

According to (GHANA BANKING REPORT 2010) Banking is a highly regulated industry and therefore government restrictions on financial activities by bank have varied over time and location. The current set of global bank capital standard is called Basel II. During the early periods, although banking business was done by private individuals, many countries established public banks for the purpose of facilitating commerce or to serve government.

From the period 1880, when banking was formerly introduced in Ghana (the then Gold Coast), and until coming into effect of the Universal Banking concept in 2003, banks were classified into Commercial Banks, Development Banks and Merchant Banks. This categorization was based on the chosen line of banking business presented to the Bank of Ghana by each institution.

Financial institutions are increasing in Ghana and not just for investors only but also it is becoming essential for the average family trying to decide how to balance its budgets. They also offer housing and car loans and also assist their clients or customers to buy products on Hire Purchase. The advent of the new Government, elected by popular vote in 1957, brought the establishment of more banks. Banks incorporated by legislation between the periods, 1957 to 1965 include; the Ghana investment bank as an investing banking institution, the Agricultural Development Bank for the development of agriculture, the Merchant bank for merchant banking

60 and the Social Security Bank to encourage savings. In conformity with the economic policy of
 61 that time, all these institutions were incorporated as state-owned banks. The banking law was
 62 enacted in 1989, enabling suitable locally incorporated bodies to file applications for licenses to
 63 operate as banking institution. Subsequently, a number of corporate entities were licensed to
 64 operate as banks, including Cal Bank, Merchant Bank, Ecobank, Data Bank, Stanbic Bank and
 65 Fidelity bank.

66 Credit risk has always been an area of concern not only to bankers but to all in the business
 67 world because the risk of a trading partner not fulfilling its obligations in full and on due date can
 68 seriously jeopardize the affairs of the other party. While financial institutions have faced
 69 difficulties over the years for multitude of reasons, the major cause of serious banking problems
 70 continues to be directly related to loose credit standards for borrowers and counterparts, poor
 71 portfolio risk management, or a lack of attention to changes in economic or other circumstances
 72 that can cause a deterioration in the credit standing of a bank.

73 According to Coen (1975), credit risk is most simply defined as “the potential that a bank
 74 borrower or counter party will fail to meet its obligations in accordance with agreed terms”. The
 75 goal of credit risk management is to maximize a bank’s risk-adjusted rate of return by
 76 maintaining credit risk exposure within acceptable parameters.

77 Financial institution is an establishment that focuses on dealing with financial transactions
 78 (collection and distribution of money), such as investments, loans and deposits and also the
 79 offering of other products and non-financial services to its clients. The finance industry
 80 encompasses a broad range of organizations that deal with the management of money. Among
 81 these organizations are banks, credit card companies, insurance companies, consumer finance

companies, stock brokerages, investment funds and some government sponsored enterprises. They have the motive of enhancing the financial welfare of their clients by providing them with several types and forms of loans available on their desk. However, financial institutions are faced with the problem of employees' turnovers in attempt to redeeming their loans granted to their clients (Dr. Stephen Addae 2008). Many clients do migrate and change their jobs without informing these financial institutions, which makes it very difficult for the financial institution in question to trace them when they default in the payment of their loans.

The failure to pay back loans advanced to customers gives a headache to financial institutions (Agricultural Development Bank) in their areas of operations. These institutions are unable to retrieve large loans given to their customers due to lack of appropriate collateral securities by their customers. They are also unable to retrieve small loans given to customers due to the lack of qualified guarantors for such amounts and where the necessary appropriate collateral securities.

The situation of job insecurity gives a headache to financial institutions after granting loans to their clients. One of the most difficult situations and exercises for financial institutions is the cost of monitoring their clients after providing them with their requested loans. It falls on the shoulders of some financial institutions to do a follow-up monitoring whether the loans granted to their clients are used for their intended purposes. It also costs financial institutions to trace loan defaulters especially when they are difficult to be traced because of the informal settlements and difficult contacts of these clients. This results in high operational expenses by financial institutions. The bank has specific conditions with which they give out loans to their clients for the intended use. However a number of these clients veer off from the particular reason why they were given the facility. Some go to extend of using it for their personal benefit and not what the

105 loan was acquired for. The essential objective of financial institutions is to make profit by
106 providing services to its clients therefore if the cost of rendering these services is high, the ability
107 to make profit as an organizational objective will not be accomplished and therefore
108 management of credit risk is a problem.

109 The management of credit risk is a problem to both financial institutions and the clients
110 (Customers) since the financial institution render credit services to their clients in order to
111 enhance the financial welfare of their clients. Management of credit risk is very significant to a
112 banks survival as well as the client. If the risk associated with lending is greatly reduced, the
113 banks will be relieved of the burden of carrying and using part of their profits to pay off bad
114 debts and the interest of banks in granting credit will rise thereby bringing down the interest on
115 loans and other forms of credit. The objective of this study is to assess credit risk management
116 strategies put in place by the ADB Ho branch to effectively mitigate credit risk.

117

118 **2.0 LITERATURE REVIEW**

119 **2.1 Review of Credit Management**

120 As stated by Sullivan Arthur and Steven M. Sheffin (2003), credit is the trust which allows one
121 party to provide resources to another party where that second party does not reimburse the first
122 party immediately (thereby generating a debt), but instead arranges either to repay or return those
123 resources (or other materials of equal value) at a later date. The international Dictionary of
124 Management refers to credit as borrowing up to certain limit by a bank etc. to an individual or a
125 company. According to Hitt, Middlemist and Mathis (1989) on management concepts and

126 effective practice, defines management as the effective and efficient integration and coordination
127 of resources in order to achieve desired objectives.

128 Ricky W. Griffin (1999) on modern management also defines management, as a set of activities
129 (including planning and decision making, organizing leading and controlling) directed at an
130 organization resources (human, financial, physical, and information) with the aim of achieving
131 organizational goal in an efficient and effective manner. Tim Hannagan (2002) management
132 concepts and practices, defines management as the process of optimizing human, material and
133 financial contributions for the achievement of organizational goals.

134 Credit Risk Management is important and challenging, for many companies/institutions
135 (financial). It must be well noted that significant resources are being devoted to the task
136 (managing the risk), by large companies with many customers. For large companies, there may
137 even be a credit risk department established and assigned with the obligations of assessing the
138 financial strength of their customers in order to extend the credit reasonably and accordingly
139 Generally, organizations/companies can manage credit risk by tightening their credit payment
140 terms.

141 For instance, a distributor selling its products to a plight retailer, may attempt to lessen credit
142 risk, through the credit payment terms tightening, by actually selling less products on credit to
143 the retailer or even cutting off credit entirely and demanding payments in advance. Although
144 these strategies will probably impact the distributor's potential sales and cause friction in the
145 relationship with the retailer, should the retailer delay in the payment of its bills or default in
146 payment.

147 A key element of financial risk management is deciding on which risk to bear, to what extent,
 148 and how best to bear with the degree of the risk. Risk management involves the determination of
 149 what risk firm's financial activities generate and examining unprofitable risk positions. There has
 150 been a recent innovation to protect lenders and bond holders from the danger of default: they are
 151 credit derivatives, most commonly in the forms of "credit default swap". These are financial
 152 contracts that allow companies to buy a protection from a third party (thus the protection seller)
 153 against default potentially by their customers. In these contracts, the protection seller receives a
 154 periodic fee as a compensation for the risk it takes and then in return, it agrees to buy the debt,
 155 should a credit event (default) occurs.

156 Credit risk is not really manageable for every small company. This makes these companies very
 157 vulnerable to default or even delays in payment by their customers. The idea of using a
 158 collection agency (factoring) in retrieving the debts (credits) is not really a tool to manage credit
 159 risk, but rather, it is an extreme measure closer to a "write down". This is because the collection
 160 agency after retrieving the debt will take a percentage amount of the debt retrieved as its share
 161 and give the remaining to the lender. This strategy still puts the lender at risk, since the collection
 162 agency will receive an amount lesser than the actual money/credit given out. This also sounds
 163 similar to default.

164 Moreover, Credit insurance Schemes should be established by the companies to insure the
 165 companies' credit systems against the potential risk. This is why the central Bank of Ghana
 166 needs to be applauded for thinking it wise to insure the Agricultural Development Bank Ghana
 167 Limited against potential credit risks. According to Bill Rees (1995), financial analysis, defines
 168 risk as the chance that cash flow or return does not occur as expected.

169 **2.2 Overview of Financial Institutions In Ghana**

170 According to Anthony Saunders (1997) in financial institutions management, Financial
 171 institutions (e.g. Banks, credit unions, insurance companies, mutual funds), perform the essential
 172 function of channeling funds from those with surplus funds (suppliers of funds) to those with
 173 shortages of funds (users of funds). The various types of financial institutions in today's
 174 economy include; a) The size, structure and compositions of each type of financial institutions.
 175 b) Their balance sheets and recent trends. c) Financial institution performance d) The regulators
 176 who oversee each type of financial institution.

177 Peter S. Rose (2003) in money and capital markets, identifies these types of financial institutions.

178 **Commercial banks:** Depository institutions whose major assets are loans and whose major
 179 liabilities are deposits. Commercial banks' loans are broader in range, including consumer,
 180 commercial and real estate loans, than those of other depository institutions. Commercial banks'
 181 liabilities include more non-deposit source of funds, such as subordinate notes and debentures,
 182 than those of other depository institutions.

183 **Thriffs:** Depository institutions in the form of savings and loans, savings bank and credit unions.

184 Thrifts generally perform services similar to commercial banks, but they tend to concentrate their
 185 loans in one segment, such as real estate loans or consumer loans. **Insurance companies:**
 186 Financial institutions that protect individuals and corporations (policy holders) from adverse
 187 events. Life assurance companies provide protection in the events of untimely death, illness, and
 188 retirement. Property casualty insurance protects against personal injury and liability due to
 189 accidents, theft, fire and so on.

190 **Securities firms and investment banks:** Financial institutions that underwrite securities and
 191 engage in related activities such as securities brokerage, securities trading and making a market
 192 in which securities can be trade. **Finance companies:** Financial intermediaries that made loans
 193 to both individuals and businesses. Unlike depository finance companies do not accept deposits
 194 but instead rely on short and long term debt for funding. **Mutual funds:** Financial institutions
 195 that pool financial resources of individuals and companies and invest those resources in
 196 diversified portfolios of asset. **Pension funds:** Financial institutions that offer savings plans
 197 through which fund participants accumulate savings during their working years before
 198 withdrawing them during their retirement years. Funds originally invested in and accumulated in
 199 a pension fund are exempt from current taxation.

200

201 **3.0 SCOPE AND METHODOLOGY**

202 **3.1 Profile Of Agricultural Development Bank (ADB)**

203 The Agricultural development bank (ADB) was set up in 1956 by Act of parliament (Act 286)
 204 under the name Agricultural and co-operative Bank to promote and modernize the agricultural
 205 sector and allied the economic activities through appropriate financial intermediates. Before its
 206 current name, the bank was known as the Agricultural Credit and Co-operative Bank. The bank
 207 changed its name in 1970, when the parliamentary statute was amended to grant the institution
 208 full commercial banking powers. The Bank is a large development and commercial bank. As of
 209 April 2010, ADB was the leading financial institution in agricultural financing in Ghana,
 210 responsible for 35% of the total bank industry financing of agriculture. In September 2010, the
 211 bank was recognized as Bank of the Year at the Africa Investor Agribusiness Awards, in Durban,

212 South Africa, the first institution so recognized, at this annual event. The total assets of the
213 institution at the end of December 2011 were valued at approximately US\$683.6 million (GHC
214 1.21 billion). In order to mitigate risk and maximize profits, the bank also engages in other
215 types of banking beyond making agricultural loans. The range of services offered includes:

216 (a) Corporate Banking; ADB primarily provides specialized financial intermediation and related
217 services with the objective of promoting a sustained and diversified agricultural and rural
218 development as a foundation for the country's overall development .In addition, to cultivate
219 effective linkages between the agricultural sector and the rest of the economy and to complement
220 the provision of banking services throughout the country, ADB also provides ordinary
221 commercial banking services , as well as servicing other sectors of the economy.

222 (b) Transaction banking

223 ADB is a pioneer in the provision of ATM services in Ghana with the current formation of
224 Transaction Banking to leverage on the Bank's state-of-the-art IT infrastructure to create
225 convenience for our clients and enable them to become more efficient and profitable. They also
226 have a full range of innovative, customized solutions in Cash Management, Remittances,
227 International Banking, Treasury Management Services, Trade Finance and Mobile Banking.

228 The Bank maintains a network of fifty branches located in all areas of Ghana. There are also an
229 additional four (4) Farm Loan Offices and ten (ten) Agency Offices. This adds up to a total of
230 sixty-four (64) service outlets, in addition to the bank's headquarters in Accra, with thirty four
231 (34) of these branches networked. ADB has vision of being among the Top 3 performing banks
232 in Ghana by 2015, balancing market orientation with a development focus on Agriculture and
233 more. And also a mission to commit to building a strong customer-oriented Bank, run by

234 knowledgeable and well-motivated staff, providing profitable financial intermediation and
 235 related services for a sustained and diversified agricultural and rural development. The
 236 Agricultural Development Bank Ho branch was established in May 2010, with staff strength of
 237 eleven (11) and currently with about nine hundred to thousand customers. The bank can be
 238 located at the main commercial road opposite central police station.

239

240 **3.2 Methodology**

241 The population this study comprises, the officers and customers of Agricultural Development
 242 Bank (ADB) Ghana Limited, (Ho branch).

243 The study randomly sampled and interviewed 10 officers and 50 customers of the bank
 244 (Agricultural Development Bank).

245 Data for the study was obtained from primary and secondary sources.

246 Primary data was obtained through administering of questionnaires to the randomly selected staff
 247 and customers of ADB Ho Branch.

248 Secondary data was obtained from pre-existing or published data, journals, books and other
 249 archives.

250 Questionnaires, interviews or observations were used in the course of obtaining relevant and
 251 accurate data.

252 The data is organized by the use of tables, charts and percentages. The information obtained was
 253 analyzed in narrative form (qualitative) and statistically (quantitative).

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4.0 RESULTS AND DISCUSSION

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4.1 Management of Credit Risks

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The main objective of the study was to find out how credit risk is managed in financial

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institutions. Credit management is an accounting practice that includes assessing a customer's

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credit worthiness and monitoring payments. A good credit management system would help you

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to reduce the amount of capital tied up with debtors. From the responses received from the

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management of Agricultural Development Bank, the various techniques and methods used in

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managing credit risk include strict evaluation of loan requests before granting approval, effective

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monitoring, effective collection check and credit watch list activities.

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4.2 Availability of Risk Management Department and Its Mechanism of

264

Enhancing Risk Management

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From the data gathered all ten (10) the respondents (staff) who were asked whether the bank has

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a Risk Management Department that scrutinizes loan application documents and procedures

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before they are approved responded in the affirmative.

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According to them, this Risk Department normally assesses the credit worthiness of the

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customers (loan applicants) through their financial statements. This guides them as to determine

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the credit worthiness of the loan applicants.

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Another control mechanism used by the department is the assessment of credit reports or

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customers' payment history and if possible, with other firms, in order to know the frequency at

273 which the customers pay their debts, before deciding on whether or not to extend the loans to
274 them.

275 The Department also assesses the profitability of the venture/transactions to be undertaken by the
276 customers, with the loan. This is done to determine whether their customers (the bank) may be
277 able to use their loans to do a profitable business in order for them to be able to pay back their
278 loans.

279 However, the most obvious way of obtaining an estimate of a customer's profitability of non-
280 payment is whether he/she has paid his/her previous debts.

281 **4.3 Category of Credit and Beneficiaries**

282 The responses from the management of the bank revealed the following categories of credit are
283 available to customers of ADB Ho.

- 284 I. Short-term facilities such as overdraft and revolving short term loan,
- 285 II. Medium term loan for project financing and
- 286 III. Long term loans

287 The respondents' answers relating to the category of beneficiaries revealed these two categories
288 of loan beneficiaries. That is business customers and individual salaried workers. The type of
289 credit granted will help the bank to know the policy to be established in order to manage credit
290 risk efficiently and effectively.

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293 **4.4 The Demand For Collateral Securities**

294 From management and workers on collateral requirements, it was gathered that collateral in the
295 form fixed assets such as land and buildings (mostly for commercial purposes), treasury bills or
296 fixed deposits, savings and current accounts are normally demanded by the bank for business
297 loan category applicants. These collaterals help the bank to recoup its money faster when the
298 customer defaults in the repayment of the loan.

299 Also the bank mostly does not demand collateral securities from salaried workers since the
300 amount due are deducted from their salaries at source. The Bank reckons that such loans are less
301 risky compared to the business loans and the amounts are relatively smaller.

302 **4.5 Types of Risk Considered In The Approval of Loans**

303 The response to this question revealed that the bank does not consider only one type of risk but
304 rather considers all the types of risk. They also added that the types of risks applicable depend on
305 the kind of request being made by a particular customer.

306 **4.6 Consideration of Interest Rates by the Bank**

307 From the data collected, it has been realized that the bank uses the floating rates of interest in
308 charging the interest on the commercial purpose/business loans and uses fixed rate of interest in
309 charging interest on agricultural loans. Also, they added that for commercial or business loans on
310 short-term basis are charged at fixed rate whiles medium to long term loans attracts floating rate.
311 This implies that the bank applies both rates in charging the loans based on the status of the loan
312 being given out.

313 **4.7 Assessment of Credit Worthiness of Customers**

314 It was evident from the responses gathered that the management of Agricultural Development
 315 Bank groups the assessment of credit worthiness of customers into qualitative and quantitative.
 316 According to the bank, qualitative assessment involves using attributes such as management
 317 expertise, business environment, character of customers, customers' willingness to meet credit
 318 obligation whiles quantitative assessments involves the use of audited financial statements,
 319 account operations and cash flow projections.

320 **4.8 Credit Risk Reduction Measures**

321 The bank confirmed that there are always measures put in place to reduce credit risk.
 322 Some of these measures include;
 323 Regular monitoring of the performance of the businesses being undertaken by the customers.
 324 This move according to the bank makes loan beneficiaries conscious of their efforts to put the
 325 loans to the best and effective use to generate profit in order to pay back their loans.
 326 The bank officials also pay regular visits to the customers to encourage them and advise them on
 327 how to run their businesses to yield profit.
 328 The bank also established a credit period for customers within which customers are expected to
 329 pay back their loans.
 330 ADB Ltd has also been insured against credit risk by the Central Bank of Ghana as a means of
 331 mitigating credit risk since there may be a default on the part of the customers.

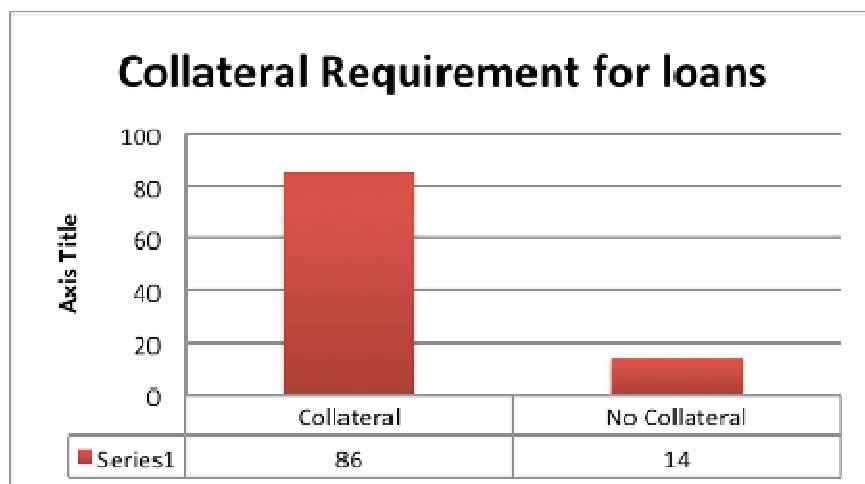
332 Furthermore, the bank deducts the loan and the interest on loan monthly from the customers'
 333 bank accounts, used to secure the loans. As a result, a customer whose account is negative or
 334 falls short of the monthly amount deductions will be made to pay a penalty. This is to ensure that
 335 customers always maintain some minimum cash balance in their accounts in order for the bank
 336 to make monthly loan deductions.

337 All these measures being effectively used by Agricultural Development Bank Limited have
 338 contributed to and are still contributing to the reduction in credit risk.

339 **4.9 Evaluation of Securities Presented by the Customers**

340 The response to this question demonstrated that 86% of customers of ADB accesses loans from
 341 the bank using collateral. 14% however did not present any collateral before assessing the loans
 342 and these 14% were mostly salaried workers. This is illustrated in 4.1 below. According to the
 343 responses gathered, most of the customers used their bank accounts to secure the loan whereas
 344 those who do not have accounts with the bank used their employers as guarantors to secure the
 345 loans, others also used their pension payments that they receive through the bank as collateral
 346 while others also presented fixed assets to secure their loans (in the form of pledges).

347 **Fig. 4.1 Collateral Requirements for Loans**

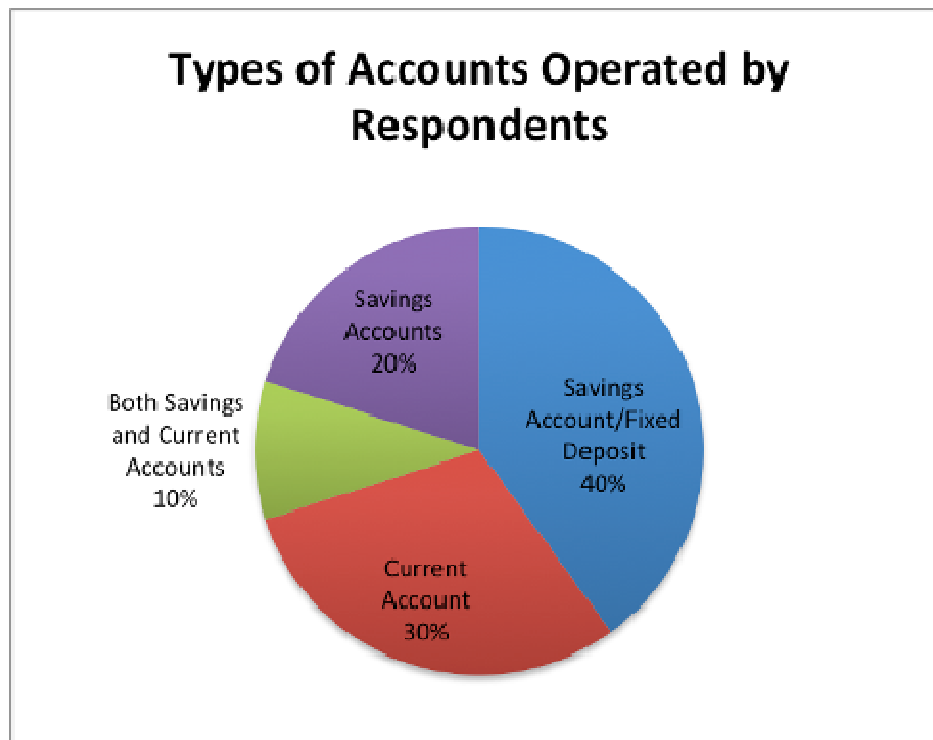


4.10 Types of Accounts Operated By Customers

According to the data gathered, the customers operate savings account, current account, both current and savings account, both the fixed deposit and savings account.

It can be deduced from the fig. 4.1 below that, twenty (20) customers operate savings account and fixed deposit account representing 40%, whiles fifteen (15) operates the current account representing 30%, five (5) operates the current and savings account representing 10% and ten (10) savings accounts with the bank also representing 20%.

361 **Fig. 4.2 Type of Accounts Operated by Customers**



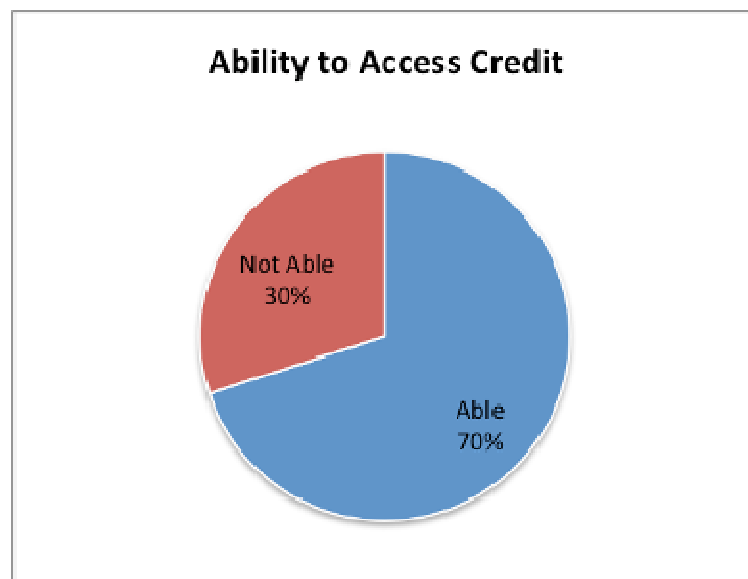
363 **4.11 Credit Accessibility By Customers**

364 From the data gathered, it was realized that thirty five (35) out of the fifty (50) customers had
 365 access to loans. The remaining fifteen (15) could not get access to the loans.

366 Fig. 4.3 clearly shows that 70% of the total customers who applied for loans, had access to the
 367 loans and 30% were not granted the loan.

368 This means that a greater proportion of customers that requested for loans had access to it
 369 whereas smaller proportion of the customers who applied for the loans were not granted.
 370 According to the responses, the customers who did not get access to the loan could not meet the
 371 credit requirements of the Bank whilst those who were granted met the requirements by the bank.

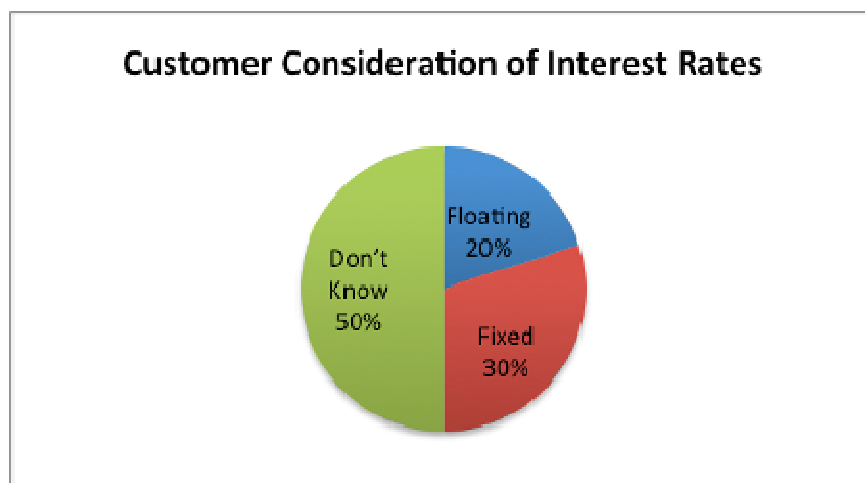
372 **Fig. 4.3 Ability to Access Credit By Customers**



374 **4. 12 Customers Knowledge of Interest Rates**

375 The Fig. 4.4 below illustrates that 50% of the customers who applied for loans do not know or
 376 care to know whether the bank charges interest on their loans using the fixed rate or the floating
 377 rate. 20% of them were aware that the bank uses floating rate and 30% were also aware that the
 378 bank uses the fixed rate. Most of the customers do not know how the interest on their loan is
 379 calculated.

385 Fig. 4.4 Customer Knowledge of Interest Rates



387 4. 13 Risk Assessment of Loans By Customers

388 After assessing the results from different customers as to whether they assess risk before taking
 389 loans, the study came to a conclusion that many of the respondents do not consider and assess
 390 risk before making application for loans. Customers rather think that loan risk assessment is a
 391 sole responsibility of the bank and hence the bank must put in place measures to ensure that
 392 customers payback their debt.

393 From fig. 4.5 below, it is clear that majority of these customers do not assess any risk associated
 394 with the loans before making the applications. Basically, their motive was to get the loan as
 395 quick as possible to finance their business.

396 **Fig. 4.5 Risk Assessment by Customers**



5.0 CONCLUSION AND RECOMMENDATION

5.1 Conclusion

From the results and analysis on the management of credit risk in Agricultural Development Bank Limited (Ho Branch), several issues came to light.

It has been observed that the bank's objectives of managing credit risk have been mostly achieved. This is due to the mechanisms put in place by the bank's risk management department in enhancing the management of credit risk.

It was again found out that, the categories of customers that benefit from the credit include business customers, individual salaried workers and those in the agricultural sector.

408 It also came to light that interest rate risk affects the banks most especially in granting
 409 commercial loans on which the bank uses the floating rate in charging interest. This means that
 410 anytime there is a change (fall) in interest rate caused by government's policies it affects the
 411 loans given to the customers greatly but in the case of Agricultural loans where interest rate is
 412 fixed, the interest rate risk does not affect the loans greatly (Agricultural) when there is a change
 413 (fall) in government interest rates.

414 In addition, it has been realized that most of the customers who applied for loans do not know
 415 how the interest calculation frequency is applied, whether daily/weekly/monthly/quarterly/semi-
 416 annually or yearly.

417 Moreover, it has been gathered that Agricultural Development Bank Limited customers' rate of
 418 loan repayment is encouraging and effective. This is based on the fact that, the measures adopted
 419 by the management of Agricultural Development Bank Limited in reducing credit risk, makes it
 420 possible for the bank to retrieve its loans from its customers.

421 Finally, we found out from the study that there is no risk associated with the taking of securities
 422 by the bank before granting loans. This is because securities such as savings account, treasury
 423 bills, current accounts, deposits accounts and others, used as a collateral by the customers to
 424 obtain the loans, makes it possible for the bank to retrieve its monies from the customers should
 425 there be a default.

426 It was ascertained that failure to pay back loans advanced to customers is the major problem
 427 confronting financial institutions (Agricultural Development Bank). The study has generally
 428 observed that Agricultural Development Bank has the capacity in all respect to administer credit
 429 risk management very efficiently. The bank therefore has a future ahead for the improvement on

430 its credit facilities. The Bank in its monitoring activities has help businesses to improve through
431 their technical support services.

432 The main conclusion drawn from the study was based on the perception of the bank officials
433 concerning credit, interest and loan repayment. Although customers pay their loans on schedule
434 irrespective of the amount of interest, this should not be taken for granted but controls and
435 consistent monitoring should continue since future changes in economic factors could lead to
436 non-repayment of credit.

437 The research was basically undertaken on the management of credit risk in financial institutions
438 and it has been revealed by the bank's risk department (Agricultural Development Bank) that the
439 management of credit risk has been beneficial to the bank.

440 It must however be emphasized that in spite of the advantages associated with the management
441 of credit risk, it still has setbacks/shortfalls.

442 **5.2 Recommendations**

443 There should be a platform where customers of the bank will be educated on the amount of
444 capital the company loses when they fail to payback their loans. No financial institution can
445 survive without adequate financial surplus, as such interest payment and principal repayments
446 will help boost the bank's financial position.

447 Also, as to whether the interest is calculated using simple interest or compound interest should be
448 communicated clearly to the customers. This creates awareness and reduces doubt on the amount
449 accrued on the loans to the customers, so that they will not feel reluctant in paying back their
450 loans on the grounds that they do not know how the interest is accrued on the loans.

Furthermore, the study recommends that customers, who acquire loans with their pension payments as securities without having an account with the bank, should be made to open accounts with the bank. This (Bank Account) should be used as the basic securities and the pension payment used as supplementary security to obtain the loans. This will facilitate the retrieval of the loans from these customers quickly, since the loan will be deducted from two sources.

Finally, the study recommends that the bank should put in place measures that will facilitate the processing of loans in time to customers who applied for loans. This is because some customers may need the loans to run some seasonal businesses and should the loans be given to them at the time the season is almost over, they may not yield their expected profit and may even incur losses. This will make it impossible for them to pay back their loans as expected in time or default completely.

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