

Determinants of Credit Risk: The Case of Selected Commercial Banks in Ethiopia

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Abstract— Risk assessment is the careful analysis and evaluation of the diverse factors that can bring risks. Risk assessment provides the banks an opportunity to determine the vulnerabilities and risk associated with a banking system. The aim of this study is to assess determinants of credit risk in selected commercial banks in Ethiopia. To this end, secondary data from ten commercial banks over the period 2010 to 2017 were collected from the audited financial statement of the selected banks available in the National Bank of Ethiopia. The assumption tests were made and indicate the fitness of data for further tests and also the post estimation tests recommend pooled ordinary least square for the regression analysis. The result indicated that predictor variables like efficiency ratio, return on equity and bank size have statistically significant positive effects on the dependent variable (credit risk). In addition, the study showed that capital adequacy had statistically significant negative effect in predicting the dependent variable, credit risk. However, predictor variables like return on asset, leverage and loan to deposit ratio didn't make any statistically significant effect on credit risk. Finally, it was recommended that, commercial banks in Ethiopia are advised to become more effective, in management to use funds contributed by shareholders, in spending sufficient resources on analyzing loan application, introduction of modern risk management technology, that are believed to improve the effectiveness of commercial banks in Ethiopia.

Index Terms— Ethiopia, commercial banks, credit risk, bank specific factors.

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