# Evaluation Strategies of Credit Risk Used by Commercial Banks Listed in Palestine Stock Exchange (PSE)

**By**

**Radwan Mahmoud Abumwais**

**Supervisor**

**Dr. Sharif Abu Karsh**

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This thesis was successfully defended on ---------------- and approved by:

| **Committee members**: | | **Signature** |
|---|---|---|
| Dr. Sharif Abu Karsh | Supervisor | |
| Dr.Hisham Awartani | External Examiner | |
| Prof.Suleiman Abbadi | Internal Examiner | |

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TO

Father and Mother

For your never-ending inspiration, support and prayers

Brothers and Sisters

For your encouragement, understanding and support

Wife

For your inspiration and encouragement

Family and Friends

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## ABSTRACT


**Evaluation Strategies of Credit Risk Used by Commercial Banks Listed in Palestine securities Exchange (PSE)**

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This thesis explains the "evaluation of the credit risk strategies used by commercial banks listed on the Palestine Securities Exchange" through the methods used by banks in assessing customers' credit requests, whether banks differ in the use of these methods and whether they differentiate between customers in using these Methods. The questionnaire was designed to suit the objectives of the thesis. Twenty-one questionnaires were distributed to commercial banks in the credit facilities and loans department. These are: National Bank, Palestine Investment Bank, Bank of Palestine, and Al Quds Bank. We excluded Palestinian Islamic bank and Arab Islamic bank, because of the different nature of the work of loans in Islamic banks compared with commercial banks in terms of : Murabaha , Musharka, it adopts laws in line with Islamic rules . The following statistical tools were used: average percentage, Ranking and Chi square. It was found that all commercial banks in Palestine use the above methods of evaluation, as they place more emphasis on 5C’s, LAPP method, past experience, 5P’s and financial analysis respectively. It was also found that natural persons and NGOs were treated in the same way by banks in assessing their credit applications; however, they differed in the treatment of business firms. The researcher recommends the following: first, more systematic and efficient analytical procedures are used for assessing the three risk categories according to the nature of transaction, cause and effect. Second, establishing an industry-wide institute for conducting economic studies relative to each financial intermediaries with data bank for their information system.

# TABLE OF CONTENTS

# LIST OF TABLES

# LIST OF FIGURES

# CHAPTER I
# THE PROPLEM AND its BACKGROUND

## Introduction

Risk is an everyday thing to every person, business cannot operate in a free society without taking risk. Generally risk has to do with the uncertainty of losing, or not gaining, something of value. Risk occurs because of the variation in outcomes or results. Insurance emphasizes the variable results of financial losses. Uncertainty rather than predict ability, not knowing rather than knowing.

Uncertainty cannot be entirely eliminated and wherever there is uncertainty there is risk. As Peter F. Drucker put it:[1] “To try to eliminate risk in business enterprise is futile, risk is inherent to commitment of present resources to future expectation. Indeed, economic progress can be defined as the ability to take greater risks. The attempt to eliminate risks even the attempt to minimize them can only make them irrational and unbearable. It can only result in that greatest risks of all: rigidity."

There are many definitions of risk and the most common is that “risk is uncertainty or chance of loss, and management is the rational handling of a situation by planning, organizing, coordinating, implementing and monitoring." Therefore, risk management is a rational handling of risk in order to protect present and future assets of a business enterprise.

Credit results in grouping the risks into three main categories, according to transaction, cause and effect. Risk by transaction is the exchange rate risk associated with the time delay between entering into a contract and settling it. The greater the time differential

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**[1] Peter F.Drucker. , Management Tasks, Responsibilities, practices. , P.433.**

between the entrance and settlement of the contract, the greater the transaction risk, because there is more time for the two exchange rates to fluctuate such as lending risk, trading risk, underwriting risk, asset liability risk . Risk by cause which caused by several factors such as credit risk, market risk, performance risk, interest rate risk , while risk by effect results to undesirable situations which puts the company's resources, operations, employees' morale and the people the conduct business with at stake such as capital risk, income risk, opportunity risk, legal liability risk.

The financial intermediary has always been aware of risk, it has been an essential ingredient of their business. The provision, safe keeping, transmission and exchange of value has always involved risk of a variety of kinds. The task has been to manage such risks. The financial intermediary has learned to cope implicit with risk by product management and controls and by establishing sound arrangements with other financial intermediaries all of this taking place under regulatory and other structures designed to ensure the soundness and integrity of the overall financial system as well as providing protection to Consumers of financial services and investors.[2]

The growing awareness that in the modern business world the risks have reached levels where formal systems of management and control are essential. Deregulation is allowing into financial markets a wide range of institutions with little prior involvement in such activities mergers and acquisition are giving rise to large group structures in which traditional banking competence has to work alongside other traditions.

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**[2] Dimitris N. Chorafas. , Risks management in Financial Institution Printer. , (Worcester: Billings Book Plan., 1990), P. XI.**

The development of worldwide trading all kinds, consequent upon developments in computer, electronics and communication technology provide a means of risk management but also creates the possibility of certain risks.[3]

The basic objective of credit management is to increase profitable sales and hence to add value to the firm by extending credit to worthy customers. At the heart of the financial system, is a credit system in which financial institutes and intermediaries make decisions about the credit worthiness of the borrowers.[4]

Deciding whether to grant or deny credit must be made on each order received. If the decision is an affirmative one the next step is the determination of the amount of credit to extend, the evaluation, and the establishment and monitoring of credit lines.

Nearly all business today are transacted on credit, it is the life blood of industry and reaches into the daily life of every human being as well.

The entire credit system is based on confidence and good judgment but there must be certainty as to whether a customer is acting in good faith and not over estimating his future ability to pay.

Two fundamental questions regarding Credit worthiness, are therefore: CAN HE

PAY? AND WILL HE PAY?

The financial system is widespread. Its various institutions touch the lives of people all over the world, all individuals and business organizations in a civilized society and market economy are directly involved in the operations of the financial system.

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**[3] Ibid. p. XI.**

**[4] Joseph F. Sankey, Jr. Commercial Bank Financial Management , (Macmillan Publishing Company , a division of Macmillan , Inc. . , 3rd ed . , 1989 ) , p . 491.**

## Conceptual Framework

The financial system in a modern economy is more sophisticated as it has a vast network of various institution with modern facilities. Its operations cover all commercial and industrial centers of the world. Its policies and programs play a major role in the social and economic development of the region concerned. In fact, the financial centers of the world like New York, London, Singapore and Hong Kong are all prosperous places.[5]

Financial intermediaries help capital find its way into those channels in which capital has the best chance of being profitably employed, in the capital's investment for enhanced both by the presence and direction given by those who possess entrepreneurial skills in the use of desired resource. Adequate capital fund energize investments for profitable and socially desirable projects.

Just as marketing requires intermediaries to match procedures and demanders, the financial system needs intermediaries to put together those who have funds and those who require funds. The relationships among the suppliers and requires of funds and financial intermediaries is shown in figure 1:

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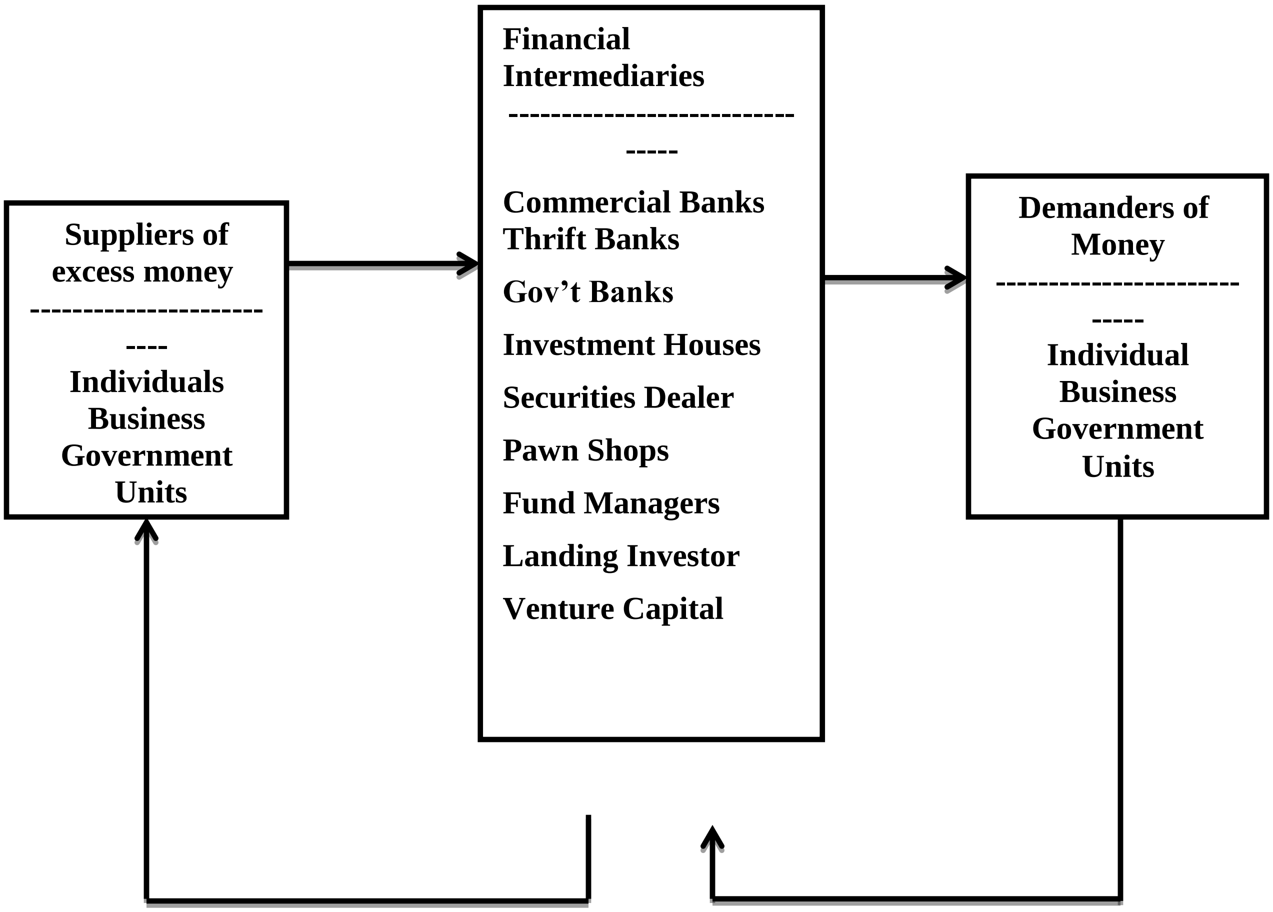
**[5] Feliciano R. Fajardo and Manuel M. Manansala , Money Credit and Banking , Published by National Book Store , Inc. . 4th ed. 1993), P. 16.**

**Figure 1. How Financial Intermediaries Work**
Adapted from the book of Barry Reece and James O'Grady.




Financial intermediaries play a vital role in the economy by channeling funds from surplus to deficit spending units in the process; They issue securities to their owners and creditors in exchange for funds, the funds they require are " repackaged " and provided to other economic unites. For providing this service, the financial intermediaries charge a fee in the hope of making a profit.

In the recent days, there is a big gap between the rich and the poor and many individuals either invest on their business or lend individuals or business organization.[6]

Dealing with financial intermediaries creates several favorable effects in the economy, surplus money put by people in the bank can be lent out to individuals without financial capital but with business inclinations, which then become tools of production that will create more employment, income activities together with their linkage effects, stimulate further economic growth for the whole economy.

When banks fail it is almost always because of bad loans, whereas interest-rate risk has both an upside and a down side effect, credit risk is all ways down side effect. The best that can happen is that the loan is repaid with interest, as agreed. The worst that can happen is a total loss of both interest and principal. There are several things a bank can do to protect itself against credit risk, it can be careful in making loans and can diversify. Bank failures are usually the result of reckless lending, a lack of diversification or both.[7]

The Palestine financial system has gone a long way from the time that the first organized credit institutions were established in the latter part of the 20th century. Present-day Palestine financial system can be classified into either a Banking, Non-Bank financial Intermediary (NBFI), or a Non-Bank Thrift Institution (NBTI). Of the three, it is the banking institution which accounts for the most number of offices as well as financial resources of the country.

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**[6] Feliciano R. Fajardo , Manuel M Manansla and Emilio C. Actarez, Financial institution ( Metro Manila : National Book Stores , Inc . 1991), p 3-5.**
**[7] Sinkey, Op. cit., P. 300.**

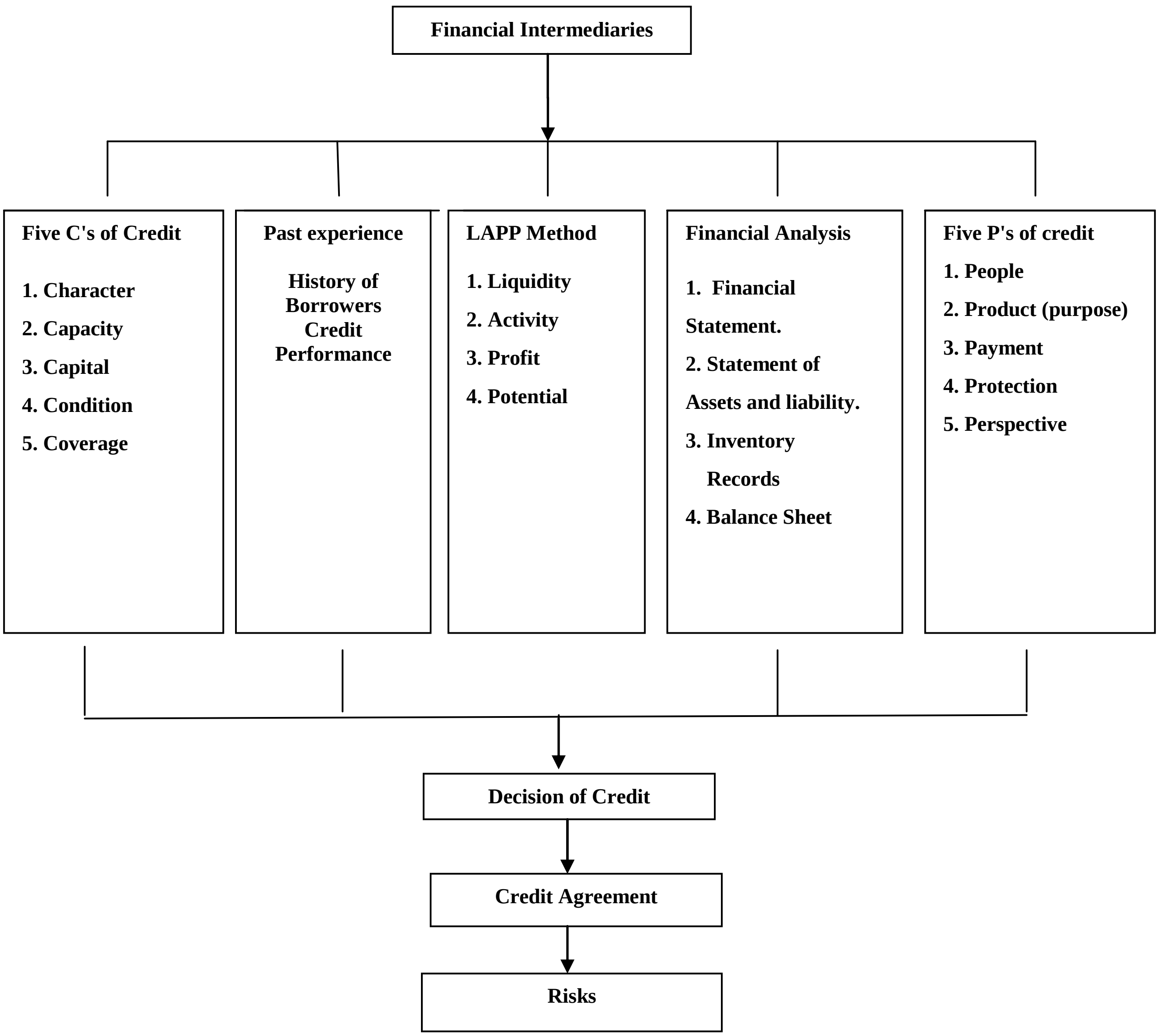
The financial intermediaries use various credit evaluation methods and criteria. While these are not mutually exclusive they tent to complement and reinforce each other that the subjectivities of one is strengthened by the objectivity of the other. Among these are:

1. Evaluation Based on the Five C’s of Credit: Can he pay? Will he pay?

   1) Character = Intensity of customer's will to pay.
   2) Capacity or Capability = Customer's ability to conduct his business successfully.
   3) Capital = Extent and from of his wealth which may be regarded as insuring payment.
   4) Condition = Extent to which may be aided or hindered by external influences.
   5) Coverage = Collateral which may be obtained to secure the credit if require.

## Figure 2. The Paradigm of the study

### The Paradigm of the study
### Various Credit Risk Evaluation Techniques and Criteria



2. Evaluation Based on the LAPP Method ( Liquidity, Activity, Profitability, Potential ) that Appraised Business Health :

   1) Liquidity = The liquidity of a company refers to the ability to meet its current obligations as they are due.

      a. Current Ratio = Current Assets / Current Liabilities

      b. Quick Ratio = Current Assets - Inventories / Current Liabilities

      c. Working Capital = Current assets – Current Liabilities

   2) Activity= more sales require more funds through either debt or equity financing.

      a. Receivables Turnover = Sales / Receivables

      b. Inventory Turnover = Sales / Inventory

      c. Total Asset Turnover = Sales / Total Assets

   3) Profitability = The adequacy of profits underlies the entire financial structure of a firm .

      a. Return on Assets (Investment) = Net Income /Total Assets

      b. Profit Margin = Net Income / Sales .

      c. Return on Equity = Net Income / Stockholders Equity

   4) Potential: The potential of a company lies in the future, examine the management ability; human resources, financial resources. Financial resources.

3. Evaluation Based on the 5 Ps of Credit :

   1) People : Assess :

a. Business evaluation : background , experience , age principles, management ability, insurance coverage.

b. Management ability and effectiveness : company performance, return on capital and return on total assets.

c. Financial reporting : function of management, control assets valuation – liberal or conservative, disclosure, good accounting.

d. Willingness and ability to pay, reputation in industry, payment performance, company finances.

2) Product Purpose

a. Profitability - risk and return

b. Quantity

c. Price

d. Availability – credit policy

e. Marketing objectives , share of market

f. Replace other creditors.

3) Payment ( source , timing and probability )

a. Asset Conversion –according B/S , A/R and inventory.

b. Cash flow.

4) Protection

a) Internal, according to the B/ S, leverage & liquidity or, by collateral.

b) External, by guarantees, endorsements.

5) Perspective is this company an attractive long range customer ?

4. Evaluation Based on Past Experience:

It is a good tool in measuring the history of a borrower's credit performance,

" past Experience " manifests the belief that what transpired the first time, may likely occur the second third or 7$^{th}$ time. It would not be good to extend a new credit to a borrower who had been delinquent the first he was granted a loan .

5. Evaluation Based on Financial Analysis :

These technique calls for a thorough analysis of records and documentation relative to business operations like financial statements of assets and liabilities, financial ratios, inventory records balance Sheets. Principal risk it is the principal part of the finance business where risk is most prevalent, and where the attention of risk managers is most often focused. It is certainly true that engaging in principal transactions is essentially engaging in risk business, and that is true whether the transaction is a lending one or a trading one.

## Statement of the Problem

Financial intermediaries serve an important role in the commercial activity of a country and more often serve as strong indicators of its economic development. Considering the indicators of credit in facilitating the business transactions , this study aims to look into how the Commercial Banks Listed in Palestine Stock Exchange (PSE) assess the credit worthiness of their borrowing clients and the risks that they assume.

In order to accomplish the main objective of this Study, answers to the following specific sub – problems are sought:

1. What are financial intermediaries and how may they be classified?
2. How do the respondent commercial bank assess credit worthiness of their borrowing clients ?
3. In what aspects of the different credit evaluation techniques do subject commercial banks differ ?
4. Are there significant differences in the techniques used by the subject commercial banks in a assessing their clients' credit worthiness when the client are grouped into:
   a. Natural Persons.
   b. Business Organization.
   c. Non – Business Organization.
5. What are the risks associated with the selected commercial banks credit decision and how do they differ in risks assumed ?
6. Are there significant differences in the risk assumed by the subject commercial banks when the risks are classified according to :
   a. Transaction.
   b. Cause.
   c. Effect.

## Null Hypothesis

1. There are no significant differences in the techniques used by the subject financial intermediaries in assessing the client’s credit worthiness as in sub – problem No 4.
2. There are no significant differences in the risk assumed by the subject financial intermediaries when risks are classified according to categories as in sub – problem 6 .

## Significance of the Study

The researcher's interest on this topic is indicated by its usefulness in developing and helping the economy of the new state / government in the Middle East.

The research is also important to the researcher because of its importance to the financial intermediaries of the independent Palestinian state which have to play a vital role in developing the country's economy and encouraging savings and investments among its citizens.

The researcher believes that extending credit is business ,therefore it is more important that it be managed and operated well that its advantages may serve not only a few but the economy as a whole.

The outcome of this study can provide general guidelines to financial intermediaries all over the country which could serve as a reference for developing their own credit Risk evaluation practices. This would in turn assure the positive and productive evolution of such financial intermediaries as its primary contribution to the development of the social and economic conditions of the country.

To the borrowers for them to know the existent financial intermediaries credit and loan policies and practices which could serve beneficial to them as prospective borrowers. Results could further provide a clearer idea which may serve as additional information for a wider intermediaries options.

## Scope and limitations of the Study

The study centered on the credit risk evaluation practices of the Commercial Banks Listed in Palestine Securities Exchange (PEX) as of June, 31, 2017 in Palestine each of the selected financial intermediaries authorized by Palestine Monetary Authority (PMA) and listed by the Palestine securities Exchange (PEX).

This study aims to look into how the commercial banks assess the credit worthiness of their borrowing clients and the factors they consider when they assume risks. The following Table shows the Commercial Banks Listed in Palestine Securities Exchange (PEX).

**TABLE 1**
**Types of Financial Intermediaries[8]**

| **Institutions of the Palestinian banking system**<br>**Palestinian monetary authority** | | | |
|---|---|---|---|
| **1-Local banks** | No. of branches (B) / Companies (C) | **2-Foreign banks** | No. of branches (B) / institutions (I) |
| Bank of Palestine | **17 B** | Cairo Amman bank | **22 B** |
| National bank of Palestine | **10 B** | Arabic bank | **27 B** |
| Palestinian investment bank | **14 B** | Jordan bank | **30 B** |
| Arabic Islamic bank | **11 B** | Egyptian Arab land bank | **7 B** |
| Palestinian Islamic bank | **18 B** | Jordanian commercial bank | **5 B** |
| Al-Quds bank | **23 B** | National bank of Jordan | **6 B** |
| AL-Safa bank | **1 B** | Housing bank for trade and finance | **13 B** |
| | | Jordan Kuwait bank | **3 B** |
| **3-Exchange companies** | **257 C** | **4-Speciallized lending institutions** | **6 I** |

In addition there are 6 specialized credit (Lending) institutions: Asala development & lending institution, Palestine company for lending & development “faten”, Akad finance and development company, Fetas company, Palestine innovation company for microfinance, Reef for microfinance.

And there are 257 money changes companies lies in different cities of west Bank and Gaza.

**[8] Palestine Monetary Authority. ‘’ The Palestine…’’ PMA > Home. http://www.PMA.Ps/.**

## Definition of Terms

In order to have a common basis of reading and understanding of the text, the following important terms are defined and facilitated to the extent of their usage in this study.

Artificial Client - This refers to partnership, corporation and others.

Business Credit - It is part of financial institution activities that Extend credit to business firms for their various business activities.

Business risk - The risk or uncertainty associated with a firm's projections of its future returns on assets, or returns on equity (ROE) if the firm uses no debt.[9]

Credit - It is the ability of a business or individual to obtain money, services or property and to defer repayment because the lender makes a favorable appraisal of the debtor's ability to repay.

Credit Analyst - A person who evaluates and analyzes all the data relative to the credit application.

Credit Risk - risk that a borrower will not pay a loan as called for in the original loan agreement and may eventually default on the obligation and it is one of the Primary risks in bank lending.[10]

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**[9] J. Fred Weston. , Eugena F. Brigham. , Essential of Managerial Finance. , ( The Dryden Press . , 10th ed . , 1993 ) , P . 624.**

**[10] Fitch Thomas P., Dictionary of Banking Terms. , (New York : Barron's educational series , Inc. . , 2ed. , 1993 ) . P.**

Finance Companies - are a major competitor of commercial banks in providing credit services (loans) to households and business firms. The major sources of funds for finance companies are bank loans, commercial paper, long – term debt (bonds), and equity capital (Internal and external).[11]

Financial Management - refers specifically to how funds are being handled and utilized effectively to achieve an organization's goals there are two distinct types of financial decision : Financing decision ( How should the firm obtain funds ?) and investment decision (How should the fund be used ? ) to make good decisions , manager must understand the firm's financial considerations, perspective ,and goals.[12]

Financial Risk - the portion of stockholder's risk over and above basic business risk resulting from the use of financial leverage.[13]

Financial Leverage - the extent to which fixed income securities (debt and preferred stock) are used in a firm's capital structure.[14]

Natural Client - represent individual, sole – proprietor – ship.

Risk – is the possibility of suffering an injury or loss, it is the direct result of uncertainty; the fact that in many cases we cannot know what the future holds.

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**[11] Sinkey, op. Cit, pp. 111 – 1222.**
**[12] Burton A Kalb and Richard F. Demong , Principles of Financial Management , 2nd edition , business publications , Inc. , p . 5, 1988.**
**[13] Weston, Brigham, op.. , P. 626.**
**[14] Ibid. P. 626. [14] Steven J. Skinner & John M. Ivancevich. , Business for 21 Century. , ( New York : Irwin , Inc. . 2nd ed . , 1990 ) , P . 707.**

# CHAPTER II

# REVIEW OF RELATED LITERATURE AND STUDIES

This chapter summarizes the pertinent contemporary literatures and studies both old and recent vantage which the researcher found in international abstract and graduate school libraries in the Palestine.

These materials facilitated research thrusts, and construction of the questionnaire. But none of them is identical with this study nor this study a replication of any of them.

## Foreign Literature

Bass in his book entitled “Credit Management “emphasized on the reasons why account is outstanding. The author mentioned three reasons why the account is outstanding. These are: inefficiency, dissatisfaction and deliberate policy.[15]

Inefficiency: which may be due to shortage of staff or due to organizational structure. Sometimes the real reason is not known

Until persistent probing from a supplier unearths a fault in the system no one had noticed. Bass further stated that inefficiency may be remedied by the credit managers reviewing the invoice – approval procedure , by conducting " administrative visits , " that is meeting the clerk responsible for handling goods received notes and finally , by deciding whether to live with it or to take a tough line of action . The writer, however, warned that this should be handled with care so as to retain goodwill rather than to insist on immediate action.

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[15] **Richard M. V Bass , "Credit Management" ( London Business Book Ltd . , 1979 ).**

<u>Dissatisfaction</u>: An account remains outstanding due to customer dissatisfaction a customer may be dissatisfied due to a legitimate complaint which brought to the notice of the company but remained unresolved. A customer may withhold payment because of increase in price or shortage in supply of his goods to avoid customer dissatisfaction, Bass suggest that a joint visit with the salesman. He however, points out that if it is impossible, the next line of action would be to identify and isolate the amount in dispute and to persuade the customer to pay everything else.

The author further states that sometimes the customer is slow in paying because the supplies had been delivering ahead of schedule. The customer may instead store the goods and instructed the account department not to pay until the due date assuming correct delivery. In a matter of this nature, the author advocates a credit man's visit to settle the differences.

<u>Deliberate Policy</u>: This is a situation where some companies indulge in the practice of taking as much credit as they can get away with, without any control. The ultimate result is that the company will run out of working capital, and will resort to give flimsy excuses to the creditor. The author advises that the credit manager must be careful and must be able to see through these attempts to hide the fact that his company is being used to provide free working capital.

In the Book of Benz entitled "International Trade Credit Management"[16], he emphasized on the various credit evaluation methods and criteria in use. These are, the five C ' S of

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**[16] G. V. Benz , International Trade Credit Management , ( Great Britain ) by Gower Press Limited , 1975 , pp . 57 – 63.**

credit the LAPP method, customers history and impression and the five P's of credit. The highlight of each technique are the following:

a) Evaluation Based on the Five C's of credit: Can He Pay? Will He Pay?

b) Evaluation Based on the LAPP Method.

c) Evaluation Based on Financial Analysis.

d) Evaluation Based on Customer History and Impression.

e) Evaluation Based on 5 P's of Credit.

He recommends that all Evaluation methods above are important in line with the Borrower, and there is scope to merge them if necessary.

Their importance is different for banks according to the acceptance of the loan and the terms used in it. So it depends on the lender and how treats borrowers of all kinds.

Sinkey[17] wrote on Credit Risks and Determining Credit worthiness and give the meaning of credit management as follow: (1) character (good citizen), (2) capacity (Cash flow), (3) capital (wealth), (4) collateral (security), and (5) conditions (economic, especially downside vulnerability). He stated that the five C's may be used whether the borrower is applying for consumer or commercial (that is business) credit or for trade credit (the sale or services on the promise of payment in the future) or debt financing, the lending of money at interest. He further stated that the banker's problem is to attempt to quantify these five Cs so that meaningful and consistent decisions can be made regarding borrowers' credit worthiness .This procedure is called credit analysis. Which aims to determine a borrower's credit risk and whether or not a loan should be made.

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[17] **Sinkey, op. Cit, pp. 495 – 497.**

In the final analysis the author pointed out that willingness to pay is difficult to quantify and judge to the extent that experienced bank loan officers qualify as quasi – psychologists they may be good judges of a borrower's character based upon personal contact.

Economic and Financial Characteristics, of the debtors are established by analyzing a borrower's capacity (cash flow), capital (wealth), and collateral (security). These characteristics can be measured from the borrower's financial statements, preferably audited ones. Since financial statements are subject to “window dressing " or " puffing " , it is important to know that they are accurate and reliable . A borrower's capacity can be measured by evaluating the individual statement of assets and liabilities on the credit application. In the case of business by review and analyze financial statement and historical trends and try to project historical performance , in general it can be measured by take – home pay , after tax profit , or cash flow ; Capital can be measured by the borrower's net – worth position the amount by which assets exceed obligations , it also means the financial resources that a borrower has available to assure the lender that credit is secure ; and Collateral can be evaluated by the quality of the assets the borrower is willing to place as security for a loan . Other things equal a borrower's credit worthiness is directly related to these three financial characteristics, and Conditions, which refers to the current economic condition is designed to measure a borrower's vulnerability to an economic downturn or credit crunch, the conditions factor can be viewed as involving a worst case scenario of a borrower's ability to pay.

The writer further pointed that the economic environment is influenced by such factors as recession, high product rate, cost low productivity, and lack of demand, high interest rate, depreciation, and seasonal business fluctuations. These factors definitely will result to a serious cash flow problems on the part of the debtors.

Sources of Loan Repayment: Cash flow: In the book of Sinkey[18] he stated that a borrower has only three sources of loan repayment: (1) cash flow, (2) asset liquidation, or (3) another source of financing. Commercial bankers traditionally have been cash – flow lenders, which explains the banker's penchant for watching cash flow. Over the long haul, accrued profits, adjusted for dividends and capital investments, tend to equal net cash flow. However over the short run (one year), accounting profits and cash flow are rarely equal.

The author further stated that the bankers, as cash – flow lenders, need to know something about the concept and measurement of cash flow, especially since cash flow problems are the most common cause of business failures.

In the same book of Sinkey he mentioned that in a classic study of bankruptcy in 1967, Beaver found that the ratio of cash flow to total debt was very good predictor of impending failure.

He pointed out that cash flow (net) is the difference between cash inflow in dollars received and cash outflow or dollars paid out. He also stated that most introductory finance text books define cash Flow in an “add – back “fashion I. e. profits plus non cash outlays with depreciation as the major non cash outlay, or item to be added back. However, since there is no uniformly accepted way of calculating cash flow the methods used by lenders do vary.

**[18] Sinkey, op. cit., pp. 496 – 497.**

According to the book of Sinkey , O 'Glove in his 1987 study he regard management of accounts receivable and inventories as critical to a firm 's success , this definition of cash flow has some merit , clearly , large increase in these accounts reduce a firm's cash flow is important . He further illustrate that a cash flow dominated by an increase in accounts payable (say because of slow bill paying) is not a desirable situation.

The usefulness of Accounting Ratios to Loan Officers: Sinkey[19] described in his book the 1975 experiment of Libby which aimed to determine whether accounting ratios provide useful information to loan officers trying to predict business failures. Using a set of five variables, commercial bank loan officers were asked to analyze the ratios and then to predict either “failure” or “non-failure “. Libby judged the usefulness of the accounting information on the basis of the accuracy of the loan officer ' predictions.

Libby's experiment began the experiment with (14) fourteen ratios computed for one of the three years prior to failure (chosen at random), resulting in an equal number of firms for each of the three years before failure (10 failed and 10 none failed). Using statistical technique called principal components, Libby identified five independent sources of variation within the fourteen variable set, he come out with the five dimensions and the five ratios which are:

| Dimension | Ratio |
|---|---|
| 1. Profitability | Net Income / Total Assets |
| 2. Activity | Current Assets / Sales |
| 3. Liquidity | Current Assets / Current Liability |
| 4. Asset balance | Current Assets / Total Assets |
| 5. Cash Position | Cash / Total Assets |

[19] **Sinkey, op. Cit, pp. 498 – 499.**

Libby found out that the loan officers' predictive accuracy was superior to random assignment and concluded that the ratio information was utilized correctly by the loan officers. Libby also concluded that his set of five accounting ratios permitted bankers with diverse background to make accurate predictions of business failures.

In the final analysis the author concluded that the ratios and cash flow derived from the financial statements provide the nuts and bolts for credit analysis and the potential inputs for classification models designed to identify risky borrowers.

## Foreign Studies

Hinsch Scott Johnson, Jr. [20] in his 1990 study entitled "Analyzing the commercial credit risks of the 1990s " , asserted that when commercial banks entered the 1990s , they left behind almost unusual paradox from the 1980s , period of record peacetime economic expansion and an all – time high number of commercial banks failures . He stated that studies into this phenomena indicated the primary characteristic of the failed banks was the poor management of the loan portfolio.

He identified and analyzed five external risks commercial loan credit risks which the U. S banks faced in the 1990s. External risks are risks beyond the control of these external risks are the future performance of a country and world economic, commercial real estate environmental issues, leveraged buy outs and bankruptcy.

**[20] Hinsch Scott JonstonJr. " Analyzing the Commercial Credit Risks of the 1990s ' : unpublished masters " thesis . The Stonier Graduate School of Banking Masters' Abstracts International. Volume 30 No. 1 1992.**

Power[21] in her 1990 study entitled "The five "C's" of lender liability avoidance" explained that commercial banks today face a variety of loan related risks , including the risks of being involved in a lender liability action . She analyzed some of the trends emerging from the court system in lender liability cases, and summarized some of the managerial implications of recent court decisions.

According to her areas of potential lender liability risks are; (1) liability from negligent processing of loan applications , (2) liability for failure to negotiate in good faith, (3) liability for failure to lend without just cause, (4) liability for aiding and abetting borrower in violation of securities law, (5) liability for negligence in administration of a loan, (6) liability for exercising undue influence over a borrowers business , (7) liability for improper acceleration of fore closure , (8) liability for supplying information about customer credit worthiness.

In a 1992 study entitled " Back to basics: Fundamental loan principles and the commercial lending practice " Scott[22] stated that throughout modern banking history, banks have experienced periods of deteriorating credit quality, or national recessions. In fact, the study showed many banks, while others failed during healthy times with record number of banks which failed 1980s' experts from many disciplines lectured for a return to basics or principles.

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**[21] Price Patricia Power. "The Five "C ' s" of Lender Liability avoidance , unpublished Master's thesis The stonier Graduate school of Banking. Master Abstracts International. Volume 29, November 2, 1992.**

**[22] Caneron , Randy Scott , " Back to Basics : Fundamental Loan Principles and the commercial lending Practice " unpublished Master thesis . The Stonier Graduate School of Banking , Master 's Abstracts International . Volume 31.**

These basic loan principles are timeless, what causes bankers to lose perspective is the internal pressures and external influences upon them. These factors cause changing interpretation of the principles and varying practices within lending. An understanding of the ways external pressures can influence the credit process, aid bankers in following sound principles.

Raymond[23] found in his 1991 study that commercial lenders ' use of accounting information depends on the credibility of the borrowing firms' management, referred to as capacity in the banking industry. He hypothesized that positive accounting information affects lender's judgments and loan decisions more favorably when accompanied by positive signals of character (supporting loan approval ) than when combined with negative character signals (supporting loan denial).

Further he stated that this accounting / character interaction is predicted to be smaller for novice lenders than experts, owing to the novices ' lack of experience in assessing character. Experts are expected to recall more total facts in a hypothetical loan application than novices, especially when accounting and character facts are inconsistent, supporting different loan decision.

Fan Li[24] stated in his M.A thesis that Banks today are the largest financial institutions around the world, with branches and subsidiaries throughout everyone’s life. However, commercial banks are facing risks when they are operating. Credit risk is one of the most

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**[23] Beaulieu Philip Raymond, "Commercial Lender's use of accounting information : The Effects of Character Information and Experience", unpublished doctors dissertation, University of Washington, Dissertation Abstracts International Volume, 52 number 11, 1992.**

**[24] Fan Li, Yijun Zou, ‘’ The Impact of Credit Risk Management on Profitability of Commercial Banks’’, Student Umeå School of Business and Economics Spring Semester 2014.**

significant risks that banks face, considering that granting credit is one of the main sources of income in commercial banks. Therefore, the management of the risk related to that credit affects the profitability of the banks.

The aim of the research is to provide stakeholders with accurate information regarding the credit risk management of commercial banks with its impact on profitability.

The main purpose of his research is to investigate if there is a relationship between credit risk management and profitability of commercial banks in Europe. The research collects data from the largest 47 commercial banks in Europe from 2007 to 2012 and formulates four hypotheses which are related to the research question. A series of statistical tests are performed in order to test if the relationship exists. Other statistical tests are performed to investigate if the relationship is stable or not.

In an experiment, lenders read a loan application recommended approval or denial of the loan, and estimated the likelihood that the loan would be fully repaid. Later, they were asked to recall accounting facts (which were either positive or negative), character facts (positive or negative), and other facts in the loan application.

In the final analysis Beaulieu found out that interactive effects of accounting and character information on experts ' loan decision and risk estimates were found , although these effects were not significantly different for novices . One notable difference was that experts never approved loan when accounting facts were negative while novices sometimes did. The recall hypotheses were not supported. However , post – tests of recall of character facts , suggested by subjects ' reactions to negative accounting information , indicated that expert reduce on cease processing character information whenever accounting information does not meet a minimum standard of acceptability novices use the same information process strategy regardless of the type of accounting information they receive .

In the Japan credit analysis and project evaluation[25] obtains and analyzes materials, such as fiscal, interviews representatives of application, conducts on – the spot surveys and interviews companies that do business with the applicant. The corporation's multifaceted operational analysis covers industry trends as well as the management, products, manufacturing and sales activities, income expenditures and financial condition of the enterprise. The special aspects of the applicant's business plans are clarified for growth and investigates prospects.

To make a decision in risk situation there are two action involved one action called the "SURE ACTION" is the status quo while the other action called the "RISKY ACTION "has two possible outcomes either a gain or a loss.

If we knew that the gain outcome was going to occur we would select the risk action, if we knew that the loss outcome was going to occur we would select the sure action.

The problem is that we do not know for sure which of these two outcomes will occur, the outcome that occurs depends on an uncertain event for which we have only.

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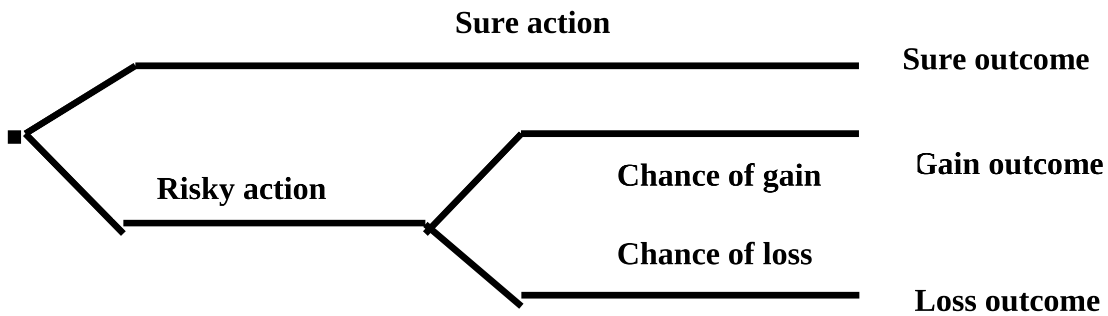
**[25] Seminar in Management of Small Industries for Palestine , outline of Japan Finance Corporation for Small Business , December 1994 , Tokyo , Japan.**

**Figure 3. Basic Risk Paradigm[26]**




Probabilistic knowledge this prototypical risky situation will be called the "BASIC RISK PARADIGM".

To visualize the Basic Risk Paradigm in the form of a decision tree as shown in Figure 3.

Most risky situations will have more alternatives, more uncertain events, and more outcomes, the basic form captures the central elements. The basic risk paradigm provides the foundation for assessing / evaluating risk propensity.

## Local Literature

### Brief History of Palestinian Commercial Bank

Before the occupation of the West Bank in 1967, there were 11 commercial banks in Palestine (8 in the West Bank and 3 in Gaza) with 30 branches of which 26 were the West Bank and only 4 in Gaza. At that time their credit facilities represented 71.4 % of their deposits (ESCWA 1987).

The Israeli authorities used military orders to close all bank branches on the eve of occupying the land (West Bank and Gaza) in 1967. They froze their assets and confiscated the cash in their vaults and transfer them to the Central Bank of Israel. After a

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[26] **Kenneth R. MacCrimmon, Donald A. Wehrug ., Taking Risks, the Management of Uncertainty, (New York : Macmillam, Inc ., 1986 ), P. 12.**

few years, they issued military orders allowing Israeli Banks to open branches in the West Bank and Gaza. Only 4 banks opened with 22 branches distributed in main cities of the occupied area: Bank Leumi 13 branches, BankDiscont, 6 branches; Bank Hapoalim, 2 branches; and Barcklays Bank, 1 branch (ESCWA 1987). They remain alone until 1981, when the Israeli High Court of Justice allowed Bank of Palestine to reopen its closed branches in Gaza. Israeli banks were unable to attract Palestinian deposits, so they were lacking funds, which made them dependent on government money collected from taxes imposed on the Palestinians.

Their roles were limited to transferring money and to paying checks to Palestinians who received their salaries in Israeli Shekel. Israeli banks were unable to provide a financial intermediary function, as very few customers agreed to deposit their money with them, and their loan portfolio was less than 8% of their assets. Most of their facilities were overdraft granted to merchants who had business with Israeli partners. Banks also were facilitating trade of Palestinian merchants who needed to open letters of credit or letters of guarantees to import from Israel. Despite this, these facilities were profitable to those banks, as they were charging three times the fees banks charge in neighboring countries; but due to lack of business very few could make a profits and sometimes losses caused many of them to close their branches. In 1987, due to the Intifada, all of these banks were closed (Harris 1988). There were no banks in Palestine until 1994, except one branch of Cairo-Amman Bank, which was reopened in 1986 in addition to the Bank of Palestine in Gaza. After the Oslo agreement in 1993, the Wadi Araba Agreement between Jordan and Israel and the Paris Accord in 1994, Israeli authorities allowed Jordanian banks to reopen their branches closed in 1967. They also allowed the Palestinians to establish the

Palestine Monetary Authority in 1995 to overview banks and to give licenses to the newly established banks (Abbadi 1997). Since 1995, the PMA has issued several laws and regulations; the most important are the Banking Law, the PMA law and the Money Changers Law. Recently the PMA drafted a Central Bank Law which is awaiting a Presidential decree. Currently three currencies are circulated in Palestine: the US dollar, the Israeli shekel, and the Jordanian dinar. Since its establishment, the PMA has issued several licenses to new banks and allowed banks to open new branches, which made the number of banks to increase from 2 in 1994 to 17 by end of 2012, with over 226 branches and offices, now in 2017 they decrease to 15 banks, with over 206 branches and offices.

In an article by the Bangko Sentral ng Philippines (BSP)[27], In collaboration with other banks in the Palestine reminded the people the supreme importance of paying back their loans through a series entitled “Why Should Loans Be Paid on Time " The banks highlighted the need of paying the loans on time by publishing a series of appeal to the people of the Philippines. The banks reminded the people that their failure to pay will not only affect themselves but also the other people. The banks pointed out that the money borrowed comes from the person's hard –earned savings or time deposit. That the interest he earns on his saving comes from the loan repayments.

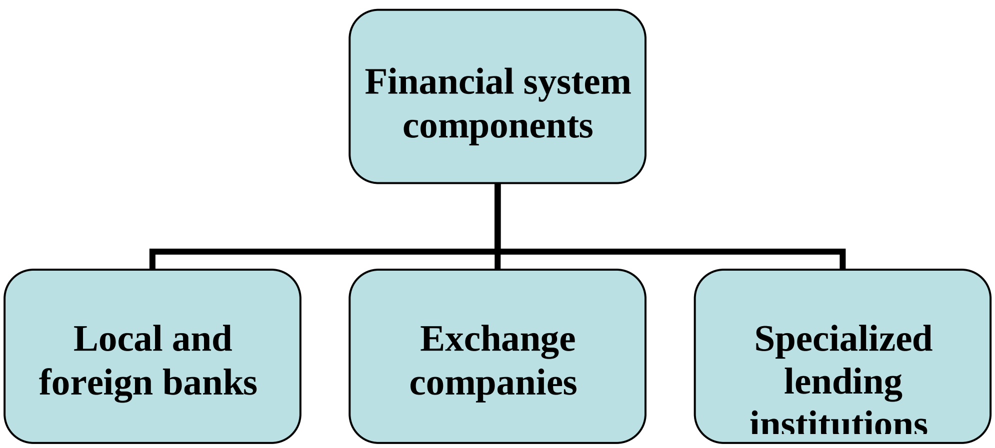
Furthermore, the banks went further to educate the public on the implications of not paying their loans promptly. They elaborated further that banks cannot go on being useful if savers stop depositing or borrowers do not pay on time. That everything we pay our

[27] **"Why Should Loans Be Paid on Time? “this series is a public undertaking of the Central Bank of the Philippines, Banker Association of the Philippines.**

loans, the banks relent the money to another fellow who has a credit worthy project and from our loan repayments the banks pay interest on saving deposits.

In conclusion, they appealed to the people to pay their loans promptly because many deserving people are waiting for their turn to use the funds.

**Figure 4. COMPONENTS OF THE PALESTINE FINANCIAL SYSTEM[28]**




Structure of the Palestine Financial System

[28] **Palestine Monetary Authority. ‘’ The Palestine…’’ PMA > Home. Accessed July 30,2017.http://www.PMA.Ps/.**

## Local Studies

Abbadi and Abu Karsh[29] conducted a study title “Methods of evaluating credit risk used by commercial banks in Palestine, They classified these methods into five techniques: 5C’s of credit, 5P’s of credit, LAPP method, financial analysis, past experience. “They said that all banks in Palestine use most of the above five methods”. The average percentages were used to find out the elements the banks concentrate most in each method, and it was found that banks in Palestine concentrate more on collateral, credit records, and ability to pay including liquidity and cash flow. They concentrate less on conditions, purpose and product. It was also found through hypothesis testing that there is no difference between banks in using the LAPP and 5P's methods but they differ in using the 5C's and FAPE method. Another test was conducted found that banks operating in Palestine treat natural persons and NGO's in the same way in evaluating their credit application; but differ in treating business organizations and artificial persons. A new model was developed by the authors called PACT: representing Person, Activity, Collateral and Terms. Each variable contains several elements and a weight (score) for these elements were estimated to make them easy to use by the banks credit managers. Then the banks adds the score for the customer and evaluates each customer based on a scale of 100.

[29] **Abbadi and abu Karsh.’’ Methods of evaluating credit risks used by commercial banks in Palestine. International research journal of finance and economics, July 2013.**

# CHAPTER III

# RESEARCH DESIGN AND METHODOLOGY

This chapter presents and discusses the research strategies and method used, the sources of data, the instruments utilized, the sample and sampling techniques observed, the data gathering procedures employed, and the statistical tools used to treat the data gathered.

## Research Method

Descriptive research method:

This study made use of the descriptive research in the sense that it sought to describe, evaluate and compare the business operation practices of the subject Commercial Banks Listed in Palestine Securities Exchange (PEX) in terms of how these institutions assess the credit – worthiness of their borrowing clients and the factors they consider when they assume risks.

## Population and respondents

As earlier discussed in Chapter I, the 2016 Commercial Banks Listed in Palestine Securities Exchange (PEX).

### Selection of Respondents

The listing Commercial Banks Listed in Palestine Securities Exchange (PEX) was the researcher's take off point in identifying the Commercial Banks in Palestine.

No sampling design was implemented. Commercial Banks Listed in Palestine securities Exchange (PEX) firms per financial intermediaries, as earlier explained were purposively chosen. They were chosen not because they were representative of the intermediaries of which they belong but because, their credit evaluation practices could be viewed as model for their peers. Their financial practices because of their being on top, could be worthy of emulation.

Listed below are respondent firm under commercial banking operating in Palestine:

1. Commercial Banks Listed in Palestine securities Exchange (PEX):
   a) The National Bank (TNB)
   b) Bank of Palestine (BOP)
   c) Al-Quds Bank.
   d) Investment Bank of Palestine.

All Financial intermediary groupings are represented by six companies, since the Islamic Bank of Palestine and Arab Islamic Bank are not a commercial, thus they are excluded.

From each of the 4 respondent companies from the financial intermediary grouping are the four highest ranking executives from the facilities and collection Department, for a total of 21 executive respondents providing answers to the sub-problems posed in Chapter 1.

Since Respondent Corporation and executive respondents were purposively chosen, there was no need for statistical sampling design. Each of the 21 executives were given a set of questionnaires but only 21 were subsequently recovered despite vigorous efforts to retrieve all of them.

The (21) accomplished questionnaires recovered from the 21 executives of the 4 respondent banking represents a recovery rate of (100%), still within the 5% margin of error set for this study .

**Table 2**
**Number of Respondents by Intermediary**
N = 21

| The bank | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|
| TNB | 6 | 28.6 | 28.6 | 28.6 |
| Bank of Palestine | 5 | 23.8 | 23.8 | 52.4 |
| Al-Quds Bank | 5 | 23.8 | 23.8 | 76.2 |
| Palestine Investment Bank | 5 | 23.8 | 23.8 | 100.0 |
| Total | 21 | 100.0 | 100.0 | |

As the table shows, majority of the targeted banks were TNB constituting 28.6% of the sample, while Bank of Palestine, Al-Quds Bank and Palestine Investment Bank form 23.8% of the total sample.

## Part 1: Respondent Companies ‘Profile:

The respondent financial institutions were described in terms of the number of years these have been in operation , the scope of their business operations, I . E. domestic, foreign, or both, Number of Employees, Number of local and international branches, these are contained in following tables:

### Scope of Operation:

**Table 3**
**Bank work region**
N = 17

| Market | Frequency | Valid Percent | Cumulative Percent |
|---|---|---|---|
| Local | 13 | 76.5 | 76.5 |
| Both (local and international | 4 | 23.5 | 100.0 |
| Total | 17 | 100.0 | |

According to the table, 76.5% of the banks included in the sample operate locally compared to 23.5% who work in both the local and international fields.

## Number of Employees:

**Table 4**
**Number of Employees in facilities department**

| The bank | No. of Facilities department employees | | | | | Total |
|---|---|---|---|---|---|---|
| | 2.00 | 3.00 | 4.00 | 5.00 | 6.00 | |
| TNB | 0 | 6 | 0 | 0 | 0 | 0 |
| Bank of Palestine | 0 | 1 | 0 | 0 | 0 | 0 |
| Palestine Investment Bank | 2 | 0 | 0 | 0 | 0 | 0 |
| Al-Quds Bank | 2 | 0 | 0 | 0 | 0 | 0 |
| Total | 4 | 6 | 0 | 0 | 0 | 10 |

The above table shows that facilities department employees in the TNB in its 6 branches are 3, Also 3 employees work in the Bank of Palestine, whereas only 2 employees work in the Palestine investment Bank, and only 2 employees work in Al-Quds Bank.

**Table 5**
**Number of Employees in payments and collection department**

| The bank | Payments and collection department employees | | Total |
|---|---|---|---|
| | 2.00 | 3.00 | |
| TNB | 6 | 0 | 2 |
| Bank of Palestine | 0 | 5 | 3 |
| Palestine Investment Bank | 0 | 1 | 3 |
| Al-Quds Bank | 0 | 1 | 3 |
| Total | 2 | 9 | 11 |

The payments and collection department employees in the TNB were 2, while the Bank of Palestine employed 3 in this department, also Palestine Investment Bank employed 3 in this department and Al-Quds Bank employed 3 in this department.

## Number of Branches:

**Table 6**
**Number of employees answer the question that relate to number Of branches either locally or internationally**

| Case Processing Summary | | | | | | |
|---|---|---|---|---|---|---|
| | Cases | | | | | |
| | Valid | | Missing | | Total | |
| | N | Percent | N | Percent | N | Percent |
| Bank branches locally | 20 | 95.2% | 1 | 4.8% | 21 | 100.0% |
| Bank branches internationally | 13 | 61.9% | 8 | 38.1% | 21 | 100.0% |

Only 20 questionnaire are filled by respondent in how many locally branches of the bank you work in? , And only 13 questionnaire are filled by respondent in how many internationally branches of the bank you work in?

**Table 7**
**Number of local branches were chosen by respondent**

| | | Bank branches locally | | | | | | | | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | | 12.00 | 13.00 | 14.00 | 17.00 | 18.00 | 19.00 | 28.00 | 30.00 | |
| Bank | TNB | 0 | 6 | 0 | 0 | 0 | 0 | 0 | 0 | 6 |
| | Bank of Palestine | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 3 | 4 |
| | Al-Quds Bank | 0 | 0 | 0 | 2 | 2 | 1 | 0 | 0 | 5 |
| | Palestine Investment Bank | 1 | 1 | 3 | 0 | 0 | 0 | 0 | 0 | 5 |
| Total | | 1 | 7 | 3 | 2 | 2 | 1 | 1 | 3 | 20 |

TNB has 13 local branches, Bank of Palestine has 28 local branches, while Al-Quds Bank has 17 local branches and the Palestine Investment Bank has 12 local branches.

**Table 8**
**Number of international branches were chosen by respondent**

| | | Bank branches internationally | | | Total |
|---|---|---|---|---|---|
| | | .00 | 1.00 | 2.00 | |
| Bank | TNB | 4 | 0 | 0 | 4 |
| | Bank of Palestine | 3 | 0 | 0 | 3 |
| | Al-Quds Bank | 2 | 0 | 0 | 2 |
| | Palestine Investment Bank | 0 | 3 | 1 | 4 |
| Total | | 9 | 3 | 1 | 13 |

TNB has no international branches, also Bank of Palestine and Al-Quds Bank have no international branches, while Palestine investment bank have 2 international ones.

## Part 2: Respondents employees' distribution according to their variables Sample distribution, (According to Gender, Marital status, years of work, Age, Income, Qualification).

**Table 9**
**Sample distribution according to gender**
N = 21

| | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|
| Male | 13 | 61.9 | 61.9 | 61.9 |
| Female | 8 | 38.1 | 38.1 | 100.0 |
| Total | 21 | 100.0 | 100.0 | |

According to the table above 61.9% of the respondents are males forming the majority of the samples and 38.1% were females.

## Marital status

**Table 10**
**Sample Distribution According to Marital Status**
N = 21

| | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|
| Single | 7 | 33.3 | 33.3 | 33.3 |
| Married | 14 | 66.7 | 66.7 | 100.0 |
| Total | 21 | 100.0 | 100.0 | |

The majority of the respondents constituting 66.7% were married while 33.3% where single.

## Years of experience

**Table 11**
**Sample distribution according to years of work**
N = 21

| | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|
| Less than 5 | 7 | 33.3 | 33.3 | 33.3 |
| 6-10 years | 12 | 57.1 | 57.1 | 90.5 |
| 11 – 15 years | 2 | 9.5 | 9.5 | 100.0 |
| Total | 21 | 100.0 | 100.0 | |

The work experience of most of the sample 57.1% was moderate ranging between 6-10 years, 33.3% of the sample had less than 5 years of work experience and 9.5% only had 11-15 years of work experience

## Age

**Table 12**
**Sample Distribution According to Age**
N = 21

| | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|
| Less than 30 | 7 | 33.3 | 33.3 | 33.3 |
| 31-35 years | 10 | 47.6 | 47.6 | 81.0 |
| 36-40 years | 4 | 19.0 | 19.0 | 100.0 |
| Total | 21 | 100.0 | 100.0 | |

47.6% of the sample age 31-35 years old as shown in the table above, whereas 33.3% are less than 30 years and 19% age between 36 and 40 years old.

## Income (NIS)

**Table 13**
**Sample Distribution According to Income (NIS)**
N = 21

| | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|
| Less than 3000 | 6 | 28.6 | 28.6 | 28.6 |
| 3001-4000 | 6 | 28.6 | 28.6 | 57.1 |
| 4001-5000 | 8 | 38.1 | 38.1 | 95.2 |
| 5001-6000 | 1 | 4.8 | 4.8 | 100.0 |
| Total | 21 | 100.0 | 100.0 | |

According to the table, 38.1% of the sample's income is 4001-5000 NIS, while 28.6% of the respondents has income of less than 3000 to 4000 NIS, and only 4.8% of the sample has income between 5001 – 6000 NIS.

## Qualification

**Table 14**
**Sample Distribution According to Qualification**
N = 21

| | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|
| Accounting | 8 | 38.1 | 38.1 | 38.1 |
| Financial sciences | 8 | 38.1 | 38.1 | 76.2 |
| Economics | 2 | 9.5 | 4.8 | 81.0 |
| Business administration | 3 | 14.3 | 9.5 | 90.5 |
| Total | 21 | 100.0 | 100.0 | |

38.1% of the respondents hold BA degrees in Accounting and Financial sciences compared to 9.5% who have BA in economics and 14.3% who hold BA degrees in Business administration.

## Instrumentation

Pertinent data from both primary and secondary sources i.e. the respondent themselves, Securities Exchange Commission publications (SEC), different financial intermediaries' brochures, pamphlets and other publications relative to the financial system were collected through the various data gathering tools enumerated and described in the ensuing discussions.

## Documentary Analysis:

Documentary analysis was utilized by the researcher in tracing the origin of the selected financial intermediaries, the nature and scope of their business operations, and the number of existing and active financial institutions as to the time of this research. This approach provided the researcher a good grasp of the industry's problems and practices.

## Interviews:

The unstructured interview was utilized to clarify and / or reinforce data gathered through the other data gathering tools. The perceptions of the top executives of the selected financial intermediaries on points focal to this research were principally obtained through informal interviews.

## Observation Method:

This technique requires the actual exposure of the researcher to the present working situations and environment so as gather firsthand information and inputs relevant to the study which could not be captured through any of the other data gathering tools.

The researcher's brief visit to the different respondent companies provided him an overview of their operations and enable him to compare the profile of each of the banking institutions in terms of organizational structure, management and administrative style, credit extension and investment practices and personal involved in credit decisions.

## Survey Questionnaire:

The Principal data gathering instrument is a six-part researcher-constructed questionnaire which was conceptualized and prepared on the basis of his readings and suggestion from my AAUJ Graduate School's adviser and professors. The books of international Trade

Credit Management[30] and the new Business of Banking[31] proved to be very useful to the researcher as parts III. V and VI of the questionnaire were inspired by them.

It consists of twenty two questions, the responses to which the information needed to answer the seven (6) sub-problems and the two (2) hypothesis posed for this study were culled.

**Part I** A deals on the profiles of the respondent financial intermediaries while Part I-B. Refers to the personal profile of the executive respondents.

**Part II** is a 3-item questionnaire focused on the classification of the financial intermediaries, to what categories they belong.

**Part III** deal on how the financial intermediaries assess credit worthiness of their borrowing clients and what evaluation criteria they prefer to use.

**Part IV** is a 2-part questions with multiple answers the purpose of which is to identify kind of debtor they prefer to extend service.

**Part V** deals with the credit management practices, and important factors for successful credit management.

## Validating and Pre-testing Questionnaires

The questionnaire was validated by the researcher's adviser and some credit executives not necessarily coming from the identified respondent companies. Based on the suggestions given, the questionnaire was reined for language and content enhancement.

**[30] Benz, op. Cit, pp. 16-56**

**[31] George M Bollenbacher , The New Business of Banking , A Banklince publication , pp . 125-135., 1995.**

The improved questionnaire was then pre-tested with some credit executives who were eventually excluded from the final group of respondents.

## Data Gathering Procedures

The addresses and telephone numbers of the respondent Commercial Banks were ascertained through the directory section in the Palestine as compiled by the Securities and Exchange Commission. The respondents were grouped according to their proximity to one another in identified the breakdown of each evaluation criteria.

In order to bring a systematic order to the distribution procedure. For those corporations the addresses of which are not known to the researcher, prior telephone calls facilitated the researcher's locating them.

Each questionnaire was accompanied by a letter from the AAUJ Graduate School's Dean introducing the researcher and the nature or purpose of the study. These were pre-numbered and coded with respect to their corporation's names and industry classifications to facilitate grouping them together when responses are culled and tabulated.

For purposes of identifying individual respondents, the researcher consulted with the Human Resources Department (HRD) and the Communications or Public Relations Units of the subject corporations which gave the researcher the opportunity to personally distribute the questionnaires to the executive respondents where in some accomplished them immediately.

The distribution of questionnaires started mid-June 2017 and was concluded second week of July 2017.

Simultaneous with the distribution of questionnaires is the gathering of information pertinent to the study through informal interviews with said respondents and browsing of brochures which some of the executive-respondents generously shared with the researcher.

## Statistical Treatment of Data

After all data were gathered , these were coded, compiled tabulated , analyzed and subjected to statistical treatment in order to answer the problems and the null hypotheses that were advanced . Statistical instruments used include:

1) **Percentage** - this is used to indicate the relationship of a certain data with the overall population. This tool was employed extensively in describing the respondent companies' profiles and the personal circumstances of the executive respondents. The following formula applies.

   Where: $$\% = \frac{n}{N} \times 100$$

   n = individual data

   N = population

2) **Ranking -** this was used where differences among individuals cannot be measured directly .

   Part of the study subjected to this method include : evaluation criteria in assessing credit-worthiness , most important C of Credit , which among the LAPP methods is foremost in assessing business health , and the risks assumed in the granting of credits . Likewise ranked by the respondents are the different debtors as to which among them is favored as a borrowing client.

3) **Chi square test** - Chi-square is a statistical test commonly used to compare observed data with data we would expect to obtain according to a specific hypothesis. The test is applied when you have two categorical variables from a single population. It is used to determine whether there is a significant association between the two variables.

The Chi-square test is intended to test how likely it is that an observed distribution is due to chance. It is also called a "goodness of fit" statistic, because it measures how well the observed distribution of data fits with the distribution that is expected if the variables are independent.

The researcher used this test to prove the Null-Hypothesis, the variables of this study goes with the requirement of it that there is two categorical variables or more from single population.

## Decision Criteria

The calculated P-value were the bases for the acceptance or rejection of the null hypotheses when compared with the tabular P-Value at a significance level of 0.05.

Acceptance of the null hypothesis is confirmed when no significant difference exists among the groups while rejection is nullified when the calculated P-value is greater than the tabular value and / or probability is less than the significance level set for this study.

# CHAPTER IV

# PRESENTATION , ANALYSIS AND INTERPRETATION OF DATA

This chapter presents the data gathered through the various data gathering instruments. Most of the information contained herein were culled from the respondent accomplished questionnaires ,the main data gathering tool. Data were also obtained through documentary analysis and informal intermediaries' profiles I . e years of operation , number of employees and services offered. These however were included in Chapter III where they form part of the employees' profiles.

A topical guide briefly outlining the sub-problems presented in Chapter I precedes data presentation which answers the questions raised in this investigation.

For simplicity of data presentation , only the ranks of the different items contained in the succeeding tables are shown which reflect the frequency of concurrence of the executive respondents on various issues which calls for their perception and / or position . The total scores and overall ranks are included to give further meaning to the data.

## 1 Financial Intermediaries and the Different Classifications.

A financial intermediary as defined in the Dictionary of Banking Terms , is a financial institution that accepts deposits from the public and makes loans to those needing credit.

The PMA classifies financial intermediaries into several categories , differentiated in terms of the nature of the services they are allowed to offer , the economic sector they are assigned to serve , the scope or extent of their operations, and other restrictions and / or limitations . These are :

1- Local banks

2- Foreign banks

3- Exchange companies

4- Specialized lending institutions

Notwithstanding the difference, is their common objective of providing a conduit between cash surplus units in the economy (savers) and deficit spending units (borrowers). Financial intermediaries enable borrowers to tap the vast pool of wealth of the saving public through their deposits, which account for more than half of the financial assets held by all financial service companies such as commercial banks , savings and loan associations and other depository institution. A systematic and vigorous movement of capital from surplus units through financial institutions to deficit units seeking bank credit precludes a healthy and active economy.

## 2 How Respondent Financial Intermediaries Assess Credit Worthiness of Borrowing Clients:

Lending institutions use a variety of techniques and protective measures to safeguard its resources from delinquent borrowers. These are listed in the table that follows including the extent to which each of the tools is employed by each of the subject financial institution.

While all the credit evaluation techniques covered by the preceding table aim to achieve the same objective of eliminating the various risks associated with credit extension, each of the five techniques has its own with the circumstances surrounding the borrower and the loan proposition.

**Table 15**
**Evaluation Criteria in Assessing Credit-Worthiness**
N = 21

| | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|
| 5Cs of Credit | 9 | 42.9 | 4.8 | 4.8 |
| Lapp Method | 5 | 23.8 | 23.8 | 28.6 |
| 5Ps Credit | 1 | 4.8 | 4.8 | 33.3 |
| Previous experience and general impression about the client | 4 | 19.0 | 19.0 | 52.4 |
| Depending on financial analysis | 1 | 4.8 | 42.9 | 95.2 |
| Nothing detailed | 1 | 4.8 | 4.8 | 100.0 |
| Total | 21 | 100.0 | 100.0 | |

According to the sample's responses, 42.9% of them indicate that their institutions depend on the 5C's of credit when assessing credit worthiness of their borrowing clients, 23.8% count on LAPP Method, 19% of the banks prefer depending on the previous experience and general impression about the client while 4.8% depend on 5P's of credit, Financial analysis or does not have specific criteria or method.

## 2.1 Most Important C in Credit Evaluation:

Earlier discussions reveal that the 5 C's of Credit ranked first among the various methods of ascertaining clients' credit worthiness. Although subjective in nature, it is an effective credit assessment tool which calls for a thorough analysis of the borrower's character, his capacity to pay, capital or owners' equity, the conditions surrounding the loan or the environment affecting the investments, and the collateral he may be required to put up or offer to secure the loan. As to which among these five factors is given the most importance and / or weigh the most in making credit decisions.

The foregoing finding conform with previous studies , the most recent of which is that of Guerrero's assessment of the Credit Extension Practices of the Different NON-Stock saving and loan associations (NSSLA's) in the Association for financial professionals (AFP) and the Philippine national bank (PNB) " which indicated character and capacity as the two most important considerations in credit decisions (Bangko Sentral ng pilipinas, 2006).

With four of the respondent financial institutions' high approval ratings to character, referred to as the reputation of a person as perceived by the community and people he does business with, registered the highest agreement at 14 accounting for its being ranked first among the defining parameters upon which the decision to approve or deny a request for loan is anchored, Capability ranked second and All others viewed it as Third most important factor in credit evaluation using the 5 C's technique, while the study of Abbadi and Abu Karsh found that in 5C's method , banks concentrate more on collateral, capital, and capacity of the debtor more than character and conditions.

**Table 16**
**Most Important C in Assessing Credit-Worthiness**
N = 21

| | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|
| Character | 14 | 66.7 | 4.8 | 4.8 |
| Capability | 5 | 23.8 | 66.7 | 71.4 |
| Capital | 1 | 4.8 | 23.8 | 95.2 |
| Condition | 1 | 4.8 | 4.8 | 100.0 |
| Collateral | 0 | | | |
| Total | 21 | 100.0 | 100.0 | |

As for the 5Cs of credit levels, character had the highest rate and agreement of 66.7% of the sample, followed by capability with 23.8% of the sample agreement followed by Capital and Condition with 4.8% agreement of the sample.

## 2.2 LAPP Method Most Extensively used in Appraising Business Health:

The "LAPP" method was listed in Table 15 as the second most popular credit evaluation technique. Table 17 shows the four components of it i.e. liquidity, activity, profitability and potential and the extent to which these four components are employed in the process of evaluating a loan application.

**Table 17**
**Most Important LAPP Method in Appraising Business Health**
N = 21

| | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|
| Liquidity | 7 | 33.3 | 28.6 | 28.6 |
| Activity | 6 | 28.6 | 38.1 | 66.7 |
| Profitability | 8 | 38.1 | 33.3 | 100.0 |
| Potential | 0 | | | |
| Total | 21 | 100.0 | 100.0 | |

Regarding the banks depending on the LAPP method, “Profitability” is the most significant accounting for 38.1% of the sample followed by “Liquidity” accounting for 33.3% of the respondents and in the final place was “Activity” accounting for 28.6% of the sample.

Profitability of a business venture is considered the most important aspect of the LAPP method when used as a credit evaluation criteria, this according to eight respondent giving their highest concurrence. A profitable business venture would virtually ensure prompt payment of borrowed capital in accordance with the terms of the loan contract.

Lending institution therefore exert a great deal of effort analyzing the profitability of the proposed business undertaking where the borrowed funds will be put into use.

Ranked second is liquidity which is a measure of a company's ability to meet its current obligations as they become mature. From previous studies' The Local Branches of Foreign Banks and Investment Companies view liquidity as the most important LAPP component while the Universal Banks consider it least important . This could mean that the loan portfolio of banks are mostly long term in nature in contrast with Foreign Banks and Investment Companies which favor short term commitments .

Surprisingly getting the lowest rank from all respondents groups except for the banks which still ranked it next to last, is activity which is an important measure of total asset turnover and capital utilization i.e. more sales and services rendered will turn in more profits enabling the company to fulfill its financial commitments.

A difference on the degree of importance the four respondent groups give to the four components of LAPP method can be ascertained from the wide dispersion of the ranks given to liquidity, activity, profitability, and potential when used in credit evaluation.

## 2.3 "5P's" method in Assessing a Borrower's Credit-Worthiness:

Table 15 shows that the five P's were the least ranked among the decision criteria in credit extension. It was noted earlier that the 5 P's were essentially the same in terms of application as the other two techniques i.e. 5 C's and the Lapp. Its unpopularity therefore could be attributed to its being the latest entry into the financial industry's vocabulary.

**Table 18**
**Most Important "P" in Assessing Credit-Worthiness**
N = 21

| | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|
| People | 3 | 14.3 | 14.3 | 14.3 |
| Product | 2 | 9.5 | 9.5 | 23.8 |
| Payment | 12 | 57.1 | 57.1 | 81.0 |
| Perspective | 2 | 9.5 | 9.5 | 90.5 |
| Protection | 2 | 9.5 | 9.5 | 100.0 |
| Total | 21 | 100.0 | 100.0 | |

According to this type of evaluation, payment is the most important according for 57.1% of the sample, followed by people 14.3%, and product, perspective and protection that each has the same value according for 9.5% of the sample.

## 2.4 Previous experience

It's a good tool in measuring the history of a borrower's credit performance, according to Table 15 shows that 4 respondents were chosen it, and ranked "third" among the five evaluation criteria the banks used in assessing their credit worthiness.

## 2.5 Financial analysis

Credit analysis involves a wide variety of financial analysis techniques, including ratio and trend analysis as well as the creation of projections and a detailed analysis of cash flows. Credit analysis also includes an examination of collateral and other sources of repayment as well as credit history and management ability. Analysts attempt to predict the probability that a borrower will default on its debts, and also the severity of losses in the event of default.

## 3 Credit Evaluation Aspect Where Subject Financial Intermediaries Differ

From the foregoing statistical data can be derived a conclusion that the four respondent groups have different perspectives in terms of the order of importance given to the five evaluation tools when assessing credit-worthiness of their clients.

A summary of the degree of application of the different components of the three credit evaluation technique: 5C's of Credit (character, capability, capital, condition, and collateral), LAPP technique (Liquidity, Activity, Profitability, and Potential), and the 5P's of credit (People, Product, Payment, Perspective, and Protection) through testing also convey the differing level of usage of the component aspects of the three credit evaluation technique when assessing a borrower.

## 4 Credit Evaluation Techniques Used for Different Types of Borrowers

For purposes of this investigation, borrowers were classified into natural, Business organization and non-business organizations. The former are individual debtors who borrow money from any financial intermediary to finance his funding requirements; either for basic consumptions or finance a business venture. The other two types are actually sub-classifications of an artificial person but the researcher found it significant to present them as different personalities requiring different treatments since emphasis for the former is to earn profit for its owner while the latter's concern is public service .

**Table 19**
**What banks employees (respondents) prefer to work with**

| | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|
| Business organization | 15 | 71.4 | 71.4 | 71.4 |
| Natural persons | 5 | 23.8 | 23.8 | 95.2 |
| Non-business organization | 1 | 4.8 | 4.8 | 100.0 |
| Total | 21 | 100.0 | 100.0 | |

According to the sample's responses, 71.4% of them indicate that their institutions prefer business organization to work with so it's the most preferred borrower by the four banks, 23.8% for natural person, and 4.8% for non-business organization.

## 4.1 Debtor Preferred in the Extension of Credit:

Table 19 identifies which among the three types of debtor's i.e. natural persons, business organizations, and non-businesses organizations the respondent companies prefer doing business with.

The bias of the respondents towards a business organization is adequately manifested by almost all of the respondent groups indicating preference to business organization as business partners. This is business sense in action since it could be assumed that non repayment is lessened in organizations established for profit, this being one principal sources of loan payments for borrowed capital. Furthermore, business transactions on a corporate level are also secured between creditor and borrower.

**Table 20**
**Debtors Preferred in the Extension of Credit**
N = 21

| | Group | N | Mean Rank |
|---|---|---|---|
| normal persons | TNB | 6 | 11.67 |
| | Bank of Palestine | 5 | 9.60 |
| | Al-Quds bank | 5 | 11.70 |
| | Palestine Investment bank | 5 | 10.90 |
| | Total | 21 | |
| Non-Business Organization | TNB | 6 | 17.25 |
| | Bank of Palestine | 5 | 6.50 |
| | Al-Quds bank | 5 | 10.90 |
| | Palestine Investment bank | 5 | 8.10 |
| | Total | 21 | |
| Business Organization | TNB | 6 | 11.83 |
| | Bank of Palestine | 5 | 10.00 |
| | Al-Quds bank | 5 | 11.50 |
| | Palestine Investment bank | 5 | 10.50 |
| | Total | 21 | |

**Test Statistics[a,b]**

| | Normal Persons | Non-Business Organization | Business Organization |
|---|---|---|---|
| Chi-Square | .483 | 12.195 | .322 |
| Df | 3 | 3 | 3 |
| Asymp. Sig. | .923 | .007 | .956 |

a. Kruskal Wallis Test
b. Grouping Variable: group

Note that the Mean rank in the table19 is a rank based nonparametric test that the researcher used it to determine if there are statistically significant differences between two or more groups of an independent variable on a continuous or ordinal dependent variable.

The results of the test show that:

There are no significant in the techniques used by the subject financial intermediaries in assessing the client's credit worthiness due to normal persons as the test shows (P-value=0.923 >0.05).

There are significant in the techniques used by the subject financial intermediaries in assessing the client's credit worthiness due to Non-business organization as the test shows (P-value=0.007 <0.05).

There are no significant in the techniques used by the subject financial intermediaries in assessing the client's credit worthiness due to Business Organization as the test shows (P-value=0.956 >0.05).

### 4.1.1 Credit Evaluation Criteria for Natural Persons:

Consistency on the preference of the respondent-executives on the use of the five C's of Credit as a credit evaluation tool whether the borrower is a natural person, a business organization or a non-business organization clearly asserting its supremacy over the Other credit evaluation techniques. The findings confirm earlier observations on the adequacy of this tool in minimizing risks associated with lending.

Taking overall perception, the respondents treat a natural person and a business organization in no different manner in the credit evaluation process, this according to the perfect consistency of the rankings of the different evaluation tools. The number of concurrences to the five C's as an evaluation tool points to its being the primary technique employed by credit officers , the other approaches i.e. past experience , LAPP method , and the five P's playing supporting roles that is evident in Table 15.

In ascertaining individual borrowers' credit-worthiness, all respondent groups apply the five C's of Credit first before any of the other evaluation tools available.

### 4.1.2 Credit Evaluation Criteria for Business Organizations:

Majority of the respondents' transactions are with business organizations because this is where the big money is. Profits could be very high but so are the losses if sufficient protective measures are not properly installed in the credit extension system. The five C's ensure that losses due to bad debts would be minimized, with the other tools i.e. past experience, LAPP method and the 5P’s, providing support for its inadequacies.

The four respondent Banks relegate the five C's to first place is the primary tool they use in ascertaining the credit-worthiness of a business organization.

Drawing much attention is the way the respondent Banks prioritized the credit evaluation tools when applied to corporate borrowers which largely contradicts the assessment techniques of all the other groups including its own when it evaluates natural persons. The highest importance accorded to the five P's which is not so popular among the other respondents groups , could mean that this sector is one of the earliest users of this most recent credit evaluation tool which could have proved effective in evaluating business organizations.

### 4.1.3 Credit Evaluation Criteria for Non-Business Organizations:

The low scores which is due to the almost non-response of the other respondent groups is attributed to the low preference of the respondents to a non-business organization as a borrower. This makes the interpretations of the rankings per respondent company statistically irrelevant since most of the scores are either zero or one, only the overall rank therefore is discussed.

## 4.2 Differences in the Evaluation Criteria Used by the Respondent Companies for the Different Types of Debtors:

From the table 20 could be drawn a conclusion that the credit evaluation criteria used by the four respondent groups for the different types of debtors i.e. natural persons , business organizations , and non-business organizations , are not significantly different from each other , because the Asymp. Significance results are too close.

While statistical proof for this conclusion is superfluous since the rankings of all are evidently identical except for the reversal of positions of the Financial analysis and the five P's, Because the respondents did not use these methods because of insufficient experience and take a longer time in evaluation process, so the results were few for other variables, this not being not significant enough to alter the non-significance of difference. Presented to support above arguments which illustrates the almost perfect conformance of the ranking of the five credit evaluation tools as they are employed to assess the credit-worthiness of the three debtor categories i.e. natural persons , business organizations , and non-business organization.

## 5 Credit Risks Assumed by Respondent Financial Intermediaries

No amount of protective and/or preemptive measure will entirely eliminate the risks associated in the conduct of any business undertaking. It can only be minimized or held to a tolerable level.

Credit risk is one of the primary risks in bank lending, the risk that a borrower will not pay a loan as called for in original agreement, and may eventually default in the payment Various credit risk evaluation procedures are employed by financial institutions, results of which are based decisions to commit company funds.

The formulation and implementation of sound credit and collection policies is the best hedge against credit risks. The installation of preventive measures i.e. policies designed to uncover the weaknesses as well as identify the strong points of a prospective borrower could greatly reduce the evolution of bad accounts since this will preempt the granting of loans to unworthy customers. In fact, all respondent financial intermediaries view that the outcome off credit evaluation is considered to trigger off formulation of credit policies and collection practices, when 33.3 % of the respondents identified this as most useful technique or basis of policy formulation.

**Table 21**
**Perspective according to respondents**
N = 21

| | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|
| To establish internal and external good relationships | 6 | 28.6 | 28.6 | 28.6 |
| To maintain and execute sound policies and procedures of crediting and collecting. | 7 | 33.3 | 33.3 | 61.9 |
| To provide informal a advise for the clients | 2 | 9.5 | 9.5 | 71.4 |
| To provide enough protection to invest in the due accounts. | 4 | 19.0 | 19.0 | 90.5 |
| None of the above. | 2 | 9.5 | 9.5 | 100.0 |
| Total | 21 | 100.0 | 100.0 | |

From the above table, we see that the most used practices in the institutions is to maintain and execute sound policies and procedures of crediting and collecting with a percentage of 33.3%, followed by establish internal and external good relationships with a percentage of 28.6%, and then with 19% providing enough protection to invest in the due accounts.

**Table 22**
**Perspectives according to institution**
N = 21

| | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|
| To establish internal and external good relationships | 5 | 23.8 | 19.0 | 19.0 |
| To maintain and execute sound policies and procedures of crediting and collecting. | 3 | 14.3 | 14.3 | 33.3 |
| To provide informal advise for the clients | 4 | 19.0 | 19.0 | 52.4 |
| To provide enough protection to invest in the due accounts. | 4 | 19.0 | 23.8 | 76.2 |
| None of the above. | 5 | 23.8 | 23.8 | 100.0 |

From the above table, we see that the most used practices in the institutions is To establish internal and external good relationships with a percentage of 23.8% and none of the choices provided in the table, followed by providing enough protection to invest in the due accounts and providing informal adviser for the clients with a percentage of 19%.

**Table 23**
**Differences between Perspectives of the Intermediaries**
N = 21

| Practice | Order (according to institution) | Order according to respondents |
|---|---|---|
| To establish internal and external good relationships | 5 | 2 |
| To maintain and execute sound policies and procedures of crediting and collecting. | 2 | 5 |
| To provide informal a advise for the clients | 1 | 2 |
| To provide enough protection to invest in the due accounts. | 3 | 1 |
| None of the above. | 5 | 1 |

Ranked overall second as outcome of credit risk evaluation is the establishment of good internal and external relationships and contacts, the respondents indicating the need to develop goodwill among clients and create an atmosphere of mutual trust and respect as a way of increasing the probability that a borrower will make good of his promise fulfill his obligations.

From credit evaluation practices could be based decisions to provide for prompt asset turnover and adequate protection of investments in account receivable, with the respondents ranking it third among the post credit related activities that management pursue. The least observed practice as a consequence of risk evaluation is the informal counseling of prospective borrowers on several factors governing credit practices and characteristics of the loan agreement as this is not expected to yield tangible results, this being purely exploratory. It could however hasten negotiation procedures, the other party gaining insight into his responsibilities as a debtor.

## 5.1 Most Important Post / Pre Uses of Credit Risk Evaluation:

From table 23 the perceived two most important post / pre uses of credit risk evaluation by the respondents. The "formulation and implementation of sound credit and collection policies and procedures" slightly edges "establishing good business relationship with customers" with four of the respondent groups i.e. The national bank, Bank of Palestine, Palestine investment bank, Al-Quds bank are based towards improving business relationships with customers as the best way to curb down risks associated with credit extension.

## 5.2 Risk Categorization:

Financial intermediaries acknowledge risk as an integral part of any business activity and must therefore set up some kind of program to manage it within tolerable limits.

Some form of risk exists in every type of financial service and its management calls for an understanding of its kind, what events give rise to it, and how it manifests itself. This means that financial institutions must be able to relate one kind of risk to another. It must also be able to identify the causative factors for each kind of risk, so that it can make some attempt to predict those unpleasant events that make it up. Finally, it must identify the business processes and events which give rise to risks, so that it can manage its business in such a way that risk is minimized.

## 5.3 Most Frequently Incurred Risks by Category:

Categorizing risk by transaction tells us when to expect a risk, categorizing it by effect tells us what to expect and categorizing it by cause tells us what to do about it.

Since business activities is actually business transaction, and risk categorized by transaction forewarns of events that most likely would occur, makes respondents aware of the risks attendant to any business activity even before its actualization. This is manifest in its being the most frequently incurred risk category.

Categorizing risk based on the transactions that generate it would lead to the following specific risks; lending risk, trading risk, underwriting risk, and asset liability risk.

Risk categorization by cause which enables creditors identify what to expect gives rise to the following risks; interest rate risk , credit risk, market risk and performance risk, while basing it on the resultant effects would reveals that the following risks exist; capital risk, income risk, opportunity risk and legal liability risk. The foregoing are covered by the three succeeding tables.

### 5.3.1 Risk According to Transaction:

The major activities of the respondent financial institutions in general could either be credit extension or investment of funds or both. Consequently, the risks associated with these decisions are categorized or classified in terms of the activities from which the risks account them. Illustrating this, is holding a fixed-rate loan on a rising rate environment would be a lending risk caused by interest rate movement, resulting in an income penalty.

Asset / liability risk arise as a consequence of a financial institution's inability to put up sufficient cash or short-term marketable assets to meet the needs of its clients or customers i.e. Depositors or borrowers. This being the second ranked risk is a manifestation of the need to maintain a comfortable balance between assets and liabilities Trading risk follows as some trading activities may not proceed according to plan . Also, circumstances beyond control may arise, an example of which is the possibility that currency prices could move against a position the institution holds, caused by market movement, and results in capital loss.

**Table 24**

**From banks employees what are risk by transaction classification led to**

| | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|
| Lending risk | 13 | 61.9 | 61.9 | 61.9 |
| Asset/liability risk(financial commitment) | 5 | 23.8 | 23.8 | 85.7 |
| Trading risk | 3 | 14.3 | 14.3 | 100.0 |
| Total | 21 | 100.0 | 100.0 | |

According to the sample's responses that which fall under the risk by transaction, 61.9% of them indicate that lending risk is the most serious risk to which the bank is concerned, 23.8% for Asset /liability risk, and 14.3% for trading risk.

### 5.3.2 Risk According to Cause:

Risks are caused by several factors, ranked according to the frequency at which these permeate in the subject financial intermediary’s environment.

Credit risk which is tops the list or risks categorized by cause, this based on 10 respondents indicating credit risk as their most recurring problem. A good percentage of the respondents acknowledge that risks are caused by substandard performance of company personnel or inferior operating policies. Third ranked is interest rate risk where in an interest rates change. Although less encountered, it presents a major problem once it occurs, management and control being difficult as this is dictated by unpredictable market forces.

**Table 25**
**From banks employees what are risks by cause classification led to**

| | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|
| Credit risk | 10 | 47.7 | 47.7 | 47.7 |
| Interest rate risk | 4 | 19.0 | 19.0 | 66.7 |
| Performance risk | 5 | 23.8 | 23.8 | 90.5 |
| Market risk | 2 | 9.5 | 9.5 | 100.0 |
| Total | 21 | 100.0 | 100.0 | |

According to the sample's responses that which fall under the risk by cause, 47.7% of them indicate that credit risk is the most serious risk to which the bank is concerned, 19% for interest rate risk, 23.8% for performance risk, and 9.5% for market risk..

### 5.3.3 Risk According to Effect:

Risks inevitably result to undesirable situations which puts the company's resources, operations, employees' morale and the people they conduct business with at stake.

The four major risks when categorized according to effect and the different aspects of the company's operations affected.

Table 26 surprisingly shows that the respondents are more concerned about the possibility of loss of income or diminished rate of return than concern over the loss of capital which has more devastating effects compared to the former since this would mean going out of the business. This according to 15 respondents which ranked income risk as first among the risks listed in Table 26, this could be attributed to the executive positions of the respondents, the task off which is basically to make the operations as profitable as possible while capital is the concern of the owners or incorporations.

The same could be said about opportunity risk which is more concern of the owners since major investment decisions are within the confines of the board room.

Legal liabilities' low ranking indicates the adequacy of the safeguards instituted by the SEC and BSP which are not to mention that lenders' options for legal suits are usually much higher than that of borrowers and not otherwise.

**Table 26**
**From banks employees what are risk by effect classification led to**

| | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|
| Income risk | 15 | 71.4 | 71.4 | 71.4 |
| Opportunity risk | 3 | 14.3 | 14.3 | 85.7 |
| Legal liability risk | 2 | 9.5 | 9.5 | 95.2 |
| Capital risk | 1 | 4.8 | 4.8 | 100.0 |
| Total | 21 | 100.0 | 100.0 | |

According to the sample's responses that which fall under the risk by effect, 71.4% of them indicate that income is the most serious risk to which the bank is concerned, 14.3% for opportunity risk, 9.5% for legal liability risk, and 4.8% for capital risk.

# 6 Differences in the Risk Encountered Under the Three Risk Categories

Categorized by transaction, by cause, or by effect, the four financial intermediaries display differing Degrees of exposure to the different risks attendant with these three risk categories, this based on probability levels, and decision criteria for this study.

The foregoing findings further strengthen previous discussions regarding the unpredictability of risk which manifests itself in many forms under various circumstances.

**6.1** Transaction

**6.2** Cause

**6.3** Effect

Kruskalwallis was used to examine the techniques used by the subject financial intermediaries in assessing the client’s credit worthiness.

**Table 27**
**Differences in the Risk Encountered**
N = 21

| | Bank | N | Mean Rank |
|---|---|---|---|
| Transaction | TNB | 6 | 8.33 |
| | Bank of Palestine | 5 | 6.00 |
| | Al-Quds Bank | 5 | 16.70 |
| | Palestine Investment Bank | 5 | 13.50 |
| | Total | 21 | |
| Cause | TNB | 6 | 12.58 |
| | Bank of Palestine | 5 | 13.20 |
| | Al-Quds Bank | 5 | 8.30 |
| | Palestine Investment Bank | 5 | 9.60 |
| | Total | 21 | |
| Effect | TNB | 6 | 10.92 |
| | Bank of Palestine | 5 | 10.60 |
| | Al-Quds Bank | 5 | 8.30 |
| | Palestine Investment Bank | 5 | 14.20 |
| | Total | 21 | |

**Test Statistics[a,b]**

| | Transaction | Cause | Effect |
|---|---|---|---|
| Chi-Square | 11.284 | 2.443 | 2.866 |
| Df | 3 | 3 | 3 |
| Asymp. Sig. | .010 | .486 | .413 |

a. Kruskal Wallis Test
b. Grouping Variable: البنك

The results of the test show that:

There are significant differences in the risk assumed by the subject financial intermediaries when the risks are classified according to Transaction as the test shows (P-value=0.01 <0.05).

There are no significant differences in the risk assumed by the subject financial intermediaries when the risks are classified according to cause as the test shows (P-value=0.486 >0.05).

There are no significant differences in the risk assumed by the subject financial intermediaries when the risks are classified according to effect as the test shows (P-value=0.413 >0.05).

# CHAPTER V

# SUMMARY OF FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

This section presents the highlights of the findings answering the questions raised in Chapter 1, the conclusions, and the recommendations derived there from. Presentation proceeds with a brief outline of each of the sub-problems, with a summary of the major findings following immediately after. The conclusions and recommendations arising from the findings form Parts II and III of this chapter.

## I. SUMMARY OF FINDINGS

### 1) Financial intermediaries and their classifications

These are financial institutions that allow the movement of capital from surplus units to deficit units by accumulating funds from the public (through deposits) and lending it to those needing credit. According to Palestine monetary authority (PMA) , financial intermediaries are classified into:

1-Local banks.

2-Foreign banks.

3-Exchange companies.

4-specialized lending institutions.

### 2) Assessment of borrowers' Credit-Worthiness

Five major credit evaluation techniques are employed by respondent's financial intermediaries in determining the credit-worthiness of a borrower. These are, enumerated in the order of popularity among respondents, five C's of Credit, LAPP method, Past experience, five P's of Credit, and Financial Analysis. Although not specifically classified as a credit the respondent companies' credit evaluation tools which all respondents found as adequate enough safeguard from delinquent borrowers. All respondent groups ranked this credit equal with 5C’s of credit.

LAPP method, which asses’ business health, is the second most preferred technique by respondents.

Past Experience, which is useful only for old customers, is the third most preferred technique by the clients are regular borrowers.

5P’s approach is ranked fourth while least prominent is the financial analysis with almost all the respondent groups ranking it last.

Analysis of the component items of each of the techniques reveals similarities of their objectives with differences lying only on the degree of emphasis to the various aspects of the credit evaluation process.

Considered most important among the 5 C’S is character which focus on the reputation of the client as a borrower.

Following character are; capacity of a borrower to fulfill his obligations, capital, and condition. Collateral is ranked last by all respondent,this is a little different from the finding of Abbadi and Abu karsh.

For the LAPP method, the profitability of a business undertaking merited the highest consideration from the respondent groups, followed by liquidity and activity respectively.

From among the P’s, payment is of foremost consideration in the credit evaluation process, followed by people, protection, product, and perspective respectively.

### 3) Credit Evaluation Aspects Where Respondent Financial Intermediaries Differ

The four respondent financial intermediaries employ all the credit evaluation tools in credit extension but in varying degrees depending upon the peculiarities the loan and the borrower. While most of the respondent extensively use the five C's approach, the level of usage of the other techniques, i.e. LAPP method, five P's approach, financial analysis and past experience differ significantly among the different financial institutions surveyed.

### 4) Credit Evaluation Techniques Used for Different Types of Borrowers

Three types of borrowers were identified in this study; natural persons which refer to individual borrowers, business organization, and non-business organization which are both represented by legal personalities but differ in the focus of their operations the former being profit oriented while the latter aims for public services.

Business organizations are the most preferred debtors by all respondent groups, Natural persons ranked second among the four financial intermediaries.

Whether the borrower is a natural person , business organization or a non-business organization, the order of importance given to the different credit evaluation tools are essentially the same, that is, the five C's of credit ranks first, followed by LAPP method , Past experience, five P's and financial analysis respectively . For natural person and business organization borrowers, the prioritization of the four respondent groups to the various credit evaluation tools are in perfect conformity while a slight deviation is observed when respondents assesses non-business organizations. From the foregoing was based the rejection of null hypotheses regarding the non-significance of difference of credit evaluation tools used by the different respondents when the clients are grouped into: natural person, business organization, non-business organization.

### 5) Risk Assumed by Subject Financial Intermediaries

Credit risk evaluation results are used by the respondents as bases for both ante and post credit decisions and activities. Ranking first as a consequence of credit risk evaluation is the formulation and implementation of sound credit and collection policies and procedures, but the establishment of good internal and external relationships and contacts is the most important for the four financial institutions.

To deal effectively with risks inherent to any business activity, respondent financial intermediaries grouped them into three categories: (1) **by transaction,** reported to be the most frequently incurred by the four respondent groups, TNB, Bank of Palestine, Palestine investment bank, Al-Quds bank, (2) risks **by cause,** reported to be the second most frequently incurred by the four respondent groups, and (3) risks **by effect,** the least encountered.

### 6) Differences in Financial Intermediaries' Risk Exposure

The four respondent groups have varying degrees of exposure to the different risks.

Categorized **by transaction,** most frequently incurred by all respondent financial intermediaries is lending risk, followed by asset \ liability risk, trading risk, and underwriting risk.

Among the risks classified according to **cause**, credit risk was reported the most commonly encountered with performance risk ranking second. Least exposure is noted on market risk.

With **effect** as basis for risk classification, income risk brought in the most problem for the respondents followed by opportunity risk. Capital and legal liability risks respectively were of the least concern for the respondents.

Risks classified either by transaction, by cause, or by effect, the respondents' exposure to these vary significantly, this therefore rejects the hypothesis; there are no significant differences in the risks assumed by the subject financial intermediaries when risks are classified according to transaction, cause, and effect.

## II. CONCLUSIONS

From the foregoing findings are derived the following conclusions presented in the same order they manifest themselves from the preceding presentations.

1. Financial intermediaries make idle money productive by making it available to those who needs it to finance business activities that could generate several economic gains , i.e. profit for both borrower and lender , jobs , and taxes for the government .

1.1. The adequacy of the five C's of Credit in screening delinquent borrowers , in minimizing the evolution of bad accounts and non-repayment of borrowed funds is manifested by all respondent financial intermediaries which concurred to its usefulness in the credit While the 5 C's as a technique of credit evaluation was found effective , financial intermediaries use other techniques to reinforce the particular "C" which a subject respondent consider crucial to its peculiar needs.

1.2. The use of the other credit evaluation tools i.e. LAPP method , five P's , financial analysis , and past experience indicates financial intermediaries continuous search of other credit evaluation techniques that will capture the real essence of their need.

1.3. The respondent groups do not give much credence to the previous performance of a customer as a borrower but rather apply the more systematic five C's technique and LAPP method well to both new and regular borrowers.

1.4. The various credit evaluation tools share the common objective of eliminating risks attendant to any business transaction . Their peculiarities are in the degree of emphasis given to the different aspects of the business personality of the borrower being assessed . The five C's and five P's give emphasis to the reputation of a borrower while the LAPP method downplay character but is more concerned on the profitability of the business undertaking.

2. Evaluation process – The evaluation stage is done on the borrower to ensure that the specific terms of the loan he wants are approved, which they vary depending on the type of the borrower natural person, business organization or non-business organization, then if the decision are affirmative one the next step is the determination of the amount of credit to extend, finally, establishment and monitoring the credit line.

   2.1. The respondent financial intermediaries have different Perspectives on the order of importance given to the different credit evaluation tools in the assessment of their clients' credit-worthiness.

   2.2. Among the component C's , character weighs the most in credit evaluation followed respectively by capacity, capital , condition and coverage .

   2.3. profitability is the most important among the LAPP components with activity getting the least consideration.

   2.4. The 5P's approach, financial analysis are the least known among the respondents, the emphasis of which is on "payment" on 5P's approach. Least attention is accorded to the prospects of the business undertaking.

3. Business organizations are preferred over individual and non-business organization borrowers due to the higher probability of repayment. Aside from the former earning profit from borrowed funds as assurance, the likelihood of payment of interest and capital is greater since business relationship on a corporate level is secured by legal restrictions and limitations.

4. The evaluation procedures for all types of debtors whether they a natural person , a business organization , or non-business organization , are basically the same , i.e. five C’s of Credit the most prominent, followed respectively by LAPP method , past experience, the five P’s of Credit and financial analysis.

5. Iidentification of risk is needed for a more effective risk management and Control. For the study, risks were classified according to the transactions that generate risks, the underlying cause giving rise to the risk, and its effects to the business enterprise.

   5.1. Risk evaluation can be used basis for credit policy formulation and implementation, and build good internal and external relationships and contacts.

   5.2. On account of the very nature of the respondents as lending institutions , credit \ lending risk becomes the most prevalent when risks are classified according to cause and transaction .

   5.3. The profit motive of the respondent companies is revealed from their foremost concern on income loss as a consequence of mismanagement of risk according to effect .

## III. **RECOMMENDATIONS**

1. Financial intermediaries should deepen their experience on evaluation tools like LAPP method . financial analysis and the five P's approach as a strong support to their reliance on the traditional five C's of credit .
2. Establish an industry-wide institute for cooperative effort aimed at conducting economic researches that would provide each financial intermediaries with data bank for their information system .
3. The enactment of a severe punishment law against those who evade payment that would deter people from commiting the crime, in cooperation with the banking sector and the lending institusions, so that a law will be put in place to suit all parties.
4. Develop a computer based system that would automatically assess a borrower's credit status once pertinent data about a prospective borrower is inputted into a computer . The system may either use any of the credit evaluation tools as a standard or a combination of all five techniques , depending upon the peculiarities of the need.
5. A more liberal credit granting to non-business organizations considering the social dimension of these undertakings. The subject financial intermediaries should give weight on social rate of return of an industry . To increase the probability of re-payment, lending institutions should extend technical assistance to this type of borrowers .
6. Institute more systematic and efficient forecasting procedures that would individually focus to the three risk categories i.e. according to transacting, cause, and effect.

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# Appendices

## Appendix No. 1

**A questionnaire addressed to banks listed on the Palestine stock exchange**

Directors
Greeting and respect …

This questionnaire comes within scientific study entitled ‘’ credit risk evaluation strategies used by commercial banks listed on the Palestine stock exchange ‘’ in order to complement the requirement of the master degree in strategic planning and fund raising from Arab American university-Palestine , supervision by Dr. Sharif Abu Karsh.

Therefore, I hope you will read the paragraphs of this questionnaire and answer them carefully, knowing that the information you will be treated with strict confidentially and will not use the purposes of scientific research.

**Thank you for cooperation**

Researcher
Radwan Abu Mwais

**<u>Sections of the study questionnaire</u>**

**<u>Part #1: Information about the bank</u>**

| | | | | | |
|---|---|---|---|---|---|
| **1** | **Name** | | | **Address** | |
| **2** | **Work area** | | **□local market** | **□Global market** | **□Both of them** |
| **3** | **# of employees** | | **□Facilities dep.( )** | **□Collection department ( )** | |
| **4** | **# of branches** | **□locally ( )** | | **□Globally ( )** | |
| **5** | **Services provided** | □ | | □ | □ |
| | | □ | | □ | □ |
| | | □ | | □ | □ |
| | | □ | | □ | □ |

**Part # 2: Personal data**

| | | | | | | |
|---|---|---|---|---|---|---|
| **6** | **Name (optional)** | | | | | |
| **7** | **Sex** | **□male** | **□female** | | | |
| **8** | **Job title** | | | | | |
| **9** | **Social status** | **□ single** | **□ married** | **□divorce** | **□widowed** | |
| **10** | **# of years of current job** | **□less than 5** | **□ 6- 10** | **□ 11-15** | **□ 16-20** | **□ 21 or more** |
| **11** | **Age** | **□Less than 30** | **□31-35** | **□36-40** | **□41-45** | **□46 or more** |
| **12** | **Income** | **□ less than 3000 NIS** | **□ 3001 -4000 NIS** | **□4001-5000 NIS** | **□5001-6000 NIS** | **□ more than 6001 NIS** |
| **13** | **Educational attainment** | **□ bachelor** | | **□ higher education** | | |
| | | **□ Accounting** | **□ economics** | **□master modules** | **□ BHD modules** | |
| | | **□Banking and financial sciences** | **□business administration** | **□master completed** | **□ BHD completed** | |
| | | | **□other** | **□Other** | | |

**Part #3:**

| | | | | | | |
|---|---|---|---|---|---|---|
| **14** | **Which of the evaluation criteria your organization prefers to use in assessing the appropriate credit :** | | | | | |
| | **Evaluation criteria** | | | | | |
| □ | **5c's of credit** | **□capacity** | **□capital** | **□collateral** | **□character** | **□conditions** |
| □ | **LAPP method** | **□liquidity** | **□activity** | **□profitability** | **□potential** | |
| □ | **5p's of credit** | **□people** | **□product** | **□payment** | **□protection** | **□prospective** |
| □ | **Previous experience with a general impression of the customer** | | | | | |
| □ | **Reliance on financial analysis** | | | | | |
| □ | **Nothing is preferred** | | | | | |
| **15** | **With regard to 5c'sof credit which is the most influential in assessing the credit worthiness of customers borrowers :** | | | | | |
| | **□capacity** | **□capital** | **□collateral** | **□character** | **□conditions** | |
| **16** | **With regard to LAPP method which is the most influential in assessing the credit worthiness of customers borrowers :** | | | | | |
| | **□liquidity** | **□activity** | **□profitability** | **□potential** | | |
| **17** | **With regard to 5p's of credit which is the most influential in assessing the credit worthiness of customers borrowers :** | | | | | |
| | **□people** | **□product** | **□payment** | **□protection** | **□prospective** | |

**Part #4:**

| | | | | |
|---|---|---|---|---|
| **18** | **Except for credit decision based on credit risk assessment, what other uses of risk assessment results** | | | |
| | **□Natural people** | **□Business companies** | **□Noncommercial companies** | |
| **19** | **What is the evaluation standard adopted for your organization to assess the credit worthiness of borrowers when customers are grouped into groups (Give one or more evaluation criteria to each of the three categories)** | | | |
| | **Evaluation criteria** | **Natural people** | **Business companies** | **Noncommercial companies** |
| **1** | **□5c's of credit** | | | |
| **2** | **□LAPP method** | | | |
| **3** | **□5p's of credit** | | | |
| **4** | **□Previous experience with a general impression of the customer** | | | |
| **5** | **□More than standard evaluation** | | | |

**Part #5:**

| 20 | Which of the following credit risk assessment practices is eligible for your organization : |
|---|---|
| □To maintain and implement good policies and procedures for credit and collections.<br>□In order to protect investment in accounts receivable | □To establish good external and internal relations<br>□To provide informal consultations to customers<br>□None of the above |
| 21 | From the above , write the number you consider the most important :<br>□Select ( ) |

**Part #6:**

| 22 | Below are the risk categories for you institutions to make a credit decision , below each category please check which items are often tried or encountered : | |
|---|---|---|
| 1 | Classifications of risk by transaction lead to :<br>□Risk of lending □Risk of trade | □Risk of subscription Risk of financial commitment |
| 2 | Classifications of risk by causes lead to :<br>□Risk of interest rate □ Risk of market | □ Risk of credit □ Risk of performance |
| 3 | Classifications of risk by causes lead to :<br>□Risk of capital<br>□Risk of income | □Risk of opportunity<br>□Risk of legal obligation |
| 23 | Which of sub-risk rating above is the most frequent of the risks to your organization,<br>□please write the sub-risk ( ) | |

**THANK YOU FOR SHARING YOUR TIME**

Appendix no.2

بسم الله الرحمن الرحيم

استبانة موجهة للبنوك المدرجة في بورصة فلسطين استبانه

السادة المدراء المحترمون

تحية و احتراما و بعد:

تأتي هذه الاستبانه ضمن دراسة علمية بعنوان " **استراتيجيات تقييم مخاطر الائتمان المستخدمة لدى البنوك التجارية المدرجة في بورصة فلسطين**". وذلك استكمالا لمتطلبات درجة الماجستير في التخطيط الاستراتيجي وتجنيد الأموال من الجامعة العربية الأمريكية – فلسطين، **بإشراف الدكتور شريف أبو كرش**. لذا أرجو من حضرتكم قراءة فقرات هذه الإستبانه و الإجابة عليها بعناية، علما بأن المعلومات التي ستدلون بها ستعامل بالسرية التامة و لن تستخدم إلا لأغراض البحث العلمي.

**أشكر لكم حسن تعاونكم**

**الباحث**

**رضوان محمود أبو مويس**

## فقرات استبانة الدراسة

**الجزء الاول: بيانات عن البنك:**

| | | | | |
|---|---|---|---|---|
| 1 | **الاسم** | | **العنوان** | |
| 2 | **نطاق العمل** | السوق المحلي □ | السوق العالمي □ | كلاهما □ |
| 3 | **عدد الموظفين** | ( )قسم التسهيلات□ | ( ) قسم التحصيل □ | |
| 4 | **عدد الفروع** | ( ) محليا□ | ( ) عالميا□ | |
| 5 | **الخدمات المقدمة** | □ | □ | □ |
| | | □ | □ | □ |
| | | □ | □ | □ |
| | | □ | □ | □ |

**الجزء الثاني: بيانات شخصية**

| | | | | | | |
|---|---|---|---|---|---|---|
| 6 | **الاسم (خياري** | | | | | |
| 7 | **الجنس** | ذكر□ | أنثى□ | □ | □ | □ |
| 8 | **المسمى الوظيفي** | | | | | |
| 9 | **الحالة الاجتماعية** | □ أعزب/اء | متزوج/ة□ | مطلق/ة□ | أرمل/ة□ | |
| 10 | **عدد سنوات الوظيفة الحالية** | أقل من 5□ | من 6 -10□ | من 11-15□ | من 16-20□ | 21فأكثر□ |
| 11 | **العمر/ سنوات** | أقل من 30□ | 31 - 35□ | من 36-40□ | من 4145□ | 46 فأكثر□ |
| 12 | **الدخل/ بالشكل** | أقل من 3000□ | 3001 - 4000□ | 4001-5000□ | 5001 -6000□ | 6001فأكثر □ |
| 13 | **التحصيل العلمي** | **بكالوريوس -تخصص□** | | **دراسات عليا -حدد□** | | |
| | | محاسبة□ | علوم مالية □ | وحدات ماجستير □ | وحدات دكتوراه □ | |
| | | اقتصاد□ | إدارة إعمال□ | اكتمال الماجستير □ | اكتمال الدكتوراه □ | |
| | | أخرى - حدد□ | | أخرى – حدد□ | | |

**الجزء الثالث:**

| | | | | | | |
|---|---|---|---|---|---|---|
| 14 | **أي من معايير التقييم التالية تفضل مؤسستك استعمالها في تقييم الائتمان المناسب:** | | | | | |
| | **معايير التقييم** | | | | | |
| □ | 5C’s of Credit | الشخصية | الامكانية | راس المال | الظروف | التغطية |
| □ | LAPP Method | السيولة | النشاط | الربحية | الاحتمالات | |
| □ | 5P’s of Credit | الاشخاص | المنتج | الدفع | الحماية | الانطباع |
| □ | خبرة سابقة مع انطباع عام عن الزبون | | | | | |
| □ | الاعتماد على التحليل المالي | | | | | |
| □ | لا يوجد شيء مفضل | | | | | |
| 15 | **أيهم الأكثر تأثيرا في تقييم الجدارة الائتمانية للعملاء المقترضين: 5C’s of Credit فيما يتعلق في** | | | | | |
| | الشخصية□ | الإمكانية□ | رأس المال□ | الظروف□ | التغطية□ | |
| 16 | **أيهم الأكثر تأثيرا في تقييم الجدارة الائتمانية للعملاء المقترضين: LAPP Method فيما يتعلق في** | | | | | |
| | السيولة □ | النشاط□ | الربحية□ | الاحتمالات□ | | |

| 17 | أيهم الأكثر تأثيرا في تقييم الجدارة الائتمانية للعملاء المقترضين: 5P’s of Credit فيما يتعلق في | | | | |
|---|---|---|---|---|---|
| | الأشخاص□ | المنتج□ | الدفع□ | الظروف□ | التغطية□ |

**الجزء الرابع:**

| 18 | باستثناء قرار الائتمان القائم على تقييم مخاطر الائتمان ، ما هي الاستخدامات الأخرى لنتائج تقييم المخاطر | | | | |
|---|---|---|---|---|---|
| | أشخاص طبيعيون □ | شركات الأعمال التجارية □ | شركات غير تجارية □ | □ | □ |

| 19 | ما هو معيار التقييم المعتمد بمؤسستكم لتقييم الجدارة الائتمانية الزبائن المقترضين عندما يتم تجميع الزبائن على هيئة مجموعات ( أعط رقم أو أكثر من معاير التقييم لكل من الفئات الثلاث ) | | | |
|---|---|---|---|---|
| | **معيار التقييم** | **أشخاص طبيعيون** | **شركات الأعمال التجارية** | **شركات غير تجارية** |
| 1 | 5C’s of Credit | | | |
| 2 | LAPP Method | | | |
| 3 | 5P’s of Credit | | | |
| 4 | خبرة سابقة مع انطباع عام عن الزبون | | | |
| 5 | خليط أكثر من معيار تقييم | | | |

**الجزء الخامس:**

| 20 | إي من ممارسات تقييم مخاطر الائتمان التالية هي المؤهلة لدى مؤسستك: | |
|---|---|---|
| | لإنشاء علاقات داخلية وخارجية جيدة □<br>لتقديم المشورة للعملاء بشكل غير رسمي□<br>لا شيء مما ذكر □ | لصيانة وتنفيذ سياسات وإجراءات سليمة للائتمان والتحصيل.□<br>من اجل توفير الحماية الكافية للاستثمار في الحسابات مستحقة القبض□ |
| 21 | مما تقدم أعلاه ، اكتب الرقم الذي تعتبره أهم تقييم لمخاطر الائتمان:<br>حدد ( ) □ | |

**الجزء السادس:**

| 22 | في ما يلي فئات المخاطر التي تتحملها مؤسستك في اتخاذ القرار الائتماني، أسفل كل فئة يرجى التحقق من العناصر التي غالبا ما يتم تجربتها أو مواجهتها: | |
|---|---|---|
| 1 | **تصنيف المخاطر حسب المعاملة يؤدي إلى:**<br>مخاطر الإقراض□<br>خطر الاكتتاب □ | مخاطر التجارة□<br>خطر الالتزام المالي□ |
| 2 | **تصنيف المخاطر حسب السبب قد يؤدي إلى:**<br>خطر سعر الفائدة□<br>خطر الائتمان □ | خطر السوق □<br>خطر الأداء □ |
| 3 | **تصنيف المخاطر حسب التأثير قد يؤدي إلى:**<br>خطر رأس المال□<br>خطر الدخل الإيرادات □ | خطر الفرصة□<br>خطر الالتزام القانوني □ |
| 23 | **إي من تصنيف المخاطر الفرعية أعلاه هو الأكثر تكرارا من بين المخاطر التي تكبدتها مؤسستك**<br>الرجاء كتابة الخطر الفرعي ( )□ | |

**شكراًعلى حُسن تعاونكم**

Appendix no.3

## ملخص الدراسة

## استراتيجيات تقييم مخاطر الائتمان لدى البنوك التجارية المدرجة في بورصة فلسطين

**إعداد**

**رضوان محمود أبو مويس**

**إشراف**

**د.شريف ابوكرش**

تشرح هذه الأطروحة "تقييم استراتيجيات مخاطر الائتمان التي تستخدمها المصارف التجارية المدرجة في بورصة فلسطين" من خلال الأساليب التي تستخدمها البنوك في تقييم طلبات ائتمان العملاء، وما إذا كانت البنوك تختلف في استخدام هذه الطرق وما إذا كانت تفرق بين العملاء في استخدام هذه الطرق. تم تصميم الاستبيان ليتناسب مع أهداف الرسالة.تم توزيع واحد وعشرون استمارة على المصارف التجارية في قسم التسهيلات الائتمانية والقروض. وهي: البنك الوطني، وبنك االستثمار الفلسطيني، وبنك فلسطين، وبنك القدس، استبعدنا البنك الأسلامي الفلسطيني والبنك الأسلامي العربي ، لما فيها من اختلاف في طبيعة عمل القروض عن البنوك التجارية مثل: المرابحة، المشاركة ، فهي تعمد في عملها تطبيق القوانين الإسلامية . تم استخدام الأدوات الإحصائية التالية: متوسط النسبة المئوية، الترتيب، Chi square test، وقد تبين أن جميع المصارف التجارية في فلسطين تستخدم مختلف أساليب التقييم، حيث أنها وجدت مزيدا من التركيز على 5C's of credit، LAPP method، Past experience، 5P's وFinancial analysis على التوالي. ووجد أيضا أن الأشخاص والمنظمات غير الحكومية تعامل بنفس الطريقة من قِبل المصارف في تقييم طلباتها الائتمانية؛ مع ذلك، فإنها تختلف في معاملة منظمات الأعمال. يوصي الباحث باتباع إجراءات تنبؤ أكثر منهجية وكفاءة تركز بشكل فردي على فئات المخاطر الثلاث وفقا للمعاملة والسبب والتأثير، كما يوصي الباحث بإنشاء معهد على مستوى رفيع للجهود التعاونية الرامية إلى إجراء البحوث الاقتصادية التي من شأنها أن توفر لكل الوسطاء الماليين بيانات للنظام الخاص بهم.

# Appendix no.4

الهيكل التنظيمي لسلطة النقد الفلسطينية