THE IMPACT OF DEBT MANAGEMENT ON FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN UGANDA. A CASE OF CENTENARY BANK UGANDA KABALAGALA BRANCH

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A RESEARCH REPORT SUBMITTED TO THE COLLEGE OF ECONOMICS AND MANAGEMENT IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF A BACHELORS DEGREE OF BUSINESS ADMINISTRATION OF KAMPALA INTERNATIONAL UNIVERSITY

JUNE, 2017
DECLARATION

I MAMBULE YOSIA hereby declare that the content of this research report is a result of my own research and have never been presented for any award.

Name MAMBULE YOSIA Signature

Date 06/06/2017
APPROVAL

This is to certify that this research report was carried out by MAMBULE YOSIA under my supervision and is now ready for submission to the department of undergraduate of Kampala international university.

Signature........................................
MR. TUKUNDANE ADONIA

Date:.................................06/06/2017
DEDICATION

I dedicate this report to my dear mother Nakanabi Rosemary, Brothers and Sisters and my friends’ course mates who have been so supportive throughout my studies, May the Lord bless you mightily.
ACKNOWLEDGEMENT

I thank the Almighty God for making it possible for me to complete this piece of work. Special thanks to him for the knowledge, wisdom, courage and determination He has granted me.

I extend my sincere appreciation to my Supervisor Mr. Tukundane Adonia who guided me from research proposal to the report writing. He really inspired, motivated and assisted me during the process of this work.

I am greatly indebted to my dear parents for their support, care and courage during my study. I am so grateful my dear parents. May God bless you abundantly? Thanks also go to the Employees and Management of centenary bank kabalagala in Kampala who allowed me to do research on the organization. Respondents who sacrificed their time in giving me relevant information that backed my research.

My sincere gratitude further goes to my dear parent, brothers and sisters Nakanabi Rosemary, Nakamya Jackline, Wasswa Moses, Kato Edward Nakabembe Resty and Nakalema Nusulah for their prayers and all the support I needed in this study. I cannot forget my special friends; Kiroko Arnold, Mbajjo Francis Exevier, Galiwango Moses, Musimbi Tsokina Rogers, Kyosaba patience, Natugumya Eva, Mulengera John, Muhumuza Amosi and Ssekiyana Vincent May our Good Lord reward them.
### LIST OF ABBREVIATIONS

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tr>
<td>BOU</td>
<td>Bank of Uganda</td>
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<tr>
<td>CRDT</td>
<td>Centenary Rural development trust</td>
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<tr>
<td>ATMs</td>
<td>Automated Teller machines</td>
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<tr>
<td>EAB</td>
<td>East African Business</td>
</tr>
<tr>
<td>CIMA</td>
<td>Chartered institute of Management Accountants</td>
</tr>
<tr>
<td>NPLS</td>
<td>Non-profit performing loans</td>
</tr>
<tr>
<td>GTZ</td>
<td>Gesellschaft Fur Technische Zusammenarbeit</td>
</tr>
<tr>
<td>ROE</td>
<td>Returns on Equity</td>
</tr>
<tr>
<td>EADB</td>
<td>East African Development Bank</td>
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<td>UK.</td>
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ABSTRACT
The study was set to establish the impact of debt management on financial performance of commercial banks in Uganda. A case of centenary bank, Uganda Kabalagala branch. It was guided by the following objectives; to find out the different debt management strategies used by commercial banks, to examine the financial performance levels of commercial banks, and lastly to assess the relationship between debt management and financial performance in commercial banks. The study adopted a descriptive research design. The design is deemed appropriate because the main interest of the researcher is to explore the viable relationship and describing how the factors support the two variables that are under investigation. The researcher will collect data using administering questionnaires and interviews to obtain up-to-date and first hand information. The study uses a study population of 71 members representing beneficiaries from Centenary bank, staff members of Centenary Bank in Kampala. From this population a sample size of 60 respondents was got using sloven’s formula. The study made the following findings The research on debt management and financial performance of commercial banks in Uganda was conducted in Centenary’s bank Kampala branch. On examining the techniques of debt management employed by Centenary bank, the findings revealed that; determination of payment period, debt consolidation, debt cycling, security and safety of the advance, efficiency of management and liquidity level were the responses given by the respondents. The findings conclude that there is a high degree of financial performance levels of commercial banks and if this is maintained, it will constitute to the satisfaction of the financial performance of the commercial banks. According to the findings, the factors affecting debt management were regressed on factors under financial performance of commercial banks. The findings revealed that factors studied under debt management explain 74.7% of the factors leading to financial performance of commercial banks. The correlation coefficient 0.864 is strong and showed that debt management has a significant strong relationship on financial management in commercial banks. The study made the following conclusions According to the analysis made Centenary’s bank ensures that the credit and debt collection staff work as a team, excellent liaison and communication skills especially when identifying business risks and how to minimize bad debts. Centenary debt terms are effective since are set jointly by board members, Heads of departments and managing director. The study confirmed a strong positive relationship between debt management and financial performance in Centenary bank. The existence of an effective debt policy, the higher the financial performance levels. The study made the following recommendations The procedures in the previous chapter have laid a firm foundation upon which recommendations can be drawn from the study in light of the study objectives. Management of Centenary bank should ensure that the credit and debt management/collection staff work as a team, excellent liaison and communication skills especially when identifying business risks and how to minimize bad debts and provision for doubtful debts as well.
1.0 Introduction
Under this chapter the study discussed the background of the study, statement of the problem, the purpose of the study, objectives of the study, research questions, and the scope of the study, the conceptual framework, and the significance of the study.

1.1 Background of the study
A debt is a duty or obligation to pay, deliver goods or render services under express or implied agreement. One who owes is a debtor and the one to whom it is owed is a debtee, or creditor or lender, (businessdictionary.com). Debt refers to both short term and long term loan. Debt management is the regulation of the size and handling of the structure of the public debts. In other words, it’s the act taken to manage debts (Ferlex 2012)

Banks are firms that efficiently provide wide range of financial services for profits, Issn.2227-1902(Online version) Alternatively, Banks are profit making organizations performing as intermediaries connecting borrowers and lenders in bringing temporarily available resources from business and individual customers as well as providing loans for those in need of financial support (Uwuigbe, 2013; Driga, 2012). Commercial banks play a vital role in developing economies like Uganda, Kenya and Tanzania.

Not surprising, banks have an important role in the economy and society as a whole. Their central role is to make the community’s surplus of deposits and investments usually by lending it to people for various investment purposes: company growth, education, houses (Bart Baesens and Tony Van Gestel, 2009)

Banking in its most simple form is as old as authentic history. As early as 2000 B.C. Babylonians had developed a system of banks. (Shekhar. 2005).
Banking in Uganda started in 1962 and by then government owned institutions dominated not banking in the country (library of congress, 2014). Thereafter, around 1966, bank of Uganda became the central bank whereby it managed all the foreign exchange reserves and was also in charge of issue of currency.

Commercial banking was dominated by the Uganda commercial bank which had over fifty branches throughout the country and was wholly government owned. (Nannozi, 2011).

The Uganda development bank, a state owned development financial institution which used to channel loans from international sources into Ugandan enterprises and administered most of the development loans made to Uganda was among the commercial banks operating by that time. (Bank of Uganda. 2013).

The East African Development Bank was then established in the subsequent year and many other commercial banks were established by the 1960s and among them included: Bank of India, Standard chartered Bank and Bank of Baroda among others. (Juuko. 2014).

The bank was founded in 1983 as a credit trust, Centenary Rural Development Trust (CRDT), by Simeon Lutaakome, Hugh Francis Pulle, Paul Kateregga, Vincent Kirabo Maria, Emmanuel Mpande, and John Ogutu. In 1985, CRDT began to provide financial services to the public. Centenarybank.co.ug (2013)

Centenary Rural Development Bank Ltd started as an initiative of the Uganda National Lay Apostolate in 1983 as a credit Trust and it began operations in 1985 with the main objective of serving the rural poor and contributing to the overall economic development of the country. In 1993, Centenary Rural Development Bank Ltd was registered as a full service commercial Bank. Bank of Uganda, (2012)

The bank became a fully licensed commercial bank in 1993, after receiving a license from the Bank of Uganda. Since DFCU took over crane bank in January 2017, Centenary Bank has been the largest indigenous Ugandan bank. Bank of Uganda (2017)
The bank is a largest financial services provider in Uganda. It is primarily involved in the promotion of development through loans to rural farmers, processors of agricultural produce, small traders, small manufacturers, importers, and exporters. While engaged in all areas of commercial banking, the bank has a significant portion of its portfolio in the microfinance arena in an attempt to meet the needs of the many individuals and business entities with limited means. As of December 2015, the bank's assets were UGX: 1.974 trillion, with customer deposits of UGX: 1.380 trillion and shareholders' equity of UGX: 400 billion. Centenary Bank (8 April 2016).

As of December 2015, Centenary Bank had its headquarters in Kampala. Its headquarters building is Mapeera house on Kampala Road opposite City Square. The bank had a network of sixty four bank branches together with one hundred fifty seven (157) linked automated teller machines at 115 locations in the central, western, Northern, and Eastern Regions. The bank had 1,473,958 deposit accounts. EABW Staff (17 June 2012).

As of April (2014), Centenary Bank had employed more than two thousand two hundred Eleven individuals who were working in its numerous branches (over sixty four around the country) and also operating its automatic teller machines (ATMS, which were one hundred fifteen by then). As of December 2015, the bank's stock was privately owned by the following corporate entities and individuals: Roman Catholic Dioceses of Uganda (38.5%), Uganda Roman Catholic Secretariat (31.3%), Stitching Hivos-Triodos Fonds, a wholly owned subsidiary of Triodos Bank (18.3%), Solidarité Internationale pour le Développement et l'Investissement, a French investment bank (11.6%), and four Ugandan individuals (0.3%) BOU and Centenary bank (2015). Today it's the leading Microfinance Commercial Bank in Uganda serving over one million four hundred thousand (1,400,000) customers. Its services can be accessed across sixty seven (65) branches, 167 ATMs and the phone banking (CenteMobile) platform. Centenary bank (2017) and bank of Uganda.

1.2 Statement of the problem
Commercial banks using highly effective and efficient debt management strategies like debt consolidation loan, debt cycle strategy budgeting strategy among others such banks are protected
from bad debts and legal consequences. Centenary bank is faced with the problem of bad debts, administrative costs; Krugman, (1990).

In the bid to improve on its financial performance, the bank through its enormous efforts has tried to improve on the nature of loan assessment/debt management policies and to prevent bad debts from accumulating by ensuring that they establish strict internal guidelines which ensure that the loan is based on a sound credit analysis and also to establish a long term customer relationship between the bank and its customers. This has been done to enable the bank acquire some considerable valuable information which can be used to assess if the borrower is eligible for a loan. Centenary bank. (2013).

Despite all the above, the financial performance of some of these commercial banks is still poor as they still experience low profitability levels. (The Observer. September 2014). It is upon this that the researcher will be prompted to earn out research on the effect of debt management on the financial performance of commercial banks.

1.3 Purpose of the study
The study was to investigate the effect of debt management on the financial performance of commercial banks.

1.4 Specific Objectives of the study
i. To find out the different debt management strategies used by commercial banks.
ii. To examine the financial performance levels of commercial banks.
iii. To assess the relationship between debt management and financial performance in commercial banks.

1.5 Research questions
i. What are the different debt management strategies used by commercial banks?
ii. What are the financial performance levels of commercial banks?
iii. What is the relationship between debt management and financial performance in commercial banks?

1.6: Scope of the study

Time scope, the study was carried out from March to May 2017 because this time was appropriate for the researcher. This period will be used because the researcher believes that he will be able to coherently gather information from respondents as it enabled respondents to give responses that are typical of their opinion from observation is to be made over the period. The researcher also used data from Centenary Bank cited from 2010-2017.

Geographical scope, the study was carried out in Centenary bank at the head office in Kampala Uganda because Centenary bank has been managing a lot of debts in recent years.

Subject scope, the study covered the concept of debt management as the independent variable examining the different debt management strategies adopted by centenary banks. It also assessed the concept of financial performance as the dependent variable through its indicators these include; reduced bad debts, profit levels, changes in working capital and mention but a few. The study conceptualized the relationship between debt management and financial performance due to the researcher’s interest which was to find out how debt management affects the financial performance of commercial banks.

1.7: Significance of the study

The study tried to assist centenary bank to improve on its debt management policies. This resulted into maximizing profits and hence good financial performance of the bank

i. The study will help the researcher to know the different debt management strategies.

ii. The study will help the researcher to acquire knowledge about how debts are managed in commercial banks.

iii. The research will help the researcher to find out the relationship that exists between debt management and financial performance of commercial banks.
iv. The study will help the researcher to know the financial performance of commercial banks.

v. The study will also improve on the knowledge of the researcher.

vi. The study will help the researcher to know the importance of proper debt management.

vii. The study will also be useful to other researchers who are interested in carrying research on the same study.

1.8. Conceptual framework
Debt management was the regulation of the size and handling of the structure of the public debts. In other words, it's the act taken to manage debts (Ferlex 2012).
In the past debts were issued to finance wars, natural calamities and other extraordinary events. However, debts are now used for more peaceful means like real INS estimates among others. (Theocarakic 2014).
Conceptual framework

INDEPENDENT VARIABLE

DEBT MANAGEMENT

- Liquidity level
- Efficiency of management
- Debt consolidation
- Debt cycling strategy
- Security and safety of the advance

DEPENDENT VARIABLE

FINANCIAL PERFORMANCE

- High profitability
- High/low levels of financial performance
- Enough working capital
- Reduced bad debts

CONTROL VARIABLE

CENTRAL BANK POLICIES

- Interest rates
- Open market operation
- Legal reserve requirement
- Bank rate

Source: Adapted from Antipa Painfili M. (2014). How fiscal policies affect the price level and Modified by the researcher
CHAPTER TWO
LITERATURE REVIEW

2.0: Introduction
This chapter contains description of the variables as per different authors and researchers and other various academic sources and publications, it also define the major concepts contained under the researcher’s topic of debt management and financial performance of commercial banks and also several materials such as text books, magazines, pamphlets, newspapers and the internet will be consulted.

2.1 Related literature
The regulation of the size and handling of the structure of public debts, Actions taken to manage the debt have significant effect on the financial markets because government securities compete with private securities for the limited funds in the capital markets. (Brian. 2013)
Sonic writers believe that the performance of any business organization is measured by a number of factors which are both internal and external. They cited factors such as sales turnover caliber of management and ability to meet daily obligations of the business, (Belinda. 2001).
Ferlex, (2012). Defines debt management as the strategies which help the debtor to repay or handle their debts better. It involves working with creditors to restructure debts and enabling the debtor manage payments effectively. CIIMA (2015).

2.1.1 Debts
A debt refers to as a duty or obligation to pay, deliver goods or render services under express or implied agreement. One who owes is a debtor and the one to whom it is owed is a debtee, creditor or lender. (Senyonga.2000).

Debt arise when a firm sales its products or services on credit and does not receive cash immediately. It is an essential marketing tool, acting as a bridge for the movement of goods and services through the production and distribution stages to customers. Debtors constitute a substantial portion of current assets of several firms. (Pandev. 2010)
Using debts in an organization’s financial structure creates financial leverage that can multiply yields on the investment when the generated returns exceed its cost as interest paid on debt can be written off as an expense thus debt is normally the cheapest source of long term financing. (Vox. 2014).

Senyonga (2000) stipulates that, whereas it would not be prudent for the business to sell on credit, because of the problems of bad debts and getting money from customers, most business finds themselves at crossroads because if they refuse to give credit to their customers, others will do so.

Debt financing can take various forms and these include: Financial institution loans, Peer to peer lending, Credit cards, Home-equity loans and line of credit among others. (Pandey. 2010).

2.1.2 Debt management

The regulation of the size and handling of the structure of public debts, Actions taken to manage the debt have significant effect on the financial markets because government securities compete with private securities for the limited funds in the capital markets. (Brian. 2013).

Ferlex (2012). Defines debt management as the strategies which help the debtor to repay or handle their debts better. It involves working with creditors to restructure debts and enabling the debtor manages payments effectively. CIMA (2015) argues that credit and debt are directly related to each other. The amount of debt that you have affects your credit score, and the way you handle your debt and make payments affects your credit score. You need to understand that your credit history and credit score are two different things. (Keown & Petty 2014). Therefore when you think about credit or debt management, it is important to realize that these two things are linked together. (CIMA. 2015)

The management of any organization can use the following information before credit is given to customers;

Trade references whereby new customers should be required to bring references say horn former suppliers or Bankers, Financial statements, previous credit history, Department of trade and
industry, the management should also set up credit limits for new customers and the limits should be revised thoroughly. (Senyonga 2000)

Commercial banks should consider the following more factors before granting debts or lending money to their customers so as to ensure effective management of their debts and efficient fulfillment of their essential functions of borrowing and lending. These factors include, the liquidity levels, Profitability level, the purpose of the advance, Safety and security of the advance, (Shekhai, 2005),

Donald et al. (1996) defines debt risk simply as the potential that a financial institution will fail to meet its obligations in accordance with agreed terms. The goal of debt management is to maximize a financial institution’s risk-adjusted rate of return by maintaining debt risk exposure within acceptable parameters. Institutions need to manage the debt risk inherent in the entire portfolio as well as the risk in individual credits or transactions. Financial institutions should also consider the relationships between debt risk and other risks. The effective management of debt risk is a critical component of comprehensive approach to risk management and essential to the long-term success of any banking organization. Debt risk is also defined as the risk of loss due to the inability or unwillingness of a counter-party to meet its contractual obligations (Bank of Uganda, 2012).

Models proposed by Straka (2009) and Wheaton et al, (2010) have expressed default as the end result of some trigger event, which makes it no longer economically possible for a borrower to continue offsetting a credit obligation. Though there are various definitions of debt/credit risk, one outstanding concept portrayed by almost every definition is the probability of loss due to default. However, a lot of divergences emerge on defining what default is, as this is mainly dependent on the philosophy and/or data available to each model builder. Liquidation, bankruptcy filing, loan loss (or charge off), nonperforming loans (NPLs) or loan delayed in payment obligation, are mainly used at banks as proxies of default risk. This research paper has proxy credit risk by the ratio of Nonperforming loans to total loans advanced (Beck and Hesse, 2012; Calcagnini et al,2011; Maudos and Solis, 2011)
Greuning and Bratanovic (2003) defined debt risk as the chance that debtors or a financial instrument issuer will not be able to pay interest or repay the principal according to the terms specified in a debt agreement. It means that payments may be delayed or ultimately not paid at all, which may cause cash flow problems and affects financial institutions liquidity. Debt risk is the most important area in debt management. More than 80% of all financial institution balance sheet relate to credit. All over the world exposure to debt risk has led to many institutions failure. Debt risk exposure particularly to real estate led to widespread banking problems in Switzerland, Spain, the United Kingdom, Sweden, Japan and others. In Kenya, Obi era (2002) found that debt risk was only second to poor management in contributing to financial institutions failures. On perception Idarus (2005) found out that debt risk was the most important area of debt management in Uganda.

Soke and Yusoff (2009), in their study on debt management strategies of selected financial institutions in Malaysia found that majority of financial institution's losses stem from outright default due to inability of customers to meet obligations in relation to borrowing. Debt is the oldest and biggest risk that a bank, by virtue of its very nature of business inherits. To most of the transition economies lending activities have been controversial and a difficult matter. This is because business firms on one hand are complaining about lack of debt and the excessively high standards set by financial institutions, while financial institutions on the other hand have suffered large losses on bad loans. (according to Korir, Mark K)

Pyle (1997) in his study on credit risk management held that financial institutions needed to meet the forthcoming regulatory requirement for debt measurement and capital. However, it is a serious error to think that meeting regulatory requirements is the sole or even the most important reason for establishing a sound, scientific risk management system. Managers need reliable risk measures to direct capital to activities with the best risk. They need the estimate of the size of potential losses to stay within limits imposed by readily available liquidity, by creditors, customers, and regulators. Mechanism is needed to monitor positions and create incentives for prudent risk taking by divisions and individuals.
According to debt management framework in commercial banks by GTZ (released in 2000), debt is an integral part of financial services. When commercial banks issue loans, there is a risk of borrower default. When commercial banks collect deposits and on-lend them to other clients (i.e., conduct financial intermediation), they put clients’ savings at risk. According to GTZ framework, any institution that conducts cash transactions or makes investments risks the loss of those funds.

Development finance institutions should neither avoid risk nor ignore risk. Like other financial institutions, commercial banks face risks that they must manage efficiently and effectively to be successful. If the commercial banks do not manage its risks well, it will likely fail to meet its social and financial objectives. As Nancy et al. (2001) noted, when poorly managed risks begin to result in financial losses, donors, investors, lenders, borrowers and savers tend to lose confidence in the organization and funds begin to dry up. When funds dry up, Centenary bank is not able to meet its social objective of providing services to the poor and quickly goes out of business.

Nancy et al. (2001) also noted that managing debt is a complex task for any financial organization, and increasingly important in a world where economic events and financial systems are linked. Global financial institutions have emphasized debt management as an essential element of long-term success. Rather than focusing on current or historical financial performance, management and regulators now focus on an organization’s ability to identify and manage future risks as the best predictor of long-term success.

Therefore, since commercial banks are part of these financial institutions, they are also be aware of about risk particularly debt risk they face and the way how to manage these debts. On the other commercial banks were established to fill the gap in the financial services sector by providing funds to the poor and lower income group and thus alleviating poverty and enhance their business activities. Centenary also provide funds for start-up business or for working capital (Woller et al.,) In addition, some banks also provide funds for non-business activities such as for
education and emergencies purpose. In doing so agency problems like, moral hazard and adverse selection of clients exist because of information asymmetries.

Information asymmetries are the main obstacle for Centenary Bank to provide loans to clients. This finally result debt risks which is the one that negatively affect the performance of Centenary Bank (Nawai 2010). Therefore efficient debt risk management is required. According to Silwal (2003) to minimize these problems financial institutions usually require business proposal, borrower past debt information and collateral before approving the loan. Centenary Bank also offer credit through group-based lending method to mitigate agency problems, moral hazard and responsible to pay the loan or they will be denied access for the next loans. Adverse selection and to replace the collateral requirement.

In group-based lending, borrowers must form a group before applying loans and they also responsible to other loan members. If one member defaults, the others will be.

Nelson and Schwedt (2006), the banking industry has also made strides in managing debt risk. Until the early 1990s, the analysis of debt risk was generally limited to reviews of individual loans and banks kept most loans on their books to maturity. Today; debt risk management encompasses both loans reviews and portfolio analysis. Moreover, the development of new technologies for buying and selling risks has allowed many financial institutions to move away from the traditional book and hold lending practice in favor of a more active strategy that seeks the best mix of assets in light of the prevailing credit environment, market conditions, and business opportunities.

Cuthbertson and Nitzsche (2003), debt management technology has been transformed over the last decade. The speed of information flow and the sophistication of the international financial markets enable banks to identify, assess, manage and mitigate risk in a way that was just not possible ten years ago. The most current credit modeling software in place is Basel II accord.

This accord has certainly been a catalyst in spearheading the drive towards building appropriate credit risk modeling and capital adequacy requirements. However; it is no substitute whatsoever
for designing a business risk strategy Centenary bank will have to decide what their risk appetite is how to allocate their resources optimally and in what markets to complete.

According to debt management framework for Centenary bank GTZ (released in 2000) debt risk is the most frequently addressed risk for Centenary bank is the risk to earning or capital due to borrowers late and non-payment of loan obligation.

Debt risk encompasses both the loss of income resulting from the Centenary bank inability to collect anticipated interest earning as well as the loss of principal resulting from loan defaults. Debt risk includes both transaction risk and portfolio risk.

Mattu (2008) carried out the study on sustainability and profitability of the bank noted that efficiency and effectiveness were the main challenges.

To gain a better understanding on the nature of debt risk, it is necessary to introduce the types of credit risk involved in financial activities before any further discussion. Concerning the categorizing of debt risk, different authors have expressed various criteria.

What is adopted here is part of the views from Horcher (2005) cited in Xiuzhu (2007) who defines six types of debt risk, including default risk, counterparty pre-settlement risk, counterparty settlement risk, legal risk, country or sovereign risk and concentration risk. However, since legal risk is more likely to be considered as independent or belonging to operational risk nowadays and concentration risk, together with adverse selection as well as moral hazard, is more reasonably to be thought of as an important issue in managing debt risk rather than a type of the risk itself, in the following illustration, only the rest four kinds of debt risk mentioned by Horcher (2005) will be touched upon.

Horcher (2005) cited in Xiuzhu (2007) traditional debt risk relates to the default on a payment, especially lending or sales. And a likelihood of the default is called the probability of default. When a default occurs, the amount at risk may be as much as the whole liability, which can be recovered later, depending on factors like the creditors’ legal status. However, later collections
are generally difficult or even impossible in that huge outstanding obligations or losses are usually the reasons why organizations fail.

Girardone and Molyneux (2006) cited in Xiuzhu (2007) that settlement risk is a risk typically faced in the financial institutions market and it refers to the situation where one party to a contract fails to pay money or deliver assets to another party at the settlement time, which can be associated with any timing differences in settlement. Horcher (2005) cited in Xiuzhu (2007) points out that the risk is often related with foreign exchange trading, where payments in different money centers are not made simultaneously and volumes are huge. Terms used in debt control

Debt risk is an investor’s risk of arising from a borrower who does not make payments as promised. Such an event is called a default. Another term for debt risk is default risk. Investor losses include lost principal and interest, decreased cash flow, and increased collection costs. Debt risk can be mitigated using risk based pricing, covenants, credit insurance, tightening and diversification (Ross et al, 2008)

Collection policy. There are various policies that an organization should put in place to ensure that credit risk management is done effectively, one of these policies is a collection policy which is needed because all customers do not pay the firms bills in time. Some customers are slow payers while some are non-payers. The collection effort should therefore aim at accelerating collections from slow payers and reducing bad debt losses (Kariuki, 2010).

2.3 Financial Performance
Sonin writers believe that the performance of any business organization is measured by a number of factors which are both internal and external. They cited factors such as sales turnover caliber of management and ability to meet daily obligations of the business, (Belinda, 2001).

Financial measures are typically derived from or directly related to the chart of accounts and found in a company’s profit and loss statement or balance sheet, such as inventory levels or cash on hand. Brian (2006) remarked that the measurement system for business has been financial -
During the age of exploration, the activities of global trading companies were measured and monitored by accountants' double entry books of accounts. (Walter 2013). However, with the information edge, in the early twentieth century, enterprises understood the importance of reporting and evaluating of business unit performances, in order to find new capabilities for competitive success. (Belinda 2001). In the List decade there has been a growing criticism of traditional measurement control systems as being too narrow focused on financial measures. The reason is that conditions today are no longer the same as when traditional measurement systems emerged. (Evans, 2014)

Chris (2014) says that there are various indicators of financial performance levels of any given organization and these include: Survivor and growth, Level of asset turnover, Earnings per share, Creditor’s period, Gross profit margin, Amount of Shareholders wealth, Returns on capital employed, Shareholders returns and profits.

Financial performance is company’s ability to generate new resources, from day-to-day operations over a given period of time, performance is gauged by net income and cash from operations. A portfolio is a collection of investments held by an institution or a private individual (Apps, 1996) debt management is the human activity which integrates recognition of debt, debt assessment, developing strategies to manage it, and mitigation of debt using managerial resources.

http://www.businessdictionary.com financial performance is the measuring of results of firms policies and operations in monetary terms. It goes ahead and explains that all organizational enterprise have financial management which arises and bale as to the relative importance of financial and non financial indicators.

Financial performance goes hand in hand with the overall performance of employees Centenary bank and its performance is exemplary and impressive, Vision Reporter (6 January 2010)
Levis and Traelt (1994) asserted that bank performance can be measured through bank profits, expected operations and meet certain standards of size in terms of employees.

Organ and Bartain (1991) asserted that financial performance means the ability of an enterprise to attain its financial ends or purposes that brought it into existence. They also continued and defined it as a combination of returns on shareholders' investment, growth in size and efficient use of resources.

Ruth Mayhem (1985) has identified the major three methods used in measurement of financial performance and said that the method of performance measurement varies according to the work environment type of business enterprise and to some extent the business occupation.

Magaduetal (1995) advocated that for better financial performance to be realized, the people concerned should see that policies are implemented and modified and results there from should be discussed by the ones who find or see them beneficial to an enterprise. This possibly help to improve on the performance of an enterprise.

Ernest (1965) said since performance goes hand in hand with financial performance of an enterprise, it should carry text for some jobs should be possible to test the applicant skills in the job by giving them an actual job to do. This would help to test the competence and consequently help to reduce on financial losses. Therefore financial performance is very beneficial to any business enterprise since it is the reason for its existence. This means good financial performance is an indicator of growth, organization, prosperity, and transformation of any enterprise. Hence it acts as an encouraging factor to all employees and worker of the organization.

2.3. Relationship between debt management and financial performance

The major determinant of any organization's financial performance is debt management. (Shekhar, 2005.) Research shows that commercial banks using proper and efficient debt management strategies are financially performing far better compared to those employing poor debt management strategies. (Chris, 2005.) This therefore means that there is a positive
relationship between debt management and financial performance of commercial banks. (CIMA, 2015)

Banks operate in an environment of considerable risks and uncertainty. Bank debts have risk has always been a vicinity of concern not only to bankers but to all in the business world because the risks of a trading not fulfilling his obligations in full on due date can seriously jeopardize the affairs of the other partner. Debt management in banks has become more important not only because of the series of financial crisis that the world has experienced in the recent past, but also the introduction of Basel II Accord.

The objective of the study was to establish the relationship between debt risk management and profitability in commercial banks in Uganda. Both qualitative and quantitative methods were used in order to fulfill the main purpose of the study. A regression model was used to do the empirical analysis. The results obtained from the regression model show that there is an effect of credit risk management on profitability at a reasonable level. The findings and analysis reveal that debt risk management has an effect on profitability in all the commercial banks analyzed.

In today's environment of intense competitive pressures, volatile economic conditions, rising default rates and increasing levels of consumer and commercial debt, an organizations ability to effectively monitor and manage its debt risk could mean the difference between success and survival (Altman, 2002). The past decade has seen dramatic losses in the banking industry. Firms that had been performing well suddenly announced large losses due to credit exposures that turned sour, interest rate positions taken, or derivative exposures that may or may not have been assumed to hedge balance sheet risk (Santomero, 1997). In response to this, commercial banks have almost universally embarked upon an upgrading of their debt management and control systems. Due to the nature of their business, commercial banks expose themselves to the debt risks of default from borrowers. Prudent debt assessment and creation of adequate provisions for bad and doubtful debts can cushion the banks risk.
The main aim of Centenary bank is to operate profitably in order to maintain its stability and improve in growth and expansion. In the last twenty years, the banking sector has faced various challenges that include bad debts, non-performing loans (NFL), and fluctuations of interest rate among others, which have threatened the banks stability.

Shubhasis (2005), debt management is important to bank management because banks are “risk machines” they take risks; they transform them and embed them in banking products and services. Risks are uncertainties resulting in adverse variations of profitability or in losses. Various risks faced by commercial institutions include credit risk, market risks, interest rates risk, liquidity risk, and operational risk.

Various studies conducted have failed to establish any relationship between debt management and profitability in commercial banks in Uganda. The study by Mudiri (2003) had sought to determine debt management techniques applied by financial institutions in Uganda. Maina (2003) conducted a survey on risk based capital standards and the riskiness of bank portfolio in Uganda. Mwirigi (2006) conducted an assessment of debt risk techniques in commercial banks. The study by Ngare (2008) was a survey of credit risk management practices by commercial banks in Uganda. While the above research outcome provides valuable insights on credit risk management, they not induced a clear relationship between credit risk management and profitability in Commercial banks in Uganda. Given the gaps poised by the above empirical studies, this study poses the research question: “what is the relationship between debt risk management and profitability in commercial banks in Uganda?” The study hypothesizes that commercial banks should demonstrate to improve profitability of the bank after administration of a credit. This hypothesis is based on the argument that commercial banks’ largest credit risk is loans, although that credit risk exists throughout the other activities of the bank both on and off the balance sheet.

These other activities include acceptance, inter-bank transactions, trade financing, foreign exchange transactions, futures, swaps, options and guarantees. To answer the above question, the
study seeks to establish a relationship between credit risk management and profitability; this will be done by reviewing various profitability measures and in particular the ROE (return on equity) ratio. ROE has an important indicator to measure the profitability of the banks has been discussed extensively. Guo (2005) indicated that the efficiency of banks can be measured by using the ROE which illustrates to what extent banks use reinvested income to generate future plans.

A credit policy helps to define the framework within which credit were extended and managed. Hempel, Simonson, and Coleman (1994) stated that there are two credit evaluation systems in relation to banks assessment of loan applications. Judgmental credit analysis which relies on the consumer loan officer's experience in assessing the loan and empirical credit analysis also referred to as credit scoring which assesses applicants based on scores applied to various applicant characteristics. Examples of applicant characterizes assessed include age, employment history, performance on loans currently held and types of accounts held (Shubhasis, 2005).

Profitability is the primary goal of all business ventures. Without profitability the business will not survive in the long-run. So measuring current and past profitability is very important. Profitability is measured by income and expenses. Income is generated from the activities of the business. A business that is highly profitable has the ability to reward its owners with a large return on the investment (Waweru & Kalani, 2009).

A profitable banking sector is better able to withstand negative shocks and contribute to the stability of the financial system. Important changes in the operating environment particularly credit risk is likely to affect bank profitability. Empirical analysis finds that both bank-specific as well as macroeconomic factors are important determinants in the profitability of banks (Ross, Westerfield, Jordan, & Jaffe, 2007).

A debt policy helps to define framework within which debt will be extended and managed. Hempel, Simonson and Coleman (1994) stated that there are two debt evaluation system in relation to financial institution assessment of loan applications, judgmental debt analysis which
relies on the consumer loan officer's experience in assessing the loan and empirical debt analysis also referred to as debt scoring which assesses applicants based on scores applied to various applicant characteristics. Examples of applicant characteristics assessed include age, employment history, performance on loans currently held, and types of accounts held (Shubhasis, 2005).

Increasing shareholders' return epitomizing Centenary bank is one major objective of micro financial management. The objective often comes at the cost of increasing debt risk. Centenary bank faces various risks such as bad debts risk, interest risk, market risk, and credit risk. Off balance risk, technology and operational risk, foreign exchange risk, country risk, liquidity risk and insolvency risk (Tandelilin, Kaaro, Mahadwartha, and Suprinyatna, 2007). Centenary bank's motivation for debt management comes from those debts which can lead to micro financial institution under performance. Issues of debt management in the banking sector have greater impact not only on the financial institutions but also on economic growth (Tandelilin et al, 2007).

Tai (2004) includes that some empirical evidence indicates that the past return shocks emanating from banking sector have significant impact not only on the volatiles of foreign exchange and aggregate stock markets, but also on their prices, suggesting that banks can be a major source of contagion during the crisis. Financial institutions which better implement the debt risk may have some advantages (1) it increases their efficiency and performance; (2) it increases their reputation and opportunity to attract more wide customers in building their portfolio of fund resources; (3) it is in line with obedience function toward the rule. Cebenoyan and Strahan (2004) find evidence that Centenary bank which have advanced in debt management have greater credit availability, rather than reduced debt risk banking system. The greater credit availability leads to the opportunity to increase the productive assets and Centenary bank profit.

Financial performance (profitability) is the primary goal of all business ventures. Without profitability, the business will not survive in the long run, so measuring current and past profitability is very important. Profitability or financial performance is measured by income and expenses. Income is generated from the activities of the business. A business that is highly profitable has the ability to reward its owners with a large return on the investment (Waweru and
Kalani, 2009). Profitable banking sector is better able to withstand negative shocks and contribute to the stability of the financial system. Important changes in the operating environment, particularly debt risk, is likely to affect bank profitability. Empirical analysis finds that both bank-specific and macroeconomic factors are important determinants in the profitability of banks (Ross, Westerfield, Jorden and Jaffe, 2007).

Misati et al (2010), stated that as pressure mounts on the banking industry’s financial performance resulting from over reliance on interest income by financial institution, it is strategically imperative that financial institutions focus on other revenue streams. National industrial credit bank (NIC) has introduced new products to diversify revenue and to keep its head above the water, they added that part of NIC bank’s strategy has been to diversify revenue, by expanding the scope of its activities in addition to its predominant asset finance focus and offering more general commercial banking facilities and other products. Premium financing and provision of custodial services have reduced over reliance on interest income. Centenary bank are already harvesting the fruits of prudent risk management practices.
CHAPTER THREE
RESEARCH METHODOLOGY

3.0 Introduction
This chapter contained the research design, sampling design and type, different methods that the researcher used to collect data from various sources and also to interpret the data so as to come up with a conclusion on this topic of debt management and financial performance of commercial banks

3.1 The Research design
The researcher adopted a descriptive research design. The design was deemed appropriate because the main interest of the researcher was to explore the viable relationship and describing how the factors support the two variables that are under investigation. The descriptive design method provided quantitative data from cross section of the research design.

3.3 Study population
The study population referred to the large groups of people or the study population for this research which comprised of 71 members representing beneficiaries from Centenary bank, staff members of Centenary Bank in Kampala.

3.4 Sample size
This research involved 60 respondents. The sample was selected by the researcher to be the representative of the entire population. This particular sample size was selected because it was easier to manage and it was enough to generate findings as well as to generalize the findings to a bigger population.

The sample size was determined using Slovene’s formula as expressed below;
\[ n = \frac{N}{1 + Ne^2} \]

Where \( n \) = Sample size
\( N \) = Population size
\( e \) = Sample probability = 0.05
\( N = \) Study population = 71 respondents

\[ n = \frac{71}{1 + 71 \times (0.05)^2} \]

\[ n = \frac{71}{1.1775} \]

\( n = 60 \) respondents

**Table 1: Sample size and population in percentage**

<table>
<thead>
<tr>
<th>Designation</th>
<th>Sample size (n)</th>
<th>Population (N)</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beneficiaries</td>
<td>25</td>
<td>31</td>
<td>50</td>
</tr>
<tr>
<td>Staff members</td>
<td>35</td>
<td>40</td>
<td>50</td>
</tr>
<tr>
<td>Grand total</td>
<td>60</td>
<td>71</td>
<td>100</td>
</tr>
</tbody>
</table>

**3.5 Sampling techniques**

Sampling was a process of selecting a few representatives from a big group to become the basis for estimating or predicting facts, situations or outcomes regarding the bigger group (Kumar 1999).

Stratified random sampling was used in the study, the researcher divided the strata’s into two that was to say stratum of beneficiaries, and staff members. Each stratum represented a number of members from which the 60 representatives were selected using simple random sampling.

**3.6 Self-administered questionnaire**

Questionnaire was prepared by the researcher and sent to selected respondents. The Researcher comprehensively explained to the respondents the purpose of the study with in the questionnaire. The questionnaire comprise of both structured and unstructured questions.
Information was gathered through the use of self-administered questionnaires using a 5 linker scale of strongly agree (A)-I don't know (E). Respondents were given the questionnaire and guided on how to fill the questions independently. The forms were returned after completion.

3.7 Interview guides
These involved face-to-face interactions with the respondents where the researcher asked questions which were answered by the respondents.

The researcher used interview guide to collect data from the field. The respondents who were interviewed were the managers and staff of Centenary bank Uganda.

3.8 Data quality control

3.8.1 Validity
Amin (2005) defines validity as the appropriateness of the instrument. Experts were consulted about the content of instruments, ambiguity of question items and relevancy. Validity is important in determining whether the questionnaire instrument and interview manuals are relevant to the study construct validity was obtained by the help of the supervisors input who reviewer during the proposal stage of the study. According to Amin (2004), validity be and in this case was assured by use of the Content Validity Index (C.V.I)

\[
\text{C.V.I} = \frac{\text{Agreed items by all judges as suitable}}{\text{Total number of items being judged}}
\]

3.8.2 Reliability
Reliability of data refers to whether repeating the same measurement under conditions yields the same results (Kumar, 1990). Amin (2005) defines reliability as consistency of the instrument in measuring whatever it is intended to measure. The reliability of the questionnaires was improved through pretesting of pilot samples from the field which enabled the rephrasing of some questions. Additionally, reliability of the items was done with the application of the Cronbach Alpha coefficient as illustrated below;
\[ A = \frac{K}{K-1} \left( \frac{1-\Sigma SD^2}{\Sigma Dt^2} \right) \]

Where \( A \) = Reliability, \( 1 - \Sigma SD^2 \) = sum of the variance of the individual items in the questionnaire, \( \Sigma Dt^2 \) = variance of the entire questionnaire, and \( K \) = number of items in the questionnaire.

### 3.8.3 Data analysis techniques

After collecting of data, the researcher studied responses from the questionnaire so as to ensure that the information obtained was complete, consistent, accurate and reliable. Analysis of the data was done using both qualitative and quantitative methods. Descriptive analysis was also carried out on the data.

Quantitative data was processed by coding and sorting in order to ensure matching of the data with the study objectives. After this, data was analyzed using the statistical package for social scientists (SPSS) because of its accuracy in statistical data analysis and presentation. Under this system of quantitative analysis, a higher means score indicated a positive statement meaning that majority of the respondents tended to agree with such a statement and vice versa.

The researcher also used Statistical Package for Social Scientists (SPSS) to establish the relationship between the variables under the research topic. The data was tabulated and collected into percentages and frequency tables.

### 3.8.4 Ethical consideration

It was important during the process of research for the researcher to make respondents aware that participation was voluntary and that participants are free to refuse to answer any question and to withdraw from participation at any time they were chosen.

Another important consideration involved getting the informed consent of those who were going to be met during the research process which involved interviews and observations on issue that were dedicated to some respondents; the researcher undertook to bear this seriously in mind.

Personal privacy and confidentiality was very important since the report was public. If private information had been accessed, the confidentiality had to be maintained (Stephan P. 2002). All respondents’ were therefore be re-assured of this before being involved.
Accuracy and honesty during research was very important for academic research to be protected. The researcher treated the research with utmost care, in that there was no temptation to cheat and generate research results, since it would jeopardize the concept of research Lovanga. V (2003), Milton H. Spenser (2008).

3.8.5 Study limitation

The researcher was expected to face some of the limitations during the research especially when it came to interviewing. The following were likely to occur;

Challenge of limited time to beat the deadline as it was stipulated in the time scope,

Reluctant to respond to give the required information as they are uneasy and suspicious of the information to be gathered and thinking that the data might be used for other motives against them. However, this was solved by letting the respondents clearly know that the research was purely for academic purposes.

The researcher was expected to get few responses from the respondents since they were afraid that the researcher was seeking information to their competitors of their organization.

The researcher was expected to face financial challenges while carrying out the study. This however, was solved through adjusting the estimated budget by minimizing expense as much as possible.
4.0 Introduction
The data was collected using both quantitative and qualitative methods, which was then analyzed and processed to make it useful and understandable. Data was collected, tabulated and then analyzed.

4.1 Socio-demographic Characteristics

4.1.1 Gender of respondents
The respondents were asked to give their gender. This enabled the researcher to have a proportionate representation of both the females and males.

Table 2: Showing gender of respondents

<table>
<thead>
<tr>
<th>Gender</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>50</td>
<td>83.3</td>
</tr>
<tr>
<td>Female</td>
<td>10</td>
<td>16.7</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Primary data 2017

The table 2 above shows that the majority of the respondents represented by (83.3%) were male and the females followed with (16.7%). This implies that the study was gender sensitive and collected views from both males and females since both sexes have adequate information on the impact of debt management on financial performance.

4.1.2 Age of the respondents
Respondents were asked questions related to their age and the results are shown in the table below:
Table 3: Age distribution of respondent

<table>
<thead>
<tr>
<th>Age group</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 18</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>19 - 24</td>
<td>5</td>
<td>8.3</td>
</tr>
<tr>
<td>25 - 30</td>
<td>15</td>
<td>25</td>
</tr>
<tr>
<td>40 - 49</td>
<td>30</td>
<td>50</td>
</tr>
<tr>
<td>50 - above</td>
<td>10</td>
<td>16.3</td>
</tr>
<tr>
<td>TOTAL</td>
<td>60</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Primary data 2017

Table 3 above show that 8.3% of the respondents were between 19 - 24 years, 25% were between 25-30 years of age, 50% were between 40-49 years of age, 10% were between above 50 years of age. This means that majority of the respondents are between 40-49 years of age followed by those above the age of 25 – 30 years.

4.1.3 Educational status of the respondents

Respondents were asked questions related to their educational status and their responses are shown in the table below;

Table 4: Educational level of the respondents

<table>
<thead>
<tr>
<th>Education levels</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Secondary</td>
<td>10</td>
<td>16</td>
</tr>
<tr>
<td>University</td>
<td>30</td>
<td>50</td>
</tr>
<tr>
<td>Tertiary</td>
<td>20</td>
<td>34</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: primary data 2017

Table 4 above shows educational levels of the respondents and it revealed that none had reached primary school, 16% of the respondents had secondary education, 50% received university education, and 34% had tertiary education. This means that the majority of the respondents had University level of education as compared to tertiary and secondary education.
Level of management
Respondents were asked questions related to their level of management and their responses are shown in the table below;

Table 5: level of management of the respondents

<table>
<thead>
<tr>
<th>Education levels</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top level</td>
<td>15</td>
<td>25</td>
</tr>
<tr>
<td>Middle level</td>
<td>40</td>
<td>66.7</td>
</tr>
<tr>
<td>Lower level</td>
<td>5</td>
<td>8.3</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: primary data 2017
Table 5 above shows levels of management of the respondents and it revealed that, 25% of the respondents were in the top level, 66.7% were in the middle level, and 8.3% were in the lower level of management. This means that the majority of the respondents were in the middle level of management as compared to top level of management.

4.2 To find out the different debt management strategies used by commercial banks

Table 6: The strategies of debt management employed by Centenary bank

<table>
<thead>
<tr>
<th>Responses</th>
<th>Frequency</th>
<th>Percentages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt consolidation</td>
<td>30</td>
<td>50</td>
</tr>
<tr>
<td>Debt cycling strategy</td>
<td>20</td>
<td>33.3</td>
</tr>
<tr>
<td>Liquidity level</td>
<td>5</td>
<td>8.3</td>
</tr>
<tr>
<td>Security and safety of the advance</td>
<td>5</td>
<td>8.3</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Primary data 2017
Table 6 show the strategy of debt management employed by Centenary bank and the findings revealed that;
Debt consolidation was one of the techniques of debt management employed by Centenary bank. Majority (50%) of the respondents noted that the bank ensures that payments of debts are first determined before the bank goes into debt either with a fellow bank or with individual. No credit is taken either by the bank or by any individual before agreeing on the payment period.

Furthermore, 33.3% of the respondents noted that decision on debt cycling is yet another technique used by the bank to manage debts. The respondents stressed that the banks usually makes decision on the nature of contract to be entered with the debtor before credit is issued to the debtor.

Over 8.3% of the respondents also said that assessment of liquidity level is another technique employed by Centenary bank in debt management. The respondents said that the bank first determines the ability of the debtor to pay the debt before she or he is considered to take a credit from the bank. This helps the bank work out other means of debt recovery once the client fails to honor the settlement of debt by the debtor.

Finally, 8.3% of the respondents noted that contacting of safety and security in advance is also done by the bank to find out the credit record of the client before he goes into credit with the bank. If the client is found to have bad credit record, then the bank can stop any issuance of credit to such a client.

4.3 The impact of debt management on bank performance

Table 7: The impact of debt management on bank performance

<table>
<thead>
<tr>
<th>Responses</th>
<th>Frequency</th>
<th>Percentages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clear cash flows</td>
<td>30</td>
<td>50</td>
</tr>
<tr>
<td>Increase in revenue</td>
<td>10</td>
<td>16.7</td>
</tr>
<tr>
<td>Reduction in losses</td>
<td>10</td>
<td>16.7</td>
</tr>
<tr>
<td>Achievement of organizational goal</td>
<td>10</td>
<td>16.7</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Primary data 2017
Table 7 Shows the impact of debt management on bank performance and the findings reveal that; Majority (50%) of the respondents noted that clear cash flow is one of the impacts of debt management in Centenary bank. The respondents noted that once debts are well managed, the bank records steady cash flow and this helps banks evaluate their performance. Every bank desires to have a steady cash flow and once it is gained, performance is thus recorded.

In addition to the above, 16.7% of the respondents noted that increase in the bank’s revenue base is yet another impact of debt management in Centenary bank. The respondents noted that though effective debt management, the bank registers increase in its revenue, thus effective performance.

Over 16.7% of the respondents noted that reduction in loses was yet another impact of debt management in Centenary bank. The respondents noted that debt management helps the bank to minimize losses as they would accrue is the bank did not manage her debts effectively.

Finally, 16.7% of the respondents noted that achievement of organizational goal is yet another impact of debt management. The respondents stressed that once the bank manages its debts, then it helps is achieve its goals and objectives because many banks strive to achieve organizational goals and objectives through a steady performance.

4.4 The challenges of debt management in Centenary bank

Table 8: The challenges debt management in Centenary bank

<table>
<thead>
<tr>
<th>Responses</th>
<th>Frequency</th>
<th>Percentages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fraud</td>
<td>30</td>
<td>50</td>
</tr>
<tr>
<td>Lack of debt management software</td>
<td>20</td>
<td>33.3</td>
</tr>
<tr>
<td>Poor record keeping</td>
<td>5</td>
<td>8.3</td>
</tr>
<tr>
<td>Poor coordination with other banks</td>
<td>5</td>
<td>8.3</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Primary data 2017
Table 8 Show the challenges of debt management in Centenary bank and the findings revealed that;

Majority (50%) of the respondents noted that fraud is one of the major challenges of debt management in Centenary. The respondents noted that many of the debt officials are usually fraud by the public and this makes it hard for the bank to freely operate. Just like any other business that fear loses, banks too fear loses and loses can easily trigger their collapse.

Over 33.3% of the respondents noted that lack of debt management software is yet another challenge to debt management in the bank. The respondents noted that with the advance of science and technology, many banks still lack basic software to manage their debt data banks, thus putting the bank in risk.

Furthermore, 8.3% of the respondents note that poor record keeping is still another challenge of debt management in Centenary bank. The respondents noted that there is a challenge of book keeping and this is a very challenging issue for the bank in its operations as loss of records is less avoided.

Finally, 8.3% of the respondents noted that another challenge of debt management is poor coordination with other banks. The respondents noted that many banks in Uganda do not share information and it becomes very hard to find out the debt record of many bank debtors. This is worsened by a weak reference bureau in Uganda.

The first objective was set to find out the different debt management strategies used by commercial banks for which the researcher intended to find out how satisfactorily these strategies and the degree at which they stand when compared to financial performance. Debt management strategies were measured using 11 qualitative questions in which respondents were required to indicate the extent to which they agree or disagree with each statement by indicating the number that best describe their perceptions. All the fifteen items on leadership styles were liker scaled using four points ranging between 1 = Strongly Disagree, 2= Disagree, 3= Agree and
4= Strongly Agree. Their responses were analyzed and described using Means as summarized in table 9 below.

Table 9: Showing the different debt management strategies used by commercial banks

<table>
<thead>
<tr>
<th>QUESTION</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Verbal interpretation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1  Have commercial banks adopted debt management strategies?</td>
<td>3.87</td>
<td>1.196</td>
<td>High</td>
</tr>
<tr>
<td>2  Are debt management strategies of importance to commercial banks?</td>
<td>2.15</td>
<td>1.406</td>
<td>Low</td>
</tr>
<tr>
<td>3  Are there any factors considered by commercial banks before choosing the debt management strategies to use?</td>
<td>2.51</td>
<td>1.467</td>
<td>High</td>
</tr>
<tr>
<td>4  Are the debt management strategies used by commercial banks effective?</td>
<td>2.56</td>
<td>1.501</td>
<td>High</td>
</tr>
<tr>
<td>5  Are debts management strategies handled very well by commercial banks?</td>
<td>3.90</td>
<td>1.209</td>
<td>High</td>
</tr>
<tr>
<td>6  Are debt management strategies responsible for the increase in the profitability of commercial banks?</td>
<td>2.46</td>
<td>1.43</td>
<td>Low</td>
</tr>
<tr>
<td>7  Are debt management strategies used by commercial banks efficiently and effectively?</td>
<td>2.90</td>
<td>1.501</td>
<td>High</td>
</tr>
<tr>
<td>8  Do debt management strategies hinder financial performance of commercial banks?</td>
<td>2.13</td>
<td>1.151</td>
<td>Low</td>
</tr>
<tr>
<td>9  Have debt management strategies changed over time in commercial banks</td>
<td>3.87</td>
<td>1.196</td>
<td>High</td>
</tr>
<tr>
<td>10 Are debt management strategies effective in financial performance of commercial banks?</td>
<td>2.15</td>
<td>1.406</td>
<td>Low</td>
</tr>
<tr>
<td>11 Do debt management strategies vary with financial performance of commercial banks?</td>
<td>3.87</td>
<td>1.196</td>
<td>High</td>
</tr>
<tr>
<td>Average mean</td>
<td>2.94</td>
<td></td>
<td>High</td>
</tr>
</tbody>
</table>

The means in table 9 indicate that debt management strategies used by commercial banks were rated at different levels. Items which were highly rated among others included commercial banks adopted debt management strategies (Mean = 3.87), Are there any factors considered by commercial banks before choosing the debt management strategies to use (Mean = 2.51), Are the debt management strategies used by commercial banks effective (Mean = 2.56), Are debts management strategies handled very well by commercial banks (Mean = 3.90), Are debt management strategies used by commercial banks efficiently and effectively (Mean = 2.90), Have debt management strategies changed over time in commercial banks (Mean = 3.87) and
Lastly, do debt management strategies vary with financial performance of commercial banks (Mean = 3.87)?

The findings revealed that some items were rated low which included, are debt management strategies of importance to commercial banks (Mean = 2.15), are debt management strategies responsible for the increase in the profitability of commercial banks (Mean = 2.46), do debt management strategies hinder financial performance of commercial banks (Mean = 2.13) and lastly are debt management strategies effective in financial performance of commercial banks (Mean = 2.15).

The findings conclude that there is a high degree of debt management strategies used by commercial banks and if this is maintained, it will constitute to the satisfaction of the financial performance of the commercial banks.

When you sum up the overall mean it came to be (Mean = 2.94) meaning that the debt management strategies are high and so influential if commercial banks are to realize financial performance.

4.3 To examine the financial performance levels of commercial banks.

The second objective was set to examine the financial performance levels of commercial banks for which the researcher intended to find out how satisfactorily financial performance levels and the degree at which they stand when compared to performance. Financial performance levels of commercial banks were measured using 10 qualitative questions in which respondents were required to indicate the extent to which they agree or disagree with each statement by indicating the number that best describe their perceptions. All the fifteen items on leadership styles were likert scaled using four points ranging between 1= Strongly Disagree, 2= Disagree, 3= Agree and 4= Strongly Agree. Their responses were analyzed and described using Means as summarized in table 10 below.
Table 10: Showing the financial performance levels of commercial banks.

<table>
<thead>
<tr>
<th>Statement</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Verbal interpretation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Are commercial banks having a good/promising financial performance levels?</td>
<td>3.72</td>
<td>1.413</td>
<td>Very High</td>
</tr>
<tr>
<td>2 Are there factors affecting the financial performance levels of commercial banks?</td>
<td>4.10</td>
<td>1.071</td>
<td>Very high</td>
</tr>
<tr>
<td>3 Are commercial banks having any indicators of their financial performance?</td>
<td>4.15</td>
<td>1.014</td>
<td>Very high</td>
</tr>
<tr>
<td>4 Are there any efforts taken by commercial banks to improve/maintain their financial performance levels?</td>
<td>3.13</td>
<td>1.301</td>
<td>High</td>
</tr>
<tr>
<td>5 Are they making profits out of their performance?</td>
<td>2.59</td>
<td>1.428</td>
<td>High</td>
</tr>
<tr>
<td>6 Is there any other factor influencing financial performance other than debt management?</td>
<td>4.28</td>
<td>0.887</td>
<td>Very high</td>
</tr>
<tr>
<td>7 Is financial performance important towards the development of commercial banks?</td>
<td>4.44</td>
<td>0.598</td>
<td>Very high</td>
</tr>
<tr>
<td>8 Is their improvement in financial performance of commercial banks?</td>
<td>4.26</td>
<td>0.88</td>
<td>Very high</td>
</tr>
<tr>
<td>9 Are their changes in performance of commercial banks over time</td>
<td>4.13</td>
<td>1.095</td>
<td>Very high</td>
</tr>
<tr>
<td>10 Are their factors hindering financial performance of commercial banks?</td>
<td>3.87</td>
<td>1.26</td>
<td>Very high</td>
</tr>
<tr>
<td>Average mean</td>
<td>3.87</td>
<td></td>
<td>Very High</td>
</tr>
</tbody>
</table>

The means in table 10 indicate that the financial performance levels of commercial banks were rated at different levels. Items which were highly rated among others included Are commercial banks having a good/promising financial performance levels (Mean = 3.72), Are there factors affecting the financial performance levels of commercial banks (Mean = 4.10), Are commercial banks having any indicators of their financial performance (Mean = 4.15), Is there any other factor influencing financial performance other than debt management (Mean = 4.28), Is financial performance important towards the development of commercial banks (Mean = 4.44), Is their improvement in financial performance of commercial banks (mean = 4.26), Are their changes in performance of commercial banks over time (mean = 4.13) and lastly Are their factors hindering
financial performance of commercial banks (Mean = 3.87). All these were rated as very high meaning that the respondents strongly agreed to the response.

The findings revealed that some items were rated high which included, Are there any efforts taken by commercial banks to improve/maintain their financial performance levels (Mean = 3.13) and Are they making profits out of their performance (Mean = 2.59), meaning that the respondents agreed to the statement according to the response mode.

The findings conclude that there is a high degree of financial performance levels of commercial banks and if this is maintained, it will constitute to the satisfaction of the financial performance of the commercial banks.

When you sum up the overall mean it came to be (Mean = 3.87) meaning that financial performance levels of commercial banks are very high and so influential if commercial banks are to realize high performance.

4.4 To assess the relationship between debt management and financial performance in commercial banks.

The researcher studied the relationship of debt management and financial performance in commercial banks. A null hypothesis: “Debt management has no significant relationship with financial performance in commercial banks” was developed.

<table>
<thead>
<tr>
<th></th>
<th>Financial performance</th>
<th>Debt management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial performance</td>
<td>Pearson Correlation</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>0.036</td>
</tr>
<tr>
<td>Debt management</td>
<td>Pearson Correlation</td>
<td>0.864</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>0.036</td>
</tr>
</tbody>
</table>
Table 11 above revealed debt management has significant effect on financial performance since the p-value (0.036) is less than the level of significance. The correlation coefficient is strong (0.864) which showed that debt management has strong relationship on financial performance of commercial banks. In order to determine the magnitude of the relationship, regression analysis was conducted.

4.4.2 Regression of debt management on financial performance of commercial banks

Table 12: Regression of debt management on financial performance of commercial banks

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>Change Statistics</th>
<th>R Square Change</th>
<th>F Change</th>
<th>df1</th>
<th>df2</th>
<th>Sig. F Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0.864</td>
<td>0.747</td>
<td>0.621</td>
<td>0.49839</td>
<td>0.747</td>
<td>5.912</td>
<td>1</td>
<td>2</td>
<td>0.136</td>
<td></td>
</tr>
</tbody>
</table>

According to table 12 above, the factors affecting debt management were regressed on factors under financial performance of commercial banks. The findings revealed that factors studied under debt management explain 74.7% of the factors leading to financial performance of commercial banks. The correlation coefficient 0.864 is strong and showed that debt management has a significant strong relationship on financial management in commercial banks.
CHAPTER FIVE
SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction
This chapter contains the summary of the findings, conclusion and recommendations.

5.1 Summary of the Findings

5.1.1 The different debt management strategies used by commercial banks
The research on debt management and financial performance of commercial banks in Uganda was conducted in Centenary’s bank Kampala branch. The research was guided by research objectives which included; examining the debt management techniques employed by Centenary bank, finding out the financial performance levels of commercial banks, and finding out the relationship between debt management and financial performance in Centenary bank.

On examining the techniques of debt management employed by Centenary bank, the findings revealed that; determination of payment period, debt consolidation, debt cycling, security and safety of the advance, efficiency of management and liquidity level were the responses given by the respondents.

5.1.2 To examine the financial performance levels of commercial banks.
The findings concluded that there is a high degree of financial performance levels of commercial banks and if this is maintained, it will constitute to the satisfaction of the financial performance of the commercial banks.

When you sum up the overall mean it came to be (Mean = 3.87) meaning that financial performance levels of commercial banks are very high and so influential if commercial banks are to realize high performance.

On the impact of debt management strategies on financial performance, the findings revealed that; clear cash flows, reduced bad debts, increase in revenue, reduction in losses, and achievement of organizational goal were the answers given by the respondents.
On the challenges of debt management in Centenary bank, the findings revealed that; fraud, lack of debt management software, poor record keeping, and poor coordination with other banks were the answers given by the respondents.

5.1.3 To assess the relationship between debt management and financial performance in commercial banks

According to the findings, the factors affecting debt management were regressed on factors under financial performance of commercial banks. The findings revealed that factors studied under debt management explain 74.7% of the factors leading to financial performance of commercial banks. The correlation coefficient 0.864 is strong and showed that debt management has a significant strong relationship on financial management in commercial banks. Conclusions and recommendations were then made after the summary of the study.

5.2 Conclusions

According to the analysis made Centenary’s bank ensures that the credit and debt collection staff work as a team, excellent liaison and communication skills especially when identifying business risks and how to minimize bad debts. Centenary debt terms are effective since are set jointly by board members, Heads of departments and managing director.

The study confirmed a strong positive relationship between debt management and financial performance in Centenary bank. The existence of an effective debt policy, the higher the financial performance levels.

It is also evident that Centenary stakeholders play a big role in improving the credit policy for example ensuring that long term debts can be recovered beyond one financial year and short term debts are recovered in one financial year.

It was also noted that collection staff was inadequate. This shows that lesser efforts were put towards debt collection. Low collection levels impacts on the poor performance of Centenary bank.
Although new structures were introduced and recommendations made regarding internal controls, such structures were in some instances shallow, while some of the key recommended measures such as improving risk management either lacked policies to guide their execution or were simply not implemented. There is great need for the bank to improve on credit period, credit limit, cash discounts before advancing credit.

5.3 Recommendations

The procedures in the previous chapter have laid a firm foundation upon which recommendations can be drawn from the study in light of the study objectives.

Management of Centenary bank should ensure that the credit and debt management/collection staff work as a team, excellent liaison and communication skills especially when identifying business risks and how to minimize bad debts and provision for doubtful debts as well.

Management of Centenary bank should implement an effective debt policy in order to achieve high financial performance levels in terms of returns.

Centenary bank should engage the stakeholders in identifying problems in debt collection performance in order to get results. This is healthy for financial accountability and recovery of loans. Engaging the stakeholders in designing measures so as to follow up projects to ensure the loan agreements are implemented and also credit period being adequate and satisfactory to all her customers.

Furthermore, Centenary bank should ensure that it acquires latest record keeping software like debt management software that would enable Centenary bank to effectively manage debts. The world is developed and many banks are doing well because of adoption of better technological software that helps to do work properly while minimizing losses and as well as risks.

5.4 Areas for further research

The study did not exhaust all possible variables that affect debt management and financial performance levels thus more investigation should be conducted in the following variables under.
1. Credit policy and profitability
2. Service quality and debt collection performance
3. Customers’ ability to pay and debt collection performance
4. Micro Economics instability and destruction performance
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APPENDIX A: QUESTIONNAIRE

Research questionnaire for management

Dear respondent,

I am MAMBULE YOSIA, a third year student of Kampala international university doing research about; debt management and financial performance of commercial banks.

This questionnaire is intended to facilitate me in finding out the effect of debt management on the financial performance of commercial banks. It is strictly for academic purposes and nothing else and all the information given will be treated confidentially.

Your co-operation and assistance will be highly appreciated.

Section A: BIO DATA

Tick where appropriate

1) Sex
   a) Male □                     b) female □

2) Age
   a) 18-25 □                   b) 26-35 □
   c) 36-45 □                   d) 46 and above □

3) Level of management
   b) Top level □               b) middle level □
   c) Lower level □

4) Education level
   a) Diploma and below □      b) bachelor’s degree □
   c) Masters □                d) beyond masters □
5) How long have you been employed in this organization that is to say; Centenary bank

a) 1-3 years  

b) 4-6 years

c) 7-9 years  

d) 10 years and above

6) Level of experience

a) 3 years and below  

b) 4-6 years

c) 7 years and above

For the questions below, please tick one appropriate box for each statement to show how much you agree or disagree. On a scale of 5 to 1: 5) strongly agree, 4) agree, 3) neither agree nor disagree, 2) disagree, 1) strongly disagree

<table>
<thead>
<tr>
<th>Scale</th>
<th>5</th>
<th>4</th>
<th>3</th>
<th>2</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Response</td>
<td>Strongly Agree</td>
<td>Agree</td>
<td>Neither agree or Disagree</td>
<td>Strongly Disagree</td>
<td>Disagree</td>
</tr>
</tbody>
</table>

Section B: DEBT MANAGEMENT

<table>
<thead>
<tr>
<th>QUESTION</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Have commercial banks adopted debt management strategies?</td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>2. Are debt management strategies of importance to commercial banks?</td>
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<tr>
<td>3. Are there any factors considered by commercial banks before choosing the debt management strategies to use?</td>
<td></td>
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<tr>
<td>4. Are the debt management strategies used by commercial banks effective?</td>
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<tr>
<td>5. Are debts management strategies handled very well by commercial banks?</td>
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<td></td>
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<tr>
<td>6. Are debt management strategies responsible for the increase in the profitability of commercial banks?</td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Are debt management strategies used by commercial banks efficiently and effectively?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Do debt management strategies hinder financial performance of commercial banks?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

48
9. Have debt management strategies changed over time in commercial banks
10. Are debt management strategies effective in financial performance of commercial banks?
11. Do debt management strategies vary with financial performance of commercial banks?

For the questions below, please tick one appropriate box for each statement to show how much you agree or disagree. On a scale of 5 to 1: 5) strongly agree, 4) agree, 3) neither agree nor disagree, 2) disagree, 1) strongly disagree

<table>
<thead>
<tr>
<th>Scale</th>
<th>5</th>
<th>4</th>
<th>3</th>
<th>2</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Response</td>
<td>Strongly Agree</td>
<td>Agree</td>
<td>Neither agree or Disagree</td>
<td>Strongly Disagree</td>
<td>Disagree</td>
</tr>
</tbody>
</table>

Section C: FINANCIAL PERFORMANCE

<table>
<thead>
<tr>
<th>QUESTION</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Are commercial banks having a good/promising financial performance levels?</td>
<td></td>
<td></td>
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<td></td>
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</tr>
<tr>
<td>2 Are there factors affecting the financial performance levels of commercial banks?</td>
<td></td>
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<tr>
<td>3 Are commercial banks having any indicators of their financial performance?</td>
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<tr>
<td>4 Are there any efforts taken by commercial banks to improve/maintain their financial performance levels?</td>
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<tr>
<td>5 Are they making profits out of their performance?</td>
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<tr>
<td>6 Are there any other factor influencing financial performance other than debt management?</td>
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<tr>
<td>7 Is financial performance important towards the development of commercial banks?</td>
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<tr>
<td>8 Is their improvements in financial performance of commercial banks?</td>
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<td></td>
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<tr>
<td>9 Are their changes in performance of commercial banks over time</td>
<td></td>
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<td></td>
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<tr>
<td>10 Are their factors hindering financial performance of commercial banks?</td>
<td></td>
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</tr>
</tbody>
</table>

Please, briefly identify the various indicators of financial performance in commercial banks if any and the factors influencing them in the space below.
Section D: THE RELATIONSHIP BETWEEN DEBT MANAGEMENT AND FINANCIAL PERFORMANCE IN COMMERCIAL BANKS

<table>
<thead>
<tr>
<th>QUESTION</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
</tr>
</thead>
<tbody>
<tr>
<td>1  Is there any relationship between debt management and financial</td>
<td></td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>performance in commercial banks?</td>
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<tr>
<td>2  Is the relationship between debt management and financial</td>
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<tr>
<td>performance positive?</td>
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<tr>
<td>3  Does the relationship affect the financial decisions to be made in</td>
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<tr>
<td>commercial banks?</td>
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<tr>
<td>4  Does financial performance vary with the level of debts?</td>
<td></td>
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</tr>
<tr>
<td>5  Do debts influence financial performance in commercial banks?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6  Are commercial banks influenced by debts?</td>
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<td>7  Is financial performance useful in debt management in commercial</td>
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<td>banks?</td>
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<td>8  Are commercial banks having a promising financial performance due to</td>
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<td>good management strategies?</td>
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<td>9  Are factors affecting financial performance due to debt management</td>
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<td>strategies?</td>
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<td>10 Are commercial banks having any indicator of their financial</td>
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<td>performance due to good debt management strategies</td>
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Please, briefly talk about the relationship between debt management and financial performance in the space below.
APPENDIX B: INTERVIEW GUIDE

1. Does your company use debt management strategies
2. If yes. Which of the debt management strategies does it use
3. What are the benefits your organization has derived from using these strategies
4. What are the costs associated with using debt management strategies
5. How has debt management impacted the financial performance of your organization
6. How has your organization managed to handle debt management in order to improve its financial performance
7. What strategies has your organization used to improve its financial management
8. What are the challenges that your organization is facing in its efforts to manage its debts
9. Where do you see your organization 5 years from now after adopting these debt management strategies