CREDIT POLICY AND PERFORMANCE OF COMMERCIAL BANKS
A CASE STUDY OF STANBIC BANK RUKUNGIRI BRANCH

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A RESEARCH DESERTATION SUBMITTED TO THE COLLEGE OF APPLIED ECONOMICS AND MANAGEMENT SCIENCES IN PARTIAL FULFILMENT FOR THE AWARD OF BACHELORS DEGREE IN BUSINESS ADMINISTRATION [FINANCE OPTION) AT KAMPALA INTERNATIONAL UNIVERSITY

MAY 2015

DECLARATION

I, hereby declare that this dissertation entitled, **credit policy and performance of commercial banks; a case study of Satanic bank Rukungiri branch,** without including the bibliography. All ideas presented in this work are my own. This work has never been submitted for fulfillment of a degree or any other education qualification in any high institute of learning.

Signature ....

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Date. 28/08/2014..............................

APPROVAL

This research dissertation entitled, **credit policy and performance of commercial banks; a case study of Satanic bank Rukungiri branch,** is submitted to Kampala international university(KIU), college of applied commerce and management sciences with my approval as a supervisor.

Signature .... Date 25/08/15 ....

MR TIMBIRIMU MICHEAL

DEDICATION

This work is basically dedicated to my beloved parent, for their great care and support during my struggle in producing all this work. I love you my family, may the almighty Father be with us all the time.

ACKNOWLEDGEMENTS

At this juncture, I would like to thank my mother for her tireless contribution for the completion of this piece of work, the good character and discipline portrayed which made everything consistent to this very end.

I want also to thank my brother Rubarema Aggrey and my uncle James Mateka who have also been behind me

And also special Appreciation to MR. TIMBIRIMU MICHEAL for his outstanding contribution and guidance in the preparation of this work.

ABSTRACT

Stanbic bank was founded in Uganda as the National Bank of India in 1906. After several name changes, it became Grindlays Bank. In 1991, Standard Bank bought the Grindlays Bank network in Africa.

Stanbic Bank (Uganda) Limited is a commercial bank in Uganda. It is the largest commercial bank in the country, with an estimated asset valuation of ugx1657500 million as of February 2010. The bank is involved in all aspects of commercial banking, focusing on servicing large, medium and small business enterprises as well as individuals. The bank has about 17% of the bank branches in the country Rukungiri inclusive. The branch was established in Rukungiri because of the desire to create a financial service provider which would touch base with majority of the population in Rukungiri. The need to come up with the institution was out of the realisation that most people lacked access to financial services or simply could not afford them.

In this study, I focused on the effects of credit policy on the performance of stanbic bank Rukungiri branch. We used interviews, observations and questionnaires to extract information from the randomly sampled respondents to help us understand how credit policy is used by stanbic bank and its impact on the performance of the bank.

We obtained the findings and analyzed the data by use of tables (hypothetical) and charts which helped to present data and arrive at conclusion and recommendations.

This piece of work has been compiled and is presented a very simple language easy to understand, a lot of terminologies have been avoided. I therefore welcome you to have a humble time in reading this work. There are new and knowledge building findings in the work, a lot of inspirations. Thank you.

ACRONYMS AND ABBREVIATIONS

CMS – credit management system

D.C – District of Columbia

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CHAPTER ONE
INTRODUCTION

1.0 Introduction

Banks accept personal deposits and aggregate them, they typically only keep a low percentage of deposits on-hand and lend out as much as possible. Loans earn the bank money in interest payments, but they also help the economic system function by increasing the availability of capital and allowing business to use debt to expand. Banks are important sources of typically high-quality credit, especially when compared to other agents in the economy. Even though some percentage of issued debt will go bad, the bank can (generally) still meet all of its obligations to depositors by using the revenues from diversified earnings. And in a situation where by these functions are not provided by financial institutions, then the economic performance can easily be disturbed. Country's financial institutions reduce transaction costs in the economy by aggregating settlement of payments among multiple parties, as those parties (bank customers, other banks and third parties) engage in financial transactions. Interbank systems help banks collect payments from multiple sources easier. Banks not only acquire business due to their convenience, but they also serve to reduce the average cost of settlement between parties. The globalization and integration of the economy is likely to only make this effect more pronounced. These credit institutions design their credit policies as a measure against its administration of credit and always face mismanagement of credit portfolios

1.1 Background of the Study

Stanbic Bank (Uganda) Limited is subsidiary of the Standard Bank Group, an International bank with headquarters in Johannesburg, South Africa with branches in 18 African countries and affiliates in 21 other countries outside Africa. Standard Bank employs over 40,000 individuals who are serving customers through more than 1,000 points of service. Stanbic Bank (Uganda) Limited is listed on the Uganda Securities Exchange, (USE), where it trades under the symbol SBU. As of February 2009, it is one of the few Ugandan commercial banks with Internet banking availability.

Stanbic bank was founded in Uganda as the National Bank of India in 1906. After several name changes, it became Grindlays Bank. In 1991, Standard Bank bought the Grindlays Bank network

in Africa. The new owners renamed the bank Stanbic Bank (Uganda) Limited. Stanbic Bank (Uganda) Limited is licensed as a merchant banker, stockbroker and financial adviser by the Capital Markets Authority, which licensed the Uganda Securities Exchange in 1997.
In February 2002, Standard Bank bought Uganda Commercial Bank, a largely retail government-owned bank that operated a countrywide network consisting of 67 branches. Standard Bank merged the new outfit with its existing bank called Stanbic Bank (Uganda) Limited. The government of Uganda retained 10% ownership in the new combined bank. In November 2005, the government divested of their 10% ownership by floating their shares on the Uganda Securities Exchange. Standard Bank also floated 10% shareholding at the same time. As of February 2009, the ownership of Stanbic Bank (Uganda) Limited is as shown in the table below.
Stanbic Bank (Uganda) Limited is a commercial bank in Uganda. It is the largest commercial bank in the country, with an estimated asset valuation of ugx1657500 million as of February 2010. The bank is involved in all aspects of commercial banking, focusing on servicing large, medium and small business enterprises as well as individuals. The bank accounts for approximately 21% of the total bank assets and about 17% of the bank branches in the country. Its establishment was motivated by the desire to create a financial service provider which would touch base with majority of the population in Rukungiri. The need to come up with the institution was out of the realisation that most people lacked access to financial services or simply could not afford them.

1.2 Statement of the Problem

In Rukungiri, Stanbic bank due to hardships in Payment terms and due date that is specified any early-payment incentives or late-payment penalties Of credit, policy there is poor management of credit portfolios and the central bank has initiated some measures to improve performance of these financial institutions by strengthening its supervisory role and ensuring compliance of all commercial banks to the financial regulations.

1.3 Purpose of the Study.

The study aimed at assessing then effects of credit policies on the performance of commercial banks of Stanbic bank of Uganda.

1.4 Objectives of the study.

The research objectives were to:

1. Assess the relationship between credit policy and performance in Stanbic bank.
2. Establish on how to improve the credit policy in commercial banks.
3. Ddetermine the existence and use of credit policies by employees of Stanbic bank.
4. Analyse the impact of credit policies on the performance of Stanbic bank.

1.5 Research question

1. What is the relationship between credit policy and performance in Stanbic bank?
2. How can credit policy be improved in commercial banks?
3. Do credit policies used by employees exist in Stanbic bank?
4. What is the impact of credit policy towards performance of Stanbic bank?

1.6 Scope of Study.

The research focused on the aspects of credit management policy of the performance of commercial banks in Uganda but it was restricted to Stanbic bank in Rukungiri for the period between 2013- 2014 data collection and analysis took one month

1.7 Significance of the Study.

i) It gave an insight into the management of the credit function by stanbic banks of Uganda as well recommendations that helped them better their performance.

ii) The study helped the clients on how, when and where to invest and in calculating the risk for high returns.

iii) The study may benefit scholars and academicians with particular interest in credit management policies in banking industries as well as acting as secondary data for future researchers.

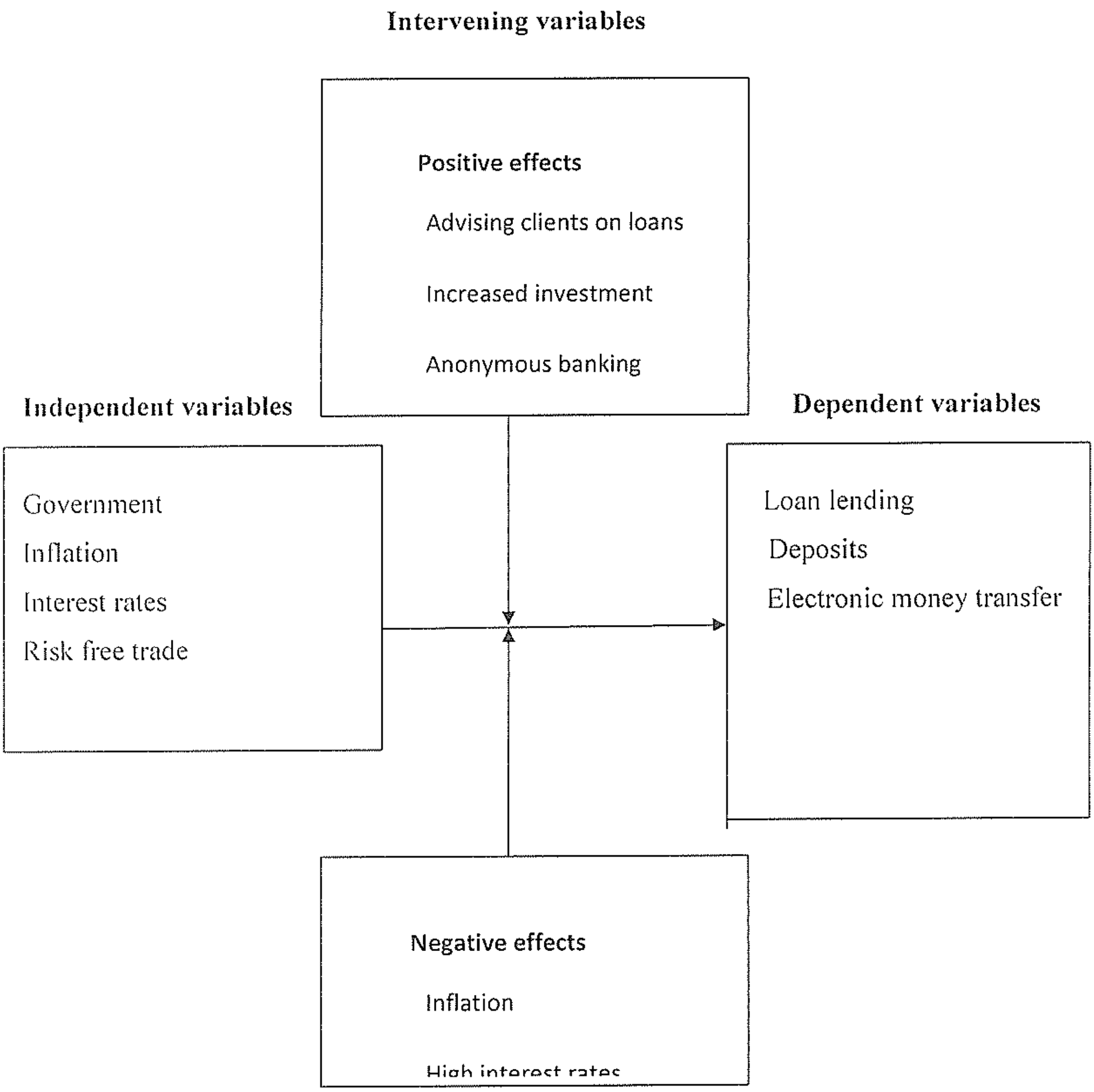
1.8 Limitation

i) The time allocated to the study was too little for the researcher to exhaust the study variables.

ii) The study involved high financial expenditure, exceeding the budgeted cost.

iii) The respondent refused to provide some of the data that the researcher requested for. This forced the study to rely mostly on qualitative data to derive conclusions and recommendations

1.9 The Conceptual Frame Work



Source; Brigham Eugene (1985)

CHAPTER TWO
LITERATURE REVIEW

2.0 Introduction

This chapter is an analysis of some of the major issues of the existing literature on the credit management of commercial banks that have been explored and studied by different scholars. It is worth noting that the greatest part of the existing literature on credit management is as a result of studies which were conducted in other countries thus the literature review is drawn from empirical survey of credit management practices, journals and textbooks dealing with credit management.

Credit policies are guidelines set by the lending Institution to establish the features and rules for the types of credit product that it offers.

According to Joanna Ledger wood (2000), Microfinance Institutions provide credit regardless of the approach selected, the actual loan product need to be designed according to the demands of the target market. This involves establishing appropriate loan amounts, loan terms, collateral requirements (or substitutes), interest rates and fees, and potentially compulsory savings or group contribution requirements.

And according to Frederic Mishkin, the Economics of Money, Banking and Financial Management 1992, credit management is the activity of:

i). Deciding whether a firm should grant credit to a customer and how much credit (that is, for what amount of money and the length of time) should be granted.

ii). Ensuring that customers who have been granted credit are paying on time.

2.1 Credit Risk Model

According to Gerald O. Halter: Bank investment and funds management second edition 1991, page 55 Credit risk is the possibility that the borrower of a loan or issue of security may be unable to meet interest and payments when they fall due. This failure of borrowers to carry out their financial obligations to their lenders as pledged by contract is known as defaults. A borrower may be unable to perform up to expectations for variety of reasons many of which are not always predictable, thus anything that affects the borrower's financial position may contribute to credit risk. Credit risk always encompasses the possibility that a borrower may choose not to or may attempt to defraud its creditors. Credit risk therefore can change during the term of a debt and the successful handling of problems by the borrower may improve an investor's claim.

According to the journal for the capital markets industry, Uganda volume 11 No. 3 July-September 2007; Credit rating is the assessment of both qualitative and quantitative information which may impact on an entities ability to repay its loans. Quantitative factors may include financial information on liquidity and debt while qualitative information may include management depth and lately corporate governance structure of the bank. Credit risk evaluation is the core competence of the commercial banks. However credit risk evaluation (credit rating model) focuses narrowly on the likelihood of default on a loan.
According to Kemmer Donald, credit and the economy, in the Microsoft Encarta multimedia Encyclopedia, Encarta deluxe edition 1998; Credit risk management has to begin from a well designed risk transform process from a particular loan risk to a diversified portfolio risk and the share holder's desire risk level by isolating the credit risks from other markets and business risks.

In building such a process, it requires four phases in the process namely specification phase, design phase, test phase and implementation phase, individuals have clear roles and responsibilities for each phase and their performance are measured by bench marks.

The requirement phase determines the objectives and limits of the credit risk exposure. They will ensure that these requirements will satisfy the stakeholders or shareholders needs. The design phase specifies the characteristics of the loan portfolio exposure to sectors, creditworthiness, level and mature for loans. The test phase uses the specified portfolio characteristic to determine a benchmark portfolio. Finally, the line business buys loans using model portfolio as a guide and performance of the loan portfolio is continuously monitored to ensure that the requirements are met.

In this process credit risk model is used to measure the loan portfolio credit risk exposure. Therefore the model should be consistence to the banks credit evaluation system in a traditional financial analysis based loan evaluation so that the model results can be interpreted in a consistence fashion, consistence between the traditional financial analysis based evaluation and the value at risk (expressed as a multiple of the standard deviation of the portfolio return) types of risk management techniques.

2.2 Consumer Bank Credit

Muelle P. Henry (1976) Credit doctrine for the lending office, New York Citicorp defines credit policy as a tool that provides framework for the entire credit management process. A credit policy or credit management system (CMS) is aimed at optimizing the efficiency of credit management of commercial banks and other related credit institutions. The banks must gain an acceptable level of confidence to extend the loans facilities at the lowest possible risk of loss since the bank's funds are committed for returns.

From stanbic Bank credit operation manual Director Report and accounts (2005); Credit management system specifically supports credit assessment and analysis, loan disbursement and credit monitoring. Also credit policy guides loan or credit officers in balancing quality and quantity in support of the bank's earnings objectives. It ensures consistent approach to credits and a uniform lending style.

According to introduction to financial management, third Edition, by Lawrence D. Schall and Charles W. Haley page 518; Customer attributes that is credit managers base their evaluations on the risk in extending risk on their assessments of the attributes of particular customers. This can be seen in 5 C's' that is Character, capacity, collateral, capital and conditions.

Character: this is a customer own desire to pay off debts hence this is the most important attribute.

Capacity: this is the ability to pay debt as reflected in the cash flows of the individual of firm.

Conditions: these are general economic circumstances of the firm's industry or the individual employment.

Capital: this refers to financial strength of customer which depends primarily on the customer's net worth relatively to outstanding debt obligations.

Collateral: this is asset that the customer has available to pledge against the debt.

2.3 Importance of Credit

According to Ssenoga Richard (2001) designing and delivering a saving product for micro finance institutions in Uganda, the micro finance banker, volume 9 No. 2, page 5-7; The principal function of credit in commercial banks is to transfer the property from those who own it to those who wish to use it, as in the granting of loans by banks to individuals who plan to initiate or expand their business venture. The transfer is temporary and is made for a price known as interest which varies with the risk involved and also with the demand for and supply of credit.

2.4 Credit policy

According to Fundamentals of financial management 9th edition by Eugene F. Brigham and Joel F. Houston page 726- 28; The term credit policy refer to the combination of the three decision variables namely credit standards, credit terms and collection efforts that influence the amount of credit extended by commercial banks. Credit period which is the length the customers are given to pay their dues. Credit standards, which refer to the required financial strength of acceptable credit customers, collection policy, which is measured by its toughness or laxity in attempting to collect or slow paying accounts.

A credit policy provides a framework for the entire credit risk management exercise and is the cornerstone of a credit management, that is According to McNaughton D and Dietz (1996). banking institutions in developing markets; Building strong management and responding to change, managing the credit risk, Washington D.C It provides parameters, defines responsibilities and establishes a system of checks and balances. A credit policy should be specific, clear, concise, and relevant supported by the credit procedures. It should include general policies, specific loan procedures, miscellaneous loan policies, quality control and committees to clearly guide the credit decision made in commercial bank. The credit policy should define the bank's acceptable and unacceptable risks.

According to Banking theory and practice K.C Shekhar, seventh Edition, 1997 page 290; Credit policy of commercial banks lacked any policy orientation and displayed a strong bias in favour of the big corporate customers thus this came to the conclusion that security oriented lending had led to over financing of industry in relation to their trends in production. Credit policy is a conscious effort of the part of the banks to allocate their loan able funds among sectors according to priorities in terms of the overall national policies. This is a good omen especially because it may be remembered that a fruitful orientation of banking policy require a credit plan attuned to the targets of investments and production laid down. The credit plans prepared by some of the lead banks contain development schemes in the various sector of the economy, which can be financed by the commercial and co-operative banks and other financial agencies operating in the district concern.

2.4.1 Credit Standards and Analysis.

According to Foundation of financial management, 10th Edition 1999 by Stanley B. Block and Geoffrey A. Hurt, 2002 page 186-190; Credit standards refer to financial strength and creditworthiness a customer must exhibit in order to qualify for credit. It is a basic stage in lending process. It's a process by which the financial institutions establish the credit worthiness of a customer. It involves the appraisal of customers to identify possible risks in lending as well as establishing the customers capacity to repay the loan. The successful credit standards and analysis would require the use of the standard credit application form looking for characters, which indicate the possibility of risk and other relevant information for credit analysis.
Setting credit standards requires a measurement of credit quality which is defined in terms of the probability of a customer's default. The probability estimate for a given customer is, for the most part, a subjective judgement.

According to corporate finance management, Douglas R. Emery, John D. Finnerty 1997 page 635; Credit standards are criteria used to grant credit. They depend on variables that determine net present value, probability of payment, investment, required rate of return and payment period. A higher probability of default, delayed payments and the necessity of the expensive collection efforts all reduce the net present value.

Ross Westerfield Jeff of Corporate finance 4th Edition, 1996 page 758; Suggests that different institutions should use credit information to analyse credit thus banks will generally provide some assistance to their business customers in acquiring information of the creditworthiness of other firms. Customer's payment history with the firm: this is the most obvious way to obtain an estimate of a customer's probability of a non payment whether he or she has paid previous bills.

Financial statements: a bank may ask the customer to supply financial statements. This rule of thumbs based on financial ratios can be calculated. Credit reports on customer's payment history with other firms: many organization sell information on the credit strength.

2.4.2 Credit Terms

According to Foundations of Financial management, 10th Edition, by Stanley B. Block, and Geoffrey A. Hurt, 2002 page 186-90; once the decision to extend credit to customer is made then a decision regarding the terms of credit follows. Credit terms specify the duration of credit that is credit period and terms of payment in any commercial bank. He also articulated that credit period affects profitability, liquidity and survival since increase in credit period increases the loan portfolios.

2.4.2.1 Determinants of credit terms in commercial banks.

Greuning H.V and Bratonivic B. (1999); Analysing banking risk, a framework for assessing corporate governance and financial risk management: the world bank Washington D.C concluded that in determining the credit terms of any customer, the following need to be considered credit policies and procedures, prior loss experiences, loan growth, quality and depth of management in the landing areas, loan collection like recovery procedures, changes in natural and local economic business conditions and general economic trends. Therefore many banks and regulations believe that an understanding of a bank's credit risk management provides a leading indicator of the quality of the bank's loans portfolio at a given period of time.

Muello P. Henry (1994), credit doctrine for lending office. New York Citicorp pointed out that to consider when adopting credit terms which include credit application history with his or her banks viability of project to be financed, willingness to repay the principal and interest accrued, loan write off, purpose of the loan and loan security documentation.

2.4.3 Collection policy

According to Brigham F. Eugene 1985, financial management theory and practice, 4th Edition Collection policy refers to the procedures the banks or firms use to collect past dues accounts or receivable. A collection policy is needed because all customers do not pay the firm bills in time.

Some customers are slow payers while others are not payers. The collection efforts should therefore aim at accelerating collection from slow pay and reducing bad debt losses. The firm's collection policy is measured by its toughness or laxity in following up slow paying accounts.

Attaining a high rate of loan collection is a necessary condition for a commercial bank to become self sustainable, losses have been the largest cost borne by banks and the principal causes of insolvency and in liquidity. This emphasize the fact that loans not paid decreases the funds available to lend, make it difficult to assure safe deposits and to attract savings, absorb scarce marginal time, undermine the financial integrity of the lender and tarnish the intermediary's reputation. When an individual does not pay loan, the process of creating debt capacity is reserved and repayment capacity destroyed.

According to Corporate Finance 4th edition, (1996), Ross Westerfield Jaff, high percentage of non performing loans means that funds are not available to provide loan to new borrowers and if loans are not repaid, they eventually affect the profitability of the bank.

2.5 Effects of credit on performance of commercial banks

Credit policy provides a framework for the harmonization of the lending process which affects the performance of the commercial bank. However loans have carrying costs when unpaid in time as they constitute the credit risk factor with associated costs of supporting the credit functions since the cost of capital will increase in relation to added risk as capital is outstanding for long period in the events of today payments.

The dilemma of credit management of varying the level of consumer credit or loans the trade off between profitability and liquidity or solvency of any commercial bank which affects its survival.

Kansiime Elderd (1996), the role of commercial banks in mobilisation and allocation of financial resources in Uganda in the Uganda bank, journal of the Uganda institute of bankers Vol 4, 1st March 1996, the influence of credit on performance is either way: first credit earns financial institution interests that contributes to its profitability and on the other hand, the borrowers benefits by way of achieving a financial boost in business but which depends on the commercial bank's innovativeness, exhibited or manifested on the credit policy as well as outreach by way of branch coverage.

As a major element in the struggle for the rural poor to achieve an economic break through of the vicious of poverty, the provision of micro credit constitute the primary function of commercial banks and micro credit institutions in Uganda

However, a good credit policy which ignores saving mobilisation affects negatively the financial viability of the financial institutions or intermediary. It is beneficial to focus on what the policy does to the performance of the financial system and therefore performance in the commercial bank should measured by number of people who have regular access to financial services, costs of financial transactions quality of services provided, proxy being the repayment rates and saving mobilization.

It is therefore true that the success of commercial banks depends on financial self sustainability and substantial outreach to the targeted population rather than credit policy since financial self sustainability is achieved when the returns on equity, net of any subsidy received equals to or exceeds the opportunity costs of funds.

2.6 Functions of Credit Management Policy in the Economy.

2.6.1 Reducing the rate of defaulters.

According to Gerald O. Hatler, Bank investments and Funds management, 2nd Edition, 1991 page 54: all debt instruments carry some degree of risk; risk management is an integral part of investment portfolio management and of the overall management of funds. Banks must take great care in evaluating what levels of risk are inherent in the various assets they acquire and the liabilities they assume. They must make sure that they are compensated with earnings proportionate to the risks they accept, and they must balance the levels of risk that exist within and among their various portfolios. Risk is much more difficult to measure, however, because its key character is uncertain. Thus credit risk and interest rate risk are the basic types of risk in bank investments and loans.

Credit risk is the possibility that the borrower of a loan or the issuer of a security may be unable to meet interest and principal payments when they fall due. This failure of borrowers to carry out their financial obligations to their lenders are pledged by contract is called default. A borrower may be unable to perform up to expectations for a variety of reasons, many of which are not always predictable. Hence anything that affects the borrower's financial position may contribute to credit risk.

According to Meir Kohn, Money, Banking and Financial Markets (1991), Defaulting is to fail to pay off the amount owed when the loan matures. There is a risk of loss that adheres to generals in general. The lending bank cannot tell in advance which loans will turn bad or will cause trouble, but know from experience that loans of different classes offer varying possibilities for risk. Credit management policy helps to reduce this risk by reducing the rate of defaulters through monitoring loan given. A good credit policy enables that loaned amount is paid back by all clients in the right time.

2.6.2 Maintains liquidity.

According to Dr. P.K.Srivistava, Banking theory and Practice, 8th Edition (2000), liquidity is the word that the banker uses to describe his ability to satisfy demand for cash in exchange for deposits. The banker should attach great significance to his obligation to pay his depositor's money, on demand. because his inability to do so, may lead to the public loosing confidence in the bank.

According to Gerald O. Hatler, Bank investments and Funds management, 2nd Edition, 1991: liquidity is the ability to obtain needed cash quickly and at a reasonable cost since funds may be unpredictable and uncontrollable, banks must maintain adequate liquidity to ensure that cash or access to it, can be obtained on short notice and with little or no loss of transactions, to cover emergency needs of funds, to satisfy the customers' demand for loans, and to provide flexibility in taking advantage especially favorable investment opportunities. A bank with too little liquidity is able to fix and rearrange its mix of assets and liabilities to respond to changing business conditions. A bank with too little liquidity may be forced to obtain needed funds at high cost or may find it difficult to obtain needed funds at any reasonable cost. A bank with excess liquidity also pays a penalty for failing to manage its liquidity position efficiently because the cost of liquidity is usually lower earnings.

2.6.3 Maintains a favorable spread

According to Foundations of financial management 9th edition, 1999, Eugene F. Brigham and Joel F. Houston, spread income comes when the cost of funds does not exceed the interest rate earned on the loan portfolio. When loan is given to a client, he /she pays it back with interest and the institution earns interest income. Credit policy enables the bank to acquire interest income greater than interest expense thus making profit.

According to Gerald O. Hatler, Bank investments and Funds management, 2nd Edition, 1991: spread management focuses on maintaining an adequate spread between a bank's interest expense on liabilities and its interest income on assets to ensure an acceptable profit margin regardless of interest rate fluctuations. Thus, spread management attempt to reduce the bank's exposure to cyclical rates and to mobilize earnings over the long term.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

For this research to be effective, research design, data collection and analysis will be used to arrange the information in such a way that will enable the researcher to come up with the reliable recommendations and conclusions. The following are the methodologies to be employed starting with the research design, study population, sampling design, research instruments and analysis of data.

3.1 Research Design

Consisted with the research objectives and research questions, the researcher considers stanbic bank as a commercial bank. A case study research design will be used in the study to select respondents from whom primary data will be collected through questionnaires, interviews and secondary data sources (stanbic Bank loan portfolio report) as research instrument will be used to collect data of the study.

3.2 The Study Population

Due to poor performance of some indigenous banks in Uganda and out of 198 respondents a survey was used to carry out research with loans and credit officers of Stanbic bank to relate their views with the credit policy and the performance of the bank. The study was conducted only in Rukungiri area.

3.3 Sampling Design and Size

3.3.1 Sampling Design

In order to ensure representatives of the samples from study population of credit and loan officers, sampling will be grouped according to chain of command. Random sampling technique will be used in picking the employees on which the data will be collected. Thus respondents will then be randomly selected from staff in Stanbic bank Rukungiri branch. Thus sampling design will be preferred to minimize bias in sampling process to achieve maximum precision which will give the research constraints of the study

3.3.2 Sample Size

Considering time and other constraints of the study, the researcher will select 100 respondents randomly. These will consider representation of the study population consistent with the research questions in chapter one. The willingness of managers to give information and respondents positions in Stanbic bank will be the major factors considered in selecting the respondents sample.

3.4 Data Source, Collection and Analysis

3.4.1 Data Source

To achieve the research objective both primary and secondary data will be used on the study. The main primary data source will be in depth from interviews which will be conducted on the staff and questionnaires administered to Stanbic bank staffs. Secondary data sources will be obtained from monographs (Text book), annual reports of commercial bank of Uganda and quarterly reports, Stanbic bank news letters, Stanbic bank Director's reports and Audited accounts, Credit registers. Journal and other publications to provide a yardstick against responses from primary data gathered in order to deliver meaningful objective interpretation of the efficiency of the existing credit policy on the performance of the bank.

3.4.2 Data Collection Methods and Instruments

3.4.2.1 Interviewing Method

The personal interviews will be carried out by the researcher as a follow up of the questionnaires so that the interviewee is aided in the areas of difficulty and seek an in depth discussion and explanation on matters missed on the questionnaires.

3.4.2.2 Questionnaires Method

Data will be collected by the use of structured questionnaires designed by the researcher. The questionnaires will be sent to the department heads, staff and other subordinate staff. This technique will be used because all the respondents are literate. The major advantage of this method includes; free of biased information and enough time for the respondent to consider his/her points carefully than in an interview.

3.4.3 Data processing and Analysis

Data collected will be edited and analysed using percentages, tables and graphs and simple statistical modules like the central tendency, frequency distribution to assess the effects of credit management function on the performance of commercial banks. Quantitative data analysis will be performed in relation to research question.

Statistical findings will be interpreted in light of the objectives of study and conclusion will be made based on the literature review to attach more meaning.

CHAPTER FOUR
PRESENTATION, ANALYSIS AND DISCUSSION OF FINDINGS

4.0 Introduction

This chapter discusses the research questions in view of the research objectives to assess the roles of credit policy and performance of commercial banks so as to improve our understanding of the salient issues of the subject matter in line with survey findings and literature reviewed. In the presentation of findings, tables and figures have been used; frequencies/ percentages have also been used to describe findings. Thus the discussions of findings have been organized under the heading of existence and use of credit policy and performance of commercial banks.

4.1 Bio data

4.1.1 Respondents Designations

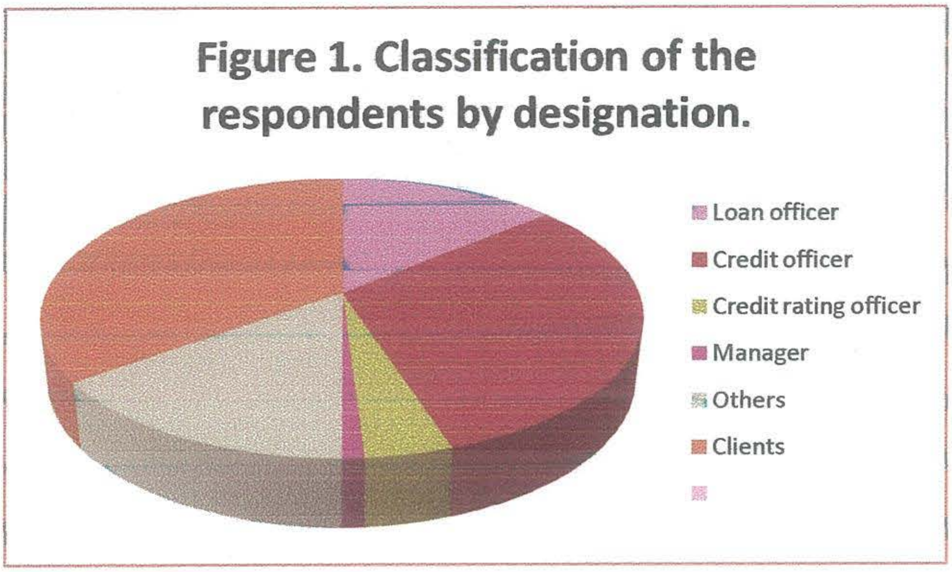
In this study the researcher sought to understand who the respondents were by designation. The table 1 below presents this information and the figure 1 presents a diagrammatic presentation of the same. In the category of others, it includes people working in the finance, accounting, administration, legal departments in Stanbic Bank.

Table 1: Classification of the respondents by designation

Designation	**Frequency**	**% of frequency**
Loan officer	14	14%
Credit officer	31	31%
Credit rating officer	4	4%
Manager	1	1%
Others	15	15%
Clients	35	35%
Total	**100**	**100%**

Source: Primary data

Figure 1: Graphical presentation of respondents by designation/ job title



Source: primary data

From the above analysis, it is easily deduced that the highest number of respondents from the management were 31 credit officers representing 31% the total respondents. Clients also have 35% concerning their views on the credit policies in the bank. There were 14 loan officers who responded representing 14% of the respondents. Only 4 credit rating officers representing 4% responded to the questionnaire. Others have 15% which include staffs working with support function of Stanbic bank and have relevant information of the study.

4.1.2 Respondents by Age, Sex and education level.

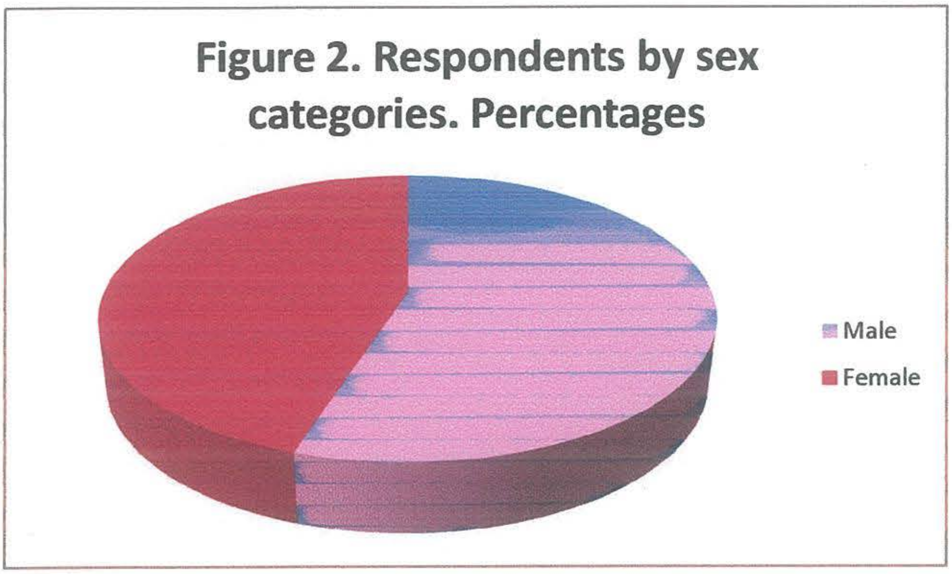
The researcher sought to analyze the respondents by the age, sex and education as in the table below.

Table 2: Respondents by sex categories

Sex	**Frequency**	**Percentages**
Male	55	55%
Female	45	45%
Total	**100**	**100%**

Source: primary data

Figure 2: Showing Respondents by sex categories



Source: primary data

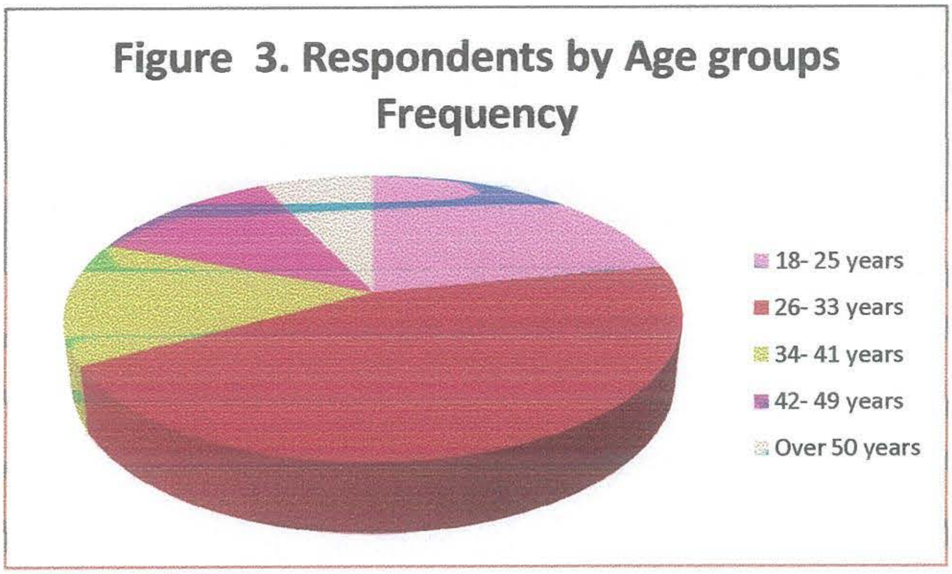
There were 55 males representing 55% and 45 females representing 45% of the respondents, thus males were the highest. This showed that Stanbic bank employs more males and the number of people seeking for loan in the bank are males thus this has been indicated in the study.

Table 3: Respondents by Age groups

Age group	**Frequency**	**Percentages**
18- 25 years	22	22%
26- 33 years	45	45%
34- 41 years	14	14%
42- 49 years	12	12%
Over 50 years	7	7%
Total	100	100%

Source: primary data

Figure 3: Respondents by Age groups



Source: primary data

The researcher was also interested to find out the ages of the respondents by grouping them hence the majority of the respondents were from age group of 26- 33 years who were 45 constituting of 45%. There were also age group of

18- 25years which were only 22 representing 22% of the respondents, the age group of 34- 41 years were only 14 consisting of 14% and the age group of

42- 49 years were 12 representing 12% of the respondents. The age group of over 50 years was only represented by 7 respondents which is representing 7% of the respondents hence this shows that very few of the respondents were over 50 years.

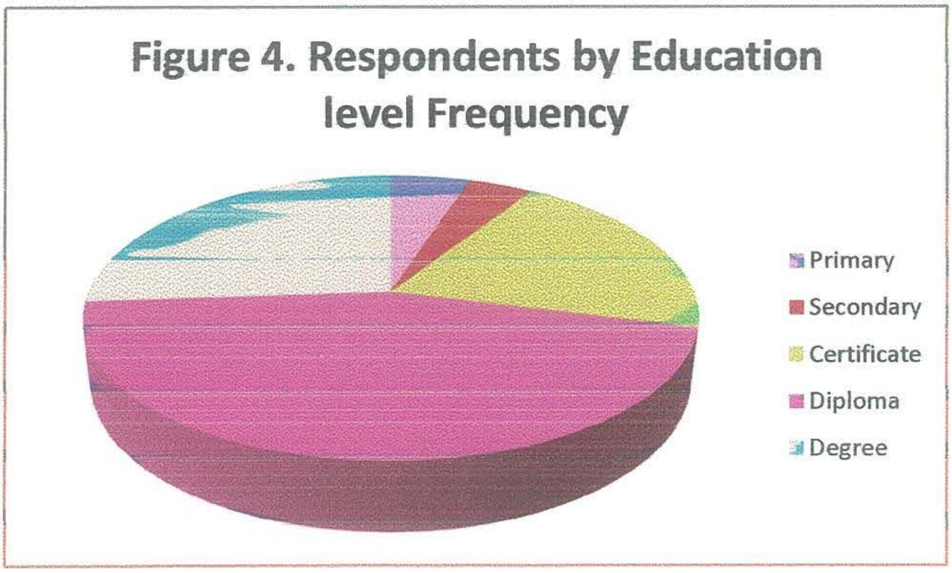
Table 4: Respondents by Education level

Educational level	**Frequency**	**Percentage**
Primary	5	5%
Secondary	4	4%
Certificate	20	20%
Diploma	45	45%
Degree	26	26%
Total	100	100%

Source: primary data

From the above analysis, there were 45 respondents who had diploma in education level representing 45% while degree level had 26 respondents consisting of 26% of the graduates thus it was regrettable to note that only 26% of graduates responded to the study as compared to the diploma that had 45% of respondents to the study. This was as a result that most of the management staffs were busy in relation to the lower staffs. There were 20 respondents in certificate level representing 20% while primary and secondary level had 5 and 4 representing 5% and 4% respectively.

Figure 4: Respondents by Education level



Source: primary data

4.1.3 Length of service

The researcher was also interested to find out how much time the respondents have spent working with Stanbic bank so as to effectively interpret their views in relation to the performance of the Stanbic bank.

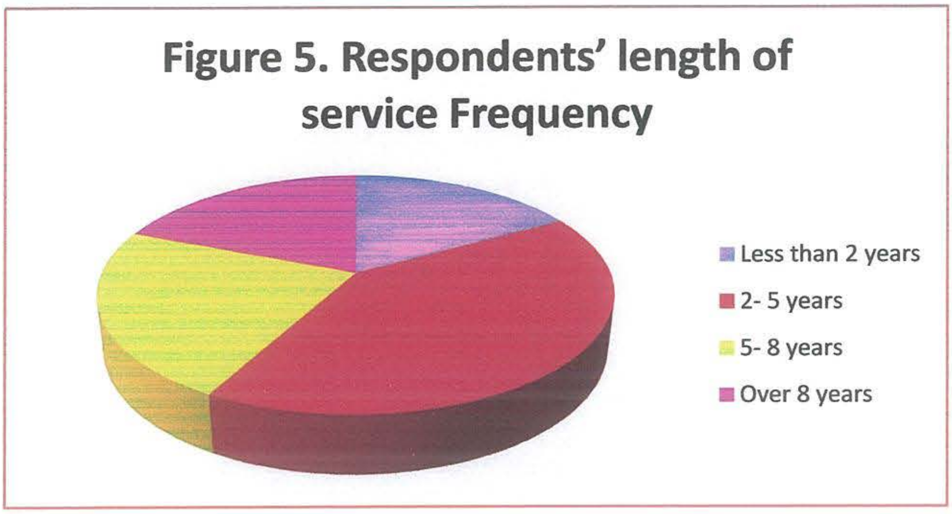
Table 5: Respondents' length of service

Period in service	**Frequency**	**Percentage**
Less than 2 years	17	17%
2- 5 years	41	41%
5- 8 years	23	23%
Over 8 years	19	19%
Total	**100**	**100%**

Source: primary data

From the above illustration, it is evident that the largest proportions of the respondents were age period between 2- 5 years with a frequency of 41 representing 41% of the respondents. This therefore proves that their views are largely based on past personal experiences with the bank over the period of 5- 8 years which had 23 of the respondents constituting of 23% of the respondents thus this shows that the respondents of 41% have a fairly sound knowledge on the operations of the bank. There were 17 respondents who had taken less than two years in the service in the Stanbic bank which represent 17% of the respondents. The researcher also found out that there were only 19 respondents who had worked in Stanbic bank for over eight years representing 19% of the respondents.

Figure 5: Respondents' length of service



Source: primary data

4.2 Credit policy in Stanbic bank.

The performance of any commercial bank depends on its existing credit policy at any given time period. Stanbic bank has written credit policies, procedures and directives that are guided by the bank's mission and strategies plan. These are used to guide the credit decision made and define the target markets of the bank.

Table 6: Credit policy respondents

Response	Agree		Strongly agree		Neither agree nor disagree		Strongly disagree		Disagree		
Credit policy	**F**	**%**	**F**	**%**	**F**	**%**	**F**	**%**	**F**	**%**	**Total**
8. Does your organization have a written credit policy?	3	3%	95	95%	0	0%	0	0%	2	2%	**100%**
9. Are credit policies, procedures and directives realistic to the performance of Stanbic bank?	35	35%	60	60%	0	0%	2	2%	3	3%	**100%**
10. Do you always use procedures and directive for all loan applicants?	32	32%	67	67%	0	0%	0	0%	1	1%	**100%**
11. Are borrowers outstanding liabilities checked to determine appropriate line of credit prior to granting additional credit?	50	50%	50	50%	0	0%	0	0%	0	0%	**100%**
12. Does the credit policy encourage clients to borrow?	43	43%	52	52%	0	0%	3	3%	2	2%	**100%**
13. Does Stanbic bank conduct review on its credit policy?	45	45%	55	55%	0	0%	0	0%	0	0%	**100%**

Source: primary data

Key:

F- **Frequency**

%- **percentage**

From the above table, 95 of the respondents strongly agreed that Stanbic bank has written policy guidelines that guided them in their credit decisions and this represents 95% of the respondents in the research while 2% of the respondents disagree that Stanbic bank has a written credit policy.

67 respondents also agreed that Stanbic bank use procedures and directive for all loan applicants thus this representing 67% of the respondents and 32 respondents also agreed that Stanbic bank use procedures for all loan applicants but only 1 of the respondents disagreed with this.

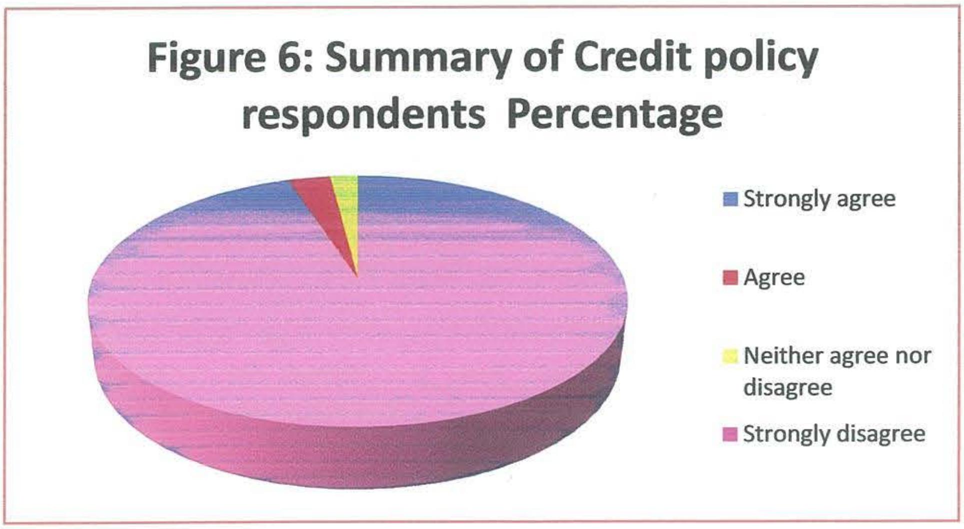
50 respondents strongly agreed that before borrowers are given loans their outstanding and liabilities are checked to determine appropriate line of credit prior to granting additional credit and this represented 50% of the respondents.

Table 7: Summary of Credit policy respondents

Response	**Frequency**	**Percentage**
Strongly agree	95	95%
Agree	3	3%
Neither agree nor disagree	2	2%
Strongly disagree	0	0
Disagree	0	0
Total	**100**	**100**

Source: primary data

Figure 6: Summary of Credit policy respondents



Source: primary data

The management in Stanbic bank reviews the credit policy, procedures and directives as shown in table 7 below

4.2.1 Credit policy review

The researcher was also interested to find out how credit policies are reviewed and how effective they are to the Stanbic bank.

Table 8: management's review of the bank's credit policy

Response	**Respondents**			
	Strongly agreed	**% -age**	**Strongly disagreed**	**%-age**
Review policies	100	100%	0	0%
Changing market condition	70	70%	30	30%
Increasing risks of credit	76	76%	24	24%
Central bank directives	10	10%	90	90%
Legal considerations	0	0%	100	100%
Increased competition	20	20%	80	80%
Review every:				
By annually	35	35%	65	65%
Year	40	40%	60	60%
2 years	60	60%	40	40%
3 years	8	8%	92	92%
Never	0	0%	0	0%

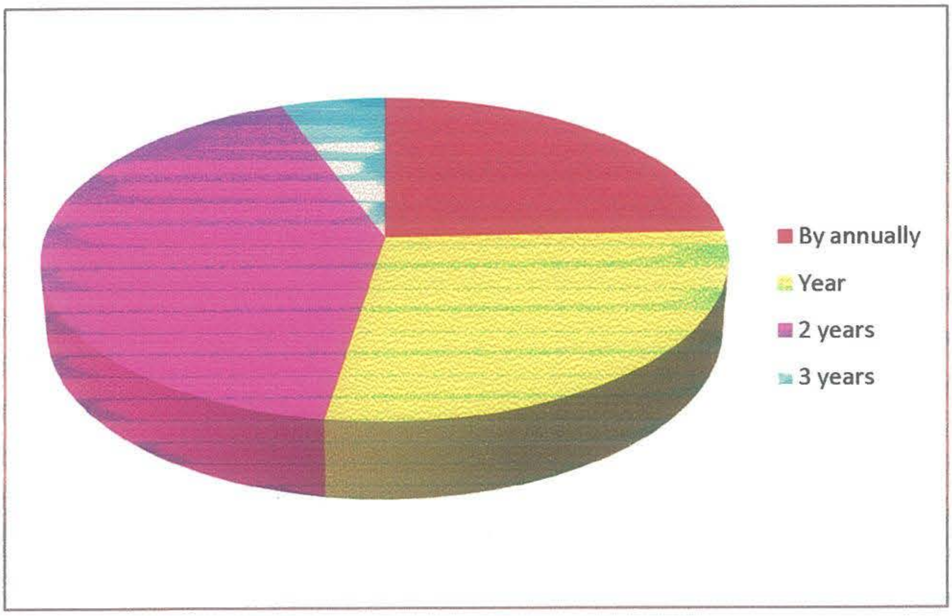
Source: primary data

Manager and head of departments review the bank's credit policies, procedures and directives periodically with 40 respondents agreed that the management reviewed their credit policy at least once year representing 40% of the respondents. The issues taken into consideration in the review of the credit policies and procedures are shown in table 7 above.

The response of credit supervisors on the question of extent of applicability of market definition was also examined. All credit supervisors interviewed strongly agreed that a bank had a policy on credit write off. 35 respondents agreed that the credit policy was reviewed by annually and this representing 35% of the respondents. 40% agreed that the credit policy was reviewed every year.

60 respondents strongly agreed that credit policy was reviewed every two years while about 8% agreed the policy was reviewed every 3 years. Figure 7 shows the credit supervisors knowledge of the bank's credit policy.

Figure 7: Review of the credit policy.



Source: primary data

The credit policies thus encourage the clients to borrow from the bank and this has been supported by the respondents. 52 of the respondents have strongly agreed that the policy encourages clients to borrow hence this represent 52% of the respondents in the research. 43% of the respondents agreed that the policy does encourage clients to borrow, however, 5 respondents disagreed that the policy does not encourage borrowing to the clients thus this representing 5% of the respondents.

4.2.2 Credit evaluation in Stanbic bank.

Credit evaluation looks at the in depth analysis in a client application. Table 8 shows the responses on how long it takes a client to access the funds from the time an application on credit facility is tendered in.

According to the table below 76% of the respondents agreed that for big loans it takes a month for a loan to be approved from the bank while 4% of the respondents agreed that it only takes less than 15 days for loan application to be approved this is so when an applicant has meet all the requirement which are needed by Stanbic bank.

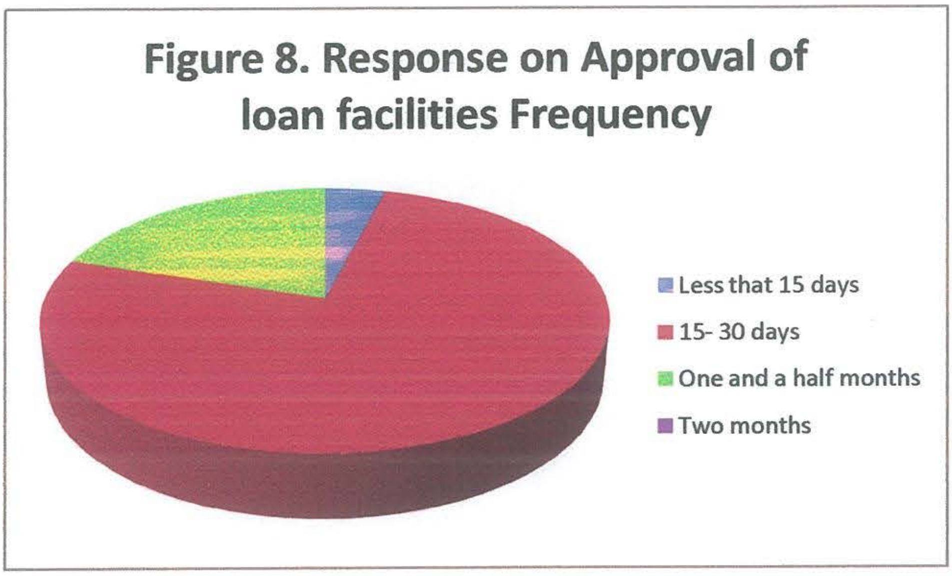
Table 9: Response on Approval of loan facilities

Response	Frequency	%- age
Less that 15 days	4	4%
15- 30 days	76	76%
One and a half months	20	20%
Two months	0	0%
More than two months	0	0
Total	**100**	**100%**

Source: primary data

There are some clients who need less amount of loan from the bank and have all requirements that the bank need thus 4% of the respondents agreed that it takes less than 15 days for such clients to secure loans from the bank. While 20 of the respondents agreed that it takes one and a half months for a client to secure a loan from Stanbic bank and this represents 20% of the respondents.

Figure 8: Response on Approval of loan facilities



Source: primary data

4.3 Credit rating

The bank uses a credit rating system in assessment of the clients' credit worthiness. These rates are assigned by the credit officers, their supervisors and sometimes by the head of credit section or the general managers. The credit rates are assigned to rate the credit worthiness of the respondent credit chart.

Table 10: Response on credit rating in Stanbic bank.

Response	Agree		Strongly agree		Neither agree nor disagree		Strongly disagreed		Disagree		
Credit rating	**F**	**%**	**F**	**%**	**F**	**%**	**F**	**%**	**F**	**%**	**Total**
14. Does your Bank use a system of credit rating in evaluation of clients' application for credit facility?	35	35%	65	65%	0	0%	0	0%	0	0%	**100%**
15. Are credit rating of clients often reviewed?	32	32%	50	50%	3	3%	8	8%	7	7%	**100%**
16. Has the performance of Stanbic bank been effective between the periods of 2003- 2007?	45	55%	0	0%	0	0%	0	0%	0	0%	**100%**
17. Are there some factors that lead to non-payments/ bad debts in Stanbic bank?	60	60%	38	38%	0	0%	0	0%	2	2%	**100%**

Source: primary data

Key:

F- **Frequency**

%- **percentage**

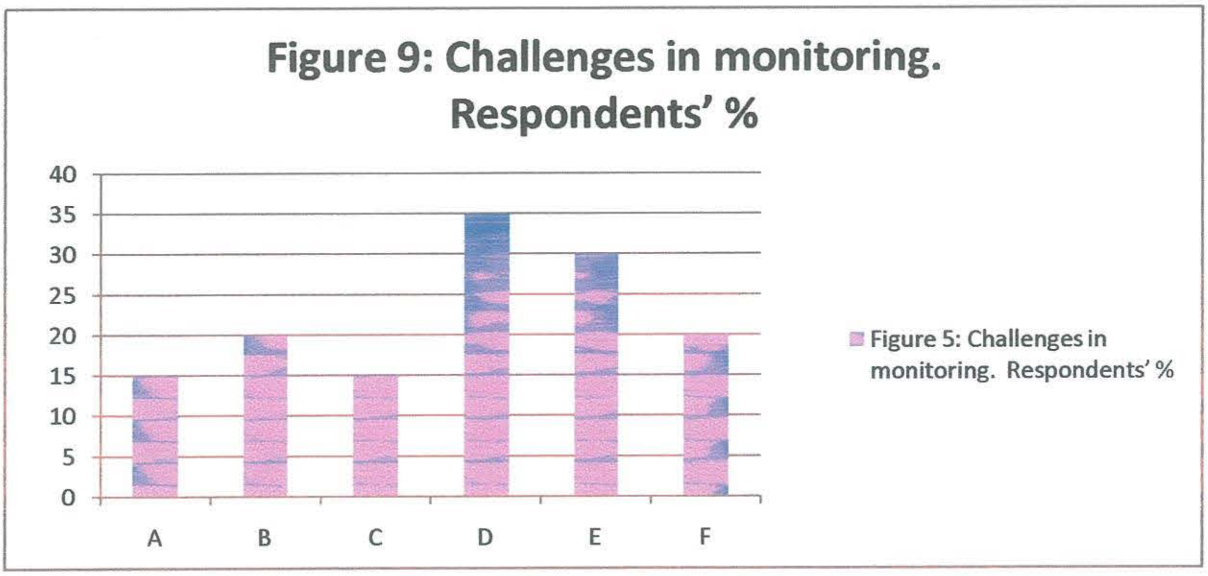
At supervision level, the respondents agreed that the bank uses credit rating policy. This shows the supervisors involvement in the bank's and the bank's use of credit rating system. All respondents agreed that the bank use a credit rating system in assessment of the clients' credit worthiness.

65 of the respondents strongly agreed that Stanbic bank use credit policy system in evaluating of clients' application for credit facility thus this represent 65% of the respondents. This makes the bank to effectively choose their clients who can pay back the loans given by the bank. 35 of the clients agreed that Stanbic bank use credit rating system to its clients hence this represents 35% of the respondents.

The researcher also wanted to know if the credit rating of clients is often reviewed thus 50% of the respondents strongly agreed that Stanbic bank reviews its credit rating policy while 32 of the respondents agreed that the bank reviews its credit rating policy, however, 15% of the respondents disagreed that Stanbic bank does not review its credit rating policy. The researcher wanted to know if their were some factors that lead to non-payments/ bad debts in Stanbic bank, hence 60 of the respondents agreed that Stanbic bank face some problems and this representing 60% of the respondents.

The respondents considered several factors as the cause of bad debts namely: improper appraisal, conmen, poor supervision, political influence, weak legal system, diversion of funds, non-compliance and poor payment thus this is shown in figure 9 below.

Figure 9: Response on credit rating in Stanbic Bank.



Source: primary data

Key:

A- Poor communication

B- Large portfolio of clients

C- Clients change of premises

D- Hostile clients

E- Transport

F- Accessibility of clients

4.3.1 Response on factors on assessment of credit facility

The researcher was interested in knowing how important are the below factors important in application for a credit facility

Table 11: Importance factors used in assessment of credit facility.

Response	VI		I		FI		HI		NI		Total
	F	%	F	%	F	%	F	%	F	%	
Credit limit summary	45	45%	40	40%	5	5%	7	7%	3	3%	**100%**
Purpose of the credit	60	60%	30	30%	7	7%	3	3%	0	0%	**100%**
Collateral/ security	70	70%	30	30	0	0	0	0	0	0	**100%**
Capacity of customer to pay	60	60%	40	40	0	0	0	0	0	0	**100%**
Character of the management	15	15%	30	30%	25	25%	10	10%	20	20%	**100%**
Financial assets of the company	45	45%	10	10%	20	20%	20	20%	5	5%	**100%**
Financial projection	40	40%	20	20%	10	10%	27	27%	3	3%	**100%**
Owner level of dependence	43	43%	45	45%	5	5%	3	3%	4	4%	**100%**

Source: primary data

Key: **VI**- Very important **I**- Important **FI**- Fairly important **HI**- Hardly important
NI- Not important **F**- Frequency

There are some important factors that Stanbic bank has to take into consideration before granting loans to their clients thus the researcher wanted to know how important these factors are. There were 60 respondents representing 60% of the respondents who agreed that the purpose of the credit is very important before clients acquire the loan, the clients have to state the reasons why they need the loan.

70 of the respondents representing 70% agreed that collateral or security is very important for the bank to check before granting loans to clients, thus this will give the bank the assurance that the clients will pay the loan.

The bank has also to check on the capacity of the customer to pay the loan, thus 100% of the respondents agreed that this is important since the bank has to know whether the clients are capable of paying the loan. The researcher also wanted to know if the character of the management is an important factor when one is applying for loan hence15% of the respondents agreed that it is important while25 respondents representing 25% of the respondents fairly agreed that it is important. However, 20 respondents representing 20% of the respondents said that character of the management is not important when a client applies for loan.

45 of the respondents representing 45% agreed that financial assets of the company is very important factor in evaluating an application for the credit facility while 5 respondents representing 5% of the respondents said that financial assets of the company is not important in evaluating an application for the credit facility. Owner level of dependence is also important since this will prove to the bank that the client has the capacity to pay for the credit when given thus 43% and 45% of the respondents agreed that it is very important and important respectively in evaluating an application for the credit facility.

4.3.2 Response on credit recovery approach.

Table 12: Effectiveness of credit recovery approaches

Response	HE		FE		NE		NR		Total
	F	%	F	%	F	%	F	%	
Continuous supervision to ensure purposeful use of the loan.	30	30%	30	30%	40	40%	0	0%	100%
Continuous customer sensitization about their financial obligation	50	50%	40	40%	8	8%	2	2%	100%
Reminder on phone, letters and physical customer contact.	70	70%	30	30%	0	0%	0	0%	100%
Use of court bailiffs and mortgage of collateral	60	60%	40	40%	0	0%	0	0%	100%
Visiting clients whenever need be.	55	55%	40	40%	4	4%	1	1%	100%
Auctioning clients property	66	66%	32	32%	2	2%	0	0%	100%
Referees to guarantors	48	48%	48	48%	2	2%	2	2%	100%
Warning to the customers	65	65%	35	35%	0	0%	0	0%	100%

Source: primary data

Key

High effective (**HE**), Fairly effective (**FE**), Not effective (**NE**), Non response (**NR**)

Frequency (**F**)

In the evaluation on credit recovery approaches, the researcher wanted to find out effectiveness are the above table. 30 of the respondents representing 30% of the respondents agreed that Continuous supervision to ensure purposeful use of the loan is highly effective in credit recovery approach hence the bank cannot supervise what the clients do with their loans which they have been given by the bank.

50 respondents representing 50% of the respondents' agreed that Continuous customer sensitization about their financial obligation is highly effective in credit recovery approach while 40% of the respondents agreed that Continuous customer sensitization about their financial obligation is fairly effective.

The researcher also wanted to know whether reminder on phone, letters and physical customer contact is effective hence 70 respondents representing 70% of the respondents agreed it is highly effective since the bank has to remind its clients on their obligations.

Stanbic bank also uses court bailiffs and mortgage of collateral as away of credit approach recovery and this is show by the respondents where 60 of the respondents representing 60% of the respondents agreed that its is highly effective while 40% of the respondents fairly agreed that court bailiffs and mortgage of collateral are effective.

Being that Stanbic bank is a commercial bank, the bank does visit its clients whenever need be. 55 respondents representing 55% of the respondents agreed that clients' visit is very effective so that the management can know their clients very well while 40 of the respondents representing 40% agreed that it is fairly effective for the bank to visit its clients.

66 of the respondents representing 66% of the respondents highly agreed that auctioning clients' property is effective approach of credit recovery since some clients' might not be able to pay their loansback yet the bank have their security thus the only option the bank have is to sell the security in order to get back their money. The respondents agreed that the bank has to warn the customer before auctioning their securities. 65 respondents representing 65% agreed that it is highly effective that the bank has to make the warning to the customers.

4.4 Response on duration given to borrowers.

The researcher was interested in evaluating the duration given to customers by the bank before paying the principal and interest from the loan.

Table 13: duration given to clients/ borrowers from the bank.

Response	**Agreed**		**Strongly agreed**		**Neither agreed nor disagreed**		**Strongly disagreed**		**Disagreed**		
	F	**%**	**F**	**%**	**F**	**%**	**F**	**%**	**F**	**%**	**Total**
1. Are first time borrowers given short duration i.e. 3 - 6 months to repay the loan to the bank?	3	3%	0	0%	0	0%	57	57%	40	40%	**100%**
2. Are second time borrowers given long time duration i.e. 6 months to one year for them to repay their loans?	0	0%	0	0%	0	0%	60	60%	40	40%	**100%**
3. Are the third time borrowers given long time i.e. more than one year for them to repay their loans?	0	0%	2	2%	0	0%	43	43%	55	55%	**100%**

Source: primary data

The researcher wanted to know the duration given to first time borrowers, second time borrowers and third time borrowers before they pay up principal and interests if they are the same. 57 of the respondents representing 57% of the respondents strongly disagreed that the first time borrowers are given shorter time like 3- 6 months to repay the loan to the bank while 40 respondents representing 40% of the respondents disagreed with it.

The researcher also wanted to know the duration given to second time borrowers, before they pay up principal and interests if they are longer that is six months to one year for them to repay their loans thus 60 respondents representing 60% of the respondents strongly disagreed while 40% of the respondents disagreed that 2nd time borrowers are given that long duration to repay their loan.

43 of the respondents representing 43% strongly disagreed that the third time borrowers given long time i.e. more than one year for them to repay their loans while 55% of the respondents disagreed that the time borrowers are given that long duration to repay their loans. The respondents agreed that Stanbic bank treat their clients equally and this depends on the amount of loan a customer applies for hence all customers are equal.

Table 14: effectiveness of the policy to the clients

Response	**Agreed**		**Strongly agreed**		**Neither agreed nor disagreed**		**Strongly disagreed**		**Disagreed**		
	F	%	F	%	F	%	F	%	F	%	Total
1. Are there some weaknesses in the policy, which might result to low repayment rate from the borrowers due to its strict terms and conditions?	20	20%	40	40%	0	0%	25	25%	15	15%	100%
2. Does the policy limit the borrowers' capacity from securing a loan?	43	43%	50	50%	0	0%	4	4%	3	3%	100%
3. Does the policy establish guidelines for loans to the clients and determine the	45	45%	53	53%	0	0%	0	0%	2	2%	100%

repayment terms?										
4. Does Stanbic bank check and evaluate collateral before giving its clients loans?	48	48%	52	52%	0	0%	0	0%	0	0%	100%

Source: primary data

The researcher wanted to know whether the above information are important to the clients thus 40 of the respondents representing 40% strongly agreed that there are some weaknesses in the policy, which might result to low repayment rate from the borrowers due to its strict terms and conditions. 25% of the respondents strongly disagreed with that, 15% also disagreed with it.

The researcher also inquired whether the policy limits the borrowers' capacity from securing a loan hence 50 respondents representing 50% of the respondents strongly agreed with this and also 43 respondents representing 43% of the respondents agreed, however, 4% of the respondents strongly disagreed that the policy limit the borrowers' capacity from securing a loan

52 respondents representing 52% of the respondents strongly agreed that Stanbic bank checks and evaluate collateral from clients before giving them loans. 48 respondents representing 48% of the respondents also agreed with it. This will help the bank to know the amount money they will give to their clients' proportionally to their collateral.

4.5 Effects of credit policy on the bank's performance.

Table 15: Response of the clients on the bank's credit policy

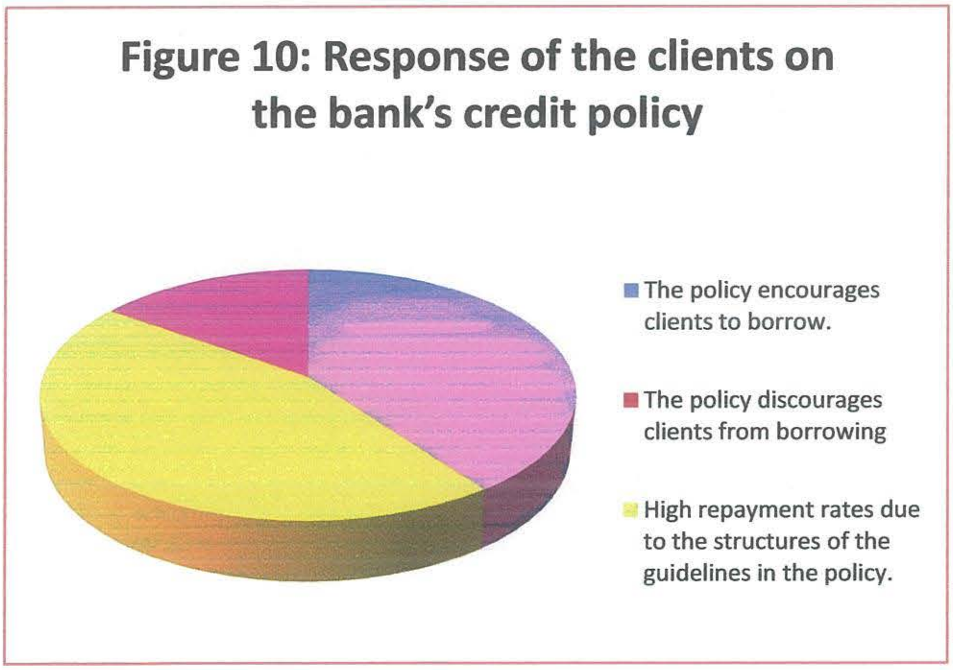
Response	**Frequency**	**Percentage**
The policy encourages clients to borrow.	40	40%
The policy discourages clients from borrowing	0	0%
High repayment rates due to the structures of the guidelines in the policy.	45	45%
Low repayment rate due to some weakness in the policy	15	15%
Total	**100**	**100%**

Source: primary data

From the table above, results of the survey and interviews conducted indicated that 45 respondents representing 45% of the respondents agreed that the highest majority of the respondents took pride in the bank's credit policy considering the high repayment rates, due to strictness of the guideline in the policy and the clients also find the bank's credit policy bearable.

40 respondents representing 40% of the respondents revealed that the policy encourages the clients to borrow. This was due to the facts that loan processing takes less days, 15 respondents representing 15% of the respondents agreed that at times there are low repayment rate due to some weakness in the policy.

Figure 10: Response of the clients on the bank's credit policy



Source: primary data

CHAPTER FIVE
DISCUSSION OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This chapter presents the summary of findings, conclusion, recommendation and suggestion for future research in line with study objectives and research question.

5.1 Discussion of findings.

5.1.1 Bio data

There were 55 males representing 55% and 45 females representing 45% of the respondents, thus males were the highest. This showed that Stanbic bank employees more males and the number of people seeking for loan in the bank are males thus this has been indicated in the study.

Stanbic bank also employ more workers who have diploma holder in level of education, 45% of the respondents agreed that Stanbic bank has majority of diploma compared degree who have 26% of the respondents. This shows that the bank mostly use diploma holders within the bank.

5.1.2 Credit Rating.

The credit rating process is carried out in commercial bank where Stanbic bank does this to assess the clients' credit worthiness before giving them loans. These rates are assigned by credit officers, credit supervisors and head of departments where they do the assessment of credit rates. It was noted that the credit rating process has a significant effects on the performance of the bank. 65% of the respondents strongly agreed that Stanbic bank rate their customers. This implies that if the credit rating is effectively carried out, the performance of commercial would be enhanced.

According to the journal for the capital markets industry, Uganda volume 11 pages 38-39, No. 3 July- September 2007; Credit rating is the assessment of both qualitative and quantitative information which may impact on an entities ability to repay its loans. Quantitative factors may include financial information on liquidity and debt while qualitative information may include management depth and lately corporate governance structure of the bank. Credit risk evaluation is the core competence of the micro finance institutions. However credit risk evaluation (credit rating model) focuses narrowly on the likelihood of default on a loan. Thus the most obvious use of credit ratings is to help investors decide whether to invest in a particular debt.

I therefore conquer with the author concerning credit rating because credit rating enables Stanbic bank to know the credit worthiness of their clients before giving them loans hence credit rating is so essential in the bank.

5.1.3 Credit policy.

The performance of any commercial bank depends on its existing credit policy at any given time period thus Stanbic bank has written credit policies, procedures and directives that are guided by the bank's mission and strategies plan, 95% of the respondents strongly agreed that Stanbic bank has a credit policy which really help them in the bank. These are used to guide the credit decision made and define the target markets of the bank, hence it was noted that credit policies are reviewed after every two years in the bank. 60 respondents representing 60% of the respondents strongly agreed that Stanbic bank reviews their credit policies after every two years, while 35% agreed that credit policy is reviewed annually.

According to McNaughton D and Dietz (1996), banking institutions in developing markets; Building strong management and responding to change, managing the credit risk, Washington D.C It provides parameters, defines responsibilities and establishes a system of checks and balances. A credit policy should be specific, clear, concise, and relevant supported by the credit procedures. It should include general policies, specific loan procedures, miscellaneous loan policies, quality control and committees to clearly guide the credit decision made in commercial bank. The credit policy should define the bank's acceptable and unacceptable risks.

According to Muelle P. Henry (1976) Credit doctrine for the lending office, New York Citicorp defines credit policy as a tool that provides framework for the entire credit management process. A credit policy or credit management system (CMS) is aimed at optimizing the efficiency of credit management of commercial banks and other related credit institutions. The banks must gain an acceptable level of confidence to extend the loans facilities at the lowest possible risk of loss since the bank's funds are committed for returns.

According to Fundamentals of financial management 9th edition by Eugene F. Brigham and Joel F. Houston page 726- 28; The term credit policy refer to the combination of the three decision variables namely credit standards, credit terms and collection efforts that influence the amount of credit extended by commercial banks. Credit period that is the length the customers are given to pay their dues. Credit standards, which refer to the required financial strength of acceptable credit customers, collection policy, which is measured by its toughness or laxity in attempting to collect or slow paying accounts.

I therefore agree with the author pertaining credit policy since this is where terms and conditions given to a customer concerning the credit are indicated hence this will the bank to limit defaulters.

5.1.4 Credit terms

Credit terms are the standards, terms, procedures and policies used to grant credit to customers. Once the client has met the terms of credit in the bank policy then the bank is under obligation to grant the client loan. 70% of the respondents agreed that the bank must check on the collateral, owners' level of dependence and capacity of the customer to before giving out the loan to the clients.

According to Foundations of Financial management, 10th Edition, by Stanley B. Block, and Geoffrey A. Hirt, 2002 page 186-90; once the decision to extend credit to customer is made then a decision regarding the terms of credit follows. Credit terms specify the duration of credit that is credit period and terms of payment in any commercial bank. He also articulated that credit period affects profitability, liquidity and survival since increase in credit period increases the loan portfolios.

Greuning H.V and Bratonivic B. (1999); Analysing banking risk, a framework for assessing corporate governance and financial risk management: the world bank Washington D.C:

concluded that in determining the credit terms of any customer, the following need to be considered credit policies and procedures, prior loss experiences, loan growth, quality and depth of management in the landing areas, loan collection like recovery procedures, changes in natural and local economic business conditions and general economic trends.

I therefore concur with the author pertaining credit terms of the bank, this is because a client has to meet all the requirements the bank wants before he is granted loan.

5.1.5 Credit evaluation

Credit evaluation looks at the in depth analysis in a client application. It is the duration it takes a customer to access the funds from the time an application on credit facility is tendered in from the bank. 76% of the respondents agreed that it takes a month for to be approved from Stanbic bank and this is seen when a customer has meet all the requirements needed by the bank.

In introduction to financial management, third Edition, by Lawrence D. Schall and Charles W. Haley page 518; Customer attributes that is credit managers base their evaluations on the risk in extending risk on their assessments of the attributes of particular customers. This can be seen in 5 C's' that is Character, capacity, collateral, capital and conditions:

Character: this is a customer own desire to pay off debts hence this is the most important attribute.

Capacity: this is the ability to pay debt as reflected in the cash flows of the individual of firm.

Conditions: these are general economic circumstances of the firm's industry or the individual employment.

Capital: this refers to financial strength of customer which depends primarily on the customer's net worth relatively to outstanding debt obligations.

Collateral: this is asset that the customer has available to pledge against the debt.

Credit evaluation is an essential element that a bank has to do before granting loan to its clients, I therefore agree with the author since the bank has to look at 5 C's' of a customer before granting him a loan.

5.1.6 Credit Recovery approach.

Credit Recovery approach is the process through which Stanbic bank recovers its loans that is principals and interests given to its clients. 70% of the respondents agreed that stanbic bank use court bailiffs and mortgages as securities while giving loans, hence when clients fail to repay principal, 66% of the respondents agreed that Stanbic bank will auction the clients' property when they fail to pay their dues. However the bank has to remind the client on phone, letters and physical contact before auctioning the customer property.

According to Brigham F. Eugene 1985, financial management theory and practice, 4th Edition Collection policy refers to the procedures the banks or firms use to collect past dues accounts or receivable. A collection policy is needed because all customers do not pay the firm bills in time. Some customers are slow payers while others are not payers. The collection efforts should therefore aim at accelerating collection from slow pay and reducing bad debt losses. The firm's collection policy is measured by its toughness or laxity in following up slow paying accounts.

According to Meir Kohn, Money, Banking and Financial Markets (1991), Defaulting is to fail to pay off the amount owed when the loan matures. There is a risk of loss that adheres to generals in general. The lending bank cannot tell in advance which loans will turn bad or will cause trouble, but know from experience that loans of different classes offer varying possibilities for risk. Credit management policy helps to reduce this risk by reducing the rate of defaulters through monitoring loan given. All clients' pay a good credit policy enables that loaned amount back in the right time.

Not all clients do pay back their loans in time, other customers end up not paying their loans, and I therefore agree with the author that strong measure should be taken again them like selling their securities in order for the bank to get back their amount loaned.

5.1.7 Duration given to borrowers.

Stanbic bank treats its customers equally whether he is the first borrower or second borrower or third. When a client wants a loan from the bank and has met all the requirements needed by

Stanbic bank then the bank will treat him like any other client who has been borrowing from the bank. 57% of the respondents strongly disagreed that the bank does give sorter duration to their first clients compared to the second and third clients but the only difference depends on the amount of loan one takes from the bank; those who take large amount of loan, their interest rates and time paying back their principal and interest are different from those who take small amount of loan.

According to Joanna Ledger wood (2000), commercial banks provide credit regardless of the approach selected, the actual loan product need to be designed according to the demands of the target market. This involves establishing appropriate loan amounts, loan terms, collateral requirements (or substitutes), interest rates and fees, and potentially compulsory savings or group contribution requirements.

And according to Frederics Mishkin, the Economics of Money, Banking and Financial Management 1992, credit management is the activity of: Deciding whether a firm should grant credit to a customer and how much credit (that is, for what amount of money and the length of time) should be granted thus this ensures that customers who have been granted credit are paying on time. It is therefore very prudent that the banks treat their customers equally with no discrimination.

I concur with the author that clients should be viewed equally in that the first borrowers should not be treated differently from the second or third borrowers thus: the higher the amount of loan the lower the amount of interest rate and the longer the duration for paying back the loan but the lower the amount of loan the shorter the paying back period and the higher the interest rate.

5.2 Conclusion

1. It is evidently true that the good performance of Stanbic bank was mainly contributed by the credit control measures as a result of well established credit policy screening mechanism in place before credit is extended to clients. It's evident from this study that indigenous micro finance institutions in Uganda use all the elements of credit policy management process, but are not comprehensively using the aspects of the various elements of the process in the management of their credit function.

2. There is a significant and positive relationship between the elements of credit policy management and the performance of Stanbic bank thus these findings reveal that the credit policy management in the bank has a strong impact of the quality of the bank's loan portfolio and thus the performance of the bank.

3. An overall credit policy management must include an evaluation of the credit risk management policies and practices of the bank. This evaluation determines the adequacy of financial information received from a borrower, which must be used by banks as a basis for the extension of the credit and the periodic assessment of inherently changing risk. Hence credit policies should define target market risk acceptance criteria, credit approval authority, credit origination and maintenance procedures, and guidelines for portfolio managements.

5.3 Recommendation

1. In light of the findings obtained during the study, the researcher recommended that Stanbic bank should work in conjunction with other banks to come up with a centralized customer data for easy access on details concerning a customer's credit worthiness, Financial institutions should always have qualified and experienced credit team who can tell a suitable candidate before any loan is given.

2. Stanbic bank with other financial institutions should always keep proper records of a customer and terms and conditions given to a client before loan is disbursed should be followed by financial institution to avoid defaulters.

3. Credit policies should also be reviewed often and made clear to all the persons working under credit department and even other departments so that Stanbic bank customers should be well informed on the bank's policies.

4. The study assessed the effects of credit policy and performance of commercial banks in Uganda using Stanbic bank as a case study. This was in regard to bank past experience of credit function in line with its performances. The whole exercise of credit risk management depended on the discretion of management in controlling the level of loan portfolios. Thus its however advisable that a study on other functions in the bank outside the credit policy could provide further information on the factors that may influence the performance of micro finance institutions more so in Stanbic bank in Uganda.

5. Research should also be done on other financial institutions apart from Stanbic bank that deal with giving out loans and have credit policies since Stanbic bank is just a part of financial institutions. This leads to easy comparison and make research done earlier more realistic.

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APPENDIX I

QUESTIONNAIRE TO THE MANAGEMENT AND CUSTOMERS OF STANBIC BANK UGANDA: RUKUNGIRI BRANCH

APPENDIX I- INSTRUMENTS

II 1- QUESTIONNAIRES TO THE MANAGEMENT.

Dear Sir/ Madam

I, humbly asks you to participate in this research on credit policy and the performance of commercial banks in Uganda, taking Stanbic bank, Rukungiri branch as the case in point. The study is purely for academic purposes, thus it will not be disclosed in any way for any other causes. It is a partial requirement for the award of Bachelors Degree in Business Administration (Finance option) at Kampala International University to the researcher.

Instructions: please help by answering the following questions as honestly as possible. Please Tick where appropriate on the provided space.

All the information availed to me is to be treated with maximum confidentiality

Personal Background

Section A

1. Sex.

1) Male ☐ ii) Female ☐

2. Age group

i) 21- 30 yrs ☐ ii)31- 40 yrs ☐ iii) 41- 50 yrs ☐ iv)Over 50 yrs ☐

3. Marital status.

i) Single ☐ ii) Married ☐

4. **Education background.**

i) Secondary level ☐ ii) Certificate level ☐ iii) Diploma level ☐ iv) Degree level ☐

v) others ☐

5. **Occupation.**

i) Loan officer ☐ ii) Credit officer ☐ iii) Credit rating officer ☐

iv) Manager ☐

6. **Duration taken in working in that department?**

i) Less than 2 yrs ☐ ii)2-5 yrs ☐ iii) 5-8 yrs ☐ iv) 8-15 years ☐ v) Over 15 yrs ☐

7. **Who is responsible for credit rating?**

i) Credit officers/ credit supervisors ☐ ii) Head of the credit department ☐

Section B

Questions	Agree	Strongly agree	Neither of all	Strongly disagree	Disagree
Credit policy					
8. Does your organization have a written credit policy?					
9. Are credit policies, procedures and directives realistic to the performance of Stanbic bank?					
10. Do you always use procedures and directive for all loan applicants?					
11. Are borrowers outstanding liabilities checked to determine appropriate line of credit prior to granting additional credit?					

12. Does the credit policy encourage clients to borrow?					
13. Does Stanbic bank conduct review on its credit policy?					
Credit rating					
14. Does your Bank use a system of credit rating in evaluation of clients' application for credit facility?					
15. Are credit rating of clients often reviewed?					
16. Has the performance of the Stanbic bank been between the periods of 2003-2007 been effective?					
17. Are there some factors that lead to non-payments/ bad debts in Stanbic bank?					

Section C

How clear are the policies, procedures and directives in the following areas?

Questions	**Very clear**	**Clear**	**Fairly clear**	**Not clear**	**Not included**
Credit terms.					
18. In defining duties and responsibilities of credit officers, credit supervisors and credit committees.					
19.In defining acceptable loans?					
20. In setting guidelines for categorizing loans.					
21. In establishing maximum financial information required at the inception of credit.					
22. Establishing leading authority of committees,					

individuals or officer.					
23. Credit analysis and credit information.					
24. Establishing limits and guidelines for loans to bank officers and directors.					
25. Establishing maximum maturities for the various loans					
26. Establishing geographical limits for loans.					
27. Establishing limits and guidelines for loans to any related interests.					
28. In submission and processing of credit application.					

Section D

In evaluation an application for a credit facility, how important are the following?

Criteria	**Very important**	**important**	**Fairly important**	**Hardly important**	**Not important**
29. Purpose of the credit					
30. Collateral/ security					
31. Capacity of customer to pay					
32. Character of management					
33. Financial assets of the company.					
34. credit limit summary					
35.credit approval memo					
36. Financial projection					
37. Owner level of dependence					

Section E

In evaluating credit recovery approaches, how effectiveness are the following

High effective (**HE**), Fairly effective (**FE**), Not effective (**NE**), Non response (**NR**)

Frequency (**F**)

Response	**HE**	**FE**	**NE**	**NR**
38. Continuous supervision to ensure purposeful use of the loan.				
39.Continuous customer sensitization about their financial obligation				
40. Reminder on phone, letters and physical customer contact.				
41.Use of court bailiffs and mortgage of collateral				
42. Visiting clients whenever need be.				
43. Auctioning clients property				
44. Referees to guarantors				
45. Warning to the customers				

Table 7: management's review of the bank's credit policy

Questions	**Agree**	**Strongly agree**	**Neither agree nor disagree**	**Strongly disagree**	**Disagree**
Review policies					
Changing market condition					
Increasing risks of credit					
Central bank directives					

Legal considerations					
Increased competition					
Review every:					
By annually					
Year					
2 years					
3 years					
Never					

2 QUESTIONNAIRES TO THE CLIENTS.

Dear Sir/ Madam

I humbly ask you to participate in this research on credit policy and performance of commercial banks in Uganda, taking Stanbic bank, Rukungiri branch as the case in point. The study is purely for academic purposes, thus it will not be disclosed in any way for any other causes. It is a partial requirement for the award of Bachelors Degree in Business Administration (Finance option) at Kampala International University to the researcher.

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1. **Sex.**

I) Male ☐ ii) Female ☐

2. **Age group**

i) 21- 30 yrs ☐ ii) 31- 40 yrs ☐ iii)41- 50 yrs ☐ iv) Over 50 yrs ☐

3. **Marital status.**

i) Single ☐ ii) Married ☐

4. **Education background.**

i) Primary level ☐ ii) Secondary level ☐ iii) Certificate level ☐ iv) Diploma level ☐

v) Degree level ☐ vi) Others (specify)...

5. **Occupation.**

i) Casual worker ☐ ii) Civil servant ☐ i) Business man ☐ Farmer ☐

v) Others (specify)...

Questions	Agree	Strongly agree	Neither agree nor disagree	Strongly disagree	Disagree
7. Does the policy encourage clients to borrow?					
8. Does the policy limit the borrowers' capacity from securing loans?					
9. Are there some weaknesses in the policy, which might result to low repayment rate from the borrowers due to its strict terms and conditions?					
10. Does the policy discourage you as clients from borrowing?					
11. Does the loan process take a lot of time (duration) for the clients to get loan?					
12. Does the policy limit the borrowers' capacity from securing a loan?					
13. Does the policy establish guidelines for loans to the clients and determine the repayment terms?					
14. Does Stanbic bank check and evaluate collateral before giving its clients loans?					
15. Are first time borrowers given short duration i.e. 3 - 6 months to repay the loan to the bank?					
16. Are second time borrowers given long time duration i.e. 6 months to one year for them to repay their loans?					
17. Does it take a lot of time i.e. more than					

two weeks for the loan to be disbursed to the clients or borrowers after application?					
18. Are the third time borrowers given long time i.e. more than one year for them to repay their loans?					

19. On average, how long does it take from one lender in application for credit facility and when the client has access to the funds?

i) Less than 15 days ☐ ii) 15-30 days ☐ iii) one month and a half months ☐

iv) Two months ☐ v) More than two months ☐

INSTRUMENT 2- INTERVIEW GUIDE

2-INTERVIEW GUIDE FOR THE HEADS OF SECTIONS STANBIC BANK UGANDA

1. To what extent do credit policy funds affect the financial performance of commercial banks?
2. What measures does Stanbic Bank enforce in managing smooth operations with regard to credit policy and credit management?
3. What extent does Stanbic Bank invests their surplus funds on credit policy and management?
4. Do you feel that there are any solutions that can help decrease the credit policy and management?
5. What are the factors affecting the financial performance of Stanbic bank, enhancing its financial performance and profitability.

   a) Technology b) Effective management c) Globalization

   d) Deregulation e) Marketing mix

6. How would you rate the contribution of the above factors to Stanbic Bank financial performance and profitability?

1. Poor 2.Fair 3.medium 4.Good 5.Execllent

7. What are the management strategies put in place for smooth financial operation of Stanbic Bank and its smooth trading in credit policy and management?

APPENDIX II

TIME SCHEDULE OF ACTIVITIES

ACTIVITY	PERIOD	OUTPUT
Proposal Writing	18/11/2014	Proposal submission for approval
Field customization	January 2015	Initial information collection
Developing instruments	February 2015	Developing of instruments
Data Collection	February-March 2015	Coding and entering data
Data Analysis	March-April 2015	Analyzing and interpretation of data
Preparation of report	April-2015	Submission of dissertation

APPENDIX III

BUDGET ESTIMATIONS

NUMBER	ACTIVITY	COSTS (UGSHs)
1	Stationary	60,000=
2	Typing and Printing	35,000=
3	Transport	50,000=
4	Meals	50,000=
5	Photocopying	15,000=
6	Internet and Airtime	45,000=
7	Miscellaneous	100,000=
TOTAL		355,000=UGSHs only