KAMPALA INTERNATIONAL UNIVERSITY

FACULTY OF BUSINESS MANAGEMENT

TOPIC:

"ANALYSIS OF BANKS' PERFORMANCE IN SATISFYING ITS CUSTOMERS"

CASE STUDY: STANBIC BANK UGANDA

BY

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

August 2006

DECLARATION

I, Gikonyo Lydiah, declare that the material contained in this project report is entirely my own research effort which has never been submitted in any university or other academic institution or being submitted for any degree award to any other university, college or other academic institution.

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Date...

APPROVAL

This project report has been submitted for examination with the express approval of Dr. Nicholas Sunday.

Signature...

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Date....18/8/06..

DEDICATION

I dedicate this to the almighty God who has enabled me to able up to this height, my loving mum, my sisters and my cousins. Thank you for your encouragement, love and support

ACKNOWLEDGEMENT

I honour everyone who assisted me in any kind of way to write this project particularly my supervisor Dr. Nicholas Sunday for this academic guidance and his faith in me and the encouragement to move on. My special thanks to my sponsor Mrs. Ann Macharia (U. S. A) for her parental guidance and most important the financial support she has given me throughout the course also I can not forget to thank my mum for her unveiling love, kindness and support together with my cousin Wakuraya. When the going got tougher, they were always there to encourage me to carry on.

Lastly, I wish to thank my friends especially Joel, George and Lillian and course mates with whom we shared ideas during the study.

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ABSTRACT

The study examined the performance of commercial banks in satisfying its customers. The study was based on Stanbic bank it was aimed at analyzing how banks manage to meet liquidity, make profits using the funds deposited with out harming the safety of depositors.

The primary objective was focus on how banks match assets and liabilities portfolio. The study was based in Uganda Stanbic Bank. The methodology applied was open and closed questionnaires administered to sixty officials. The stratified random sampling method was applied as sampling method and data was gathered and analyzed.

The study revealed that monitory and fiscal policy, business cycle, interest rates and individual bank characteristic were the major factors of banking business that make it complicated.

Trade cycles and high interest rates influence the repayment habits of borrowers. Further, the study reveals how deposit levels are influenced by spending and saving patterns, taxes payroll patterns among others.

DEFINITION OF TERMS

Banker's lien- it's the right to retain goods in respect of any general balance due by the debtor to bank.

Profitability-the measure of bank operational efficiency based ratio of earnings to the funds used in the bank on the possibility that the borrower of a loan or issue.

Default - the possibility that the borrower of a loan or issuer of security is unable to meet interest and principal when they fall due.

Spread management- is a strategy that attempts to establish an appropriate margin between banks's cost of funds and its earnings rates on assets.

Gap management- is an assets liability strategy that analyses the rate sensitive assets and liabilities.

Liquidity- the ability to obtain needed cost quickly and at a reasonable cost

Asset liquidity-implies, holding short term assets that can be sold or that will mature to meet liquidity needs.

Credit risk – this is the risk that the counter party will foil to perform on the obligation to the institution.

Credit bureau – an agency clearing house of borrower's financial data and repayment history

Moral hazard – a condition that a lender may be exposed to, when the borrower diverts the funds into a more risky use other than what was presented on proposal.

ACRONYMS

Abbreviation	**Description**
CEO	Chief Executive Office
ROA	Return on assets.
EPS	Earnings per share
LIME	Loan implementation monitoring and evaluation.
ROE	Return on equity.
P R	Public Relation

CHAPTER ONE

1.0 INTRODUCTION

The study was intended to analyze the performance of banks in satisfying its customers with Stanbic Bank (Uganda) as the case study. The researcher launched the study because banks play an important role in an economy for all business transactions. The study enabled better understanding about banks operations.

1.1 BACKGROUND

Stanbic bank is one of the leading commercial banks with branches surrounding many African countries, including the east Africa, South Africa and Malawi just to mention but a few Stanbic Bank has been able to recognize the various needs of customers and provides additional accounts alongside the famous traditional ones, namely current, savings, and fixed deposits accounts.

Besides the famous traditional accounts i.e. Savings, current and fixed deposit accounts, Stanbic Banks has developed accounts well designed to suit the changing needs of customers. Among these, we have business account, revolving line or credit which offers continual credit through a reversing capability that is immediate which enables borrowers to borrow money again at preferential rates without applying for a loan. Efforts have been made to establish a network of branches all over the country to bring services closer to users.

Others include express blue bag deposit service which offers business a convent way of making deposits where banking takes less time. Services such as cheque deposits for cheques drawn within clearing area, inter account transfer between customers accounts at Stanbic Bank, one full monthly statement, cash deposits below 500000, account enquiries, branch enquiries, account opening, and fixed, notice and call deposits are all offered for free.

1.2 RESEARCH PROBLEM

Banks must maintain adequate liquidity in order to provide for decline in deposition and other liabilities, to satisfy unforeseen increase in demand for loans, and to permit increased investment in particularly desirable earning assets when such opportunities arise, but how do banks manage to make profits, maintain liquidity without compromising safety of depositors?

Since, liquidity risk arises due to various factors including, banks inability to attract deposits, the absence of credit worthy customers make conditions for making loans rigid hence low levels of loan demand and consequently less interest income from loans, people's preference for assets to cash, therefore banks must take great care in evaluating what levels of risk are inherent in various assets they acquire and the liabilities they assume. They must balance their desire for immediate high returns against the necessary constrains of liquidity and safety.

However, credit risks and interest rate risk are the two basic types of risks in bank investment and loans others may include difficult in identifying avenues for profitable employment of capital, effects of monetary policies. Credit risks expose the bank to default of repayment of loans and reduced returns on invested funds. The rate of interest offers competition in terms of other rates offered by other financial institutions.

1.3. OBJECTIVES OF THE STUDY

i. To find out how stanbic bank managed its assets, liability portfolio in the years 2005-2006.

ii. To find out how Stanbic Bank reduced their vulnerability to credit risk.

iii. To find out what competition strategy are in play with the bank wider study.

iv. To find out how external and internal forces of banking environment affects funds management and investment.

1.4 RESEARCH QUESTIONS

1. What are banks assets?
2. What are banks liabilities?
3. How do banks manage their assets against liabilities?
4. How do banks reduce their vulnerability to credit risks?
5. What competitive strategy can a bank adapt?
6. Does the banking environment pose any influence on banks investments and funds management?

1.5. HYPOTHESIS

1. Bankers seek the highest yields possible on their investments and loans, but they must carefully consider how much risk they are willing to take to achieve that objective.

2. That each bank has strategies in play to attract and retain customer confidence and safety.

1.6. SIGNIFICANCE OF THE STUDY.

1. The study enabled the researcher to understand asset-liability management strategies employed by Stanbic Bank.

2. The study brought to light to Stanbic Bank some of the environmental factors influencing its funds management and investment that they were not aware about

3. It helped academicians to understand banking operations.

CHAPTER TWO

2.0 LITERATURE REVIEW

The concept of liquidity, profitability and safety are important subject in banking business and funds management and various experts from different fields and studies examine them from different angles as discussed below.

According to Betty J. Brown and John E. Clow assets of a commercial bank are properties that it owns, and they include cash reserves, the short and long term loans given out to customers, bank's investment in other business ventures, the bank's deposits with other the control bank (legal reserve requirement), the bank's investment in securities for example bonds and treasury, bills and fixed assets such as land, building and equipments.

On the other hand, bank's liabilities are the claims of other people or organization in a bank and include customer's deposits, deposits of other banks in that particular bank, money borrowed from the bank from other banks and unpaid dividends.

2.1 ASSETS/LIABILITIES PROBLEM OF DEPOSITORY INSTITUTION

According to Gerald O. Helter (2000), assets and liabilities must be coordinated in order to maximize bank profitability and stockholders earnings over long term, consistent with safety, and liquidity needs. A depository institution seeks to earn a positive spread between the assets it invests in (deposits and other sources).The spread is referred to as spread income or margin. The spread income should allow the institution to meet operating expenses and earn a profit on its capital. In generating a spread income a depository institution faces several risks such as credit risks, regulatory risks and interest rate risk.

2.2 LIQUIDITY CONCERN

Dr. Phem K. Svirastara (1999), supplemented when he made a remark that successful banking depends upon the capacity of the bank to satisfy the demand of customer for cash in exchange for deposits. He developed that only after making provision for immediate s liquidity should a bank invest in some assets which are liquid in nature and at the same time earn some income, according to him, an employment of funds, banker should pay regard both to profitability and liquidity.

Frank J. Fabozzi (1997), suggest that in order for banks to satisfy withdrawals and meet loans demand, the bank can ensure to attract additional deposits by offering reasonable interest rates, or use existing securities as collateral for borrowing from other institutional for example investment banks or raise short term funds in the money market or sell securities that it owns. Funds must be borrowed at the lowest total cost that can be found for maturities that cover the exact length of time that funds will be needed.

According to a report obtained from regulatory agency on financial cost analysis and performance characteristics of high earning banks, the most useful measures of profitability that are available to bank management, bank stockholders and regulatory agencies include return on assets (ROA), ratio of capital to assets, return on equity (ROE) and earning per share (EPS). Gerald O Hatler, explains the indication of each of the above measures as follows, return on assets shows the relationship between profits and assets and shows management's efficiency in handling the banks assets. Although a bank's net income may indicate that its earnings are growing, the bank may be experiencing reduced profitability if its assets are not being put to the best use. Ratio of capital to assets indicates whether the bank has adequate capital to support its operations. Return on equity shows the banks rate of return on funds directly invested in it. It related bank profits to the stockholders investment and indicates the efficiency of the investment of equity capital.

Raj Kapila and Uma Kapila (1999) in their study developed the theories of financial stability whereby they argued that banks may be seen in terms of the liquidity insurance. That banks provide to depositions by pooling risks, bank assets are mainly long term and illiquid assets and so banks engage in maturity transformation. This feature gives an incentive for panic runs on banks even if they are silent because of imperfect information regarding their bank assets (loans) at far. The risk that other depositors may withdraw may cause panic regardless of underlying financial position of the bank and borrowers without access to other sources of funds. He continuous and introduces the theory of asymmetric information and agency costs and suggest that the well known problem of debt contract vis-à-vis moral hazard and adverse selection arising from the informational asymmetric between the borrower and the lender, can also account for sharp contraction of credit engendering financial instability..

Further James Tobin with Stephen S. Golub (1989) lay emphasis to establish that for the banks to maintain profitable and grow within the financial services industry the management must become increasingly cost-conscious in managing the deposit function. According to them, the major influences on a bank's cost of funds are the bank's mix deposits, its volatility and the extent to its deposit services. Such influences on deposit must be carefully considered and then coordinated with comparative earnings available in the management of the bank assets. He continuous to say that since banks experience funds overflow daily and bank managers must secure additional funds in order to meet reserve requirements and satisfy customers loan demand, additional funds can be obtained by liquidating assets or by borrowing in the money markets.

In his study he points various factors that influence the cost of deposits and fund managers must determine the costs and appropriate prices of deposit account as well as evaluating the various short term sources of borrowed funds.

2.3 COMPETITION AND PROFITABILITY

In as far as competition is concerned; it's ironical how banks compete on getting and keeping deposits whereas they constitute a liability of the bank. However various experts established the following report.

According to John Alexander Galbraith (1963), the competion for deposits is really a competion for a greater output as they compete in order to become larger and thus to be able to supply more funds to the public. Michael Porter suggests that banks must adopt "sustainable competitive advantage" to enable them grow fundamentally out of the value they are able to create for its client. It may take forms of prices, lower than the ones of competitors.

However, according to John Alexander Galbraith (1963), since such offers are not attractive device on profits, banks may or can resort to expanding physically by establishing many banking offices in order to trap and retain its shares in deposits business.

Adriane A. Paradis (2000) explains how banks are beginning to sell merchandise through catalogues to compete with other retailers that have been competitive with an increasingly wide range of financial services. According to him, home banking is becoming popular to customers who have computer terminals and can use them to review the affairs of their accounts. Further, banks are making global finance readily available as they facilitate electronic transfers of funds across boundaries (international). Other services include private banking for wealthy customers who keep large balances.

GH Mohi-ud-Din Dan (2000) in his study suggests other various forms of product differentiation in banks such as introduction of new technology ATM, electronic funds transfers, telebanking, extension of working hours (24 hours), special deposit schemes, diversification of products like consumer credit cards, travelers cheques, stock investment transfer, bid bonds. Diversification to new business in addition to merchant banking, others are leasing, factoring, mutual funds, venture capital, securitization of debts, share deals.

To ensure customer care, GH Mohi-ud-Din Dan (2000) suggests that banks must place strategies to ensure customers have confidence in them and are safe. They may arrange for safe deposit so that customers may entrust their securities and valuables to them for safe custody. Also they may hold excess reserves for precautionary purpose to satisfy deficit between customer withdrawal to avoid cash deficiency that compels the bank to incur expenses by raising cash quickly by calling in loan, selling securities or borrowing through central bank.

CHAPTER THREE

3.0 METHODOLOGY

To gather the detailed information required for the study both primary and secondary the researcher used the following methods of data collection.

3.1 PRIMARY DATA

This was collected through well designed questionnaires for each level of management from top, middle and operational. Questioners were served to top, middle and branch level executive. After duly protesting them since the total number of executives in the bank was too large to be covered by the individual researcher. Sampling methods were adopted especially stratified random sampling procedures to ensure all population was represented. The executives were classified as CEO who represented the top management, regional manager represent the middle management and the branch managers.

3.1.1 OBSERVATION

The researcher visited the bank under study and observed how customers were being served, the attitude of the bank tellers towards the services they rendered and customer's attitude after service. The data obtained through observation was presented in form of tables and pie charts.

3.1.2 INTERVIEW

Interviews and personal discussions with top, middle, and operational level executives of the bank under study were carried out to collect primary data.

3.1.2.1 INTERVIEW SCHEDULE

Structural interview schedule

This was administered to operation managers. This instrument was helpful in that the managers were able to express many issues that will have been difficult to one's self-administered questionnaires. It was always possible for the researcher to observe the general mood in voice and body language as she interviewed the managers.

Unstructured interview schedule

The researcher also carried out face to face interview on customers to find out their opinion concerning the services provided and how well they, are tailored in accordance to their needs.

3.2 SECONDARY DATA

These was obtained from the official records and files of the bank and annual reports or accounts of the bank published from time to time, publications of various banks, monthly review, economic view, information published by central bank and other allied agencies like ministry of finance.

2.4 RESEARCH DESIGN

The research was the case study. Stanbic bank Uganda was the objective of study it covered a period of one year 2004-2005 it examined factors affecting banks performance in satisfying its customers: Is there a relationship between performance and the variable under study? The research engaged both qualitative and quantitative data. Qualitative research helped in stressing interpretation and meanings while quantitative research balanced the biased responses. The case study does not explain all the case in different banking institutions but it can be used to extrapolate future problems. This study design was felt appropriate considering the time limit and limited resources.

2.5 LIMITATION OF THE STUDY

1. Denial of information

In some cases employees fear being dismissed incase they give out information concerning the company as a result some information was denied.

2. Financial constraints

The researcher required substantial amount of money that was not readily available since the researcher was a student without a source of income other than the pocket money from guardian. Much spending was inform of printing costs, typing, transport costs and paper work.

3. Time frame

The time allocated for research was limited and this hindered the researcher from carrying out a detailed research.

4. Not all questionnaires were answered.

CHAPTER FOUR

4.0 PRESENTATION, ANALYSIS AND DISCUSSIONS OF FINDING

4.1 INTRODUCTIONS

Through the use of the methods applied in the previous chapter, the results and interpretation of the study are discussed in the chapter. The results are presented according to the objectives of the study. The objectives were to find out how banks manage their assets against the liabilities, to find out what competition strategy are in place with the bank in question, and to find out how external and internal forces of banking environment affect investment and fund management.

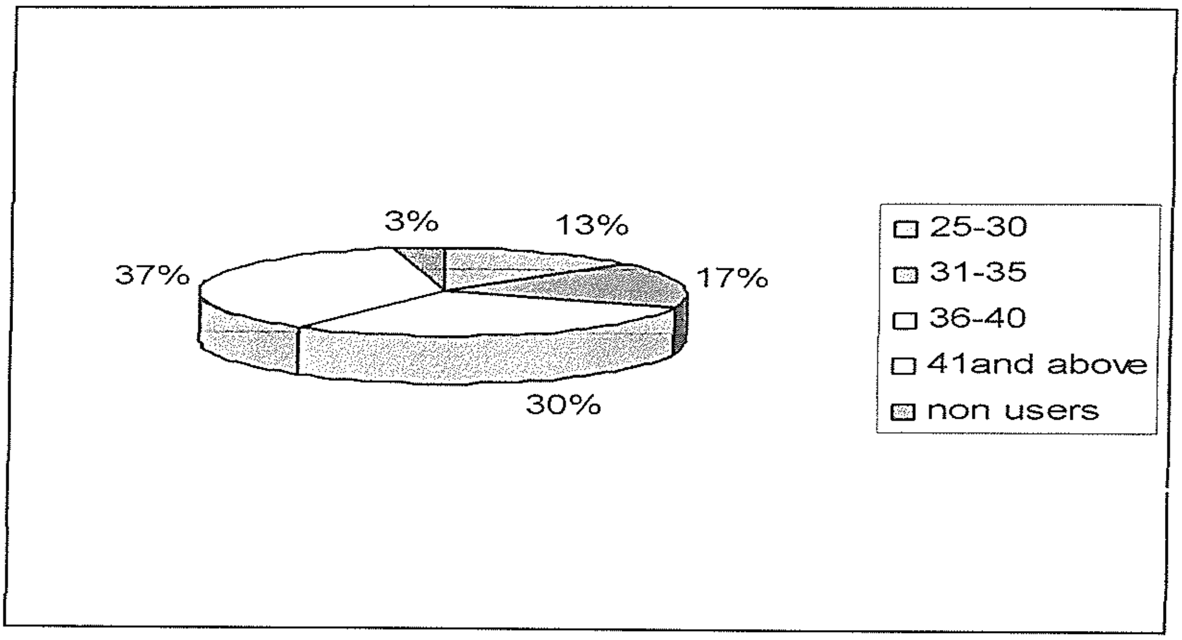
Data was obtained through the use of self administered questionnaire to management from top, operational and branch managers, face to face interview was conducted with bank customers. The data collected has been analyzed in form of table and pie charts where necessary.

4.2 DATA PRESENTATION

Table i: Sample characteristics of bank clients

Age	**Frequency**	**Percentage (%)**
25-30	**8**	**13.3**
31-35	**10**	**16.7**
36-40	**18**	**30**
41 and above	**22**	**36.7**
Non users	**2**	**3.3**
Total	***60***	***100***

Pie chart showing percentage on characteristic of bank clients



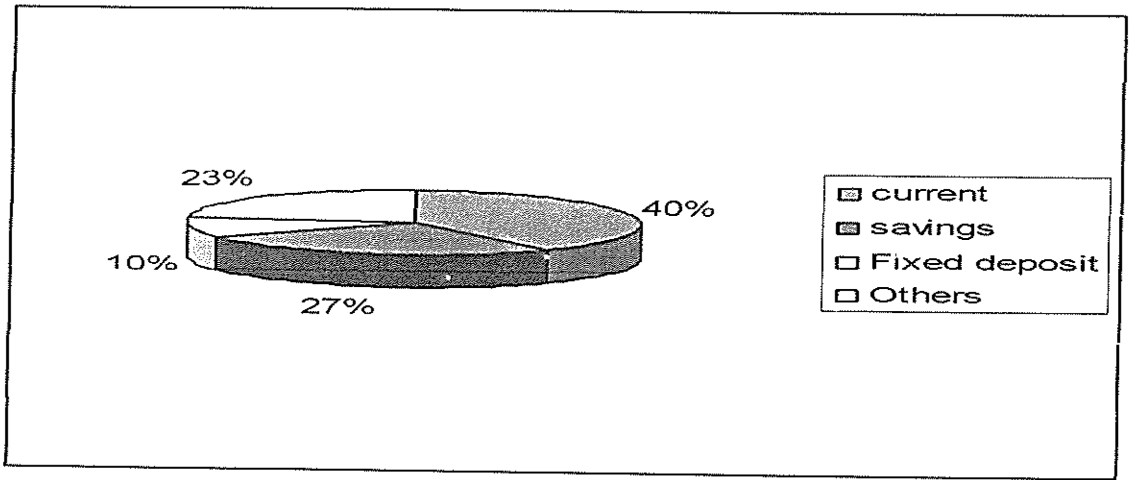
Source: primary data.

The results above shows that 60% of bank customers is above 35 years if age. This is a clear indication that most savers are the elderly meaning that the macro environment factors such as unemployment and reduced level of national income affects liquidity in terms of reduced level of savings as the figure shows many young people are unable to use banking services. Also, the percentage of non users of bank account shows that most people have realized the importance of keeping money in banks rather than the traditional method of saving in the homes.

Table ii: The frequency of the various accounts

Type of account	Frequency	Percentage (%)
current	24	40
savings	16	26.7
Fixed deposit	6	10
Others	14	23.3
Total	60	100

Pie chart showing percentage on frequency of the various accounts



Source: primary data

The figure above shows the frequency of the various accounts operated by bank customers; the current account records the highest frequency of 40% followed by savings account at 26.7%, fixed deposit account at 10% and others 23.3%. This is a clear indication as to why banks are lacking liquidity. If most customers operate current account it means each day the bank must maintain high level of liquidity in order to meet the demands of customers.

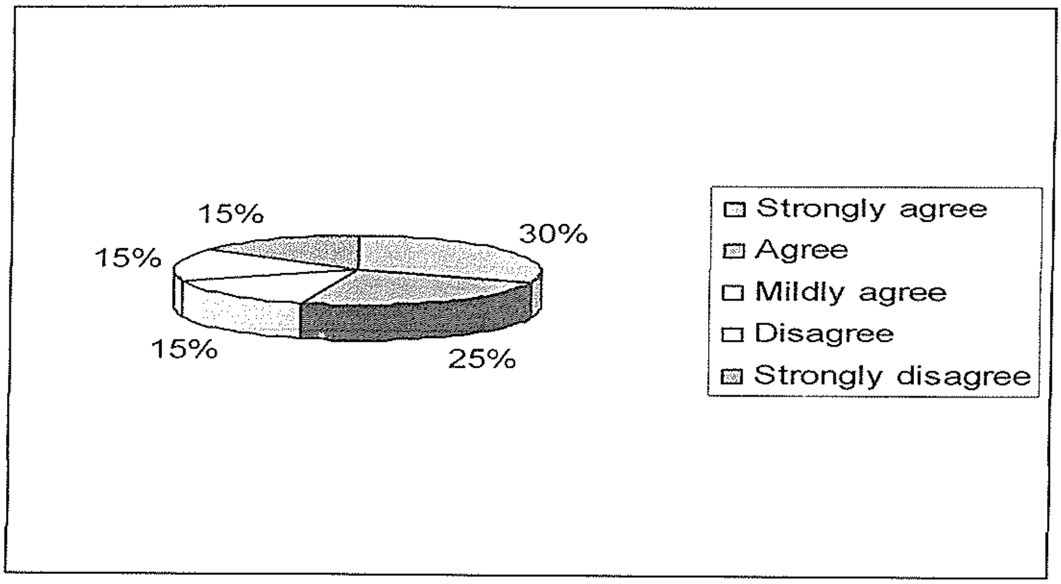
From the data; we can say that the amount of money in fixed deposit account is too low to supplement the demand. This explains why banks sometimes, are unable to make profits from deposits and to some extent forced to obtain credit from central banks even when bank rates are high. The low level of funds kept in fixed deposit account clearly shows there are other avenues of investment available to savers.

Table iii. Response as to whether people /savers prefer buying assets to keeping cash.

Response	**Frequency**	**Percentage**
Strongly agree	**18**	**30**
Agree	**15**	**25**
Mildly agree	**9**	**15**
Disagree	**9**	**15**
Strongly disagree	**9**	**15**
	60	***100***

Source: primary data.

Pie chart showing Response as to whether people /savers prefer buying assets to holding cash.



From the above table, 70% of the respondents agreed that they preferred assets to cash, whereas 30% said they preferred keeping cash to buying assets.

This clearly shows most savers opt to invest savings in buying shares than saving in bank accounts to earn an interest.

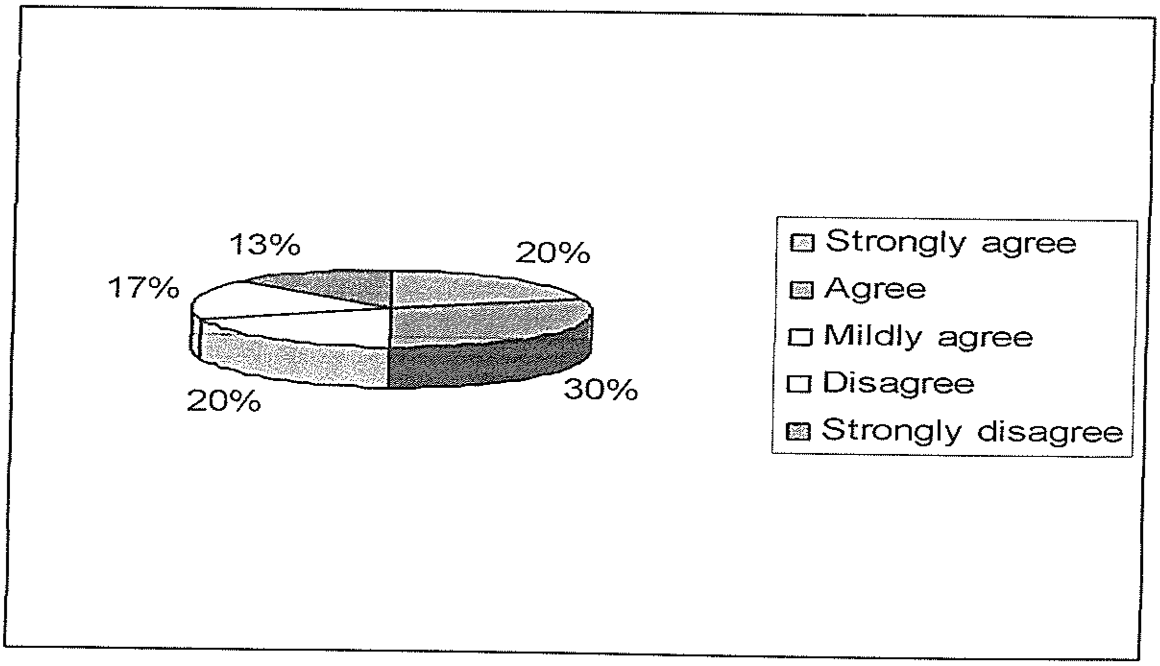
This means the problem of banks liquidity shall persist unless efforts by bank to improvise new products need tailored to identified customer needs if they are to make durable impression.

Table iv. Response on effect of interest rate risk on banks' profitability and earnings

Response	Frequency	Percentage
Strongly agree	12	20
Agree	18	30
Mildly agree	12	20
Disagree	10	16.7
Strongly disagree	8	13.3
Total	60	100

Source: primary data

Pie chart showing the response on effect of interest rate risk on banks' profitability and earnings



From the results above 70% agree that interest rate level affect both the cost of bank liability and the earning on banks assets indicating major fluctuations in interest rate can have devastating impact on banks profitability if the bank fails to protect itself against interest rates risk

4.3 FINDINGS

4.3.1 EFFECTS OF VARIOUS FACTORS ON BANK FUNDS AND INVESTMENT.

4.3.2 INTEREST RATES

According to the top management representation, the banks no longer have stable sources of flow of funds and that a large percentage of bank's funds are in interest sensitive and are therefore influenced by changes in interest rates. As a result, the costs of bank funding are growing significantly. In addition, rate deregulation has greatly increased the competition for deposit among banks and between banks and other financial institutions, this too is raising the cost of bank funding dramatically. He also mentions that inflation has influence on bank funds management thus predicting and planning for changes becomes difficult. It also takes greater efforts to control the spread between the cost of funds and the return on funds so that earnings remain stable over the course of interest rate changes. There is also often not enough time to implement changes in the portfolios in order to profit from interest rates movement.

4.3.3 BUSINESS CYCLES

Business cycles is another micro-environment factor that affects both bank deposit and particularly loans increases as business conditions improve. But consumer installment loans are less influenced by declining business conditions. As regards deposits, some banks may fail to get enough funds to satisfy the heavy loan demands during expansion. Also banks are affected by business cycles but usually how the bank is affected by business cycles depends on various factors such as the types of business, financial conditions of this business, their long-term rate, the amount of their sales, and levels of production when business conditions change.

4.3.4 MONETARY POLICY AND FISCAL POLICY

The study also reveals how changes in monetary policy directly affect the lending and investment activities banks and thus influence the borrowing and spending of patterns of all businesses. As the central bank strive to regulate the level of reserve in banking system by purchasing of securities, it adds the total bank reserves enabling banks to increase their loan and investments, and by selling securities it restricts the ability of banks to lend and invest. The reserve ratio requirement affects the liquidity whereas the discount rate influences the rate that banks charge their customers on borrowed funds.

4.3.5 INDIVIDUAL BANK CHARACTERISTICS

From the study we learn some other factors that uniquely affect individual bank such as community influence clearly spelt out in the community characteristic this dictates the type of service that the bank s provide and affects level of banks business. The management representative makes a remark emphasizing the reason as to why banks in different communities vary in the nature and extent and of their services.

The rate of business growth also can poses problems for banks. Communities with declining growth rate leads to slow growth deposits and sometimes a decline if there is little growth in local business and industry. Bank will also have few opportunities for profitable lending.

4.3.6 PROBLEMS ENCOUNTERED IN BANKS AND FUNDS MANAGEMENT

According to the P. R of Stanbic bank Mr. David this included fraud by employees, insider dealings in loans, default risk by borrowers, as well as moral hazards. In an effort to overcome and control the problem of fraud by employees, the personnel department works to ensure that the salary package is attractive to cover wide spread facilities such as insurance schemes, profit sharing, plans as well as disability and unemployment compensation.

4.4 FORMS OF SECURITIES.

According to the Annual Report Journal (2001), banks require security against loans and advances these securities come in various forms. He says that a loan may be granted on personal security of borrower or on personal security coupled with the guarantee of another person, but in most cases collateral securities are used such as

4.4.1 BANK LIEN

Banks also have a lien to retain property in respect of any general balance due by the debtor to the banker. In this case , the banker have a general lien on all securities deposited with them as banker by the customer unless, there be an express contract or circumstances that shows an implied contract inconsistent with the lien.

4.4.2 PLEDGE

This involves a contract whereby an article is deposited with lender as security for repayment of a loan. A bank must take precautions to ensure that goods pledged with the banks are free from pre-encumbrances

4.4.3 MORTGAGE

It has been clear that to obtain advances from a bank there must a security in form of collateral. From the study, the researcher learns that the questions as to whether particular collateral is movable property or an immovable property are of great significant. Its on basis that the period of limitation for suit for declaration of title to or for recovery or possession of the property is determine we learnt that if the property is a movable property, then such a suit is required to be filled with three years but if is it is a an immovable property, then such as suit can be filled within twelve years.

4.4.4 PRODUCE AND GOODS SECURITY

The study also reveals that produce and goods can also be used as securities to acquire loans. Bankers may prefer such because first , it offers something touchable to the banker to realize in case the customer defaults secondary , they are easily realizable as compared to a movable properties thirdly they are comparatively easy to evaluate and finally the source of repayment of resource of advances is comparatively secure because, if a wholesale obtains loan for the purpose of purchasing good the source repayment is the sale proceeds of the goods to purchases here, the banker has the sale of goods to look to for repayment.

In conclusion, banks should always be careful to select only liquid securities concerning loans and advances. The banker should always take into account that liquidity is not sacrificed at the expense of profitability.

4.5 CREDIT TECHNIQUES USED IN LOAN PROCESSING

According to Enock Biryabarema (1998), in his study he reveals that there are various forms used by the bank for credit processing such as borrowers selection, risk analysis, cash follow and some time clearance certificate all directed establishing credit worthiness of the borrower. At least the banks official agrees that commercial banks in Uganda have very little financial and credit information when compared with developed countries.

CHAPTER FIVE

5.1 CONCLUSION

Conclusively it's clear from the study that bank safety and profitability depends on effective management of a bank's assets and liabilities. A banks total pool of funds shifts constantly as lesson to maintain profitability and growth within the financial service industry, bank management must become increasingly cost-conscious in managing the deposit function and in planning and coordinating bank's sources and uses of funds over time in order to maintain adequate safety and liquidity consistent with banking regulation and community needs.

Additionally, banks must take reasonable precautions in evaluating the securities offered for loans and advances in order to mitigate chances of credit risks by default. Banks must pay attention to the concentration of loan portfolio to ensure loan advances are not subject to similar conditions. This would reduce their vulnerability to credit risk. Whereas banks strive to maintain adequate liquidity, they should bear in mind that too much liquidity needlessly limits bank's earning, whereas too little may expose the bank to possibility of costly emergency measures to secure needed funds. Therefore, liquidity should be maintained at sufficient level to cover probable fluctuations in loans and deposits with small margin of excess liquidity as a measure of safety.

In order to solve the problem moral hazard, banks need to strengthen the supervision of their portfolio, may be by establishing departments for Loan Implementation Monitoring and Evaluation. (LIME).

Banks should always be careful to select only liquid securities for loans and advances but been in mind that liquidity should not be sacrificed at the expense of profitability.

Whilst it may appear costly and time consuming, it is necessary that banks endeavor to carry out an additional analysis whenever an additional borrowing or credit extension is required by a client. Revisiting borrowers premise will help detect problems or gauge the status of borrower and will minimize banks exposure to moral hazards.

In summary it is clear from the study that the major challenges of the banking business is to satisfy both the users and the supplier of funds, this is evident from the fact that borrowers want low rates for use of bank funds, depositors want high returns for they supply funds and shareholders want a reasonable return on their capital investment, according to www.letstalkbusinesstoday.co.uk

5.2 RECOMMENDATIONS

In order to cope with the increasing volatility in interest rates and ensure profitability and limit risk, it is importance that banks use techniques that enable them to manage securities, rate structure and risk in their assets and liability portfolio in accordance with interest rate changes.

During periods of inflation and interest rate volatility, bankers must exercise great care in estimating their flows of funds and must build a greater flexibility into their asset and liability portfolio to respond to this volatility.

Incase the bank is faced with inability to meet the heavy demand for loans during expansion, its necessary that maintains liquidity in the liability portfolio such that they can increase their lendable funds through sale of these liabilities. It's also important that the bank ensure to have access to national money markets

Banks must address particularly the needs of its community on which they are located for instance every single bank situated in town should consider establishing a network of branches to different communities' designed so their specific needs e.g. in real estate and agricultural sector to provide agricultural loans. Only areas on which level of income allows for regular saving should be considered if the bank is to make profits.

I suggest that since borrowers' ability to pay depends on the general state of the economy and business conditions relating especially to borrower, bank should watch the business cycles and forecast the economic condition. If economic focuses are good and business is growing it is clear indication that the increased earning and business growth will enable borrowers to pay off their loans as contracted.

As concerning loan portfolio concentration, if it exposes the bank to particular risk, this should be offset by the inclusion of securities in the investment account that one low in risk, and if the concentration in the loan portfolio is relatively low in risk, then greater risk can be taken investment to obtain higher yields.

I wish to recommend the use of produce and goods as security to cover advances because of the advantages involved and most particularly the fact the banker as the sale of the goods to look to for repayments hence the source of repayment is termed as being comparatively secure.

Since depositors levels are influenced by businesses, bank should be prepared for both expected and unexpected declines in their deposits and contract asset portfolio so that they can be liquidated with ease to meet the fractionations in deposits level with loss.

As a recommendation, I would be of the view that, just as there are corporate rating agencies, there should be a clearing house of borrowers' financial data and repayment history such as a credit bureau.

From the study, it's clear that banks have sensitive to corporate social responsibility of the society in which they are located. For this reason, banks are creating good public relation through supporting non profit public broadcasting or television, contributing to certain community service, in poor neighborhoods, providing college scholarship programs encouraging their employees to work for charities, undertaking a host of other unselfish programs all designed to gain goodwill or the understanding of the public.

According to information gathered from the operational manager in response to the question on challenges of banking business, competition goodwill or the understanding of the public.

According to information gathered from the operational manager in response to the question on challenges of banking business, competition, attracting new capital, creating a good image , finding new customer, providing excellent services and maintaining good employees relations are only a few of these problems. According to him, deposit levels are influenced by local business cycles and local payroll patterns, saving and spending in relation to vocations, holidays and taxes.

One of the areas of concern in our study has been liquidity and the study reveals that its need cannot be predicted either certainty. However, they can closely determined by reviewing past fluctuations in loans and deposits and keeping a careful watch on the current business situation. Primarily its seen said to be influenced by current conditions of national economy and by actions taken to affect the economy by the government treasury.

5.3 AREA OF FURTHER STUDY

The above findings are based on various factors that influence banking system making it a sosphiscated business in satisfying its customers. The study has briefly viewed two major strategies of assets- liability portfolio management namely, spread and gap management. Further studies may be carried out to enhance understanding on these strategies including interest sensitivity strategy aimed at controlling interest rate risks and increase profitability and also how banks may use hedging with future trading to protect themselves against exposure to interest rate risk.

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APPENDIX A:

QUESTIONNAIRE TO BANK CLIENTS

The researcher is interested in knowing the major challenges affecting the banking performance in satisfying its customers so that solutions may be suggested to the concerned people. Please help by answering the following questions as honestly as possible.

The information you will give shall be treated confidently and used solely for the purpose of this study. Please respond by ticking the best answer that suits you opinion or a brief answer where appropriate. Thank you.

1) Sex

M ☐ F ☐

2) Age

i) 25 -30

ii) 31-35

iii) 36-40

iv) 40 (+)

3) What is your highest academic qualification

i) O Level

ii) A level

iii) Diploma

iv) Bachelor' degree

v) Master's degree

vi) Others specify...

4) Are you an account holder? If so which account

i) Current account

ii) Savings account

iii) Fixed deposit account

5) Do you prefer assets to cash or vice versa? Give reason for your preference

....

....

6) Banks provide the best way of saving money for a return (interest income)

i) Strongly agree

ii) Agree

iii) Mildly agree

iv) Strongly disagree

v) Disagree

7) What other investment avenues for savings are available to you?

………………………………………………………………………………………………

………………………………………………………………………………………………

8) Do you think the services provided by the bank well suit you needs?

i) Yes ( )

ii) No ( )

9) As a customer, what factor would you suggest that leads to fault for loan repayment?

Rate of interest (high)

Trade cycles ( )

10) What would you suggest concerning the interest rtes charged on loanable funds?

………………………………………………………………………………………………

………………………………………………………………………………………………

…….

APPENDIX B:

QUESTIONNAIRE FOR TOP MANAGEMENT OFFICIAL

1) Bank funds are influenced by monetary and fiscal policies, business cycles, interest rates, individual bank characteristics, do you agree?

Yes ( ) No ( )

If yes,

2) Briefly show the effects under each

i) Monetary policy and fiscal policy

....

....

......

ii) Business cycles

....

....

iii) Interest rates

....

....

iv) Individual bank characteristics

....

....

3) Specifically what's the major challenge of the banking business

....

....

4) What are some of the problems encountered in bank investment and funds management?

a) Fraud by employees ( )

b) Insider dealing in loans ( )

c) Default risk ( )

d) Moral hazard ( )

e) Others specify

....

....

....

APPENDIX C:

QUESTIONNAIRE FOR LOAN OFFICER

1) Do you encounter any problems when assessing credit worthiness of client?

Yes ( )

No ( )

If yes, which ones ....

....

2) Which techniques of credit processing do you use?

i) Borrower selection ( )

ii) Risk analysis ( )

iii) Cash flow projections ( )

iv) Income tax clearance certificates ( )

Others specify ....

....

3) What measures/precautions have you put in place to mitigate choice of default

a)

b)

c)

4) Incase of default what actions one enforceable against them?

....

....

......

5) Do you think an establishment of a credit bureau to provide borrower's financial data to commercial banks

Strongly agree ( )

Mildly agree ( )

Agree ( )

Strongly disagree ( )

Disagree ( )