CREDIT ADMINISTRATION AND FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN KAMPALA CITY AUTHORITY, UGANDA (DFCU AND FINANCE TRUST)

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A THESIS SUBMITTED TO THE COLLEGE OF EDUCATION AND OPEN DISTANCE LEARNING (CEODL) IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF MASTERS DEGREE IN BUSINESS ADMINISTRATION OF KAMPALA INTERNATIONAL UNIVERSITY

OCTOBER 2014

DECLARATION

I Igani Jackson hereby declare that this research is my own original work and that it has never been presented by anybody to any academic institution for the award of any academic qualification.

IGANI JACKSON.

SIGNATURE ………………………..		DATE ………/ ……. / 2014

APPROVAL

This is to certify that this research report by Igani Jackson entitled "Credit Administration and Financial Performance of Commercial Banks in Kampala" has been written under my supervision and is hereby approved for a Master of Business Administration Degree of Kampala International University

Name and Signature of the Supervisor Date

.... 28/11/2014.................................

Dr. Mohamed Ssendagi

Supervisor

Name and Signature of the candidate Date

....

DEDICATION

I dedicate this dissertation to my Lord Jesus Christ, who is my all in all.

To my dear Parents Mr. Kaddu Samuel and Rev. Canon P.J. Kaddu, Brothers and sisters.

My future Family. God's timing is perfect.

ACKNOWLEDGEMENT

Honestly, I thank all persons without their support I would not have accomplished the writing of this thesis. I thank my supervisor Dr. Mohamed Ssendagi, whose advice and genuine knowledge, encouragement and counseling helped me to complete this research.

Special thanks also go to the Management of DFCU and Finance Trust Bank, the employees who participated in answering the Questionnaires.

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I would like to express my sincere appreciation to all my friends in Charity Worship Team for the assistance, advice and academic ideas they gave me. Thanks for your prayer it is a seal that has to stay forever.

I thank you so much and may the almighty God reward you mightily

Finally I give glory, praise and honour to God who has been my overall controller and provider.

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ABSTRACT

The study was carried under the topic Credit Administration and Financial Performance of commercial Bank in Kampala City Authority- Uganda. The objectives of the study were to level of credit administration, establish the level of financial performance of Commercial Banks and the relationship between credit administration and financial performance of commercial Banks. The data was collected generated from questionnaires and interview guide and analyzed using SPSS and pearson product moment correlation coefficient to make conclusions. The study indicate that it takes more than a week to access credit from a Bank, interest rates charged between 15- 20%. Borrowers are classified according to risk factors in terms of ability to pay; banks require sufficient collateral from small borrowers. Credit appraisal reports are always prepared and reviewed by management before credits are given out. The bank emphases close monitoring on small credits as compared to big loans. The findings also indicate the banks had improved its overall profitability in the past 5 years, there has been continuous improvement in terms of accessibility by banks to customers, improved motivation of employees, improved marketing.

The banks also offer loans like mortgage, salary loans, and home improvement among others. The findings indicate the there was a strong relationship between credit administration and financial performance of commercial banks for instance there is a high loan default in a bank, such a bank will have increased bad loans and thus reducing on the profitability of the bank. The study recommended that banks should revise mechanisms and see how to reduce on the turnaround time to enable those clients acquire loans fast. Banks should introduce new technologies in order curb the ever increasing fraud in the industry, the banks should increase on marketing of the bank products to the customers.

CHAPTER ONE

INTRODUCTION

This chapter was categorized into four perspectives, that is, historical, theoretical, conceptual and contextual. This chapter also presented the problem statement, purpose, specific objectives, hypotheses, scope and significance of the study.

1.1 Back ground of the study

1.1.1 Historical Perspective

The concept of credit can be traced back in history and it was not appreciated until and after the Second World War when it was largely appreciated in Europe and later to Africa (Kiiru, 2004). Banks in USA gave credit to customers with high interest rates which sometimes discouraged borrowers hence the concept of credit didn't become popular until the economic boom in USA in 1885 when the banks had excess liquidity and wanted to lend the excess cash (Ditcher, 2003). In Africa the concept of credit was largely appreciated in the 50's when most banks started opening the credit sections and departments to give loans to white settlers. In Kenya credit was initially given to the rich people and big companies and was not popular to the poor.

The growth of various banking and micro financial institutions in Uganda has largely contributed to an increase in lending to borrowers. It is worth to note that, today's economic growth poses a challenge to lenders to predict borrowers' performance in recess conditions.

Beyond the urge to extend credit and generate revenue, banks have to recover the principal amount in order to ensure safety of depositors' fund and avoid capital erosion. Bank lending therefore has to consider interest income, cost of funds, statutory requirements, depositor's needs and risks associated with loan proposals. For these reasons banks have overtime developed credit policies and procedures which stipulate the lending process. This process includes among others the credit appraisals, documentations, disbursement, monitoring and recovery processes lending. Bank lending is also based on established international standards

However, banks have continued to face on average between 20-40% bad debts written off yearly (BoU, *2005).* Relatedly from 2002 to 2004, approximately 5 billion shilling was written off by one bank as bad debts in Uganda.

Furthermore, Non-Performing Asset Recovery Trust (NPART) report 2006 revealed that 84billion shillings were still held in their books as unrecovered debt with 31 billion shillings being from the former Uganda Commercial Bank portfolio (Finance & Trade Report, 2006). Besides, Uganda does not have established credit bureaus that helps to rate the borrowers hence the growing rate for non-performing assets.

Loan assessment techniques such as credit scoring which is used to evaluate whether customers should or should not be granted credit, loan screening aids, changes in regulatory environment, the firm's future profitability, the owners equity in the business among others, have often not been fully revealing and are imperfectly correlated across commercial banks and other financial institutions. (Lewis, 1992).

Financial institutions often rely on information to screen loan applications and monitoring borrowers through routine interaction with their customers. This normally applies to the recurrent borrowers than the new clients into the system since it requires ample time to determine the true credit worthiness of individual borrowers.

McKenzie, (2002) states that when assessing credit worthiness of loan applicants, banks usually refer to their past experience with similar borrowers in similar markets. This may imply that, when a bank expands into a new market, the negative effects of lack of expertise may overcome the benefits from risk diversification.

He further noted that, with statistical models, which go with credit cards, auto home mortgage, home equity and small businesses, loan lenders simply plug the variables and later the computer does the work. This helps the lenders make decisions more quickly and cheaply compared with old style judgmental underwriting, and also more accurately and consistently.

1.1.2 Theoretical Perspective

The conceptual base for this study was drawn from the theory of self-efficacy postulated by (Bandura 1995). It "refers to beliefs in one's capabilities to organize and execute the courses of action required to manage prospective situations". Self-efficacy affects people's thoughts, feelings, actions, motivations, efforts, and determinations to confront the obstacles faced in life. High self-efficacy means that people are more likely to participate in activities in which they believe they can succeed. It promotes the premise that individuals have the potential to mitigate and improve their situations. Finally, the theory identifies factors that affect the success or failure of individuals, including their collective or group actions.

According to the International Monetary Fund, (2003) a key feature of the Ugandan banking sector is the high degree of concentration on both the credit and deposit sides. When loans to the top five borrowers for each bank are aggregated, they represent about 40 percent of all loans with deposit concentration having a smaller percentage. Banking sector's exposure to a small number of borrowers and depositors means that a cyclical downtown or terms of trade shock affecting these borrowers could translate quickly into asset quality problems for banks.

However, Srinivas, (1993) has a different view. He does not believe in numbers. His idea is that, much as loans and deposits are both highly concentrated with the top five borrowers

1.1.4 Contextual Perspective

The concept of credit can be traced back in history and it was not appreciated until and after the Second World War when it was largely appreciated in Europe and later to Africa (Kiiru, 2010).

The liberalization and commercialization of banking industry in some nations, Uganda in particular, has resulted into stiff competition (Adongo and Christopher, 2010), which is thought to account for the poor financial performance of financial institutions (Kalyango, 2012). BOU (2012) defines acceptable financial performance as a situation where depositor's funds are safe in a stable banking system. The recent world financial crisis has greatly impacted on the financial performance of Ugandan commercial banks to an extent that some branches have been closed and staff have been downsized (BOU, 2012).

Commercial Banks in Uganda experience high levels of non-performing loans. This trend threatens viability and sustainability of Commercial Banks and hinders the achievement of their goals. This study was aimed at assessing the effectiveness of credit management systems on loan performance of microfinance institutions.

The poor financial performance has been greatly characterized by persistent decline in the profit margins, increasing number of dormant accountholders, high loan defaults and increasing high interest rates (Monitor, 2009). This further led to their operating costs in 2008 grow by over 100% and yet it has also posted a net operating loss for the last three years running of 4.7 billion shillings ($2.3 million) in 2009 compared with that of 17.9 billion shillings a year earlier over (The Observer, 21 April 2010).

In 1990s loans given to customers did not perform which called for an intervention. Most suggestions were for the evaluation of customer's ability to repay the loan, but this didn't work as loan defaults continued (Modurch, 1999). The concept of credit management became widely appreciated by Microfinance Institutions (MFI's) in the late 90s, but again this did not stop loan defaults to this date (Modurch, 1999).

1.2 Statement of the Problem

Income from lending constitutes on average 75-80% of the total bank income. (International Credit Manual, 2011), Credit Administration procedures are designed to guide lending and ensure prudent lending operations. Despite rigorous credit Administration procedures commercial Banks uses that includes among others proof that customer does not have other credit obligation, analysis of their account performance, sustainability of their income levels, security and ability to pay (International Credit Manual, 2011), commercial Banks are faced with poor management of its loan portfolio as noted in Credit reference Bureaux Report 2005.

This trend not only threatens the viability and sustainability of the Commercial Banks but also hinders the achievement of the goals for which they were intended which are to provide credit to the unbanked population and bridge the financing gap in the mainstream financial sector.

This could be compromising the financial performance in the commercial banks. If this problem remains unchecked, then financial performance is likely to remain misery.

1.3 Purpose of the study

The study investigated the relationship between credit Administration and financial performance of Commercial Banks in Kampala, Uganda.

1.4 Objectives of the study

The specific objectives of the study were;

i. To establish the level of credit Administration of commercial Banks in Kampala City Authority, Uganda.

ii. To examine the level of Finance performance of commercial Banks in Kampala City Authority, Uganda.

iii. To establish the relationship between credit Administration and financial performance of commercial Banks in Kampala City Authority, Uganda.

1.5 Hypotheses

The following hypotheses were developed for empirical testing:

H01: There is a level of credit administration of commercial banks in Kampala City Authority.

H02: There is a level of financial performance of commercial banks in Kampala City Authority.

*H*03: There is relationship between credit administration and financial performance of commercial banks in Kampala City Authority.

1.6 Scope of the study

This section explains where the study was conducted and the content scope

1.6.1 Geographical scope

Geographically, the study was carried out at Commercial Banks of Finance Trust Bank and DFCU headquarters at Katwe Entebbe road and Jinja road respectively. Their branches in

Bombo road, Mukono, were also be visited so as to enable the researcher meet the first objective. This was because of the financial constraints and time that could not permit wide coverage of all branches.

The reason for Choosing FTB is due to the fact that it is the newest entrant into the Banking industry. Finance Trust gained Bank status on 11th November 2013, Uganda FTB was granted a commercial bank license.

DFCU is among the fast growing Banks in Uganda with a wide range of range of Branches spread country wide. And have been in operation for quite a long time.

1.6.2 Content scope

The study focused on analyzing credit Administration as an enabling tool in the decision making process by studying the bank's existing process and coming up with a design of a more efficient and reliable Administration.

1.6.3 Theoretical scope

The research was limited to the core pillars of credit Administration that is credit policies & administration and Loan portfolio performance, documentation, selected Commercial Banks in Kampala Uganda. The study was based on the theory of ESR, The ESR's theoretical model suggests bank competition first reduces the problem of moral hazard and banks' non-performing loans. The lower loan loss then allows banks to borrow more and provides condition for financial instability, especially when compounded with liquidity risk. (Kebin Ma) While traditional theories predict banking competition promotes the banks' risk taking behaviour thus causes instability of the financial system. Other theoretical models suggest that once the firms, instead of banks, are able to select their risk levels, competition among banks will result in firms taking less risk, thus enhance financial stability. (L. Zhao 2000)

1.7 Significance of the study

The findings of the study may enable Commercial Banks management to design and put in place administration that may be used to meet the challenges faced in the financial performance.

The study exposed the inherent situations of credit administration in the financial institutions and thus is an eye opener to such institutions.

The study also pointed out the intensity of the loopholes within the credit administration systems in Uganda's financial institutions thus assisting the key stakeholders to design the appropriate policies and measures towards addressing the problem.

The study came up with an alternative process regarding credit administration in Commercial Banks and this may improve on the quality of the systems.

The study may be of significance to many people, organization, Government, and policy makers as follows:

It may provide empirical data for policy makers to assist in formulating appropriate policy environment for the operations of Commercial Banks.

Provide recommendations on how to assess and recover the loans given to Bank customers;

Limited studies had been done on Banks' lending procedure by far. This study will provide more literature on its operations in Uganda;

1.8 Definition of key terms

The following terms was defined as used in the study.

1.8.1 Credit administration

Credit administration is the method by which a bank or financial institution calculates the credit worthiness of a business or organization or an individual. It involves screening, disbursement, monitoring and recovery of the credit. In other words, it is the evaluation of the ability of a borrower to honor his financial obligations.

1.8.2 Financial performance

Financial performance was also studied by measuring capital adequacy, earnings and profitability and liquidity ratios.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter discussed the opinions, findings from different authors, publications, magazines, websites and all other possible sources as a basis foundation for this research study.

Literature review related to the respective objectives of the study. Review of literature has vital relevance with any research work due to literature review the possibility of repetition of study can be eliminated and another dimension can be selected for the study. The literature review helps researcher to remove limitations of existing work or may assist to extend prevailing study.

2.1 Theoretical Review

The conceptual base for this study is drawn from the theory of self-efficacy postulated by Bandura (2011). It "refers to beliefs in one's capabilities to organize and execute the courses of action required to manage prospective situations". Self-efficacy affects people's thoughts, feelings, actions, motivations, efforts, and determinations to confront the obstacles faced in life. High self-efficacy means that people are more likely to participate in activities in which they believe they can succeed. It promotes the premise that individuals have the potential to mitigate and improve their situations. Finally, the theory identifies factors that affect the success or failure of individuals, including their collective or group actions.

The International Monetary Fund, (2012) further observed that, banks have higher loan deposit- ratios and a higher propensity to be in violation of insider lending limits. The frequent violations of prudential loan assessment requirements raise serious questions about their financial performance, governance, and solvency. Still on the credit side, the high levels of the risk portfolio of banks, the short-term tenure of the portfolio, and the current high level of reported non-performing loans, have increased the overall credit risk exposure.

The International Monetary Fund's observation is actually very right because, the closure of 3 banks (ICB, Greenland, and cooperative bank) was partly as a result of poor insider loan/ credit appraisal and assessment system in place, which resulted into significant increase in ultimate losses.

"There is a great deal of responsibility for banks to enhance customer service and support by protecting customers from taking out credit facilities they will find extremely difficult to re-pay," said Alec and Annan (2010)"

Alter, (2011) asserts that, financial institutions have failed to determine credit worth borrowers simply because they have inadequate credit policies, failure of bank officers to comply with lending policies, inadequate customer relations, low staff morale, and bank officers' exposure to fraud. (Gingrich, 2012) on the other hand believes that, the inefficient mechanisms used in assessing credits are attributed by the banks' pessimism about the ability of technology to come up with decisions on who qualifies and who doesn't.

Bofondi and Gobbi, (2010) found that overwhelming banks competition in prices (interest rates) and moreover with imperfect knowledge of borrowers' ability to repay their debts has accelerated poor credit appraisal to potential borrowers.

Saudi Arabian monetary agency, (2009) argues that the main causes of the problems faced by Saudi banks arises from the macroeconomics imbalances which are mainly created by lack of adequate credit appraisal and monitoring procedures in relation to lack of required technical expertise and that all this therefore made banks so difficult to recover their loans. However no remedies were advanced to counteract the situation of poor credit appraisal in banks.

Kumar, (2010) further noted that at times banks charge high interest rates on the credits, which the borrowers at times fail to pay in time or not able to pay at all. His argument was that even if credit appraisal process is good, other factors such as high interest rates might affect the efficiency of the system, which may cause losses to banks.

Joseph *et al.*, (2012) share the same view as above and adds that, there is a tendency of banking officers to compromise with credit borrowers and that this largely affects the credit administration since some of the compromised clients may never repay the loan. The researcher is in agreement with Joseph simply because, experience shows that when some of the clients get too used to officers, they may reach an extent of defaulting expecting officers to pay from their pockets. This has led to an increase in the portfolio at risk which has also resulted into officers' loss of jobs.

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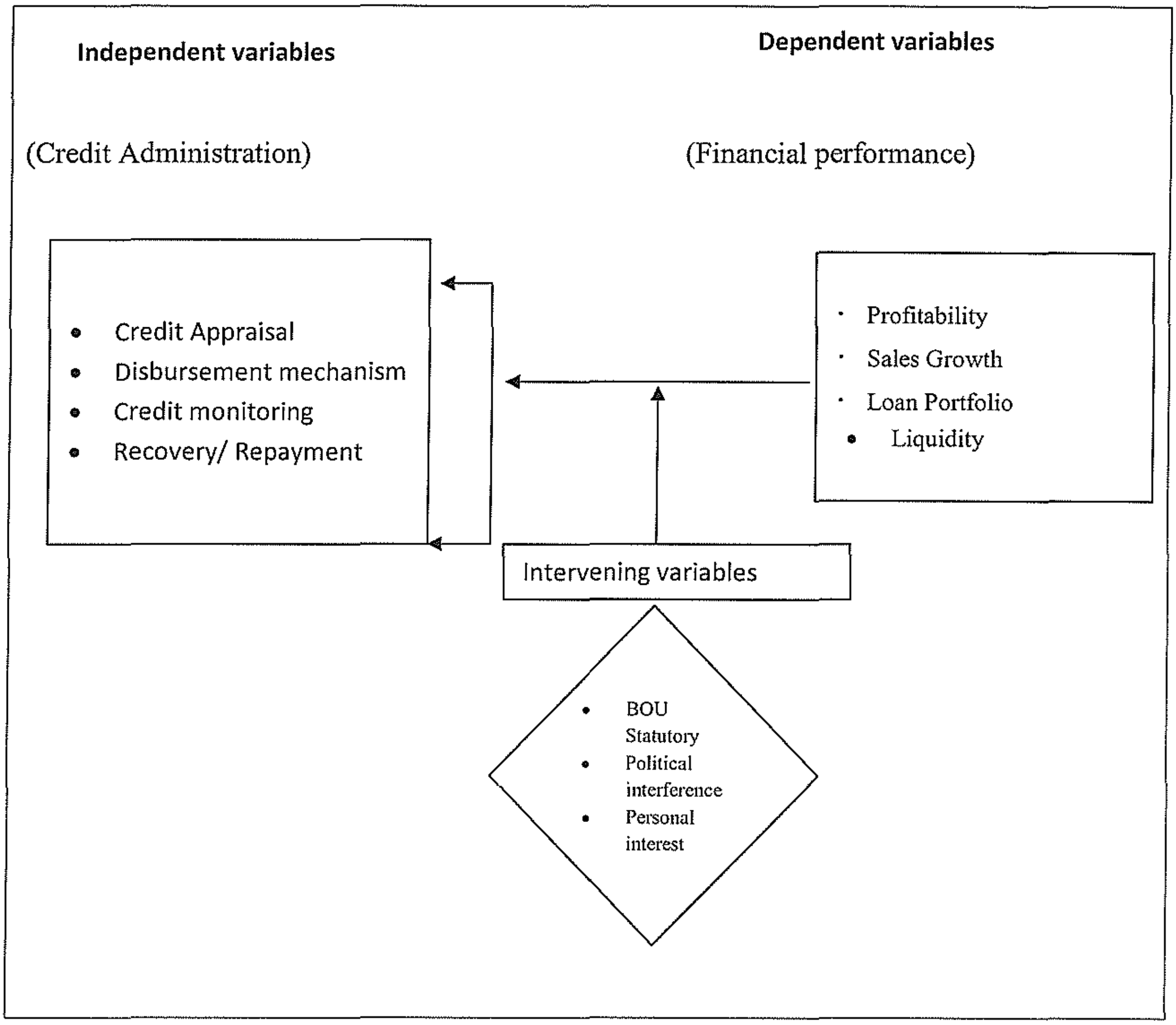
2.2 Conceptual Framework

Fig .2.1 Conceptual framework relating problems influencing financial performance



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The financial viability of any credit institution depends critically on selecting applicants who have a high probability of repayment and rejecting those who have a high probability of default Ssewagudde (2000).

Commercial Banks use the 5Cs model of credit to evaluate a customer as a potential borrower (Abedi, 2000). The 5Cs help Commercial Banks to increase loan performance, as they get to know their customers better. These 5Cs are: character, capacity, collateral, capital and condition.

Character basically is a tool that provides weighting values for various characteristics of a credit applicant and the total weighted score of the applicant is used to estimate his credit worthiness (Myers and Forgy, 2005). This is the personal impression the client makes on the potential lender.

The Commercial Banks will consider the cash flow from the business, the timing of the repayment, and the successful repayment of the loan. Anthony (2006) defines cash flow as the cash a borrower has to pay his debt. Cash flow helps the Commercial Banks to determine if the borrower has the ability to repay the debt. The analysis of cash flow can be very technical. It may include more than simply comparing income and expenses. Commercial Banks determines cash flow by examining existing cash flow statements (if available) and reasonable projections for the future (ratios)

2.3 Related Literature

This section reviews literature related to the specific objectives in the research.

2.3.1 Credit Assessment

Credit assessment is the first stage in the lending process. It is the process through which the credit applicant presents the necessary documentations to the bank in order to obtain a loan (Nsereko, 1995). Credit assessment involves

2.3.3 Credit Administration and Documentation

Credit documentation and disbursement is another aspect of credit Administration. It encompasses the conduct of key exposure control measures that ensures securities and documentation is obtained before funds are disbursed, and that modification on all credit facilities is approved within credit policy. It also includes the maintenance of orderly up dated credit files and the imposition of relevant fees, updating of records and prompt notification of credit reviews and renewal dates (McNaughton et al, 1996)

2.3.4 Financial Performance and Credit Administration

This involves gathering, processing and analyzing of quality information as a way of discerning the client's creditworthiness and reducing the incentive problems between the lenders as principals and the borrowers as agents. The bank's credit policy, procedures and directives guide the credit assessment process. Banks should base their credit analysis on the basic principles of lending which are Character, Capacity, Capital, Collateral and Conditions (Matovu and Okumu, 1996).

This study uses the perceptual measures that include profitability and growth. Profitability is the ability of an enterprise to earn returns which returns are a margin of sales, proportion of capital invested and assets used. This is used as a measure of financial performance by a number of firms with the interest of knowing whether the firm is earning substantially more than it pays in terms of interest (Sedakkadulla & Subbaiah, 2011). The best measure of a company is its profitability since it includes the two major factors of financial performance that is maximizing revenues and minimizing expenses and without it, it cannot grow, and if it doesn't grow, then its stock will trend downward. Increasing profits are the best indication that a company can pay dividends and that the share price will trend upward (Williams, 2011).

Furthermore Zhiwu 2011) argues that, primary business activity of commercial banks is lending and therefore the loan portfolio represents one of the largest assets and a predominate source of revenue.

2.3.5 Credit administration and Financial performance

Credit risk is an investor's risk of loss arising from a borrower who does not make payments as promised. Such an event is called a default. Another term for credit risk is default risk. Investor losses include lost principal and interest, decreased cash flow, and increased collection costs. Credit risk can be mitigated using risk based pricing, covenants, credit insurance, tightening and diversification (Ross et al, 2012). Birlay and Westheed (2011) look at financial performance as an approximation for financial success that is, the rate at which the enterprise is satisfied with the profits and growth levels attained. Financial performance looks at the results of a firm's policies and operations in monetary terms that is, a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation (Hillman & Keim 2010). Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues (Dess & Robinson, 2011). Hayes and Wheelwright (2012) identified competitive priorities with certain dominant competitive modes as ways of improving financial performance. In addition, (Kakuru, 2010) asserts that the competitive advantage of an organization is a means through which financial performance would improve.

2.4 Variables Interconnectivity

Credit Terms refers to the conditions under which a microfinance institution extends credit to its customers. If a microfinance institution extends credit to a customer, then the credit terms will specify the credit period and interest rates, this therefore will have an effect on the performance of loans since it stipulates the time of loan repayments hence creating a timely repayment and decrease in default rate. Client appraisal helps MFIs to improve loan performance, as they get to know their customers. These 5Cs considered in client appraisal are character, capacity, collateral, capital and condition. Credit risk is an investor's risk of loss arising from a borrower who does not make payments as promised. Such an event is called a default, credit risk controls has an effect on timely repayments and decrease in default rate.

Credit Appraisal Process

Receipt of application from applicant

Receipt of documents

(Balance sheet, KYC papers, Different govt. registration no., MOA, AOA, and Properties documents)

Pre-sanction visit by bank officers

Check for RBI defaulters list, willful defaulters list, CIBIL data, ECGC caution list, etc.

Title clearance reports of the properties to be obtained from empanelled advocates

Valuation reports of the properties to be obtained from empanelled valuer/engineers

Preparation of financial data

Proposal preparation

Assessment of proposal

Sanction/approval of proposal by appropriate sanctioning authority

Documentations, agreements, mortgages

Disbursement of loan

2.4.1 Relationship between credit Administration and financial Performance

Recent studies of lending activity have documented large and persistent disparities on the relationship between credit Administration and performance (Canner, et al, 1991). From the studies done on mortgage lending to minority and non minority borrowers in the United States, the basic premise is that biased lenders will require higher expected profits for loans to minority borrowers and hold minority applicants to underwriting standards in excess of those required for other applicants (Becker, 1971). Thus discrimination through appraisal process results in lower expected default costs for loans originated for marginally qualified non-minority borrowers (Munnell, et al, 1992). This premise implies that biased lenders may hold minority applicants to more stringent underwriting standards than those required for other applicants (Peterson, 1981). Thus discrimination results in lower expected default costs and higher expected profits for loans originated for marginally qualified minority mortgage borrowers in comparison with those observed for marginally qualified non-minority borrowers.

(Peters, 1995) also supported this argument by stating that simple comparisons of average loan performance between two groups of borrowers can be misleading if the groups do not exhibit similar distributions of expected returns in the absence of distribution.

2.4.2 Financial performance.

The literature on productivity in the banking industry has struggled with the question of how to define a bank's output. (Berger and Humphrey, 1992) describe the three alternative methods of defining bank output: the asset, user cost, and value-added approaches. Under the asset approach (also called the intermediation approach), banks are considered as financial intermediaries between liability holders and those who receive bank funds. Loans and other assets are considered to be bank outputs while deposits and other liabilities are treated as inputs. Some examples of studies using this approach are (Elyasiani and Mehdian, 1990) who found that larger banks are more scale efficient and that the banking industry experienced technological progress during the 1980s. There have been a number of analyses focusing on branch performance within a single banking firm using either parametric methods or nonparametric methods such as Data Envelopment Analysis (DEA). DEA compares each branch with all of the other branches in the observation set and identifies the relatively more efficient (best practice) subset of branches and the subset of branches that are relatively inefficient. DEA assumes that there is no random error; all variation not in the inputs is treated as reflecting inefficiency. Output is measured as the number of transactions (e.g. new accounts, closed accounts, loan applications, checks cashed, travelers checks sold) processed by the branch and inputs are number of employees, office space, and supplies. As (Berger, Leusner and Mingo, 1994) point out, many studies that use DEA use a small number of observations relative to the number of inputs and outputs and are therefore predisposed to find that most branches are efficient.

The best study of branch-level productivity is the one by (Berger, Leusner and Mingo, 1994) who utilized data on 760 branches in a large U.S. commercial bank for the time period 1989-1991. Their framework relies on the production approach (treating deposits and loans as outputs) because they argue that branches act primarily as producers of depositor services on behalf of the bank, which then invests the funds in loans and other assets. The bank as a whole makes the asset and liability decisions, and branches primarily operate to raise the funds by producing services for depositors. Since branch managers have little control over interest expenses, revenues, or number of transactions required per dollar of deposit, and largely focus on operating expenses, this would argue for using the production approach rather than the intermediation approach for studies of branch efficiency. (Berger, Leusner and

Mingo, 1997) suggest that the intermediation approach is more appropriate for studying financial efficiency at the bank level. The main findings of the (Berger, Leusner and Mingo, 1997) study are that most branches are considerably smaller than efficient scale but the average cost curves are relatively flat.

2.5 Overview of Uganda's Banking and Finance Sector

A bank is a financial intermediary that accepts deposits and channels those deposits into activities, either directly or through capital markets. A bank connects customers with capital deficits to customers with capital surpluses.

Prior to Uganda's independence in 1962, Government-owned institutions dominated most banking in Uganda. In 1966 the Bank of Uganda, which controlled the issue of currency and managed foreign exchange reserves, became the Central Bank. Uganda Commercial Bank, which had fifty branches throughout the country, dominated commercial banking and was wholly owned by the government. The Uganda Development Bank was a state-owned development finance institution, which channeled loans from international sources into Ugandan enterprises and administered most of the development loans made to Uganda.

In the 1960s, other commercial banks included local operations of Bank of Baroda, Barclays Bank, Bank of India, Grindlays Bank, Standard Chartered Bank and Uganda Cooperative Bank. During the 1970s and early 1980s, the number of commercial bank branches and services contracted significantly. Whereas Uganda had 290 commercial bank branches in 1970, by 1987 there were only 84, of which 58 branches were operated by government-owned banks. This number began to increase slowly the following year, and in 1989 the gradual increase in banking activity signaled growing confidence in Uganda's economic recovery. In the late 1990s and early 2000s, the Ugandan banking industry underwent significant restructuring. The bank of Uganda in 1999 issued a policy statement where all financial institutions are categorized in four tiers namely Commercial banks, Credit institutions, Micro-finance deposit taking institutions and institutions involved in micro-finance business that do not qualify for tier 1,2,or 3 (Micro Finance Forum, 2010).

By identifying the different tiers, Bank of Uganda recognized Micro-finance Institutions as one of the key players in Uganda Finance Sector. It is therefore important to investigate and learn more about Commercial banks and Micro-finance institutions success and failure in the area of financial performance.

A moratorium on new commercial bank licenses was declared in 2004, with the passage of a new banking bill in Parliament, which established new banking institution classification guidelines.

The moratorium on new banks was lifted in July 2010. During the eighteen (18) months that followed the lifting of the moratorium, eight (8) new commercial banks were licensed. These included Kenya Commercial Bank, Equity Bank and Fina Bank, all from Kenya. During 2008 and 2009, several of the existing banks went on an accelerated branch expansion either through mergers and acquisitions or through denovo branch openings.

Competition in Uganda's banking industry is set to toughen following the Central Bank's issuance of two new operating licenses to two banks, one from Kenyan and another from India.

Bank of Uganda on February 15 and March 22, 2012, licenced NIC Bank from Kenya and the Bank of India, respectively to commence retail banking business in the country. This brings the number of banks operating in the country to 25, from the current 23, providing the banking population with more alternatives to choose from, something that is resulting into cheaper, affordable and better services in the industry due to stiff competition in the industry. (Posted Wednesday, April 11 2012 at 11:20, http://www. List of *banks in Uganda* /Business)

As on 14 February 2014 at 18:33, there are twenty-six (26) licensed commercial banks in Uganda, (List of *banks in Uganda*. From Wikipedia, the free encyclopedia. Jump to: navigation, search on 14 February 2014 at 18:33).

2.6 Financial Performance of Banks in Uganda

Birlay and Westheed 2010) look at financial performance as an approximation for financial success that is, the rate at which the enterprise is satisfied with the profits and growth levels attained. Financial performance looks at the results of a firm's policies and operations in monetary terms that is, a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation (Hillman & Keim 2010). Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues (Dess & Robinson, 2011).

Hayes and Wheelwright (2012) identified competitive priorities with certain dominant competitive modes as ways of improving financial performance. In addition, (Kakuru, 2010) asserts that the competitive advantage of an organization is a means through which financial performance would improve.

There are a number of financial performance measures, however there is little consensus about which instrument to apply. Many researchers use market measures like Alexander and Buchholz (1978) and Vance (1975) while others put forth accounting measures like Cochran and Wood (1984) and Waddock and Graves (1997).

2.6.1 Profitability

The continued viability of a bank depends on its ability to earn an adequate return on its assets and capital. Good earnings performance enables a bank to fund its expansion, remain competitive in the market and replenish and /or increase its capital (Bank of Uganda, 2013). A number of authors have argued that, banks that must survive need. Higher Return on Assets (ROA)., better return on net worth/Equity (ROE), sound capital base i.e. the Capital Adequacy Ratio (CAR), adoption of corporate governance ensuring transparency to stakeholders that is equity holders, regulators and the public.

2.6.2 Liquidity

Initially solvent financial institutions may be driven toward closure by poor management of short-term liquidity. Indicators should cover funding sources and capture large maturity mismatches. An unmatched position potentially enhances profitability but also increases the risk of losses (The Ugandan Banker, June 2011). The "M" represents Management, given that this paper is hinged on financial performance, the management component in not considered in the measure.

2.6.3 Capital Adequacy

Earnings and Liquidity are the key dimensions of measuring financial performance in Commercial Banks (Rogers Matama, 2008). From the above literature, the financial soundness of commercial banks is described by the CAMELS but the underlying factors that influence these key issues are not discussed. This study therefore identified procurement management as one of these factors that affect the financial performance of the study and thereby the need to carry out this research.

Capital adequacy in commercial banks is measured in relation to the relative risk weights assigned to the different category of assets held both on and off the balance sheet items as per the Financial Institution's Act of 2004. (Bank of Uganda, 2012).

2.6.4 Asset Quality

The solvency of financial institutions typically is at risk when their assets become impaired, so it is important to monitor indicators of the quality of their assets in terms of overexposure to specific risks trends in non- performing loans, and the health and profitability of bank borrowers especially the corporate sector. Credit risk is inherent in lending, which is the major banking business. It arises when a borrower defaults on the loan repayment agreement. A financial institution whose borrowers default on their repayments may face cash flow problems, which eventually affect its liquidity position. Ultimately, this negatively impacts on the profitability and capital through extra specific provisions for bad debts (Bank of Uganda, 2012).

Capital Adequacy, Earnings and Liquidity are the key dimensions of measuring financial performance in Commercial Banks (Rogers Matama, 2011). From the above literature, the financial soundness of commercial banks is described by the CAMELS but the underlying factors that influence these key issues are not discussed. This study therefore identified credit appraisal as one of these factors that affect the financial performance of Commercial Banks thus a need to carry out this research.

2.7 Related studies

As financial markets, banks are usually underdeveloped and banks in developing economies are typically the most important source of finance for the majority of firms. As a means of providing a generally accepted means of payment, banks in developing countries are usually the main depository for the economy's savings.

Many developing economies have recently liberalized their banking systems through privatization and disinvestments thus reducing the role of economic regulation. Consequently, managers of banks in these economies have obtained greater freedom in how they run their banks.

2.8 Financial Performance and financial institutions

Financial soundness is a situation where depositor's funds are safe in a stable banking system. The financial soundness of a financial institution may be strong or unsatisfactory varying from one bank to another BOU, (2012). External factors such as deregulation; lack of information among bank customers; homogeneity of the bank business, connections among banks do cause bank failure.

Some useful measures of financial performance, which is the alternative term as financial soundness, are coined into what is referred to as CAMEL. The acronym "CAMEL" refers to the five components of a bank's condition that are assessed: Capital adequacy, Asset quality, Management, Earnings and Liquidity. A sixth component, a bank's Sensitivity to market risk was added in 1997; hence, the acronym was changed to CAMELS.

Liquidity: Initially solvent financial institutions may be driven toward closure by poor management of short-term liquidity. Indicators should cover funding sources and capture large maturity mismatches. An unmatched position potentially enhances profitability but also increases the risk of losses according to the Ugandan Banker, (June 2001). The "M" represents Management, given that this paper is hinged on financial performance, the management component in not considered in the measure.

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Singh R (2003), in his paper Profitability management in banks under deregulate environment, IBA bulletin, No25, has analyzed profitability management of banks under the deregulated environment with some financial parameters of the major four bank groups i.e. public sector banks, old private sector banks, new private sector banks and foreign banks, profitability has declined in the deregulated environment.

Singla HK 2008), in his paper,' financial performance of banks in India,' in ICFAI Journal of Bank Management No 7, has examined that how financial management plays a crucial role in the growth of banking. It is concerned with examining the profitability position of the selected sixteen banks of banker index for a period of six years (2001-06). The study reveals that the profitability position was reasonable during the period of study when compared with the previous years. Strong capital position and balance sheet place, Banks in better position to deal with and absorb the economic constant over a period of time.

Alamelu and Chidambaram emphasized the profiti1bility aspect in commercial banks. In this paper, the scholar analyzed and compared the performance of public and private sector bank on profitability angle. It was found that all the private sector banks have been registered both high profits and high rate of growth. Better customer service, technology, innovative products, good marketing strategies, proper monitoring of advances, regional orientation are some of factors responsible for the success of private sector banks in India.

2.9 Summary of gaps identified

After this review of literature it is found that, though there are several studies conducted on the subject, most of the studies are conducted on performance appraisal studies or impact studies of financial reforms and its impact on individual banks especially in India. Very few studies have been conducted on the financial administration and its impact on Ugandan public sector and private sector banks. Thus there was a gap of the study on the subject. Therefore after finding the gap of research, the study was undertaken on the above mentioned subject.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter focused on the research design, population, sampling strategies, data collection methods and instruments, data quality control, procedure and data analysis. The limitations and problems encountered in carrying out the study.

3.1 Research Design

The quantitative approach based on variables measured with numbers and analyzed with statistical procedures (Creswell, 2010; Amin, 2010). The study employed co-relational, cross-sectional survey research design. The study used a survey design in that it involved a large number of respondents and cross-sectional in as far as pertinent data collection from all respondents once and for all to reduce on time and costs to be involved (Amin, 2010). The identified elements of credit administration and examined how they affected financial performance. Research investigated and compared the relationship between credit administration and financial performance in both Finance Trust Bank and DFCU Ltd. It was a combination of cross-sectional and analytical study mainly based on secondary data, but also accomplished with Primary data 2014 obtained through in-depth interviews with technical staff who work in the two institutions with a credit related function.

3.2 Target Population

The target population in the study constituted credit staff, Managers customer service supervisors from the main branches and other branches in Kampala, management staff at head office, other stake holders like corporate clients. All the categories were involved because these are the groups that deal with credit appraisal process in their respective branches of operation and duties.

Table 1. Population size selection

BANKS	TOTAL POPULATION	SAMPLE SIZE
A	120	70
B	100	70
TOTAL	**330**	**140**

3.3 Sample size

Purposive sampling design was used because only technical staffs with a credit related function were targeted to respond to the questionnaire based on the following criteria

a) Male and female with a work experience of at least one year and above.

Random sample was taken from the target population of 140 respondents. These included staff and customers of Commercial Banks. The staff sample came from Credit department, Corporate Relationship Managers and Customer Advisers.

In order to ensure representative of the samples, random approach was be used. To attain the respective sample sizes from the populations, the researcher used two sampling strategies, that is stratified-cum-cluster (Margaret, 2010) whereby departments in the bank were stratified into two: Banking and credit which are the most common in bank operation. Then in the second place each department in a given stratum constituted a cluster. Then the two clusters were randomly selected from the respective strata. Cluster sampling dictated the selected member in a cluster as a respondent (Amin, 2005: Bakkabulindi, 2008).

By the time the researcher went to the field, Global Trust Bank and DFCU, had become one through a merger between the former and the latter, that is why the sample size was reduced to 140.

3.4 Data Collection Methods

The study employed both secondary and Primary data 2014 collection methods as described below:

3.4.1 Primary data 2014 collection methods

First hand data was obtained using self- administered questionnaires (SAQs).This enabled the researcher to cover a large population quickly and at affordable cost, SAQs are also suitable for the target respondents on account of their knowledge in English (Saunders et al, 2003). Interview guide were applied to management since they are few, and can give in-depth information which could be left in SAQs..

3.4.2 Secondary data collection methods

The researcher obtained such data from different secondary sources such as textbooks, magazines, journals, internet, and dissertations on the issue at hand.

3.5 Data Collection Instruments

Data was collected using self-administered questionnaires, interview guide as described below:

3.5.1 Self-Administered Questionnaires

There was a set of Self-Administered Questionnaires for the credit and banking officer and management staff, each of the respective SAQs started with a main title, followed by introductory note about the research. Most questions in the instrument were close-ended, and open ended questions to allow respondents freely express their opinions. The close-ended questions with predetermined multiple responses. The study used this instrument because it helped to cover a large number of respondents in a relatively short time, it is easy to guarantee the respondents" confidentiality and can generate reliable data a s respondents answered questions in their own mood without being affected by the researcher's presence (Mbaga, 1990).

3.5.2 Interview guide

For management staff and administrators, an interview guide was used to collect data from them; questions were limited to credit appraisal process and financial performance of Commercial Banks.

3.6 Data Quality Control

Validity and reliability of the research instrument was ensured as follows;

3.6.1 Validity

Validity of instrument means that the instruments are serving the purpose for which they are intended (Keeves, 2010). This is the ability to produce findings that are in agreement with theoretical or conceptual values or to produce accurate results and to measure what is supposed to be measured. The researcher ensured content validity of the SAQs by ensuring that questions in it conform to the study's research objectives and conceptual framework (Fig. 2.1).

The research experts and with the help of the supervisor independently judged the validity of the items in the questionnaire, interview guide in relation to research objectives.

The Content Validity (CV) was computed to determine the validity of the sets of SAQs using the formula;

$$CVI = \frac{\text{Total number of items rated as valid}}{\text{Total number of items on the instrument}}$$

The variables should have a CVI of above 0.70 or 70% as the recommended value for the instruments to be considered relevant (Amin 2005, p.286). The instruments for this study were valid to be used since they had a C.V.I of 0.8

Using the formula;

Moderator 1 = 112/140*100= 80%

Therefore the total = 80%

3.6.2 Reliability

Reliability of the set of SAQs on all variables (Credit Administration and financial performance was tested using the Cronbach Alpha Moment Co-efficient provided by SPSS (Amin, 2010; Bakkabulindi, 2009). The Cronbach's Alpha reliability Coefficient (a) was calculated by running a statistical test using Statistical Package for Social Scientists (SPSS) computer program which uses the formula stated below.

Cronbach's α is defined as

$$\alpha = \frac{K}{K-1}\left(1 - \frac{\sum_{i=1}^{K}\sigma^2_{Y_i}}{\sigma^2_X}\right)$$

Where K is the number of components (K-items or testlets), σ^2_X the variance of the observed total test scores, and $\sigma^2_{Y_i}$ the variance of component i for the current sample of persons.

The coefficient ranges between a=0.00 for no reliability, a =1.00 for perfect reliability. The closer alpha gets to 1.0 the better. The study findings resulted to Cronbanch's Alpha of 0.8 which signified that research instrument was good enough for the study. According to Amin (2005), all the measurements in the instrument that show adequate levels of internal consistency of cronbach's alpha of 0.7 and above are accepted as reliable.

Table 2: Summary of Reliability Statistics

Variable	Reliability Statistics
Credit administration	0.831
Financial performance	0.81
Total	1.61
Average	1.61/2=0.805

Source: Primary data 2014 2014

3.7 Data gathering Procedure

After establishing the validity and reliability of the instruments, an introductory letter was obtained from the Dean, College of Education and Open Distant Learning (CEODL), Kampala International University which introduces the researcher to management of commercial Banks. The researcher approached management of Commercial Banks to seek permission to carry out research.

To save time and reduce on transport costs, the researcher used the services of fellow staff as research assistants to distribute SAQs to other staff. The filled SAQs will be collected from the research assistants; was edited, coded, and then entered into the computer for analysis. Answers from interviewees were immediately filled in the spaces provided on the interview guide. With permission from the administration, the researcher look at the computer system, and relevant documents. Observations was recorded on spot, coded, tallied, and then later analyzed.

3.8 Data Processing and Analysis

The data collected from respondents was processed for analysis and then later analyzed as described below.

3.8.1 Data processing

The collected data on SAQs was edited, categorized and entered into the computer using the Statistical Package for Social Sciences (SPSS) to generate a summary of frequency tables and graphics. Data collected with the interview guide was also categorized according to themes and then summarized into percentages in a computer spreadsheet (excel). This was done by recording the data and organizing it in themes.

3.8.2 Data analysis

The data analysis was based on relative frequencies derived from frequency tables and descriptive statistics. At bivariate level, credit Administration was correlated with the processes using Pearson's Linear Correlation co-efficient, to help rate their significances in influencing financial performance of commercial Banks. Using the Statistical Package for Social Sciences (SPSS) to test the relationship between the independent variables and dependent variable, Pearson's co- relation is considered appropriate to verify the hypotheses on the continuous variables. The researcher needed to establish the degree and direction of relationship.

3.9 Ethical consideration

During the research, integrity was considered. This was done through,

Seeking consent from the respondents.

Acknowledgement of the authors.

Use the findings for academic purposes only.

3.10 Limitations of the study

Although the study is meant to establish the role of credit appraisal in bank performance, it is only limited to commercial Banks in Uganda. The findings were not true for banks that are outside Uganda and those whose operations are in Uganda but whose characteristics differ.

The data collection was affected by the unexpected resignation of some key respondents from the organization and may not continue with the process of filling in questionnaires. Their replacements started from scratch and given the sensitivity of the subject matter, they really have to get a feel of the entire process before attempting to answer the questionnaire; this prolonged the timeframes involved.

Extraneous variables. This refers to the mentality of the respondents' honesty.

Testing of the results.

Key to Mean interpretation

For the extent of credit Administration

Mean Range	Response mode	Interpretation
3.44 – 4.04	Strongly agree	Very satisfactory
2.83 – 3.43	Agree	Satisfactory
2.22 – 2.82	Not sure	Neither satisfactory nor unsatisfactory
1.61 – 2.21	Disagree	Unsatisfactory
1.00 – 1.60	Strongly disagree	Very unsatisfactory

Level of Finance performance (dependent variable) mean interpretation

Mean Range	Response mode	Interpretation
3.44 – 5	Strongly agree	Very high
2.83 – 3.43	Agree	High
2.22 – 2.82	Not sure	Neither high nor low
1.61 – 2.21	Disagree	Low
1.00 – 1.60	Strongly disagree	Very low

CHAPTER FOUR

DATA PRESENTATION, INTERPRETATION AND ANALYSIS OF FINDINGS

4.0 Introduction

This chapter presented data collected using questionnaires, observations and interviews of the case study described in Chapter three above. The corresponding interpretations also followed each presentation. The results of the study were presented according to the objectives and research questions. The findings in this chapter were also arrived at by analyzing and interpreting the available data using SPSS. All the responses were presented in terms of frequencies and percentages which were displayed in tables. Each question was treated separately and was presented in subsequent subsections one by one. The statistical data from the quantitative part of the questionnaires was then supported by the qualitative data of the study from interviews.

Therefore this chapter presented the response rate, the background of characteristics of respondents and results on substantive study objectives.

4.1 Response Rate

A sample size of 140 was set for quantitative study. The researcher distributed 140 questionnaires to the respondents and 112 were returned fully completed, yielding 80% response rate. The researcher purposively selected 30 key personnel for interview in order to supplement data from questionnaires. A response rate of 70% and above is generally considered very good according to (Mugenda and Mugenda 2010). The 80% response rate obtained in this study being well above 70% was considered generally acceptable.

Table 4.1: The response rate results from this study

Total Number in sample	Total Number of responses	No response	Response rate
140	112	28	80%

Source: Primary data 2014 2014

4.2 Results on the Background Characteristics of respondents

This information was about the respondents' duration in the current employment, level of education, marital status, age bracket and gender. These were presented in the next subsection one by one. The background information of the respondents was considered necessary because the ability of the respondents to give satisfactory information on the study variables may be by their affected background.

Table 4.2: Gender of distribution

Gender	Frequency	Percent
Male	62	55
Female	50	45
Total	112	100.0

Source: Primary data 2014 2014

Results from table 4.2 shows that most of the respondents in this study were male (55%) followed by female (45%).This was so because the researcher wanted a fair representation from both male and female. The researcher had to find out the gender/ sex distribution of the respondents, in order to establish whether this had any effect on credit administration and financial performance of commercial banks.

Table 4.3: Age Distribution of Respondents

Age brackets	Frequency	Percent
20 -30	28	25
30-40	67	60
40-50	6	5
50 and above	11	10
Total	112	100.0

Source: Primary data 2014 2014

Results from table 4.3 shows that most of the respondents were between the age of 30-40 at 67 (60%), followed by 20-30 age groups at 28(25%), then 50 and above age group followed with 11 (10%) and the 40-50 age group at 6 (5%). Age was considered as an important factor in gauging the extent to which respondents understood the dynamics of credit administration and financial performance. Such a youthful workforce is more effective in credit administration and financial performance if other factors are considered constant because it is still energetic. In addition this age group is more active, understood well the dynamics of credit administration and financial performance and dominated the banking sector compared to the rest.

Table 4.4: Show marital status of respondents

Marital status	Frequency	Percent
Married	78	70
Single	34	30
Others specify	0	0
Total	112	100.0

Source: Primary data 2014 2014

Result from the table 4.4 shows that 70% (78) of the respondents were married and the other 30% (34) were still single. The researcher used this to gauge whether the respondents were people with sense of responsibility.

Table 4.5: Distribution of respondents by experience

Experience	**Frequency**	**Percent**
Less than 5 years	34	30
5-10 years	56	50
10-15 years	20	18
Over 15 years	2	2
Total	112	100.0

Source: Primary data 2014 2014

Results from table 4.5 shows that most of the respondents in this study were of experience 5-10 years 56 (50) followed by those with experience of less than 5 years at 34 (30%), followed by experience of 10-15 years 20 (18%) while few 02 (2%) were of experience of above 15 years.

According to interviews carried out on 5 Managers, it was found out that most of the managers had been in the bank for a period of 5-9 years. When asked about the number of loans given out, it was revealed that banks gives out 6 categories of credits. These include home improvement loans, commercial loans, micro finance loans, car loans, Agriculture loans and salary loans.

Table 4.6: Qualification of Respondents

Level of education	Frequency	Percent
Diploma	11	10
Degree	84	75
Masters	11	10
Others	6	5
Total	112	100.0

Source: Primary data 2014 2104

Results from table 4.6 shows that most of the respondents were degree holders 84 (75%) followed by masters holders 11 (10%) and diploma holders 11 (10%) and others 6(5%) included employees who hold doctorates.

4.3 Results on Substantive objectives

4.3.1 Descriptive Results

The findings were arranged according to variables of study and research hypothesis. As far as the variables are concerned, this section deals with descriptive results of the three study objectives that is to say, to establish the level of credit Administration of commercial Banks in Kampala District, Uganda, to find out the level of Finance performance of commercial Banks in Kampala District, Uganda and to establish the relationship between credit Administration and financial performance of commercial Banks in Kampala District, Uganda.

4.3.1.1 Objective one was to establish the level of credit administration of commercial banks in Kampala capital City Authority

The first objective of the study was to establish the level of credit administration of commercial banks in Kampala capital City Authority. Credit administration was divided into

4 components that is Credit appraisal, disbursement mechanism, credit monitoring and recovery/ repayment. They were by the questions, how long they had been in the department, how long it takes for customer to access credit, if credit asked for is given all, interest rates charged on credit, credit analysis and screening, disbursement process, recovery of the credit and collection process, limit offered on unsecured loans, distance covered by secured credits by property, collaterals needed for secured credit and the percentage of the value of security the banks lend and were requested to do self-rating basing on Likert scale 1-5 in which one represented strongly agree, two represented disagree, three represented agree, four represented agree and five represented not sure.

Results on independent variable (credit administration)

Results on credit Analysis and screening.

Major Credit administration elements identified.

Major Credit administration elements identified

Table 4.7 shows the level of credit Administration in selected commercial Banks in Kampala City Authority

	Component	Mean	Interpretation	SD	Rank
Credit analysis and screening	How long it takes a long time for some to acquire credit from this bank	3.52	Very satisfactory	0.13	3
	Before granting capital the Bank undertakes specific analysis including the character, capacity, collateral capital and conditions	4.2	Very satisfactory	0.28	1
	The Bank's borrowers are classified according to risk factors (risk rating)	2.7	Neither satisfactory nor satisfactory	0.06	4
	It is essential to require sufficient collateral from small borrowers	3.6	satisfactory	0.28	2
	The level of credit granted to defaulted clients must be reduced	2.5	Neither satisfactory nor satisfactory	0.13	5
	The bank has a proper way of accessing all applicants' previous borrowings in other financial institutions	2.2	Neither satisfactory nor satisfactory	0.09	6
	Our credit policy emphasizes extending credits to groups as opposed to individuals.	1.7	Unsatisfactory	0.09	7

Source: Primary data 2014

For the extent of credit Administration mean interpretation

Mean Range	Response mode	Interpretation
3.44 – 5	Strongly agree	Very satisfactory
2.83 – 3.43	Agree	Satisfactory
2.22 – 2.82	Not sure	Neither satisfactory nor unsatisfactory
1.61 – 2.21	Disagree	Unsatisfactory
1.00 – 1.60	Strongly disagree	Very unsatisfactory

Results from the table 4.7, indicated that the majority of the respondents said that before granting capital the Bank undertakes specific analysis including the character, capacity, collateral capital and conditions with the average mean of 4.2. As other shows that it is essential to require sufficient collateral from small borrowers with a mean of 3.6.

While the time it takes for some to acquire credit could take an average customer more than a week to access credit from the banks with a mean of 3.5.

On the element on accessing customers previous credit information, the results shows that The bank has a proper way of accessing all applicants' previous borrowings in other financial institutions with a mean of 2.2 which Neither satisfactory nor satisfactory as indicated in table 4.7 meaning they not sure.

Results also indicates that the majority of the banks said that the credit were approved as requested for by the trust worth-customers with a mean 1.5 while it is not the case with first time customer and defaulted on previous loans.

Disbursement process.

Table 4.8 shows Results of the level credit administration on loan disbursement process in Kampala capital city Authority

	Component	Mean	Interpretation	SD	Rank
Disbursement process	The customer first deposits some money before disbursing the credit to his or her account.	4.1	Very satisfactory	0.23	1
	The Bank undertakes a credit worthiness analysis before transaction	3.1	Satisfactory	0.18	3
	The Bank's policy requires collateral for granting capital or making transactions	2.8	Neither satisfactory nor satisfactory	0.18	4
	The bank offer secured loans.	3.3	satisfactory	0.20	2
	Anyone can credit the money on the customer's account in form of credit	2.2	Neither satisfactory nor satisfactory	0.14	6
	Credit appraisal reports are always prepared and reviewed by management before credits are given out	1.4	Very Unsatisfactory	0.19	7
	Once a loan has been approved, the total loan is extended to the clients.	2.4	Neither satisfactory nor satisfactory	0.19	5

Source: Primary source 2014

Respondents identified loan disbursement related activities as one of the major undertaking. They explained that the process of disbursing funds involves continuous assessment of project progress by bank staff and customer.

Results from table 4.8 shows that customers first deposit some minimal amount of money on the account before credit is granted with a mean of 4.1 which very satisfactory, which also makes that respondents to agree that it takes long for some to acquire credit from the banks if that minimal deposit is not put on the account for processing purposes.

On the element of the bank requesting for collateral, the results shows the of 2.8 which Neither satisfactory nor satisfactory meaning that the respondents disagreed and they had mixed feelings that all loans are secured as other loans are given basing chattels and weak security.

Results shows that most of the respondents agreed that the banks carries out analysis on the capacity of customers to take and absorb the credit, character to manage the credit, have the collaterals and it is theirs, have some capital and can meet other conditions of the banks at compared to who disagreed.

As on the issue of whether the whole amount of credit is given to customers as approved the results show a mean of 2.2 which is Neither satisfactory nor satisfactory because part of the money is deducted as insurance fee, tax, stamp duty and commitment fees and other charges according to the nature of credit facility.

Table 4.9 show the level of credit administration on recovery and collection of credit in Kampala Capital City Authority

	Component	Mean	Interpretation	SD	Rank
Recovery of the credit and collection process	The bank normally facilitates our visit to customers	3.8	Very satisfactory	0.49	2
	The bank emphasizes close monitoring on small loans as compared to big loans.	4.0	Very satisfactory	0.55	1
	The bank normally debits customers' accounts to recover the loan monthly repayments.	3.3	Satisfactory	0.11	3
	When loans are not repaid, the banks often use other means to recover the loan	2.3	Neither satisfactory nor satisfactory	0.08	6
	Credit officers are motivated to ensure that there is close loan monitoring to increase recovery.	2.5	Neither satisfactory nor satisfactory	0.09	5
	It is the customer's responsibility to see that money is on the account for credit repayment.	2.9	Satisfactory	0.08	4

Source: Primary data 2014

Above results in the table 4.9 that respondents agreed that banks do facilitate their visits to customers in terms of recovery of loans, looking for clients among other duties with a mean of 3.8 which is satisfactory.

The respondents also agreed that the bank system normally debits customers' accounts to recover the loan monthly repayments with mean of 3.3 which is also satisfactory as this is done by the bank system automatically.

Results also show that the respondents agreed that their banks emphasizes close monitoring on small loans as compared to big loans, since according to them people with small loans are those with small business which can collapse and thus the close monitoring. This tallied with a mean average of 4.0 which is very satisfactory.

The respondents also agreed that it is the customer's responsibility to see that money is on the account for credit repayment with a mean of 2.9 which is satisfactory with the results.

.4.3.1.2 Objective two was to examine the level of Finance performance of commercial Banks in Kampala capital City Authority

The second objective of the study was to examine the level of Finance performance of commercial Banks in Kampala capital City Authority, Uganda. They were subdivided into profitability, loan port folio and sales growth and what needs to be done to improve the profitability of banks and were requested to do self-rating basing on Likert scale 1-5 in which one represented strongly agree, two represented disagree, three represented agree, four represented agree and five represented not sure.

Table 4.10. Shows the results on the level of Finance performance of selected banks in Kampala capital city Authority

	Component	Mean	Interpretation	SD	Rank
Profitability	The bank has adequately improved its overall profitability in the past five years.	3.5	Very High	0.591	3
	There has been a substantial reduction in the operating cost for the past five years	4.0	Very high	1.860	1
	The bank has been registering low level of nonperforming loans.	3.7	Very high	1.784	2
	The bank adequately improved its effectiveness in fraud detection.	3.5	Very high	1.936	3
	There has been an incredible growth in earnings this year	1.9	Low	1.866	5
Loan Portfolio	Our bank has realized better return on assets than its competitors	2.5	High	0.896	3
	The bank always boasts of long term funds already acquired	2.3	Low	0.749	4
	Our bank has a large capital base to act as security for long term loans	4.1	Very high	0.763	1
	Our bank has realized better return on equity than its competitors	2.7	High	0.698	2
Sales Growth	There has been continuous Improvement in terms of accessibility by bank customers	4.8	Very high	0.506	1
	The Bank is experiencing a substantial growth in revenue this financial year	3.8	Very high	0.293	3
	The rate at which our cash flows grows is remarkable	4.0	Very high	0.410	2
	I am totally satisfied with the overall growth rate of this Bank	2.8	High	0.293	4

Source: Primary data 2014

Level of Finance performance (dependent variable) mean interpretation

Mean Range	Response mode	Interpretation
3.44 – 5	Strongly agree	Very high
2.83 – 3.43	Agree	High
2.22 – 2.82	Not sure	Neither high nor low
1.61 – 2.21	Disagree	Low
1.00 – 1.60	Strongly disagree	Very low

Results in table 4.10 show that respondents agreed that the banks had adequately improved its overall profitability in the past five years with 3.5 which is very high meaning that The bank has adequately improved its overall profitability in the past five years.

The results also shows that there has been a substantial reduction in the operating cost for the past five years with a mean of 4.0 which very high meaning that there has been a substantial reduction in the operating cost of the bank.

The respondent disagreed that the bank has realized better return on assets than its competitors with a mean of 2.5 which is low.

The respondent agreed that the bank has a large capital base to act as security for long term loans with a mean 4.1 which means very high. This means that the banks offer long term loans to alongside short term loans.

On the issue about Sales Growth, respondent agreed that There has been continuous Improvement in terms of accessibility by bank customers with a mean of 4.8 meaning that it is very high and this evidenced with the number of branches which the bank has opened in various parts of the country.

The above result in table 4.10 shows that the majority of the respondents disagreed that the banks had realized better returns on assets than its competitors with compared to who agreed and who were not sure. This is true since the banks under are not among the top banks and it was also in line with mean average of 2.8

Results in table 4.10 shows that the respondents agreed that there had been continuous improvement in terms of accessibility by bank customers with compared to who disagreed that there was continuous improvement in terms of accessibility by the bank customers.

4.3.1.3 Objective three was to establish the relationship between credit Administration and financial performance of commercial Banks in Kampala capital city Authority

The third objective was to establish the relationship between credit Administration and financial performance of commercial Banks in Kampala capital city Authority, Uganda and this involved mainly interview. They were subdivided into types of credits, challenges the banks' credit administration face, procedures used to prevent credit defaulters, how banks recover its money from clients, what should be done to improve on profitability of the banks, who approves credit to clients, how often are credit appraisal reports prepared and reviewed.

Credit administration and financial performance

Table 4.11: Correlation between credit administration and financial performance

Correlation

		Credit administration	Financial performance
Credit administration	Pearson Correlation	1	.0456**
	Sig. (2-tailed)		.001
	N	112	112
Financial performance	Pearson Correlation	.0456**	1
	Sig. (2-tailed)	.001	
	N	112	112

**. Correlation is significant at the 0.01 level (2-tailed).

Source: Primary data 2014

In this study the Pearson product moment correlation was used to establish the relationship between credit administration and financial performance. The results presented in the table shows that there is a significant relationship between credit administration and financial performance, where the Pearson's correlation coefficient r = 0. 456** significant at 0.01 (99% confidence level) as the value of 0.01 is less than 0.05. This implies that the relationship between credit administration and financial performance of the banks would be improved significantly and thus showing that there is a strong correlation between credit administration and financial performance of the banks.

Table 4.12 shows Pearson's correlation test between Credit Appraisal, Monitory, Recovery and Financial performance

		Credit Appraisal	**Monitory and Recovery**	**Financial performance**
Credit Appraisal	Pearson Correlation Sig. (2-tailed) N	1.000 .102		
Monitory and Recovery	Pearson Correlation Sig. (2-tailed) N	-.791** .000 102	1.000 .102	
performance	Pearson Correlation Sig. (2-tailed) N	-.614** .000 102	.540** 000 102	
Financial performance	Pearson Correlation Sig. (2-tailed) N	-.230 .020 102	-.230 .020 102	1.000 102

Source: Primary Data 2014

** **Correlation is significant at 0.01 level** (2-tailed)

There was a strong relationship between credit appraisal and financial performance (R= -0.79. **SIG 0.00) Table G. This implies that if credit appraisal is enhanced then financial performance is likely to improve and vice versa among these commercial banks.

Bohnstedt (2010) has also argued that commercial banks have been facing problems due to poor credit appraisal, stack with high levels of non-performing assets and consequently low financial performance. Garber (2011) asserts that financial institutions should have a system of trucking payments and real losses; deploy staff to maximize return of resources. This strengthens further the culture of credit appraisal. The finding is in line with discussion forum on barriers facing banks in lending to many small & disadvantaged businesses (Florida International University 2012). In this forum it was noted that banks are not a source for start up capital and as such they intensify appraisal procedures to ensure that funds are not extended to sectors where they don't have expertise to carry out credit monitoring.

Commercial banks respondents believe and place emphasis on credit appraisal to ensure loan recovery and expect and undertake little financial monitoring and follow up.

Regression analysis

Regression analysis was used to find the results of research objective 3; assess the relationship between credit administration and financial performance of the selected commercial banks in Kampala capital city Authority.

Regression analysis is used to predict statistical significance between dependent variable. It measures the effect of relationship of the independent variable to the dependent variable.

Table 4.13 shows the relationship between credit administration and financial performance as a dependent variable

Model	Beta	T	Sig	R-square	Adjusted square	Df	F	P value
				.658	.648	3	62.97	0.000
1 (Constant)		-.327	.745					
Profitability	.942	12.513	.000					
Sales Growth	.558	5.387	.000					
Loan Portfolio	.264	2.722	.008					

Source: Primary Data 2014

The adjusted r square indicates that Profitability, Sales Growth, Loan Portfolio predict 64.8% of the variable in financial performance. However the greatest predictor is profitability in to the magnitude of the beta coefficient (0.942,t=12.513. sig 0.000). The f-ratio (62.97, sig 0.000) also reveals that those independent variables are significant predicators.

A commercial bank that has a better mix of appropriate credit administration that is credit appraisal, Disbursement mechanism, Credit monitoring, Recovery programme is likely to get a corresponding financial performance that is Profitability, Sales Growth, Loan Portfolio.

Credit administration relationship effect on financial performance that is loan portfolio, Profitability, Sales Growth in selected Commercial Banks in Kampala capital city Authority

This study has established that Commercial banks have a strong appraisal system that ensures that credits are given to only those creditworthy borrowers. Because of the very stringent appraisal process, limited business sectors are served and few customers qualify to access credit from commercial banks. Commercial banks carry out little loan monitoring and follow up. They believe that their customers know what they want and would invest loan funds given according to agreed plan.

In summary, commercial banks use a stringent appraisal system that allows few sectors to access credit and carry out little loan monitoring and follow up. As a result of this mix of the three important variables of credit administration, they end up with increasing cash reserve due to fewer customers being served, diversion of loaned funds to other projects because of limited loan monitoring and follow up.

4.4. Requirements Gathering from Interview Guide

4.4.1 Interviews

The study employed a sample of three categories of respondents from 5 branches of DFCU Bank, 5 branches of Finance Trust bank. These included 5 managers, 5 supervisors and 40 credit officers; thus a sample of 50 respondents was interviewed. In order to choose the sample, stratified sampling was used. The following are the sample results of the interviews, review.

4.4.2 Results from managers

According to interviews carried out on 5 Managers, it was found out that most of the managers had been in the bank for a period of 5-9 years. When asked about the number of loans given out, it was revealed that banks gives out 6 categories of credits. These include home improvement loans, commercial loans, micro finance loans, car loans, Agriculture loans and salary loans.

When interviewed on who approves credit to customers, out of the 10 managers interviewed, 7 Managers revealed that it was only credit administrators and branch managers who approves credit to customers basing on the proposals from credit officers. Where branches have limits especially on commercial loans of above 100millions, such proposals are sent to the respective head office in the credit department.

It was also paramount for the researcher to know the potential credit applicants. These are people with good accounts, good repayment history, clients who get salaries through that particular bank and the business community. When asked about how they decide whom to give a loan and whom not to give, it was revealed that, in case of repeat customers, they look at their repayment history. If a client has ever defaulted they cannot risk giving a credit but if he or she has been servicing the loan well, then they give the loan. For the case of new customers, it is those ones with performing businesses and good accounts. When interviewed on how often credit reports are reviewed, 6 managers revealed that reports are reviewed on weekly basis.

4.4.3 Credit officers. Results from Loan Officers.

An interview with loan officers regarding whether customers have ever complained about the administration in place, was answered with 100 percent response as yes and the following are some of the complaints raised.

1. There are a lot of fraudulent actions where an officer asks for a certain percentage before a loan is approved.

2. That officers take a lot of time (usually 1- 4 weeks) right from the time a customer applies up to the time a loan is approved.

3. Customers make unnecessary trips to the bank. This normally comes in if a credit officer is not knowledgeable about the loan requirements where he/ she tells a customer to provide for example land title as security and when he brings it, again he is told to pledge chattels. This disgusts customers as they have to make so many trips because of failure of the officer to provide full and accurate information in the first meeting.

4. No grace period for business loans yet on agricultural loan there is a grace period of one to two months.

5. Amount of loan approved is far below the amount applied for and yet there is no proper justification for that.

CHAPTER FIVE

DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter presents the discussion of the findings that were obtained in the study, conclusions, summary, recommendations based on results and suggesting areas for further research.

5.1 Discussion

This section presents the discussion of the findings obtained on the study which were presented according to the objectives of the study one by one. The discussed findings were empirically got from the field using a self- administered questionnaire and interview guide.

5.1.1 Establishing the level of credit administration of commercial banks, Kampala, city Authority Uganda

The findings established that it took more than a week to access credit from a bank, interest rate charges were between 15-20%, it took long for some to acquire credit from the banks, before granting capital the bank undertakes specific analysis including the character, capacity, collateral, capital and conditions, the bank's borrowers are classified according to risk factors (risk rating) in terms of ability to pay, whether the business and collateral is theirs, banks require sufficient collateral from small borrowers, the level of credit granted to defaulted clients must be reduced, the banks have a proper way of accessing all applicants' previous borrowings in other financial institutions through the use of credit cards, the banks' policies emphasizes extending credits to both groups and individuals, the customers first deposits some money before disbursing the credit to his or her account, the banks undertakes a credit worthiness analysis before transaction, the banks require collateral for granting capital or making transactions, they offer secured loans to customers, Not anyone can credit the money on the customer's account in form of credit, Credit appraisal reports are always prepared and reviewed by management before credits are given out, Not all approved loan is extended to clients due to some reasons such as ability to absorb the required loans, the banks normally facilitates their employees' visit to customers, the banks emphasize close monitoring on small loans as compared to big loans, since small loan takers are likely to fail because they do not have experience, the banks normally debit customers' accounts to recover the loan monthly repayments, When loans are not repaid, the banks often use other means to recover the loan like suing clients, auctioning the collaterals to recover their money among others, Credit officers are motivated to ensure that there is close loan monitoring to increase recovery, It is the customer's responsibility to see that money is on the account for credit repayment, the banks are not giving unsecured credits to customers, however, in some instances they give salary loans which are guaranteed in that the banks deduct they loans off the monthly salaries, for secured loans by properties, they cover a minimum of 35km, the banks normally ask for personal guarantors and mortgages for secured credits and the banks usually lend up to a maximum of 30-50% of the value of security offered by clients.

The findings agree with Matovu and Okumu, 1996 report which stated that credit appraisal involved gathering, processing and analyzing of quality information as a way of discerning the client's creditworthiness and reducing the incentive problems between the lenders as principals and the borrowers as agents. The bank's credit policy, procedures and directives guide the credit assessment process. Banks should base their credit analysis on the basic principles of lending which are Character, Capacity, Capital, Collateral and Conditions. In conclusion, the banks should reduce on days for one to acquire credit and tighten the noose on defaulting clients.

5.1.2 To Find out the Level of Finance Performance of Commercial Banks in Kampala City Authority, Uganda

The findings found out that the banks had adequately improved its overall profitability in the past five years because they have concentrated on their niches; for instance Finance Trust has concentrated on women and does DFCU, there had been a substantial reduction in the operating cost for the past five years, the banks had not been registering low level of non-performing loans, the banks have adequately improved its effectiveness in fraud detection, much as the ever changing dynamics of technology has made it rather difficult to cope up, there had been minimal legal suit by the bank's customers and creditors due to improved customer service in handling of claims, there had been an incredible growth in earnings this year, the overall productivity per employee (Net profit divided by number of employees) is very satisfactory due to motivation of employees as most of the banks do pay their employees reasonable salary in order to maintain them since a competitor would offer better salary and take their services, the banks had not realized better return on assets than its competitors since they are not amongst the top bank and are secondly, are not in every corner of Uganda, which these other top one have advantage over them, there had been continuous Improvement in terms of accessibility by bank customers in terms of accessing credit on time, the banks always boasts of long term funds already acquired, the overall growth rate of the banks were impressive due to prospects of future oil revenue which will bring in billions of dollars, the banks should reduce on unsecured loans, increase motivation of employees, reduction on un necessary costs, improve on marketing, increasing on the products and reduction on operational costs as ways of improving on the profitability of the banks.

The findings are in agreement with Birlay and Westheed (2001) who looked at financial performance as an approximation for financial success that is, the rate at which the enterprise is satisfied with the profits and growth levels attained. Financial performance looks at the results of a firm's policies and operations in monetary terms that is, a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation (Hillman & Keim 2001). Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues (Dess & Robinson, 2003; Kaplan, 2006).

The findings further agree with Waddock and Graves (1997), in their study that there were a number of financial performance measures, however there is little consensus about which instrument to apply. Many researchers use market measures like Alexander and Buchholz (1978) and Vance 1975) while others put forth accounting measures like (Cochran and Wood 1984.)

This study uses the perceptual measures that include profitability and growth. Profitability is the ability of an enterprise to earn returns which returns are a margin of sales, proportion of capital invested and assets used. This is used as a measure of financial performance by a number of firms with the interest of knowing whether the firm is earning substantially more than it pays in terms of interest.

The study further agrees that Capital Adequacy, Earnings and Liquidity are the key dimensions of measuring financial performance in Commercial Banks (Rogers Matama, 2008). In conclusion, the banks' profitability depends on the number of clients, they should therefore increase on marketing of their products.

5.1.3 Establish the Relationship between Credit Administration And Financial Performance Of Commercial Banks in Kampala City Authority, Uganda

The findings established that the banks offer trade loans such as export and import loans, mortgage and salary loans, Loan default, Low customer base, Poor marketing, few bank products are some of the problems the credit departments of the banks face and banks use credit cards to prevent defaulting clients from accessing loans and improvement on marketing of their products, reduction on default loans would help improve on the profitability of the banks. The findings showed that there was a strong relationship between credit administration and financial performance of commercial banks since if for instance there is a high loan default in a bank, such a bank will have increased bad loans and thus reducing on the profitability of the bank and the findings agree with BOU, (2002) which stated that external factors such as deregulation; lack of information among bank customers; homogeneity of the bank business, connections among banks do cause bank failure.

5.2 Conclusions

From the above discussion the following conclusions were made following objectives of the study.

Establishing the of credit administration of commercial banks, it was concluded that interest rates were between 15-20%, it took more than a week to access credit, some people took them long to access credit, analysis were carried out to ascertain customers' credit worthiness, borrowers were classified according to risks, they required collateral for capital, offered secured loans, banks debit clients' accounts to recover their money and normally lend up to between 30-50% of value of security.

To examine the level of finance performance of commercial banks, it was concluded that the banks had adequately improved on profitability, reduction on operating costs, had improved on fraud detection, banks had large capital base, there was continuous improvement in terms of accessibility, improve on marketing, reduce operating costs in order to increase profitability.

The banks were offering export and import loans, mortgage loan and salary loans, few customer base, poor marketing and few bank products were some of the problems facing the administration.

5.3 Recommendations

In light of the findings, the researcher made the following recommend;

The banks should revise mechanisms and see how to reduce on the days for one to acquire credit from more a week to at least 5 days, this way it will improve on clients performance.

The interest rates are way too much and this is partly the reason as to why most businesses do not make it past their first anniversary, because it is a disincentive to business competitiveness and at least charge some reasonable interests of say below 17%.

The banks should introduce new technologies in order to curb the ever increasing fraud in the industry and this would them a lot.

5.4 Areas for further research

This study was conducted in Commercial banks and had a limited scope, although carried out systematically. The following areas are recommended for further research.

(i) Causes of loan failures - to broadly assess the institutional, behavioural and environmental aspects from both the lenders' and borrowers' perspective;

(ii) Credit Risk Management and Loan Performance in Development Financing.

(iii) The study also majored on establishing the relationship between credit Administration and Financial performance. This should also be widened to establish the relationship between risk management and Financial performance of commercial bank.

Other studies should be done on it either in the same organizations or in different organizations in order to test the relevance of the research questions.

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APPENDICES

APPENDIX I: Questionnaire

I am a student of Kampala International University, pursuing a master's degree in Business Administration

I am carrying out a research on the topic "Credit Administration and Financial Performance of Commercial Banks in Uganda". I therefore request you kindly to help me to fill this questionnaire. All information that you will provide will be treated solely for academic purposes only and with utmost confidentiality. **Thank you.**

Please tick or fill in the desired choices in the space provided.

1. Demographic Data

Your gender. (i) Male. [ ]

(ii) Female [ ]

a) Choose the Age bracket.

(i) 20 to 30 years [ ] (ii) 30 to 40 years [ ] (iii) 40 to 50 years [ ]

(v) 50 years and above [ ]

b) What is your marital status?

(i) Single [ ] (ii) Married. [ ]

(ii) Others. (Specify) [ ]

c) For how long have you been working in this organization?

(i) Less than 5 years. [ ] (ii) 5 to 10 years. [ ]

(iii) 10 to 15 years. [ ] (iv) Over 15 years. [ ]

d) What is your level of Education?

(ii) Diploma [ ] (ii) Degree. [ ] (iii) Masters [ ]

(iv) Others. (Specify) [ ] ....

2) Credit Administration

(a) How many years have you been in this department/ organization?

(i) Less than 2 years. ☐ (ii) 2 to 5 years. ☐

(iii) 5 to 8 years. ☐ (iv) Over 8 years. ☐

(b) How long does it take for the customer to access credit?

(i) 1 day. ☐ (ii) 2 days. ☐ ☐

(iii) 5 days. ☐ (iv) More than a week.

(c) Please state if the credit requested for is;

(i) Approved as requested ☐ (i) Adjusted/ adequate. ☐

(iii). Adjusted/ too little ☐

(d) The bank charges reasonable interest rate to the borrowers in the range of;

(i) 15 – 20%. (ii) 21 – 25%.

(iii) 26 – 30%. ☐ (iv) Above 30%. ☐

For the following questions, please use the scale provided. (1, 2, 3, 4, 5)

SNO.		**Strongl**	**Disagre**	**Not**	**Agree**	**Agree**
Credit analysis and screening		1	2	3	4	5
1	It takes a long time for some to acquire credit from this bank					
2	Before granting capital the Bank undertakes specific analysis including the character, capacity, collateral capital and conditions					
3	The Bank's borrowers are classified according to risk factors (risk rating)					
4	It is essential to require sufficient collateral from small borrowers					
5	The level of credit granted to defaulted clients must be reduced					
6	The bank has a proper way of accessing all applicants' previous borrowings in other financial institutions					

7	Our credit policy emphasizes extending credits to groups as opposed to individuals.					
	Disbursement process					
1	The customer first deposits some money before disbursing the credit to his or her account.					
2	The Bank undertakes a credit worthiness analysis before transaction					
3	The Bank's policy requires collateral for granting capital or making transactions					
4	The bank offer secured loans.					
5	Anyone can credit the money on the customer's account in form of credit					
6	Credit appraisal reports are always prepared and reviewed by management before credits are given out					
7	Once a loan has been approved, the total loan is extended to the clients.					
	Recovery of the credit and collection process					
1	The bank normally facilitates our visit to customers					
2	Our organization emphasizes close monitoring on small loans as compared to big loans.					
3	The bank normally debits customers' accounts to recover the loan monthly repayments.					
4	When loans are not repaid, the banks often use other means to recover the loan					
5	Credit officers are motivated to ensure that there is close loan monitoring to increase recovery.					
6	It is the customer's responsibility to see that money is on the account for credit repayment.					

(a) What is the limit offered for unsecured loans to customer?

……………………………………………………………………..

(b) For secured credits by property, what is the normal distance considered by the bank for valuable property? …………………………………………………..

(c) The following collaterals are often asked for secured credits by the bank

(i) Mortgage ☐ (ii) Personal guarantors ☐

(iii) Both i and ii ☐ (iv) Others specify; ……. ………………………

(n) What means does the bank use?

……………………………………………………………………………………

……………………………………………………………………………………

…………………………………………………………………………..

(o) The bank normally lend up the following percentage of the value of the security offered. ☐ ☐

(i) Less than 30% (ii) 30 – 50%

(iii) 50 - 60% ☐ (iv) Above 60% ☐

(3) Financial Performance.

a) Study Variables: Please respond to the following statements by indicating the extent to which you agree or disagree on the provided scale: 1, 2, 3, 4, 5.

SNO.	Study Variables	Strongl	Disagre	Not	Agree	Agree
	Financial Performance	1	2	3	4	5
	Profitability.					
1	The bank has adequately improved its overall profitability in the past five years.					
2	There has been a substantial reduction in the operating cost for the past five years					
3	The bank has been registering low level of nonperforming loans.					
4	The bank adequately improved its effectiveness in fraud					

	detection.					
5	There has been minimal legal suit by the bank's customers and creditors.					
6	There has been an incredible growth in earnings this year					
7	The overall productivity per employee (Net profit divided by number of employees) is very satisfactory					
	Loan portfolio					
1	Our bank has realized better return on assets than its competitors					
2	The bank always boasts of long term funds already acquired					
3	Our bank has a large capital base to act as security for long term loans					
4	Our bank has realized better return on equity than its competitors					
	Sales growth					
1	There has been continuous Improvement in terms of accessibility by bank customers					
2	The Bank is experiencing a substantial growth in revenue this financial year					
3	The rate at which our cash flows grows is remarkable					
4	I am totally satisfied with the overall growth rate of this Bank					

b) Please state what need to be done to improve the profitability of the bank?

....

....

....

Note:

All information is to be treated with confidentiality.

Thank you for your time, May God bless you.

Interview guide

Interview guide to the research on credit Administration and financial performance of commercial Banks in Kampala district

1. What types of credits do the banks offer?
2. Who approves credits for clients?
3. What are the disbursements cycle / process from the screening documents to the monitoring and
4. Recovery
5. How long does it take for some to acquire credit from this bank?
6. Can the bank access all applicants' previous borrowings in other financial institutions? How?
7. Do the bank offer or extend credits to groups as opposed to individuals?
8. How does the client access his or her credit?
9. How often are Credit appraisal reports prepared and reviewed by management?
10. How does this bank recover its money from the clients?
11. Are Credit officers motivated to ensure that there is close loan monitoring to increase recovery?
12. Who is responsible for recovery of credits from clients?
13. What procedures exist to prevent credit defaulter/ bad loans?
14. What was the Bank's loan portfolio at the end of 2013?
15. Do the bank have large capital base to act as security for long term loans?
16. What challenges are in the bank's Credit administration?
17. What could be the possible solutions to the above challenges?
18. What could be done to improve the profitability of the bank?

Thank you once again for your time.

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EXPLORING THE HEIGHTS

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College Of Education, Open and Distance E-Learning

Office of the Principal

TRANSMITTAL LETTER

16th June, 2014

TO WHOM IT MAY CONCERN

Dear Sir/Madam,

SUBJECT: PERMISSION TO CONDUCT A RESEARCH STUDY IN YOUR ORGANISATION

With reference to the above subject, this is to certify that **Mr. Igani Jackson** Reg. No. **MBA/40204/123/DU-LR** is a bona fide student of Kampala International University pursuing a Masters degree in Business Administration.

He is currently conducting a field research entitled, ***"Credit Administration and Financial Performance of Commercial Banks in Kampala - Uganda"***

This area has been identified as a valuable source of information pertaining to his research project. The purpose of this letter therefore is to request you to avail him with the pertinent information as regards to his study.

Any data shared with him will be used for academic purposes only and shall be kept with utmost confidentiality.

Any assistance rendered to him will be highly appreciated.

Yours truly,

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