CREDIT RISK MANAGEMENT AND FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN UGANDA: A CASE STUDY OF BARCLAYS BANK WANDEGEYA BRANCH

BY

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

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DECLARATION

I hereby declare that this research report is my original work and it has never before been presented elsewhere for any academic award. The pieces of work from other sources have been dully recognized.

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APPROVAL

I confirm that this research report was done under my supervision and has been submitted for approval with my authorization.

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Date: 04/07/2017……………………………..

DEDICATION

This research report is dedicated to my dearly beloved parents Mr. Peter Kalimo Mweruka and Mrs. Betty Kalimo, my supervisor Dr. Kirabo. K. B. Joseph, my relatives and my friends Cissy, David and the discussion group who were always there for me. Thanks, for giving me hope in despair, Joy in sorrow, and ease in pain, no one loves me more than you do.

May God bless you!

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MAY GOD BLESS YOU!

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ABSTRACT

The study assessed the role of credit risk management on performance of commercial banks in Uganda; the specific objective of the study was to determine the relationship between credit risk management on performance of commercial banks. However, there is a concern high level of defaulters due to ineffective credit risk control mechanisms. The conceptualization of the study was based on the fact that commercial banks need effective credit risk management policies to achieve the set goals and objectives. The research embraced a research methodology that give valuable result as desired by the study research questions that gave valuable results as desired by the study research questions and objectives. The collected data were analyzed, edited and presented in a simpler form for easy interpretation using frequency tables. The study findings established that lack effective credit risk tools, inadequate staff, and poor record keeping might be the main cause of poor financial performance of commercial banks. However, the researcher argues that for the there is need for commercial banks to undertake a role to advise their clients on the nature of loans that they apply for and their likely outcomes, provide training to their employees on how to effectively execute their responsibilities. This makes them more creative thus enhancing financial performance as desired, commercial banks should educate their clients to borrow only when it is extremely necessary, need for commercial banks to ask for collateral security from clients when securing loans. This provides a guarantee of paying back the borrowed money since some of the clients are not trust worthy. There is need for commercial banks to make decisions that are rational while allocating their finances to different borrowers.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

This chapter entails the Background of the study, statement of the problem, purpose of the study, objectives of the study, research questions, scope of the study, and its significance

1.1 Background of the study

1.1.1 Historical Background

Kaggwa (2013) States that Barclays Bank in Uganda was opened in 1927, with two branches; Kampala, and one in Jinja, it is considered the country's second-largest commercial center in the country. In order to extend credit facilities to the people, Barclays bank has opened over 43 branches in the country. He argues that its main objective is to maintain higher profitability by maintaining circular and efficient flow of amount of money deposited by the customers and lenders. He asserts that Barclays bank offer various loans in form of agricultural loans, group loans, business loans, insurance loans among others to their clients.

Loans are a major source of finance to fund most businesses. Accessing loans depends on the credit worthiness or credit standards of a particular bank, these may include; collateral security, capacity condition, character under which the business is operating, Bankers' Lending Techniques (Nick, 2010). Credit is sought by individuals and organizations to supplement their funding since equity is often not enough and these funds are primarily allocated on the basis of price expressed in terms of salaried loans, business installment loan, mortgage loans, agricultural loans.

Regardless of the various researches that have been conducted still a gap remains on how an effective credit risk control can be achieved since still the issues of non-performing loans have not been contained completely. The principal concern of this study is to ascertain the effect of credit risk management on Financial Performance of commercial banks in Uganda.

1.1.2 Theoretical Background

Financial Portfolio theory

According to Bennett's (1999) Financial Portfolio theory, he states that "Banks should avoid Concentrations of Credit Risk through Strategic Diversification" he points to a strategy for successfully balancing the goals of creating valuable loan assets and avoiding excessive risk concentration. He argues that an accepted principle among a growing number of banks is that lending risks must be managed not only at the individual borrower level but also at the portfolio level. Bennett's financial portfolio theory provides practical insights into how a bank should structure a loan portfolio in light of its goals. At the risk of oversimplification, a bank's goals can be seen as; Earn strong profits, avoid large losses and Maintain high shareholder value.

Information Theory

Derban (2005) recommends that borrowers should be screened especially by banking institutions in form of credit assessment. Collection of reliable information from prospective borrowers becomes critical in accomplishing effective screening as indicated by symmetric information theory. Qualitative and quantitative techniques can be used in assessing the borrowers although one major challenge of using qualitative models is their subjective nature. However, Derban (2005) posited that borrowers attributes assessed through qualitative models can be assigned numbers with the sum of the values compared to a threshold. This technique minimizes processing costs, reduces subjective judgments and possible biases. The rating systems will be important if it indicates changes in expected level of credit loan loss. Brown (1999), concluded that effective quantitative models make it possible to numerically establish which factors are important in explaining default risk, evaluating the relative degree of importance of the factors, improving the pricing of default risk, screening out bad loan applicants and calculating any reserve needed to meet expected future loan losses.

1.1.3 Conceptual Background

In this study, Independent variable was conceptualized as Credit risk management and the dependent variable was conceptualized as financial performance.

Credit risk management

Nelson (2002) asserts that Credit risk management is the practice of mitigating losses by understanding the adequacy of a bank's capital and loan loss reserves at any given time. However, the researcher defines credit risk management as ways of reducing risks associated with extending credit to customers such as; failure to pay the loan and interest, un trust worthy customers.

Financial Performance

According to the business dictionary financial performance involves measuring the results of a firm's policies and operations in monetary terms. These results are reflected in the firms return on investment, return on assets and value added. The researcher shall adopt Turyahebya (2013) defines financial performance as "the ability to operate efficiently, profitably, survive, grow and react to the environmental opportunities and threats."

1.1.4 Contextual Background

Commercial banks have faced difficulties over the years for a multitude of reasons; the major cause of serious banking problems continues to be directly related to relaxed credit risk standards for borrowers, poor portfolio credit risk management. This has led to the coming up with various ways of credit risk management that has resulted to affecting the financial performance of banks. Though all this have been done it still remains a challenge to commercial banks to balance between customer's needs of credit and the policies that have been laid down by institutions which results to both positive and negative financial performance (Richardson, 2002).

Nkumba Business Journal (2015), explains the high default risk for repayment of interest and in some cases the principle amount itself that affected the performance of Barclays bank in 2015. Barclays bank realized little profits for the year which was attributed to the mode of issuing loans to customers and collecting borrowed money from the clients this can only be reduced through designing and implementing effective credit risk management policies. It is in this vain that the researcher is interested in investigating credit risk management policies within Barclays bank Wandegeya branch as it is also a victim. The study respondents shall be the bank managers, loan officers and beneficiaries (clients /customers) of the loans.

1.2 Statement of the problem

The advent of the Financial Institutions Act (2004), was embraced with a lot of excitement by all in the banking sector. The present possibility for banks to diversify into broader range of services and products make life really cool for banking entrepreneurs and managers. But this diversification advantage is a once in a life time opportunity that should be consumed with some caution and prudence as this involves a great deal of risk. This is in direct line with the saying that "the higher you go, the colder life becomes." Banks use these deposits to generate credit for their borrowers, which in fact is a revenue generating activity for most banks. This credit creation process exposes the banks to high default risk which might led to financial distress including bankruptcy. All the same, beside other services, banks must create credit for their clients to make some money, grow and survive stiff competition at the market place.

"Corporate clients are the biggest loan defaulters compared to micro clients. Their defaulting rate and bounced cheque offences continue to rise. This has hampered cash flows of some commercial banks," Rashid Musisi (The New Vision 17 October 2010).

1.3 Purpose of the study

The purpose of the research was to establish the relationship between credit risk management and profitability in Barclays bank in Uganda

1.4 Objectives of the study

i. To establish the extent of integrating risk management processes into the credit policies of the bank.
ii. To determine the level of financial performance.
iii. To determine the relationship between credit risk management and financial performance of commercial banks.

1.5 Research questions

i. To what extent is risk management integrated into credit policies of the bank?
ii. What is the level of financial performance?
iii. What is the relationship between credit risk management and financial performance commercials banks?

1.6 Hypothesis

H_{01} There is no significant relationship between credit risk management and financial performance commercials banks

1.7 Scope of the study

1.7.1 Geographical scope

The study was conducted in Barclays bank, Wandegeya branch.

1.7.2 Time scope

The study was cross sectional and covered data from 2011 to 2016.

1.7.3 Content scope

This study was focused on analyzing the effects of credit risk management on profitability of commercial Banks in Uganda.

1.8 Significance of the study

The study will help management of different commercial banks especially Barclays bank in formulating and designing effective credit policies that are user friendly.

It will be a basis for other researchers to be used as a benchmark for further understanding of credit management of commercial banks.

The study would be added to existing literature regarding credit risk management and profitability in commercial banks in Uganda.

The study will improve not only researcher's scope of understanding risk management but also entire public hence gain exposure to the banking industry.

1.9 Conceptual framework of the study.

Figure 1.1 below represents the study's independent and dependent variables. Profitability of commercial banks is subject to various solutions provided by credit risk management. In the case of this study, credit risk managers are assumed to offer comprehensive internal controls to enhance efficiency, effectiveness and economy, recruitment of intelligent human resources to ensure accountability and order, adequate policies, procedures and credit risk limits through active board and senior management oversight.

These services provided by credit risk managers, and which forms the study independent variables are considered to be important determinant of the profitability. This is a relationship that this study seeks to find out.

Independent variable		**Dependent variable**
Credit risk management • Comprehensive internal controls. • Active board and senior management oversight. • Intelligent recruitment of human resource. • Adequate policies, procedures and limits.	⟷	**Financial performance** • Efficiency, effectiveness and economy. • Accountability and order. • Reduction in resource wastage

Figure 1.1

Source: *Adapted* from Turyaheba A. (2013).

According to this study, the independent variables are ways of Credit risk management which includes; Comprehensive internal controls, active board and senior management oversight, intelligent recruitment of human resource and adequate policies, procedures and limits.

The dependent variables comprised of financial performance like Efficiency, effectiveness and economy, accountability and order and reduction in resource wastage. As shown in figure 1.1 above.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter consists of credit risk management in commercial banks, risk management process, financial performance, credit policy in commercial banks and credit risk measurement, monitoring and control.

2.1 The concept of risk in commercial banks

According to Brealy & Myers (2004), Commercial banks like any other financial institutions are exposed to a number of different risks. These include liquidity risk; Interest rate risk, inflation risk, financial risk and credit risk. One or a combination of these risks, impacts in one way or another on the performance of a commercial bank. This study is exclusively on credit risk management.

All the other risks mentioned above are not studied. Commercial bank credit risk or the loan default risk has been defined by a number of authors as that event which occurs when the borrower fails to pay bank loan. This study is on how a commercial bank predicts, measures, monitors and controls credit risk in order to enhance its profitability, (Mugisha, 1995).

Dill (1999) argues that concepts of credit risk studied were the risk management process which involves the prediction of and measurement, monitoring and control. The second was credit policy of commercial banks. This was followed by credit analysis, credit approval, credit documentation and disbursement.

2.1.1 Credit Risk Management in Commercial Banks

Credit risk management can be described as a function that must be performed by a commercial bank in order to ensure that the loans it advances to its clients are orderly repaid back. The basis of a sound credit risk management is the identification of the existing and potential risks inherent in the lending activities (Froot, & Stein, 1998).

Naughton & Diez (1999) posited that Credit risk management is the support, control systems and other practices necessary to manage the outstanding risk assets, normal repayment and to monitor business risk properly. Credit risk management lies at the heart of commercial banking. It remains central to the health of the banking industry and must qualify for core status, Harrison (2003), with the majority of a banks' assets being in the form of loans.

2.1.2 Credit Risk management process

Risk management is a process which involves an interlinked of sequence of function which should be performed in order to measure, manage and control risk. Different methodologies for identifying, capturing, analyzing and reporting credit market, liquidity and operational risks are at the disposal of financial institutions. Bonnevie, Singleton, & Lins, (2000), add that credit risk management process as a methodology of identifying, capturing and containing risk has eight different phases.

The first phase involves position and market analysis, this phase is marked by the following: first there is need for the financial institution to understand the market environment in which it operates. In this case the financial institution should analyze its position in the market, the intensity of competition in the market, the price elasticity of demand for its product and customers' needs having identified its position and own share in the market, the financial institution should also identify the sources of data after which an information management structure is established. Finally, there is need to understand the legal aspect of the risk to be taken.

The second phase is concerned with developing the knowledge about the risk awareness and identification of tools to be used to manage risk. In this phase, there is need to evaluate the degree of risk awareness, risk incentives, risk reward, perceptions and the risk acceptance limits. In this phase, the institution should evaluate the risk in terms of volatilities and probabilities or occurrence. The institution should also prioritize the risk areas in relation to organizational goals and risk appetite (Des Rag, 2007).

They also define risk appetite as the degree to which an organization links its objectives and goals to risk finally, this phase is characterized with the identification and deciding of the tools to be used in measuring monitoring and controlling risk and how to integrate them into other organizational processes.

The next phase is the decision making phase. This involves deciding and agreeing on strategies and tactics that should be used to link the risk appetite to business activities. Such strategies and tactics may include the top-down or bottom techniques of measuring, evaluating and reporting risks, (Kvak, 2001).

Dill (1999) explains that phase four is concerned with the defining and deciding on the limits to steer the risk management process. There is need to define and expose the stop-loss limits for each credit risk. The institution should also decide on the corrective measure to be taken, the channels of responsibility and the decision process to be followed.

The fifth phase involves communication of plans and decisions. In this phase, there is need to establish a communication process among working groups between reporting lines and to decide on the periodicity and means of communication. There is also a need to ensure that the risk culture is widespread in the entire organizations' staff.

Phase six is the implementation of plans and decisions. This phase requires senior management sponsorship, a clear vision of what is to be done and to ensure commitment to the organization's objectives.

The next phase is monitoring of results and events. It involves the linking of the assessed risk to the established risk limits, aggregating of risk, diversification of risk and reporting of risk. In this monitoring phase the top-down or bottom-up reporting method may be adopted (Donald, 2000).

The last phase in the management process is to do with management of the risk data in order to meet organizational goals and expectations.

In conclusion, there are eight phases that constitute the requisites of measuring, managing and controlling risk. In a commercial bank, the most dominant risk to measure and contain is the credit risk. Although credit risk is not the only risk faced by a commercial bank, it is the risk that has caused financial destruction in Uganda Commercial Banks for example; Green land bank, (Ssewagudde, 2000).

Ssewagudde (2000) stated that the business of banking is measuring and accepting risk. Because the major risk faced by commercial banks is the credit risk, Credit risk can be interchangeable called loan default risk. Guidelines and procedures to measure and contain default risk are explained in the next subsection as part of commercial bank credit policy, procedures and guidelines.

2.2 Financial performance

Eliot (1997) defines financial performance as the act, process or manner of doing things or execution of the financial duties. The efficiency of any accounting system is measured by its ability to provide basic services and meet information needs of its customers. Financial performance can be measured in terms of effectiveness of output and costs incurred.

Armstrong (1993) appreciates the fact that the financial management is a process of helping organizations to achieve their final objectives. Financial management, functions by first establishing shared understanding between financial managers and staff on what is going to be achieved and then creating people in a way which increase profitability that will be achieved in a short period hence improved financial performance which helps in the decision making.

Bodnor (1999) stated the following indicators of financial performance;

Cost reduction, when organization activities are carried out at reduced costs, then we say it's a good financial performance.

Reduction of variances, if the planned output is equal to or less than actual output, then we talk of a good financial performance.

Increased profitability, when the profits of the organization increase continuously, then we talk of a good financial performance. Bodnor (1999), emphasizes the basic features of financial performance measures as listed below; Focus should be put on individual contribution to the whole firm as a whole, the organization should share its vision with its employees and there should be concentration on future performance planning.

2.3 Credit Policy in Commercial Banks

Credit policy is a frame work which provides the guidelines, procedures and responsibilities involved in measuring, monitoring and controlling loan default risk. Ssewagudde (2000), states that a credit policy should provide parameters define responsibilities and establish a system of checks and balances. It should include; general policies, specific loan strategies, miscellaneous loan policies and quality control committees whose role is to guide the credit decision taken by the bank.

A credit policy should be specific, clear, concise, and relevant and should be supported by credit procedures. It should also define the bank's acceptable and unacceptable risks. Risk taking is central to banking, it is profitable for banks to take risks that are reasonable, controllable and within their financial resources and competences. Ssewagudde asserts that banks need not engage in businesses in a manner that necessarily impose risks on them. Similarly, they should not absorb risks that can adversely affect their clients.

In their strategic planning, there is need for the banker to clearly specify and if need be quality the risk factors and level of risk for each market target, target customer segments and loan concentration. Sunkey (1998) posited that the lender must weigh the pros and cons of specialization and concentration of lending to industry sector, groups and individuals borrowers to establish limits on their overall exposure to risk. If the loans in the portfolio are highly concentrated and correlated with existing loans, then the lender is also concentrating loans on loan default risks. If loans portfolio risk becomes excessive, it manifests itself in the form of bad loans. High bad loans provisions and loan losses destroy the bank value (Ssewagudde, 2000).

Credit procedures are steps clarifying the techniques used by the bank to execute its credit policy. Credit directives on the other hand are those to address credit policy issues in response to the market and economic changes. Credit directives provide general parameters for the type of clients and market the bank willing to serve, the loan concentration levels and the acceptable risk in each market and industry.

Ssewagudde (2000) states that when a bank strategy, credit policy procedures and directives have been carefully formulated and administered from the top and well understood all organizational levels, it enables the bank to maintain proper credit standards, avoid excess risk and evaluate business opportunities properly.

2.3.1. Identification and prioritization of Market Targets

The formation of bank's strategic plan by top management is a very important aspect for the success of the business. For banks, this strategy should, be outlined in terms of risk concentration, commitment to market segment, the acceptable asset/liability exposure and the need to evade against systematic risk of a particular type (Sentomero, 1996). In the strategic plan, management should accurately design credit policies, credit directives and procedures that are consistent with the desired credit risk in each market target. Risk is central to banking. For a bank to accept a risk, the bankers must fully comprehend and if possible qualify the risks so taken. Banking institutions need not engage in business that will unnecessarily impose risks upon them and also upon other stakeholders. Because the major risk faced by commercial banks is the default risk, it also follows that major risks must measure, accept and manage in each market target is the default risk.

When a bank strategic plan and credit policies are properly formulated by top management and well-understood at all organizational levels, it enables the bank to maintain risk properly. It also enables that bank to operate consistently and to adhere to uniform and sound bank practices.

2.3.2 Credit Initiation/ Analysis Process

Credit analysis is a process which involves procedures which a commercial has to follow in assessing whether a prospective loan applicant should qualify for the loan. These procedures include credit origination, credit evaluation, credit negotiation and approval. Each of these is an important element of credit risk management and is examined under the following subheadings, (Sentomero, 1996).

Credit origination

When a client applies for credit, bank officers should identify whether this customer's compatible with the bank's credit policy. Credit origination involves the collection of sufficient and relevant information about the credit. By so, the bankers are capable to assess the compatibility of his/her need for cash and the bank's credit, procedures and directives. Credit staff in the bank is expected to visit the potential client's business premises to access the prevailing situation. He asserts that the initial step of physical visit and data collection is an important element of credit initiation as it gives the banker the basis for decision-making. It helps the banker to decide whether to grant credit or deny it. It paves the way for the next element of credit management. Credit origination is followed by credit evaluation.

Credit evaluation

Pandeny (1997) posited that Credit evaluation involves assessing whether the client is credit worthy. In credit evaluating, the banker is able to assess the purpose of the loan, the business and the financial position of the potential customer. In credit principles of lending, they are 5C's of credit. These 5C's are discussed by Kakuru (2003); they refer to the customer's conditions or business cash flow and net worth, collateral securities and economic conditions or business fluctuations. There is need for the banker to evaluate the customer's capacity to pay persistently. There is always information irregularity between the bankers and their clients due to the ever-changing economic conditions. Ideally sensitivity analysis on the client's ability should be carefully conducted by the banker to minimize risks.

Credit negotiation and approval

Merton (1999) posited that Credit negotiation and approval is the last step of the credit initiation process. It involves negotiating with the credit worthy customer on the terms of the credit, the loan interest rate, the loan amortization schedule and agreement. Negotiation process should ensure that the credit advanced by the bank is beneficial to the client and the payment will be orderly and favorable. It should result into a good qualify loan portfolio. Once the process of negotiation is concluded, then the loan is approved. The bank's loan committee should ensure that all term and procedures have been adhered to.

Sentomero (1996) argues that Credit evaluation is a very important element of credit initiation and credit risk management process. If it is carried out properly and in accordance to the bank's credit policy and procedures, the resulting performance of the loan advanced becomes good, reduces the loan default risk, proper credit evaluation management. This relationship between the client and the bank management leads to lifetime client management, constant renewal of contacts all of which culminate client-customer loyalty. In credit evaluation, there is need to apply a rating scheme to all investment alternatives before the bank makes a decision.

Harrison (2003) states that a credit-scoring scheme ought to be used by the banker to predict whether the potential client is worth the credit. A common credit risk rating system for all bank loan portfolios is likely to achieve lower loan defaults than the traditional method of credit awarding by experienced bank managers. Once the credit evaluation procedures are accomplished and the decision to advance credit is made, then the process of credit negotiation takes place.

A proper negotiation process will also result a better quality loan portfolio. It ensures that the banker gives to the customer a credit product that is profitable and credit product that will be paid timely. Sunkey (1998) states that banks need not involve in deal that will neither involve them in losses, nor involve their clients in loss making venture. Once credit negotiation is completed, then the process of credit approval follows.

2.3.3 Credit Approval

Credit approval is the last step in the credit initiation and analysis process. In this stage, the bank's credit committee should be composed of approving the credit impartial committee members. They should devote sufficient amount of time in receiving analysis and approving or disapproving several loan application presented to them at the same time. The committee ensures that all the procedures, guidelines and directives in the credit policy has been followed (Sunkey, 1998)

2.3.4 Credit Documentation and Disbursement

Credit documentation is the fourth element of the credit management process. It includes the taking of all security and precautionary measures are obtained and documented before the funds are spent. It ensures that modification on all approved credit have been compatible with the credit policy. It also involves the maintenance of orderly and up-to-date credit files. It includes the imposition of the relevant fees, updating of relevant records and prompt modification of the credit review and renewal dates. Credit documentation also ensures that the loan covenants are also made before the loan is checked and document review to ensure that the bank is fully protected.

Day& Taylor (1996) posited that when the process of credit disbursement ensures that funds are not paid out; the procedure guidelines in the credit policy are met. If the process of disbursing the funds is weak, the entire credit risk management process can easily be threatened.

2.4 Credit risk measurement, monitoring and control

This is the last step of credit risk management and measurement of risks guidelines and procedures of minimizing them. It also involves the following administrative aspects; monitoring of the portfolio performance, classification of the portfolio according to performance, ensuring that the credit is orderly and fully repaid, conducting of site visits and regular contact with clients, conducting of credit audit or risk asset review to assess portfolio quality and management and review clients files and documents as well as collated securities. It should also involve quantification of the risk in each market to measure the magnitude of the risk and to monitor whether the bank credit is being properly implemented (Harrison, 2003).

All these aspects of credit administration are vital in monitoring change in behavior and noncompliance. In this way bankers are able to detect early warning signals of deterioration or non-compliance and timely effect corrective measures to avoid losses. Another important aspect of credit administration is, collecting, processing and analyzing of up to date and accurate information on portfolio performance.

Greuining (1999) agreed that, the best ways to detect the errors and weaknesses in the quality of banker's portfolio is through gathering, processing, and analyzing quality information. Because of changing economic conditions and customer's behavior (moral hazards) and the failure to give timely data, there is information irregularity and the bank must constantly update its management information system and the database. Thus good quality portfolio management and administration should contain risks in market segments.

CHAPTER THREE

METHODOLOGY

3.0. Introduction

This chapter includes various methods used in collecting data, research design, survey population, data processing and analysis.

3.1. Research design

The research was conducted to establish the relationship between credit management and profitability of commercial Banks. The research was based mainly on both qualitative and quantitative information from questionnaires and interviews. The study design was also mainly be descriptive, analytical and explanatory. The data obtained were coded, analyzed, interpreted and a conclusion was drawn from it.

3.2. Target population

The study considered a total population of 53 respondents and these included; bank managers, loan officers and clients of the loans however; the researcher did not consider the entire population.

3.3 Sample size

This involved one branch of Barclays Bank that's Wandegeya branch. This was taken to be the representative of other branches in Uganda. This research covered a sample of 47 respondents with emphasis put on loans' bank managers and loan officers. It also covered the clients of the loans. The sample size was calculated using Slevon's formula.

$$n = \frac{N}{1+N(e)2}$$

N- Target population of 53 respondents.

n- Required sample size.

e- Level of significance (0.05).

$$n = \frac{53}{1+53(0.05)2}$$

$$n = \frac{53}{1+53(0.0025)2}$$

$$n = \frac{53}{0.1325}$$

$$n = 47 \text{ respondents}$$

3.4 Sampling procedure

The researcher used cluster sampling and purposive non profitability sampling techniques where the researcher confined to specific types of people who provided the required information.

3.5 Research instruments

The researcher used instruments such as questionnaires, interviews to collect data from the respondents as some were not be able to fill in the questionnaire.

Questionnaires

The researcher used questionnaires which were simple worded relatively short but comprehensive. Control questions were used to ensure correctness and consistence of respondents.

Interviews

Personal interviews through a dialogue were conducted with Barclays Bank staff and clients to help supplement questionnaires.

3.6 Validity and reliability of instrument

3.6.1 Validity

The formula below was used to test for data validity and make sure it is valid for further processing using various tools after consulting the experts. For example

$$CVI = \frac{\text{Number of items regarded relevant by judges}}{\text{Total number of items}}$$

3.6.2 Reliability

The researcher retested the data using various techniques to determine whether it gives the same results before taking it for further analysis and decision making.

3.7 Data collection

3.7.1 Before

The researcher acquired an introductory letter from the University to eliminate suspcion. Questionnaires and an interview guide were designed with the help of experts to test their validity and reliability before taking them to collect data from the field. The questionnaire was developed basing on the information needed from the respondents.

3.7.2 During

The researcher thereafter continued to select respondents, and arranged for dates upon which to deliver questionnaires as well as pick them in addition to making appointments for interviews towards the relationship between credit risk management policy and financial performance of commercial Banks. The researcher ensured confidentiality while administering the questionnaire. Secondary data were obtained from the various records available in the records office of Barclays bank (U) Ltd. These included; the Banks credit policies, credit standards, credit analysis for loan portfolios.

3.7.3 After

Data processing

Data from the field were sorted, coded, edited using frequency tables and percentages. The activities carried out by the researcher involved;

Editing

The researcher edited the data collected for accuracy and completeness to give meaningful information.

Coding

The researcher coded the pre-coded questions so that all the answers obtained from different respondents are classified into meaningful information.

3.8 Data Analysis

Data was analyzed qualitatively and quantitatively by use of frequencies and percentages so as to reflect the relationship between credit management and financial performance of commercial banks with the intention to produce quality work.

3.9 Ethical considerations

The researcher ensured that there is confidentiality of the respondents and none of their details and opinions was shared to third parties.

The researcher was honest to the respondents by telling them the truth about the research.

The researcher ensured integrity by being presentable and professional in conducting the study.

3.10 Limitations

The researcher faced a challenge from the respondent's failure to avail the required information simply because they were ignorant of the researcher's intension. However the researcher provided assurance to the respondents that the information would be for academic purposes only and that their information would be kept confidential only to the researcher.

The researcher faced a challenge of high costs during research such as typing and printing costs, pens and papers, airtime and other costs. However the researcher was able to minimize this problem by the help of family members and friends.

Inadequate time to exhaustively conduct the research since it will be done in the course of the semester. This was minimized by putting more effort and spending most of the time conducting research.

CHAPTER FOUR

PRESENTATIONS, INTEPRETATIONS AND DISCUSSIONS

4.1 Introduction

This chapter includes the presentation, interpretation and discussion of the research findings. This was done in accordance with the variables that were credit risk management as the independent and financial performance of commercial banks as the dependent variable. In this chapter raw data obtained was subjected to specific statistical treatment and the values obtained in the study are reported using frequency- percentage tables.

4.2 Demographic characteristics of respondents

In this section the researcher presented the findings that were obtained from the field concerning the demographic characteristics of respondents which included; gender, levels of education, departments to which they belonged, age, working experience among others.

4.2.1 The position held in the organization

Information about the positions which respondents hold in the organization revealed the following results;

Table 4.1 showing the position which they hold in the organization

Position	Frequency	Percentage
Supervisor	13	28%
Manager	9	19%
Loan Officer	15	32%
Client	10	21%
Total	**47**	**100%**

Source: Primary data, 2017

Table 4.1 shows the study respondents and their respective positions held who are responsible to execute the policies of the organization. It was observed that the organization has inadequate managers represented by 19% yet they are the one responsible for developing and monitoring organizational policies this might have affected their efficiency and effectiveness thus poor financial performance.

4.2.2 Gender of respondents

Details about the gender of respondents revealed the following results

Table 4.2 showing the gender of respondents

Gender	Frequency	Percentage
Male	29	62%
Female	18	38%
Total	**47**	**100%**

Source: Primary data, 2017

Table 4.2 indicated that Barclays Bank staff is dominated by males represented by 62% as compared to female who are represented by 38%. This shows gender imbalance in the organization.

4.2.3 Level of Education

Details about the highest level of education of the study respondents were collected and the following results were obtained.

Table 4.3 showing highest level of education of the study respondents

Education level	Frequency	Percentage
Certificate	11	23%
Diploma	13	28%
Degree	15	32%
Others	8	17%
Total	**47**	**100%**

Source: *Primary data, 2017*

Table 4.3 shows that all the study respondents are competent enough in executing their duties and responsibilities of ensuring that credit risk management policies are duly executed.

4.2.4 Age of respondents

The information about the age of respondents in the study showed the following results

Table 4.4 Showing information about the age of respondents in the study

Age bracket	Frequency	Percentage
20-30 years	8	17%
31-40 years	10	21%
41-50 years	14	30%
Above 50 years	15	32%
Total	**47**	**100%**

Source: ***Primary data, 2017***

Table 4.4 shows that most of the respondents are above 50 years and those between 20-30 years are very few this means older employees take long to retire from their current employment this limited on the number of fresh graduates which could have affected their performance.

4.2.5Working experience

An individual's working experience is considered worth an asset for the organization because the long experience one has in executing the task the more expertise they accumulate making them better task performers.

Table 4.5 Showing working experience of respondents with BDLG

Period served	Frequency	Percentage
Less than 1 year	4	8%
1-3 years	12	26%
3-5 years	14	30%
Above 5 years	17	36%
Total	**47**	**100**

Source: Primary data, 2017

Table 4.5 shows that majority of the respondents served the organization for more than 5 years which indicates that majority were rich in experience about ensuring proper implementation of credit risk management policies

4.3 To establish the extent of integrating credit risk management processes into the credit policies of the bank.

4.3.1 Nature of loans offered to clients

Respondents were asked the nature of loans offered to clients and the following results were obtained

Table 4.6 showing whether the nature of loans offered to clients

Nature of loan	Frequency	Percentage
Business loans	15	32%
Agricultural loans	9	19%
Group loans	10	21%
Insurance loans	8	17%
Other specify	5	11%
Total	**47**	**100%**

Source: Primary data, 2017

Table 4.6 indicated that majority of the respondents revealed that Barclays bank offer mostly business loans (32%), 21% agreed group loans, 19% agreed agricultural loans,17% agreed insurance loans while 11% others.

4.3.2 Whether clients pay back the borrowed money in time

Respondents were asked whether clients pay back the borrowed money in time and the following results were obtained;

Table 4.7 showing whether clients pay back the borrowed money in time

Response	Frequency	Percentage
Yes	17	36%
No	30	64%
Total	**47**	**100%**

Source: Primary data, 2017

From table 4.7 shows 64% of the respondents reported that clients do not pay back the borrowed money in time while this was not supported by only 36% who reported that borrowed money is paid back in time. This implies that there is a need to revise on the credit risk management policies of the organization.

4.3.3 Whether the delay in payment is due to inactive credit risk management policies

Respondents were asked whether the delay in payment is due to inactive credit risk management policies and the following results were obtained;

Table 4.8 showing whether the delay in payment is due to inactive credit risk management policies

Response	Frequency	Percentage
Yes	29	61%
No	18	39%
Total	**47**	**100%**

Source: Primary data, 2017

From table 4.8, the majority of the respondents agreed 61% that, the delay in payment is due to inactive credit risk management policies while only 39% disagreed. This implies that there is need to develop and implement the credit risk management policies.

4.3.4 Whether the organization sets, follows, and implements credit policies and terms

Respondents were asked whether the organization sets and follows credit policies and terms and the following results were obtained.

Table 4.9 showing whether the organization sets, follows and implements credit policies and terms

Response	Frequency	Percentage
Strongly agree	14	30%
Agree	15	32%
Not sure	2	4%
Disagree	12	26%
Strongly disagree	4	8%
Total	**47**	**100%**

Source: Primary data, 2017

Table 4.9 shows that the organization sets and follows credit policies and terms this was represented by 62% this implies that the organization collects borrowed money from clients. However, 34% of the respondents disagreed meaning the rate of defaulting is high due to lack of active policies and the 4% were not sure.

4.3.5 Whether the organization offer training to all employees on the terms and policies set by the organization

Respondents were asked whether the organization offer training to all employees on the terms and policies set by the organization and the following results were obtained:

Table 4.10 showing whether the organization often offer training to all employees on the terms and policies set by the organization

Response	**Frequency**	**Percentage**
Strongly agree	7	15%
Agree	9	19%
Not sure	1	2%
Disagree	17	36%
Strongly disagree	13	28%
Total	**47**	**100%**

Source: Primary data, 2017

Table 4.10 shows that the organization offer training to its employees this was supported by 34% of the respondents and the majority (64%) disagreed. This implies that employees are not certain of how to execute policies of the organization and yet if they are trained it would have increased on the financial performance of the organization.

4.4 To determine the relationship between credit risk management and financial performance of commercial banks.

4.4.1There has been an increase in financial performance of Barclays bank over the past 5 years

Respondents were asked whether there has been an increase in financial performance of Barclays bank over the past 5 years and the following results were obtained:

4.4.2 Table 4.11 showing whether there has been an increase in financial performance of Barclays bank over the past 5 years

Response	Frequency	Percentage
Strongly agree	15	32%
Agree	12	26%
Not sure	6	12%
Disagree	5	11%
Strongly disagree	9	19%
Total	**47**	**100%**

Source: Primary data, 2017

Table 4.11 shows 58% of the study respondents agreed with the statement that there has been an increase in financial performance of Barclays bank as over the past 5 years while 30% disagreed with it and 12% were not sure. This is attributed to inactive credit risk management policies used by the organization to collect the borrowed money from clients.

4.4.3 Credit risk management policies have a positive effect on financial performance of an organization

Respondents were asked whether Credit risk management policies have a positive effect on performance of an organization and the following results were obtained:

Table 4.12 showing whether Credit risk management policies have a positive effect on performance of an organization

Response	Frequency	Percentage
Strongly agree	14	30%
Agree	16	34%
Not sure	0	0%
Disagree	11	23%
Strongly disagree	6	13%
Total	**47**	**100%**

Source: Primary data, 2017

Table 4.12 shows respondent's opinions when they were asked whether Credit risk management policies have a positive effect on performance of an organization and 64% agreed which means that the relationship between the two study variables is positive and 36% disagreed. There fore, a deficiency in Credit risk management policies leads to a decline in financial performance of commercial banks, thus every bank is obliged to design, develop and implement these policies.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The researcher in this chapter presents a summary of findings, conclusions and recommendations based on the objectives of the study and the areas of further research are also highlighted. Internal auditing was the independent variable and performance of local governments. This chapter consists of four sections; summary of research findings, conclusions and areas for further research.

5.2 Summary of findings

The findings of the study are summarized under the themes which were used to present, interpret, analyze and discuss the findings of study.

5.2.1 Summary of findings on the background characteristics of respondents.

Findings of the study indicated that 28% were supervisors, 19% managers, 32% loan officers, and 21% clients. This shows inadequate managers represented by 19% yet they are the one responsible for developing and monitoring organizational policies this might have affected their efficiency and effectiveness thus poor financial performance.

Findings also indicated that Barclays bank is dominated by males with 62% over their counter parts the females who were 32%, this shows gender imbalance in the organization.

Findings on the level of education showed that the staff was competent enough to execute their roles and responsibilities to meet the predetermined goals and objectives of the organization.

Findings on the age distribution and working experience of employees showed that majority of the employees were above 50 years and had stayed in their current position for more than five years, this may affect their creativity since there is no rotation employees thus poor financial performance of the organization.

5.2.2 Summary of findings on extent of integrating credit risk management processes into the credit policies of the bank.

Findings revealed that customers do not pay back the borrowed money in time. 64% of the respondents reported that clients do not pay back the borrowed money in time while this was supported by only 36% who reported that borrowed money is paid back in time. This implies that there is a need to revise on the credit risk management policies of the organization.

Findings show that the bank considers only business and group loans while ignoring agriculture loans as it statistics show that Barclays bank offer mostly business loans (32%) and group loans (21) thus ignores agricultural loans with only 17% who may easily pay back their borrowed money at the end of the season thus creating more defaulters consequently leading to poor financial performance

Findings show that the organization does not provide training to the employees on how to execute credit risk management policies this was supported by 36% of the respondents implying that employees are not certain of how to execute policies of the organization and yet if they are trained it would have increased on the financial performance of the organization.

Findings revealed that the delay in payment of the borrowed money is due to inactive credit risk management policies as 61% of the respondents presented that the delay in payment is due to inactive credit risk management policies while only 39% disagreed. This implies that there is need to develop and implement the credit risk management policies.

5.3 CONCLUSIONS

5.3.1 Conclusions of findings on extent of integrating credit risk management processes into the credit policies of the bank.

Barclays bank should prioritize on the nature of loans offered to their clients as statistics show that agricultural loans are given the least priority with only 17% who may easily pay back their borrowed money at the end of the season thus creating more defaulters consequently leading to poor financial performance. There for collateral securities should be asked for before granting a loan and effective credit risk policies should be developed to curb the problem of un trust worthy customers. Many clients do not pay back the borrowed money in time which is attributed to lack of strong and effective mechanisms by commercial banks thus there is a need to revise on the credit risk management policies of the organization.

5.3.2 Conclusions of findings factors on affecting financial performance of commercial banks

The study concludes that, since interest is the main alternative source of income commercial banks. This is why commercial banks will not provide conventional knowledge on the impact of the loan to the client, because their intention is to attract, than discourage borrowing, for this they ensure that credit access is easy thus end up extending credit to clients who may not have capacity to pay back the borrowed money consequently making losses. The study concludes that all commercial banks should develop their credit risk management policies so as to reduce on the number of defaulters.

5.3.3 Conclusions of findings on the relationship between Credits risk management financial performance commercial banks.

Credit risk management has a significant influence on the financial performance commercial banks. Any anomalies in the credit risk management policies of any financial institution affects the performance of the organization especially in the control of financial resources as they weaken the management function and attract defaulters.

5.4 RECOMMENDATIONS

Upon conclusion of this study, the researcher made the following recommendations to concerned actor, donors, regulating institutions like the Central Bank;

There is need for commercial banks to undertake a role to advise their clients on the nature of loans that they apply for and their likely outcomes.

There is need for commercial banks to provide training to their employees on how to effectively execute their responsibilities. This makes them more creative thus enhancing financial performance as desired.

Further still, commercial banks should educate their clients to borrow only when it is extremely necessary. This is because borrowing for the sake of it, may lead to misuse of funds leading to difficulties in paying back the borrowed money.

There is need for commercial banks to ask for collateral security from clients when securing loans. This provides a guarantee of paying back the borrowed money since some of the clients are not trust worthy.

There is need for commercial banks to make decisions that are rational while allocating their finances to different borrowers. It should not be simply having a loan issued but this should be conventionally issued.

There is need for commercial banks to carry out market segmentation. In the strategic plan, management should accurately design credit policies, credit directives and procedures that are consistent with the desired credit risk in each target market.

There is need for Commercial banks to follow the credit risk management process before extending credit to their clients so as to reduce on the number of defaulters.

5.5 Areas for further research.

The researcher recommends the following areas for more research, since the study has not exhausted all aspects of the study variables

- The impact of employee appraisal on performance of commercial banks in Uganda.
- The effect of interest rates on performance of commercial banks in Uganda.
- Other studies should also be carried out in other commercial banks in Uganda for comparison.

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APPENDICES
APPENDIX 1
QUESTIONNAIRE

I am Naigaga Phiona Claire a student of Kampala International University carrying out a study on Credit Risk Management and Financial Performance of Commercial Banks in Uganda, a case study of Barclays Bank Wandegeya branch. I kindly request for your response to this questionnaire, the information given will be treated with utmost confidentiality and will be used for academic purposes only.

Section A:

Demographic information (Please put a tick in the appropriate box).

1. Gender

Male ☐ Female ☐

2. In which age group do you belong?

20-30 years	31-40years	41-50years	Above 50years

3. What is your highest level of education?

Certificate	Diploma	Degree	Other Specify

4. For how long have you worked with Barclays Bank?

Less than a year	1-3 years	3-5years	Above 5years

5. Which position do you hold in the organization?

Supervisor	Credit officer	Team leader	Manager	Other specify

SECTION B:

To establish the extent of integrating risk management processes into the credit policies of the bank

6. Which type of loans do you offer to your clients?

Business loans	Agricultural loans	Group loans	Insurance loans	Other specify

7. Do they all pay back the borrowed money in the required time?

Yes ☐ No ☐

8. Do you think there is a need for credit risk management in commercial banks?

Yes ☐ No ☐

For each of the following statement, please tick where applicable the extent to which you agree using the Likert scale. SA = Strongly Agree; A = Agree; NS = Not Sure; D = Disagree; SD, = Strongly Disagree

Question	SA	A	NS	D	SD
9. In your opinion, the organization sets and follows credit policies and terms?					
10. The organization implements these terms and policies in case of failure to pay back the loan?					
11. The organization often offer training to all employees on the terms and policies set by the organization?					
12. In my organization credit policies are effective in answering the customer queries.					
13. Collateral securities are required before the loan is granted.					
14. Clients comply with the credit risk management policies set by the organization					
15. Credit risk management policies have a positive effect on performance of an organization					

16 Does Effective credit risk management enhances financial performance of an organization?

☐ Yes ☐ No

17. Is there a relationship between credit risk management and Financial Performance of Banks?

☐ Yes ☐ No

18. If yes to what extent

Large	Moderate	Small	Not Sure

19. Do the following factors affect your bank's profitability?

Please tick where applicable the extent to which you agree using the Likert scale. SA = Strongly Agree; A = Agree; NS = Not Sure; D = Disagree; SD, = Strongly Disagree

	Factor	SA	AD	D	SD	NS
a)	Doubtful loans and net losses					
b)	Provision for bad loans					
c)	Bad debts written off					
d)	Return on equity					
e)	Return on assets					

20. What other factors affect Financial Performance of Barclays Bank?

....

21. Which other credit risk management policy should be introduced to enhance the financial performance of the organization?

....

Thank You for your cooperation

APPENDIX II
INTRODUCTORY LETER

KAMPALA INTERNATIONAL UNIVERSITY

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COLLEGE OF ECONOMICS AND MANAGEMENT
DEPARTMENT OF ACCOUNTING AND FINANCE

JUNE, 1st 2017

To whom it may concern

Dear Sir/Madam,

RE: **<u>INTRODUCTORY LETTER FOR NAIGAGA PHIONA CLAIRE., REG NO. BBA/43945/143/DU</u>**

This is to introduce to you the above named student, who is a bonafide student of Kampala International University pursuing a Bachelor's Degree in Business Administration, Third year Second semester.

The purpose of this letter is to request you avail her with all the necessary assistance regarding her research.

Topic: - **CREDIT RISK MANAGEMENT AND FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN UGANDA.**

Case Study: - **BARCLAYS BANK, WANDEGEYA BRANCH.**

Any information shared with her from your organization shall be treated with utmost confidentiality.

We shall be grateful for your positive response.

Yours truly,

KAMPALA INTERNATIONAL UNIVERSITY
KIU
01 JUN 2017
COLLEGE OF ECONOMICS MANAGEMENT

Dr. KIRABO KYEYUNE BOUNTY JOSEPH
HOD – ACCOUNTING & FINANCE
0772323344

APPENDIX III
ACCEPTANCE LETTER

Barclays Bank
Wandegeya Branch

Our ref: BB/HR/RES/2017

Your ref:

Date: 7th /06/2017

HEAD OF DEPARTMENT
ACCOUNTING AND FINANCE
COLLEGE OF ECONOMICS AND MANAGEMENT
KAMPALA INTERNATIONAL UNIVERSITY
P.O BOX 20000 KAMPALA UGANDA

Dear sir/madam

RE: ACCEPTANCE FOR CARRYING OUT RESEACH ON THE CREDIT RISK MANAGEMENT AND FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN UGANDA

This is to inform you that Naigaga Phiona Claire is allowed to carry out her research on credit risk management and financial performance of commercial banks in Uganda from Barclays bank Wandegeya branch with effect from 7th June 2017 to 23rd June 2017

We wish her the best of luck during her field

Yours sincerely

BARCLAYS
MANAGER
BRANCH

……………………………

KAWUMA LAWRENCE
MANAGER, HUMAN RESOURCE
WANDEGEYA BRANCH

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