CREDIT RISK MANAGEMENT AND FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN UGANDA:

A CASE STUDY OF BARCLAYS BANK, KAMPALA ROAD BRANCH

BY

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DECLARATION

I Ogwang Quinto do here by declare to the best of my knowledge that this research dissertation is my original work and that has not been presented to any other institution of higher learning for the award of any degree, diploma and certificates or for other academic award.

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APPROVAL

This is to certify that this research dissertation entitled, "Credit Risk Management and Financial Performance of Commercial Banks in Uganda; a case study of Barclays Bank, Kampala Road Branch has been prepared under my supervision and submitted to the College of Economics and Management for examination with my approval.

Signature : ....

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Date : 15th 04/2015 ....

DEDICATION

I dedicate this research dissertation to my beloved wife, Scholastica, children, Quinn and Quinto, parents, Mr. and Mrs. Okoo Julius Peter, brothers, Francis, Bonny, Joe, and sisters, Jane and Dorcas, for the contribution rendered to me to enable me come up with it.

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LIST OF ACRONYMS

ADB	African development bank
BIS	Business information system
US	United States
CRM	Credit Risk Management
CDS	Credit Default Swaps
SPSS	Statistical Package Of Social Scientists
ATMS	Auto Teller Machines
CFA	Certificate Of Financial Accounting
NPLs	Non Perfroming Laons
GAAP	Generally Accepted Accounting Principles

ABSTRACT

The study set out to investigate the relationship between credit risk management and financial performance of commercial banks. Credit risk management is very important to commercial bank's improvement of their financial performance, thus this reseach is inteded to address the extent to which credit risk management can led to increased financial performance of commercial banks. On the other hand, the study was intended to discuss the other factors that may hinder financial performance of the commercial banks apart from credit risk control. The study employed a survey reswearch design aand used self administered questionnaires and face to face interviews. Asampling design of 30 respondents was selected which composed of 4 management executives, 6 loan officers and 10 employees from barclays bank Kampala Road Branch. Findings from the study show that financial performance of commercial banks has improved due to the good credit risk management techniques and process like training of stuff on credit risk reduction. Findings also show that financial perfomance has been hindered by crashing ATMs, longlines made by the customers each day and switching systems. Findings also show that credit risk and financial performance of commercial banks are positive hence alot of awareness and training of employees has been put in place at the bank so curb the credit risk. The reseacher thus recommends that; Barclays bank should continue with the credit risk management short courses and seminars and should penetrate into the unleashed financial community so as to boost the financial perfomance.

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Globally, over the last decade, a number of the world's major development finance institutions and banks have developed sophisticated systems to quantify and aggregate credit risk across geographical and product lines, BIS, (1999). The initial interest in credit risk models stemmed from the desire to develop more rigorous quantitative estimates of the amount of economic capital needed to support a bank's risk-taking activities, and more so to assess the overall risk management aspect of any given institution. In US, Hard financial times hit the country in the mid 1830s. The population was rapidly growing and business was expanding. The sale of land on credit went virtually unchecked. The banking system was not centralized. By the summer of 1837, bank after bank closed its doors and thousands of businesses went into bankruptcy.

Credit risk management is the process of measuring and assessing the risk that originates from earnings and capital due to borrower's late and nonpayment of loan obligation, and then developing strategies to manage the risk. It looks forward to the rewards of good performance of the bank's finances, growth and increase on the bank's lending Power. The bank's main goal is to ensure well financial performance from internal early warning systems and management responses that prevent small problems from exploding into large ones by focusing on credit risk management.

In developing countries particularly in Africa, while the rest of the world is looking at ways to implement Basel III, the African continent is playing catch-up. According to recent reports from the Central Bank of Kenya, more than 90% of banks were reporting reduced losses as a result of increased risk management as well as an increase in risk awareness at their institutions (ADB, 2005). This is as a direct result of the creation of independent and well-funded risk management functions within their institutions. The council of the Institute of Operational Risk in Kenya indicated that the growth in interest in risk management has led to a surge in applications for membership from east and central Africa, particularly Nigeria, Kenya and South Africa.

In Uganda, all banks and other related financial institutions across have implemented stringent credit risk management policies to see that they can be able to reduce on non-performing loans. Despite the stocking of stringent credit risk management policies, the provision for bad loans in the general banking industry increased to 4.2 per cent at the end of December 2012 (African Alliance banking sector report, 2013). The upsurge in Non-Performing Loans (NPLs) was due to the high commercial bank interest rate regime, coupled with the high cost of living which made it hard for most borrowers to honor their loan repayment obligations, thus an increase in NPLs. The high rate of NPL among small banks was also attributed to their relaxed requirements for credit access, which exposes them to risks. Uganda financial institutions tend to compete more on requirements for credit access than costing, with smaller banks being less stringent than bigger banks. Financial institutions are strict on requirements because they want to get quality loans (Daily Monitor, 20, Friday, September, 2013)

In Uganda, the experience with banking today has in many ways differed from what was anticipated in 1974 when major banks abandoned the efforts to define ways of mitigating the credit risk. there is a wide feeling that credit risks has turned out to be more volatile than it was expected to be, than it will be, and perhaps than it needs to be (Frankel, 1995). Poorly managed credit risks will result into financial losses for banks, donors, investors, lenders, borrowers and savers. This is because all tends to lose confidence in banks and funds begin to dry up. And when funds dry up, the commercial bank is not able to meet its objective of providing services to the poor and quickly goes out of business. Barclays bank Uganda is a commercial bank, one out of 26 commercial banks licensed by the Bank of Uganda. It is primarily involved in meeting the banking needs of the individuals, small and medium businesses as well as large corporations it conducts cash operations and emphasizes on risk management as an essential element of long time success. It is the third largest commercial bank in Uganda with approximately 12% of all bank assets in the country. It opened for business in Uganda in 1927 with two branches in the capital city Kampala and Jinja the country's second commercial centre.

In February 2007, due to its proper risk management frame work and policy, it managed to acquire Nile bank Uganda ltd and thus strengthening its presence in the country. It employs more than 1000 colleagues, 53 branches and 80 ATM in service. In 1960s, commercial banks included local operations of Barclays bank as well as other banks.

To guard against this inconsistence, Barclays bank develops strategies to either eliminate or reduce fraud risk which is the major aim of credit risk management (Dawson and Rodney, 2002).

1.2 Statement of the problem

In an effort to improve financial and loan performance, financial institutions particularly Barclays Bank Uganda put in place credit risk management for instance, risk avoidance mechanisms, risk diversification, risk retention, credit policies and risk reduction techniques (Kakuru, 2000). However, despite the adoption of the aforementioned techniques, the financial performance has remained a major constraint affecting the success and survival of Barclays Bank. For instance according to Barclays bank annual reports and financial statement (2013), out of total loan portfolio in the year 2013 of UGX.58 billion, about 7.6% were non performing loan. On top of that, the Dues to related parties and Bank balances-amounts due from other banks are also consistently rising for the last five years. This poor loan and financial quality exposes Barclays bank to high levels of credit risk. If this is not checked, it would result in depletion of the capital base which may lead to its collapse. Therefore, it is from this background that the researcher picked interest to investigate whether credit risk management has an effect on financial performance of Barclays Bank Uganda.

1.3 Purpose of the study

The study sought to generate new ideas, bridge the knowledge gap and validate other researcher's findings by examining the relationship between credit risk management and financial performance of Barclays Bank of Uganda

1.4 Objectives of the Study

i. To indentify the credit risk managment techniques used by Barclays bank uganda

ii. To indentify factors influencing financial performnace of Barclay bank uganda.

iii. To establish the relationship between credit Risk management and financial performance of Barclays bank uganda.

1.5 Research Questions

i. What are credit risk managment techniques used by Barclays bank uganda?

ii. What are factors influencing the financial performnace of Barclay bank uganda?

iii. What is the relationship between credit Risk management and financial performance of Barclays bank uganda.

1.6 Scope of the study

1.6.1 Content scope

The study was conducted on credit risk management measured by both default and risk management assessment and use of default risk management strategies and financial performance explained by profitability, liquidity of Barclays bank of Uganda.

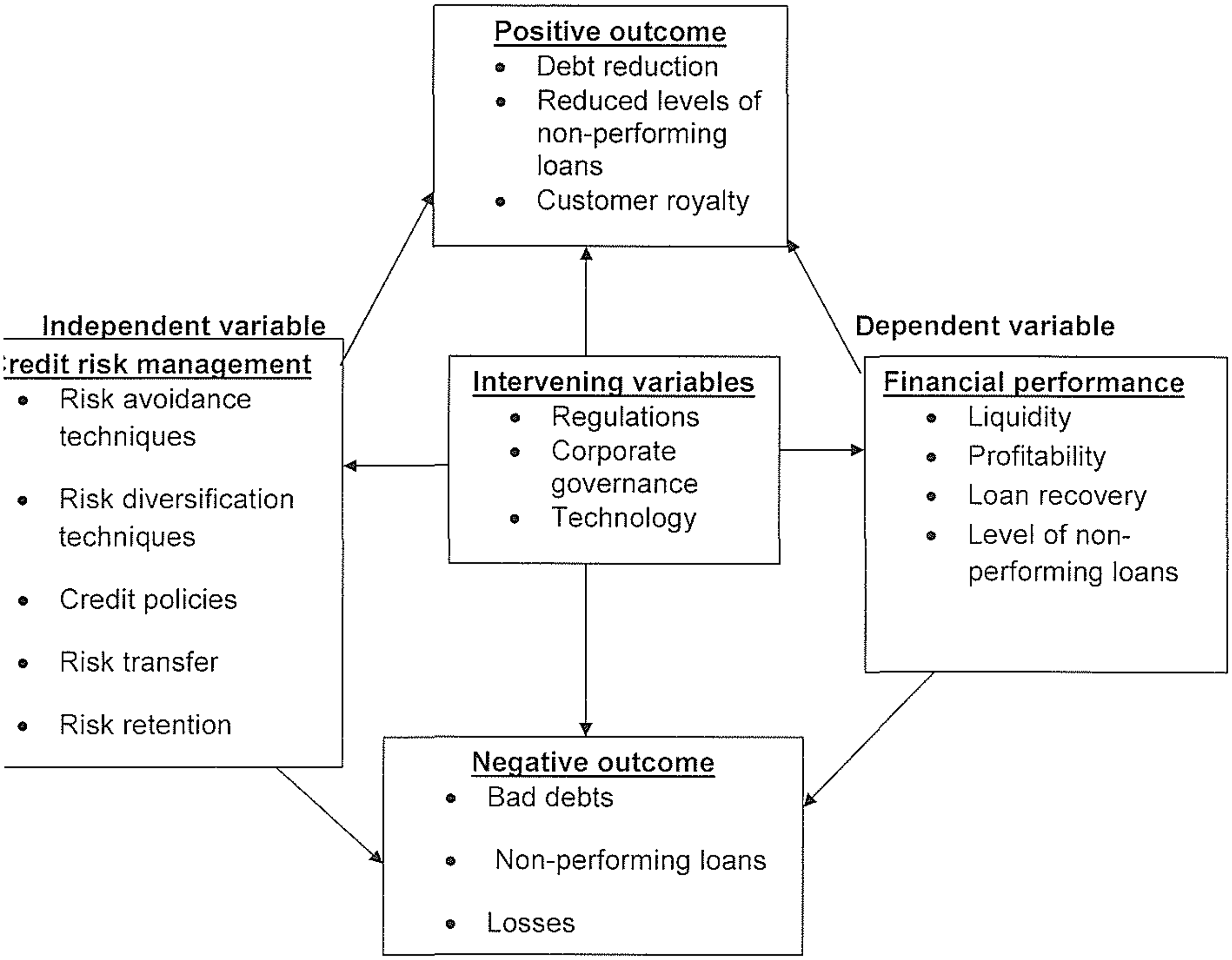
1.6.2 Geographical scope

The study was condcuted at Barclays bank Uganda, kampala Road branch located in Kampala central, Kampala district in uganda. This branch was selected because it has the highest number of customers and borrowers compared to some other branches of the bank.

1.6.3 Time scope

The research was conducted from January 2015 to April 2015 when the final report was submitted.

1.7 Conceptual frame work.



Source: McNaughton et al, (1996).

The conceptual framework above hypothesized that if the bank has credit risk management techniques and policies like risk avoidance, risk diversification techniques, credit policies, risk transfer and retention, it can influence its financial performance in terms of liquidity, profitability, loan recovery and level of non-performing loans. However, this relationship can be interrupted by a number of other factors like regulations, corporate governance and technology.

1.8 Significance of the study

The study may have the following contributions;

The study shall be of help to the commercial banks to mitigate and reduce credit risk so as to stimulate their financial performance. This is becasue the study endevored to highlight on the risks encountered in loan services and at the end come up with ways on how to overcome them.

The study shall contribute to the existing wealth of knowledge on financial performance and risk management in commercial banks. This is because this study is completly new since it concerns itself with Barclays Bank and this means that new findings were generated.

The research may be helpful in indentifying the other factors that may hinder financial performance of commercial banks apart from the credit risk and this shall help improve the profit margins and at the same time reduce costs of the bank.

The study may be of help to the employees of commercial banks to improve on their skills of management so as to improve performance. This was done by finding out why the risks are too appealing and persistent and at the end come up with mechanisms to control such risks

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

In this chapter, literature about credit risk management and financial performance has been reviewed. Different books, articles, magazines, journals and internet have been visited. Therefore, here, literature about advertising methods, factors influencing financial performance and the relationship between credit risk management and financial performance are given below in different themes.

Credit risk management techniques, according to Altman and Kao, (1991), Carty and Fons, (1993), involves the possibility that the inherent risk of the asset migrates to a lower quality level, thereby resulting in lower security values in a market-to-market pricing environment. According to Stoner (2003), performance refers to the ability to operate efficiently, profitability, survive grow and react to the environmental opportunities and threats. In agreement with this, Sollenberg & Anderson (1995) asserts that, performance is measured by how efficient the enterprise is in use of resources in achieving its objectives. It is the measure of attainment achieved by an individual, team, organization or process (EFQM, 1999).

Hitt, *et al* (1996) believes that many firms' low performance is the result of poorly performing assets (businesses). Low performance from poorly performing assets is often related to strategic errors made in the acquisition process in earlier years. For example, some firms acquire businesses with unrealistic expectations of achieving synergy between the acquired assets and their current sets of assets. A common reason for such errors is managerial hubris (Roll, 1986) or overvaluation of managerial capability in the acquisition process.

2.1 Credit risk managment techniques used by commercial banks

Over the last decade, a number of the world's major development finance institutions and banks have developed sophisticated systems to quantify and aggregate credit risk across geographical and product lines, BIS, (1999). The initial interest in credit risk models stemmed from the desire to develop more rigorous quantitative estimates of the amount of economic capital needed to support a bank's risk-taking activities, and more so to assess the overall risk management aspect of any given institution. There are a number of credit risk management techniques used by commercial banks but this study was limited on the following as below;

2.1.1 Risk avoidance techniques

According to Rupp, (2002), credit risk management is a process that involves a series of steps; identifying and analyzing loss exposures through the appraisal technique, measuring loss exposures, selecting the technique or combination of techniques to be used to handle each exposure, implementing the techniques chosen and monitoring the decisions made and making appropriate changes. It is also the support, control systems and other practices necessary to manage the outstanding risk assets, normal repayment and to monitor business risk. The appraisal technique involves credit initiation, evaluation, negotiation, and approval of facility. As an important step in initiation process, credit officer should visit the potential customer to gather information on client's business, mode of operation, management, and financial situation. Banks should base their credit analysis on the five C's principals of lending. The 5Cs as discussed by Pandey, (1997), Van Horne, (1998), Sinkey, (1998) and Allyn Bacon, (1996) include the customer's character as determined by their honesty and ethical reputation. It also refers to the capacity of the client as determined by their cash flows, and capital as determined by the client's real net worth. The collateral pledged for the credit facility is another aspect, and the condition, that is the vulnerability of economic fluctuations. In credit evaluation, a consistent and rating scheme to all investment opportunities should be applied if credit decisions are to be made in consistent manner which results in aggregate reporting of risk exposure Santomero, (1996). Several authors (Santomero (1996), Bannet (1984) and Harrison (1996) agree that credit scoring should be used in the appraisal process to predict the credit worthiness of would be borrowers. However, external factors like competition, economic cycle, natural disasters, technological advances, regulatory changes, industry changes, demographic factors affect the credit evaluation process and this at times results in problem loans Wayne, (1998).

2.1.2 Risk diversification techniques

Brannan, (2000), argued that diversification is the primary tool for lenders to control borrower risk, and highlighted the fact that risks arise well before default occurs and warned against the construction of "bullet-proof" portfolios that can under perform. Jose Lopez, (2000), supported this by discussing that there was value in diversification of credit portfolios and pointed out how this value can be measured. However, there are several factors that contribute to the degree of diversification for a credit portfolio and because these factors vary over time, the measurement of credit diversification is particularly challenging. Wilson, (1998), brought out the benefits of diversification in credit portfolios. The finding indicate that there is a significant difference in performance of portfolios concentrated in one region from that diversified to different economies. Therefore, Wilson's argument focuses on advocating for diversification of loan portfolios across nations where the benefits are much stronger than they are when diversification occurs across sectors in a given economy. However, the above argument is criticized by Campbell *et al.* (2001), who discussed that the degree of diversification for a credit portfolio will depend on several other factors like; Size of the portfolio, and issues of maturity variation.

2.1.3 Credit policies

Edminster (1990) defined credit policy as an institutions' method of analyzing credit request and its decision criteria for accepting or rejecting applications. The objective of this policy is to have optimal recovery from debtors as a firm may follow a lenient or stringent credit policy. Blue microfinance employees a combination of three decision variable measures as were also defined by Pandey (1995) credit standards, credit terms and collection efforts. Credit standards (accessibility measures) are criteria to decide the types of customers for purpose of extending credit such as capital adequacy and asset quality. Credit terms are stipulations under which credit is granted, they specify the duration of credit and terms of payments by customers such as loan period and loan size. Collection efforts determine the actual collection period that is procedures that the institution follows to recover payments of past dues. Like phone calls and individual visits.

According to Ssewagudde (2000) credit policy provides parameters, defines procedures and directives that have been carefully formulated, administered from top and well understood at all institution's levels. B.Blue undergoes a set of three procedures of evaluating credit applicants to establish whether or not loans should be granted, these are credit information, credit investigation and analysis in a bid to maintain proper credit standards, avoid excess risk and evaluate business opportunity (ies).According to Michael Malan the managing director of compuscan credit reference bureau (CRB) loan recovery is important in enabling lending institutions to clear their balance sheets in order to increase collection efforts to ease preparation of financial reports (The New Vision 15th September, 2010)

2.1.4 Risk transfer

According to the International Association of Insurance Supervisors (2003), Financial Services Authority (2002), and Rule (2001b) who examined credit risk transfer between banks and non-bank financial sectors, including the insurance sector argue that banks are shifting credit risks from their balance sheets to insurance companies, amongst others, and insurance companies are issuing catastrophe bonds that are being sold to institutional investors such as investment funds and other end-investors. Although risk transfer markets have the potential to enhance financial stability by diffusing exposures, there are concerns that they may equally lead to more concentrated and non-transparent risks, Andersen, (2001). This was supported by Häusler, (2004) who discusses how the blurring of boundaries between insurance and other financial institutions implies heightened importance of insurers for financial stability. It is also in line with the work of Podpiera, (2003) who explored the potential for the insurance sector to affect the vulnerability of the financial system, focusing on the banking-type activities that life insurance companies have increasingly taken on, as well as risks stemming from the possible failure of a large reinsurer. To achieve the risk transfer, use of derivatives has gained significant importance in the financial sector as Standard and Poor's (2003b) and Fitch Ratings, (2004) provide a review of the factors underlying banks' use of credit derivatives.

Rule, (2001) pointed out that that banks and insurance companies are exposed to various credit, market and insurance risks in the course of their business, and they can manage these risks in three ways: Arrange for another entity to take on the risk at the outset. For example, a bank might arrange a bond issue for a corporate customer rather than lending itself; or an insurance company might arrange for a customer to 'self-insure' by establishing a captive insurance company rather than buy insurance cover.
They can also retain risks on their balance sheets and seek to control them through careful monitoring, pricing and diversification and hold the risk only temporarily before selling it into a secondary market, hedging it with another offsetting transaction or repackaging it in order to sell/hedge it. In principle, firms can use risk-transfer methods

to disperse risks making them less vulnerable to particular regional, sectoral or market shocks.

Banks have tended to take on a bundle of risks attached to term lending but more crucial among them all is the credit risk since it affects borrower's willingness and ability to pay.

2.1.5 Risk retention

According to Sanderson, (1991), today's business environment demands lean, cost efficient operations with no waste. As an important part of this process, risk managers seek to reduce the economic impact of risk on their organizations through opting for greater levels of risk retention. Risk retention analysis will help you decide how much risk you are able to retain which could be accomplished through risk rating models Amato et al, (2004). Gordy's, (2003) work shows that, knowing the right amount of risk to retain promotes financial efficiency. Risk retention analysis provides you with answers to the following question; How much risk is there in my current loan structure? This provides you with a risk retention capacity for your organization or financial institution. Consideration is given to a number of factors in order to derive an estimate of the ability to retain risk. These include; Historical financial information from reports & accounts, future financial projections for the organization, market conditions and economic trends. As a result of this, the rate of interest charged should be adjusted to reflect the level of risk being retained. It should be noted that risk retention review should be a never-ending process for the risk management professional. It should be noted that the decision to retain risk is a function of the materiality of the risk, its predictability, and the transfer costs avoided. The measure of a successful risk financing program is its responsiveness to a substantial occurrence. In a publicly traded organization, the reason for retaining added risk is to increase earnings, and earnings are a substantial factor in determining the price of the equity shares of the company and the company's overall value.

Insurance industry trends show that risk retention groups emerge during volatile times, but their efficacy should still be questioned. From the work of Kolodkin, (2001), the return of hard market conditions, buyers will seek options outside of the commercial marketplace and alternative risk funding vehicles promise pricing stability and more control for the insured. The question that remains is, are these promises that alternative markets, and specifically risk retention groups can keep? Does retaining additional risk yield additional earnings? Clearly, risk assumption can meet this test if loss experience is favorable and the cost of risk transfer is uneconomical compared to risk assumption. Increasing risk retention, regardless of risk financing structure, may save premium payments, but without a thoughtful review of the return on investment, organization's economic value may not be maximized.

2.2 Factors influencing financial performnace of commercial banks

According to Stoner (2003), performance refers to the ability to operate efficiently, profitability, survive grow and react to the environmental opportunities and threats. In agreement with this, Sollenberg & Anderson (1995) asserts that, performance is measured by how efficient the enterprise is in use of resources in achieving its objectives. It is the measure of attainment achieved by an individual, team, organization or process (EFQM, 1999). Hitt, *et al* (1996) believes that many firms' low performance is the result of poorly performing assets (businesses). Low performance from poorly performing assets is often related to strategic errors made in the acquisition process in earlier years. For example, some firms acquire businesses with unrealistic expectations of achieving synergy between the acquired assets and their current sets of assets. A common reason for such errors is managerial hubris (Roll, 1986) or overvaluation of managerial capability in the acquisition process.

2.2.1 Liquidity

Hitt, *et al* (1996) mention current ratio (current assets/current liabilities) as a standard measure of liquidity in organizations. Baysinger, (1989) also emphasized the importance of current ratio as a measure of an organisation's liquidity. Other measures of Liquidity according to ACCA and Panday (1996) are; Acid test ratio (i.e. Current Assets less Inventory/Current Liabilities). Pandey, (2006) noted the most common ratios which indicate the extent of liquidity or the lack of it to include among others the current ratio and the quick ratio.

2.2.1.1 Current Ratio

The current ratio is computed by dividing the current assets by the current liabilities. It is therefore a measure of a firms' short term solvency Pandey, (2005). The current assets include cash and all those assets that can be converted into cash within a year to include marketable securities, debtors and inventory. Current liabilities include creditors, payables, accrued expenses, short term bank loans, income tax liabilities and long term debt maturing within one year. As a general rule, Pandey, (2005) noted that a current ratio of 2:1 or more is considered satisfactory and that a ratio greater than 1 meant that the business had more current assets than current claims against them.

2.2.1.2 Quick Ratio

The quick ratio on the other band establishes the relationship between quick or liquid assets and current liabilities Pandey, (2005). It is computed by subtracting inventory from current assets thereby dividing it by the current liabilities. Inventory or stocks are normally deducted since they are considered to be less liquid and they require more time before being turned into cash. A ratio of 1:1 is considered to represent a satisfactory financial performance.

2.2.2 Profitability

According to Kotler (1992), strong performer firms are those that can stay in business for a good number of years making profits. Dwivedi (2002) also found out that, the ability of a firm to survive in business in an indicator of good financial performance. Richardson, Sonny & Suzan (1994) found out that, 38 active British banks went into liquidation in the third quarter of 1992 and in 1991 a total of 21,827 businesses failed compared to 15,051 in 1990. However in Uganda, about 9% of Ugandan commercial banks collapse within 3 years Katuntu (2005). This is therefore an indicator of poor financial performance. The profitability in relation to sales is measured by;

2.7.2 Net Profit Margin

This can be obtained when operating expenses, interest and taxes are subtracted from the gross profit. The ratio obtained therefore establishes a relationship between net profits and sales and also indicates management's efficiency in manufacturing, administration and selling of company products. The general rule is for the ratio to turn every cash invested in the business into profits.

2.7.2.1 Return on Investment and Return on Equity

The return on investment and return on equity are measures of profitability in relation to investment. The return on investment is obtained by dividing the profits after tax by the investment and the return on equity by dividing the profit after tax by the net worth of the business. The return on equity indicates how well management is utilizing the resources of the shareholders and that the ratio of net profits to owners' equity reflects the extent to which management bias achieved proper utilization of shareholders resources.

2.2.3 Loan recovery

Robinson M.S report on microfinance revolution Volume I (1994) defines a loan as an extension of credit to another person (client) which maybe long term (more than a year) a short term (less than a year).

Breth (1999) stated that before a deal in signed a loan application is to be completed. This provides risk protections by enabling the lending institutions to follow up when the borrowers fail to honor the agreement.

2.2.4 Financial statements;

According to Frank wood, (2002) a financial statement is a term given to all the summary statements that accountants produce at the end of accounting period. Financial reports are statements that are prepared to communicate financial information to influence decisions of users of accounts and such reports possess certain desirable qualities particularly the report must be relevant, understandable, timely and complete and should be produced on a consistent basis allowing comparability, (Clark, 1998). A firm communicates financial information to the various interested stake holders through financial statements or reports. Financial statements contain summarized information of the firm's financial affairs organized systematically (Kibera, 1996). He asserted that financial statements are prepared from the accounting records following the Generally Accepted Accounting Principles (GAAP). According to Larson & Pyle, (1988) defines financial reporting as the process of preparing and issuing financial information about a company.

Quality financial statements are statements that fairly present the state of affairs of the company at the final year's end in conformity with Generally Accepted Accounting Principles (www.werksmns.co.za). The basic financial statements prepared for reporting purposes are income statements, balance sheet, and cash flow statements.

Income statements: It is known as profit and loss statement, statement of financial results. According to Wahab (1998), it's a revenue account which does not begin with an opening balance and the closing balance indicates the results of the year, either a surplus of income over expenditure or an excess of expenditure over income.

Balance sheet: It is a financial statement which indicates the financial condition or state of affairs of a business at a particular moment of time (Bhatia, 2005). It contains information about resources and obligations of a business, its owner's interest in the business at a particular point in time.

Cash flow statement: This shows a firm's projection of cash inflows and out flows for the near future to determine the availability of cash. It summarizes the causes of change in cash position and indicates source and use of cash.

For financial statements to be of quality they have to posses the following characteristics.

Reliability; The information in the statement should be reliable. This is improved if information is independently verified. The law requires accounts, of limited companies to be verified by an auditor who must be a person independent of the company and the holder of an approved qualification (ACCA Paper 1.1, 2007).

Completeness; All significant information must be disclosed in a way that aids understanding and does not mislead full disclosure.

Objectivity; The usefulness of information is enhanced if it contains a minimum of subjective judgment. This is particularly the case where conflicting interests operate and presentation is needed (ACCA Paper 1.1, 2007).

Relevance; Information has the quality of relevance when it influences the economic decisions of the users by helping them evaluate the past, present and future event (Clarke, 1998).

Understandability; This is where the financial reports provided are in the clearest form such that the users don't find any difficulties when using it (Lewis & pendrill, 1990). Therefore the decision makers should be able to interpret the information so as to use it to make decisions.

Timeliness; To be useful financial reports should be up to date and published soon after the end of the period to which they relate.

Comparability; Information should be produced on a consistent basis so that valid comparisons can be made with information from previous periods and with information produced by other sources e.g. accounts of similar companies operating in the same line of business (ACCA Paper 1.1, 2006).

2.2.4 Level of non-performing loans

The concept of loan performance refers to the ratio of non performing advances (loans) to the total portfolio. A non performing advance/loan is that part of loan whereby interest and principal installment are still outstanding for at least six months after they are due Mugoya, (1972), and Bank of Uganda, (1992). It can be calculated as follows:

$$\text{None performing ratio} = \frac{\{\text{Non Performing advances}\} \times 100}{\text{Total loan portfolio}}$$

According to Bank of Uganda report (1992), a ratio of 10% is accepted to be non-performing and the higher the ratio, the worse the loan performance. Performance of loan portfolio may be measured using proxies for credit risk and measures of loan quality such as provision for loan losses, net losses or charge offs, non-performing assets, return on net assets and return on equity among others. A high proportion of loans to total assets and rapid growth of the loan portfolio are potential early warning signals of loan quality problems which indicate potential failure Sinkey, (1998). As noted by Peterson (1981), 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. If, for example, the proportion of highly qualified non-minority borrowers is substantially higher than that of highly qualified minority borrowers, default rates of non-minority borrowers—observed without controlling for other determinants of credit quality would be lower than those associated with mi-nority borrowers. This finding, however, would simply reflect the differences in average creditworthiness for the two groups of borrowers and would not necessarily indicate differential underwriting standards Ferguson and Peters (1995). Simple bivariate correlations suggest that default probabilities differ significantly by loan, borrower, and location characteristics. For example, higher default rates appear to be associated with higher loan-to-value ratios, lower incomes, and smaller loan amounts. Another caveat is that the basic theoretical prediction that discrimination results in better observed relative loan performance depends on the assumption that lending bias takes the form of different standards of creditworthiness for different groups.

2.3 The relationship between credit Risk management and financial performance

Policy details out ways of establishing the customers credit worthiness. These include use of financial statements. To establish the capital structure of the customer as a basis of determining whether the customer has the capacity to repay the loan, commercial banks manager have put up means of reducing the credit risk and thus stimulate financial performance.

Financial statements help to establish the gearing of a customer. High gearing may imply that customer has over borrowed and may be risky to extend additional loan.

Financial statements may also reveal the ability of the customer to generate adequate revenue for repayment of the loan.

According to Mark Hirschey (2000) Credit risk is the chance that another party will fail to abide by its contractual obligations. A number of banks have lost substantial sums because other parties that is, borrowers were either unable pr unwilling to provide financing at agreed on prices. A bank must first define the exposure to loss from lending out to borrowers and decide whether it will attempt its self against the possibility of loss from exposure created by the use of different interest rates while lending.

First a credit risk management goal is very important. Should it attempt to eliminate all interest rate gains and losses? Should it try to minimize financial losses? Or is it willing to accept credit gains? (Dominguez and Teasar, 2004)

The sound practice setout specifically to address the following areas: Maintaining an appropriate credit administration, measure and monitoring process, Establishing an appropriate credit risk environment, and Operating under a sound credit-granting process and ensuring adequate controls over credit risk.

Although specific credit risk management practices may differ among banks depending upon the nature and complexity of their credit activities, a comprehensive credit risk management program will address these four areas. These practices should also be applied in conjunction with sound practices related to the assessment of asset quality the adequacy of provisions and reserves, and the disclosure of credit risk, all of which have been addressed in other recent Basel committee documents. This helps to increase the financial performance of commercial banks.

Supervisory expectations for the credit risk management approach used by individual banks should be commensurate with the scope and sophistication of the bank's financial performance. For smaller or less sophisticated banks, supervisors need to determine that the credit risk management approach used is sufficient for their activities and that they have instilled sufficient risk- return discipline in their credit management processes to stimulate financial performance.

Internationally, to reduce credit risk, Euro credits have been adopted. These are short to medium loans of Euro currency extended by euro banks to corporations, sovereign governments. International organizations. The loans are denominated in currencies other than the home currency of the euro bank.

The credit risk on these loans is greater than on loans to other banks in the inter- bank market. Thus the interest rate on these loans must compensate the bank for the added credit risk

In summery however, Peter .S. Rose (1992) concludes that, careful studies of the relationship between default or credit risk and financial performance points to the fundamental principles in the field of finance. Default risk and expected return are positively related. The bank and investor seeking higher expected return must also be willing to accept greater risk of ruin. Moreover credit risk is correlated with both internal borrowers specific factors associated with loan and external factors, especially the state of the economy and demand for a particular banks service.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This section describes the research design, study area, study selection, sample size, method and procedure, data collection, sources and methods, research instruments, data processing and analysis, limitations to the study and ethical considerations.

3.1 Research Design

In this study both descriptive survey and analytical research designs were used, in order to facilitate the researcher in extracting both quantitative and qualitative data used in establishing the relationship between credit risk management and financial performance of commercial banks in Uganda. It was useful in gathering data from the sample population at a particular time in order to obtain information about preferences, attitudes, practices, concerns or interests of a group of people.

3.2 Study Population

The study population consisted of 30 bank officials. The study population targeted management executive, loan officers/credit risk managers and employees. These were chosen because they were expected to have enough knowledge required in understanding credit risk management and financial performance of Barclays Bank.

3.3 Sample size

The sample size was determined using the table from a study by Morgan and Krejcie (1970, as cited in Amin, 2005) (Appendix VI). This therefore meant that the sample included 27 respondents.

Table for Determining Sample Size from a Given Population

N	*S*	*N*	*S*	*N*	*S*
10	10	220	140	1200	291
15	14	230	144	1300	297
20	19	240	148	1400	302
25	24	250	152	1500	306
30	28	260	155	1600	310
35	32	270	159	1700	313
40	36	280	162	1800	317
45	40	290	165	1900	320
50	44	300	169	2000	322
55	48	320	175	2200	327
60	52	340	181	2400	331
65	56	360	186	2600	335
70	59	380	191	2800	338
75	63	400	196	3000	341
80	66	420	201	3500	346
85	70	440	205	4000	351
90	73	460	210	4500	354
95	76	480	214	5000	357
100	80	500	217	6000	361
110	86	550	226	7000	364
120	92	600	234	8000	367
130	97	650	242	9000	368
140	103	700	248	10000	370
150	108	750	254	15000	375
160	113	800	260	20000	377
170	118	850	265	30000	379
180	123	900	269	40000	380
190	127	950	274	50000	381
200	132	1000	278	75000	382
210	136	1100	285	1000000	384

Source: Krejcie & Morgan (1970, as cited by Amin, 2005)
Note.—*N* is population size.
S is sample size.

The sample sizes are depicted in Table 3.1.

Table 3.1: Distribution of sample size employee level

Respondents	Target population	Sample size
Management executives	5	3
Loan officers/credit risk managers	10	10
Employees	15	14
Total	30	27

Source: Secondary Data, 2015

3.2.3 Sampling method

The researchers employed the simple random sampling and purposive sampling techniques to select participants in the study. The two sampling techniques were considered appropriate to the study owing to the fact that the former was a fundamental sampling technique where a sample was selected in the way that all the elements in the sampled population had the same probability of being selected, thus reducing bias in the selection of the participants

The researcher used stratified sampling method, where by all the 8 departments were selected for the study, which involved dividing the population into three strata of high-level employees, middle level employees and lower level employees and thereafter-simple random sampling was used to select respondents from each stratum because they were considered to be potential, knowledgeable and crucial for employee engagement. Kohari (2001) defines deliberate sampling as a technique that involved purposive selection of particular units of a population that constitutes a sample that represents the population, has information and is easy to access

3.3 Data collection

3.3.1 Data sources The researcher used both secondary and primary data. Secondary data was obtained from company records, Journals and textbooks as well as the internet. Primary data was obtained from respondents selected from the bank officers and managers.

3.3.2 Data collection Instruments

Questionnaire, the data collection instrument was a self-administered questionnaire on appointment with the intended respondents. This was used to seek responses from credit staffs and employees of the bank. It was designed in the Likert scale formant (strongly agree, agree, disagree and strongly disagree)

Interview guide, this was used to collect data from management staffs of the bank. These acted as the key informants of the study as they were thought to have a lot of information regarding credit risk management and financial performance

Documentary analysis checklists was also be used to get the available information and its supplementary method of reviewing documents like reports, minutes and letters useful in developing understanding of the study.

3.3.3 Procedure The researcher obtained an introductory letter from the school of business and applied economics that enabled him to get permission to collect data from employees and staffs of Barclays Bank.

3.8 Data gathering procedure

Before determine of questionnaire

An introduction the letter was obtained from the school of business and management and studies and research to ask for the approval to conduct the study from respect project managers

When approved, the researcher secured a list of the qualified respondents from the organizations authorities in charge and select the respondents using simple random sampling procedure.

Explanations were given to the respondents who were later requested to sign a consent form.

Enough questionnaires were reproduced for distribution. Research assistants who assisted in data collection were selected, briefed and oriented.

During the administration of the questionnaires

The respondents were requested to answer completely and not to leave any part of the questionnaires unanswered.

The researcher and assistants emphasized retrieval of the questionnaires within five days from the date of distribution.

On retrieval, all returned questionnaires were checked if all were answered.

3.9 Data analysis

After the administration of the questionnaires

The data gathered was collated, encoded into the computer and statistically treated using the Statistical Package for Social Sciences.

During the administration of the questionnaires

The respondents were requested to answer completely and not to leave any part of the questionnaires unanswered.

The researcher and assistants emphasized retrieval of the questionnaires within five days from the date of distribution.

On retrieval, all returned questionnaires were checked if all were answered.

After the administration of the questionnaires

The data gathered was correlated, encoded into the computer and statistically treated using the Statistical Package for Social Sciences.

3.10 Ethical Considerations

The researcher employed confidentiality in the course of data collection for the information to be given. Here the researcher was anxious not to explode what key informants, customers and other several participants said. Anonymity of respondents by not disclosing their identities were also employed to protect third parties or pseudo names.

The information that was collected strictly for learning purposes; the researcher acknowledged the assistance received from various individuals such as publicly known personnel. The researcher observed the principle of voluntary participation.

CHAPTER FOUR

DATA PRESENTATION, INTERPRETATION AND ANALYSIS

4.1 Introduction

This chapter presents findings of the study which was conducted about the impact of credit risk management on financial performance using a specific reference of Barclays bank Limited. The findings are presented according to the objectives of the study. In the first section, the social background of the respondents is given. In the second section, the empirical analysis of the study findings is analyzed and the last section handles the relationship between study variables.

4.2 Background of the Respondents

This theme handles the background information on the respondents that were used in the study. Among these characteristics included, gender, level of education, the period respondents had spent in the company.

4.2.1 Gender of the respondents

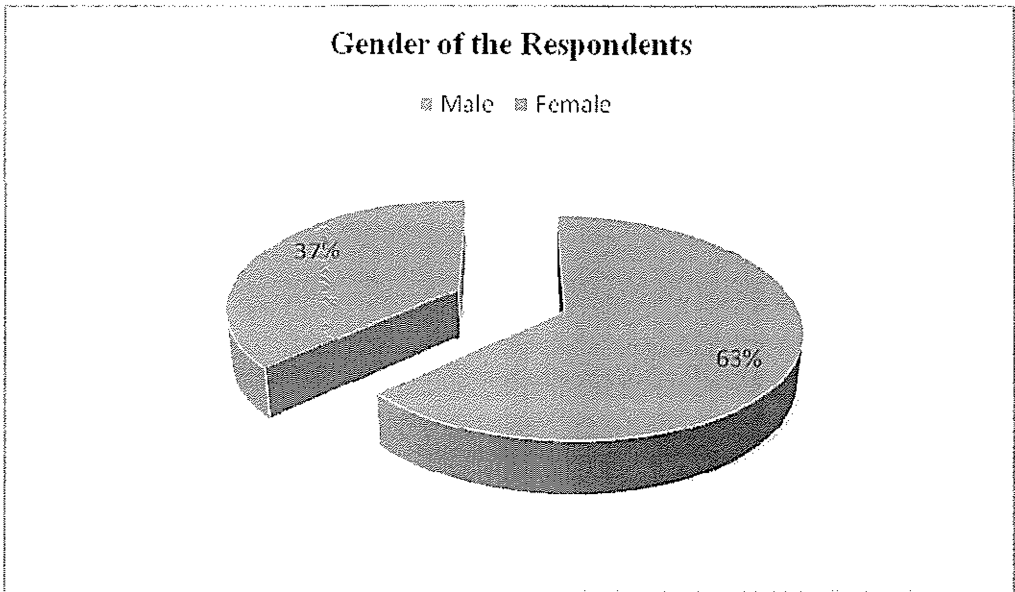
To understand the gender of the respondents, the researcher recorded their gender and below is the results that were recorded in table 1 and pie-chart 4.1.

Table 1: Gender of the respondents

Gender	Frequency	Percentage
Male	17	63
Female	10	37
Total	27	100

Source: Primary data, 2015

Figure 4.1: Pie-chart showing Gender of the respondents



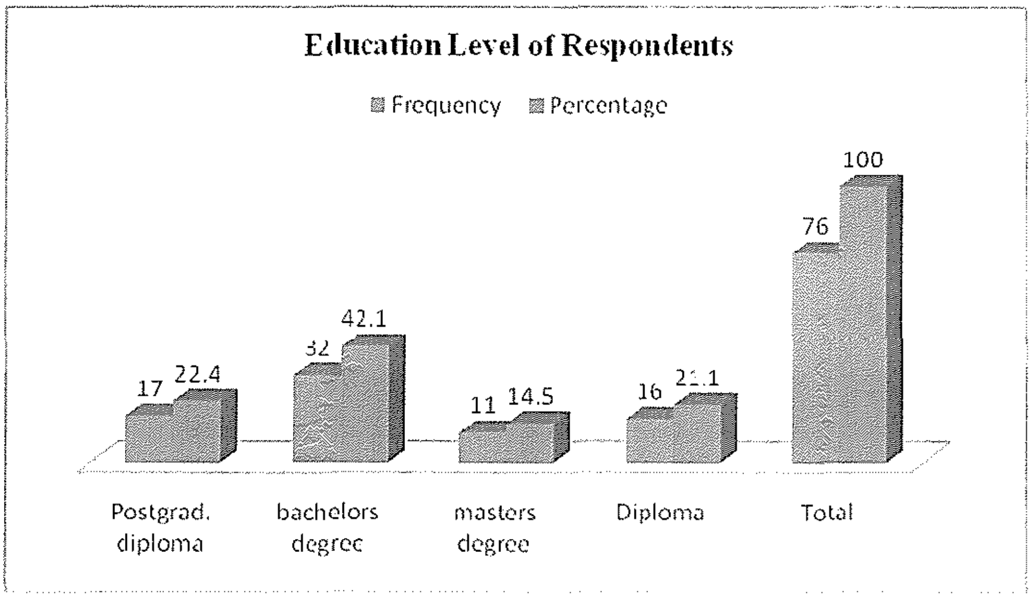
Source: Primary data, 2015

From figure 4.1, it is indicated that the study was conducted mainly from the male respondents who constituted 63%. Females on the other hand, were represented by 37% of the respondents. This directly tells us that no matter the percentage of males and females who attended the study, given the fact that males and females attended to the study, the study was gender sensitive.

4.2.2 Level of Education of the Respondents

Respondents were also asked to state their level of education and most of them indicated that they had a bachelor's degree as shown in figure 4.2 in details below.

Figure 4.2: comparative bar graph showing the level of education of the respondents



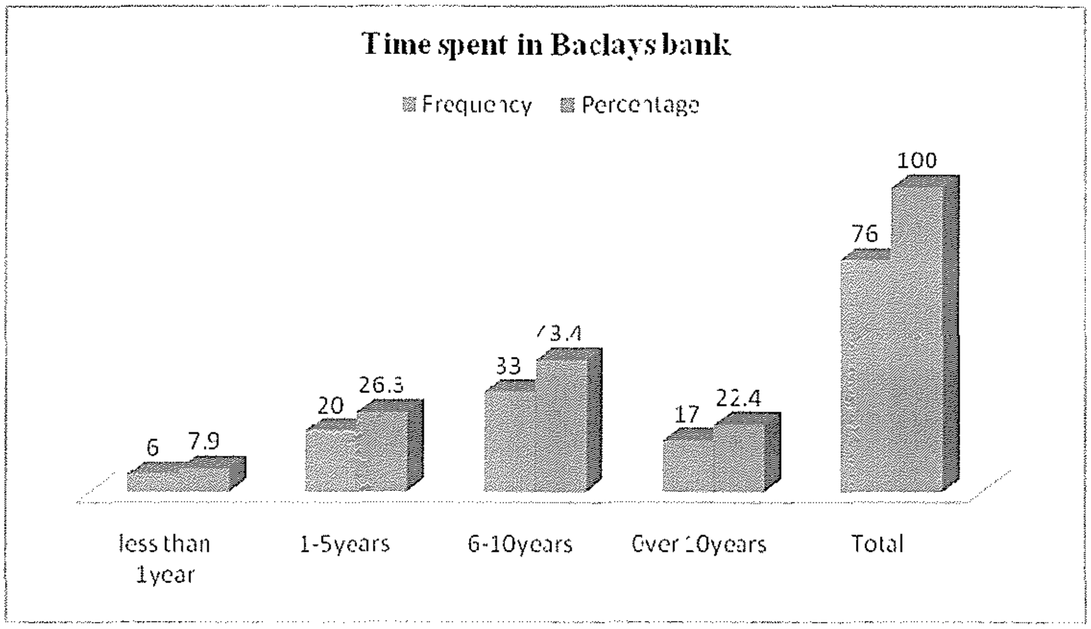
Source: Primary data, 2015

Figure 4.2 indicates that most of the respondents had attained a bachelor's degree of education and these constituted 42.1%. Those who had attained post-graduate diploma came second with 22.4% of the respondents. 21.1% of the respondents were diploma holders and the last category of 14.5 had a master's degree of education. Basing on the above findings, most of the respondents had a bachelor's degree and above, this means that the findings of the study were based on the people who had enough cognitive capacity to tell what is required to the study.

4.2.3 Time spent working with Barclays Bank

Respondents were also asked to state the time they had spent in Barclays Bank and their responses are what figure 4.3 indicates below.

Figure 4.3: comparative bar graph showing the Time spent in Barclays Bank



Source: Primary data, 2015

Figure 4.5 above indicates that most of the respondents had worked in Barclays bank for 6-10years and these took 43.4%, 26.3% had spent in service for 1-5years. Those who had spent over 10years were represented by 22.4% and the last category which had spent in service for less than 1year was represented by 7.9%. This therefore, means that the study was based on the people who had enough experience as far as credit risk management and financial performance is concerned since most of them had spent beyond 5years.

4.3. Empirical Findings

4.3.1 Findings on Credit Risk Management Techniques Used In Barclays Bank

To understand the credit risk management techniques used in Barclays bank, the respondents were introduced different items to have their say. Their responses were computed by making an aggregate of responses given by respondents to the 6-items and 5point Likert scale (1=Strongly Disagree, 2=Disagree, 3=Not sure, 4=Agree and 5=Strongly Agree), which sought to measure the prevalence such credit risk management techniques in the bank which were categorized according to their percentages and means as follows:

Table 4.1: Descriptive Statistics on the findings on credit risk management techniques used in Barclays Bank

Items	1	2	3	4	5	Mean
Retention is used to cover a small proportion of loss	17.1%	9.2%	26.3%	34.2%	21%	3.58
We look at relevant experience of the loan applicants	25%	21.3%	22.3%	27.6%	6.5%	4.09
We consider cash flow projections of our clients in the bank	11.8%	13%	5.2%	47.3%	22.3%	4.54
We demand for a business plan from all clients/ borrowers	13%	7.8%	13%	38%	27.6%	4.55
We recommend all our loan applicants to have an insurance policy backing them	7.8%	22.3%	2.6%	42%	25%	4.55
The bank quickly responds to market changes	15.7%	10.5%	0%	51.3%	22.3%	4.55

Source: primary data 2015

It can be established from table 4.1 above that since all items introduced to respondents had means above 3.5, this means that all of them were either agreed or strongly agreed on by most of the respondents. This therefore means that the bank use the following credit risk management techniques that include; "The bank quickly responds to market changes." This was reported by 51.3% of the respondents and was showed with a mean of 4.55. "We recommend all our loan applicants to have an insurance policy backing them" was reported by 42% and had a mean of 4.55. 38% showed that "We demand for a business plan from all clients/ borrowers" and this had a mean of 4.54. "We consider cash flow projections of our clients in the bank" was reported by 27.5% of the respondents and had a mean of 4.09. Lastly, 34.2% of the respondents indicated that "We look at relevant experience of the loan applicants." "Retention is used to cover a small proportion of loss" and this had a mean of 3.58.

This thus means that the bank uses retention techniques, insurance policies, loan transfers, giving loans to people with business plans and look at cash flow projections of the clients before a loan is given.

This position was continually supported by the key informants or bank managers in an interview who indicated that the bank has a number of credit risk management techniques that range from insurance premiums, diversifications policies and retention policies.

Basing on the primary findings obtained from respondents, it is crystal clear that the bank employs a number of credit risk management techniques since all responses were agreed on and strongly agreed by respondents.

4.3.2 Findings on Financial Performance of Barclays Bank

To understand whether there the financial performance of Barclays bank, respondents were introduced different items to have their say. Their responses were computed by making an aggregate of responses given by respondents to the 5-items and 5point Likert scale (1=Strongly Disagree, 2=Disagree, 3=Not sure, 4=Agree and 5=Strongly Agree), which sought to measure factors affecting the financial performance of Barclays bank which were categorized according to their percentages and means as follows:

Table 4.2: Descriptive Statistics on Findings on Financial Performance of Barclays Bank

Items	1	2	3	4	5	Mean
Our institution has enough cash to meet its obligations effectively (as and when they fall due)	10.5%	14.4%	30.2%	26.3%	18.4%	3.28
All our loans are paid in time	7.8%	17.1%	28.9%	27.6%	18.4%	3.33
The Default level in our bank has reduced for the past three years	10.5%	13%	22.3%	31.5%	22.3%	3.42
The percentage of non-performing loans in our bank has been reducing consistently	13%	15.7%	3.9%	39.4%	19.7%	3.54
Our Return on Equity has increased for the past three years	9.2%	10.5%	11.8%	43.4%	25%	3.57

Source: primary data 2015

Using the findings in table 4.2 above, it is clearly indicated that on the 5-items that were introduced to respondents, 2-items were agreed on by most of the respondent and these were statistically computed with the highest means. 3-items were not decided by most of the respondents.

Among the responses that were not agreed on included; "Our Return on Equity has increased for the past three years" which was reported by 43.4% and had a mean (3.57) and "the percentage of non-performing loans in our bank has been reducing consistently" was reported by 39.4% and had a mean of (3.54). This means that since non-performing loans in the bank has been reducing, it is important to say that the bank has been performing well, given the fact that even its return on equity had increased in the last 3years.

However, those responses which were indicated by not sure included; "The Default level in our bank has reduced for the past three years" (31.5%) and had a mean of 3.42. "All our loans are paid in time" was reported by 27.6% and had a mean of 3.33 and lastly, "Our institution has enough cash to meet its obligations effectively (as and when they fall due)" was reported by 30.2% and had a mean of 3.28.

Therefore, it is from the above findings that can be realized that the performance of Barclays Bank was not convincing since the default level in the bank was being doubted by most of the respondents, add on timely payment of the and liquidity. This position is confirmed by the following financial statements as obtained in Barclays Bank by the researcher.

Table 4.3:Barclays bank balance sheets as at 30th June 2012

Details	**6 months to 30/6/2013. (000)**	**% assets**	**12 months to 31/12/2012. (000)**	**%assets**
Cash with central bank	30,261,134	19.60	15,399,642	9.95
Cash with other banks	11,033,277	7.14	11,009,231	7.11
Customer loans and advances	74,029,547	47.94	82,812,564	53.52
Financial lease receivables	480,946	0.31	1,316,728	0.85
Financial investments	2,525,242	1.64	7,743,703	5.00
Pre-payments	445,820	0.29	28,720,130	18.56
Property and equity	28,443,823	18.41	1,685,054	1.09
Intangible assets	1,439,207	0.93	3,853,900	2.49
Other assets	4,239,996	2.75	-	-
Tax receivables	1,527,116	0.99	1,527,116	0.99
Total assets	**154,426,107**	**100%**	**154,740,776**	**100%**
Liabilities and equity		**% liabilities**		
Dues to customers	102,363,964	96.04	71,568,612	62.93
Borrowed funds	425,397	0.40	9,331,660	8.21

Other liabilities	3,796,969	3.56	32,821,452	28.86
Total liabilities	**106,586,330**	**100%**	**113,721,724**	**100%**
Financed by		**% Equity**		
Issue capital	19,525,300	40.81	18,575,300	45.28
Share premium	42,264,145	88.35	19,918,695	48.56
Retained(loss)premium	(16,820,960)	(35.16)	(1,833,858)	(4.47)
Regulatory reserve	1,713,818	3.58	3,360,381	8.19
Revaluation reserve	1,157,474	2.42	998,534	2.43
Total equity	**47,839,777**	**100%**	**41,019,052**	**100%**
Total liabilities and equity	**154,426,107**		**154,740,776**	

Source: Barclays bank Uganda director's report and financial statements 30th June 2013.

The bank showed an increase in the cash and balances at the central bank from 9.95% in 2009 to 19.60% in 2013.Similarly, there was an increase in cash with other banks from 7.11% to 7.14% in 2012 and 2013 respectively.

The bank showed a decrease in the customer loans and advances from 53.52% in 2012 to 47.94% in 2013 and also a decrease in the financial investments from 5.00% in 2012 to 1.64% in 2013.Prepayments and intangible assets also decreased tremendously.

However decrease, the bank also showed increase in the property, equity, and other assets significantly and kept the tax receivables constant at 0.99% in both years. Dues to customer by the bank increased from 62.93% to 96.04% both in 2012 and 2013 respectively but the bank managed to reduce its borrowed funds and other liabilities for the year 2012 to 2013.

Share premium increased but issue capital, retained loss, regulatory reserves, and revaluation reserves used in financing all reduced unexpectantly putting the bank in hard situations.

Table 4.4: Statements of comprehensive income and profit and loss accounts

Interest and similar income	11,078,218	32,931,407
Interest and similar expenses	(3,982,782)	(9,466,131)
Net interest income	7,095,436	23,465,275
Net fee and commission income	2,732,553	6,105,106
Net trading income	620,493	1,179,792
Other operating income	434,579	133,625
Total operating income	**10,874,061**	**30,883,799**
Credit loss expenses	(7,405,201)	(4,037,376)
Net operating income	3,468,861	26,846,423
Personal expenses	7,966,755	15,876,064
Depn of property and equipment	2,384,271	2,902,531
Amortization of intangible assets	258,224	462,127
Amortization of leasehold	12,526	25,214
Other operating expenses	7,834,186	14,559,207
Total operating expenses	**18,455,963**	**33,825,143**
Profit/loss before tax	14,987,102	6,978,720
Income tax credit/expenses	-	723,222

Profit/loss for the year	14,987,100	6,255,498

Source; Barclays bank Uganda directors report and financial statements 30th June 2013.

4.3.3 Findings on Relationship between Credit risk management and financial performance of Barclays bank

To understand whether there is a relationship between credit risk management techniques and financial performance of Barclays bank, the respondents were introduced different items to have their say. Their responses were computed by making an aggregate of responses given by respondents to the 5-items and 5point Likert scale (1=Strongly Disagree, 2=Disagree, 3=Not sure, 4=Agree and 5=Strongly Agree), which sought to measure the relationship between credit risk management and financial performance which were categorized according to their percentages and means as follows:

Table 4.5: Descriptive Statistics on the findings on Relationship between Credit risk management and financial performance of Barclays bank

Items	1	2	3	4	5	Mean
Risk avoidance techniques employed by our bank has helped us to gain more profits in the bank	23.6%	36.8%	30.2%	6.5%	3.9%	2.34
Our risk transfer policies have enabled us to avoid risks associated with loan defaults.	21%	30.2%	18.4%	22.3%	21%	3.09
The level of non-performing loans has reduced due to our credit risk policies	9.2%	19.7%	32.8%	25%	14.4%	3.14

The bank has enough cash to conduct its businesses	10.5%	19.7%	30.2%	22.3%	14.4%	3.16
Our profits obtained from loans have been increasing for the last three years because of our policies	11.8%	25%	0%	48.6%	15.7%	3.26

Source: primary data 2015

From table 4.5 above, it is clearly indicated that on 5-items that were introduced to respondents, 4-items were not decided and 1-iitem was disagreed on by most of the respondents and these were showed with lower means.

Among the items that were not decided by most of the respondents included; Our profits obtained from loans have been increasing for the last three years because of our policies (3.26); The bank has enough cash to conduct its businesses (3.14); The level of non-performing loans has reduced due to our credit risk policies; Our risk transfer policies have enabled us to avoid risks associated with loan defaults (3.09) and the only responses that was disagreed on by most of the respondents was, "Risk avoidance techniques employed by our bank has helped us to gain more profits in the bank" (2.34).

This is confirmed by the Pearson correlations computed between credit risk management and financial performance as shown in table 4.7.

Table 4.6: Correlation analysis

		Credit risk management	Financial performance
Financial performance	Pearson Correlation	1	.821**
	Sig. (2-tailed)		.022
	N	27	27
Credit risk management	Pearson Correlation	.821**	1
	Sig. (2-tailed)	.022	
	N	27	27

**. Correlation is significant at the 0.05 level (1-tailed)

From the table above 4.6 shows that a Pearson Correlation Coefficient value is (r=.821). According to Critical Values of the Pearson Product-Moment Correlation Coefficient, when using the critical value table, the absolute value of .821 indicates a positive relationship, strong relationship and a significant relationship (.022<.05) between credit management and financial performance. This implies that credit risk management positively affects the financial performance of Barclays Bank.

CHAPTER FIVE

SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

5.1 Introduction

This chapter gives the summary of the main findings, conclusions and recommendations that are in line with the study objectives and questions. The recommendations are related to the findings of this study but others were drawn from similar studies on credit risk management.

5.2. Summary of the main findings.

Findings from the study indicate that the financial performance of Barclays is very well seen to be highly attributed to the level of credit risk management carried out by the management of Barclays bank, amidst internal and external factors like; sensitization and education, economic and political stability mention it. The general characteristics of the respondents gives a clear impression that credit risk management is at a fore front of the banks objectives. All the employees are equipped with the knowledge regarding financial performance improvement and credit risk reduction.

With that, 65% are university degree holders,20 % masters and above, and 15% hold diplomas. The findings also reveal that the credit risk is mainly due to financing, lending and investment objectives as indicated by 90%of the respondents.

How ever, findings indicate that the the level of perfomance has been increasing though the respondents cited some other hinderences to financial performance improvement to include: High level of non perfoming loans, ATMs tests customer' patience which caused the services level and Barclays lost a lot of clients as a result and this reduced the bank's profits, The long lines made each day by customers while making transactions by either use of ATMs or counter trading has led some of the customers to shift from keeping their money on to the bank account.

5.2.1 Credit risk management techniques used in Barclays Bank

It was established from research findings that the bank quickly responds to market changes, it recommends all our loan applicants to have an insurance policy backing them, it demands for a business plan from all clients/ borrowers, it considers cash flow projections of its clients in the bank as looking at relevant experience of the loan applicants. However, respondents cited factors that have limited credit risk minimisation to include the following; Failure to recognize early warning systems for potential loss and problems, Poor and inefficient allocation of resources, especially failing to fund credit risk reduction ventures, Poor information systems especially on potential consequences, there is a backward thinking organization culture which hinders managers from identifying, measuring and assessing the risk to the bank.

Findings show that the bank reminds the defaulting customers every after a month as indicated by 60% of the response .20% say that it does this every month and the 10% say that the bank reminds them immediately after the due date. Also 90% of the respondents indicated that they agree that in the future the bank will be able to achieve effective effective credit risk management and to increase the customer base, but the 10% were not sure.

5.2.3 Financial Performance Of Barclays Bank

The assessment of the financial perfomance indicated that there was an increase in the cash and balances at the central bank from 9.95% in 2009 to 19.60% in 2010, the results for the full year 2010 showed an increase in the profit from 6,978,720 before tax to 6,995,498 after tax in 2009.The profit remained static after and before the tax at 14,987,102 in 2010.

Findings indicated that 20% of the response showed that the bank has lost much due to fraud committed last year, 60% indicated that thebank has lost little and 20% indicated that the bank has lost non due to fraud.

Also, 75% indicated that above 20 customers failed to pay back loan obligatyions , 15% indicated that 11-20 while 10% indicated 1-10 customers who failed to payback loan obligations. However, financial performance improvement is still low at barclays bank and the respondents attributed this to ; Crashing ATMS, Poor banking methods employed by customers and Concentration of loans to non productive projects.

5.2.4 Credit Risk Management And Financial Performance.

Findings indicated that there is a very strong correlation (relationship) at 0.821 which is approximately 82.1% between credit risk management and financial performance out of a sample of 27 respondents. The successful and good financial performance of Barclays bank alongside credit risk management has helped and favored several branches of the bank in different regions and parts of Uganda, risk management has been instrumental to the commercial business of Barclays bank and its survival in the competitive business environment at large, therefore inefficiency and unlimited delays in transactions especially loan distribution services among the big number of clients attended to has been eased.

Going deep into the future of credit risk management in relation to financial performance, top managers and employees indicated that the future of Barclays bank is promising and that with effective credit risk management, financial performance will to a large extent increase.

5.3 Conclusions.

Financial perfomance will be seen to increase due to the strong correlation of 82% implying that the financial performance of Barclays bank Uganda is greatly attributed to the effective credit risk management aspects carried out by the management and employees of the bank. The number of customers increased fundamentally due to the advent credit risk management forwarded and expertise.

Conclusively, therefore, credit risk management is a worthwhile venture to expertise and put in more resources to enhance and frame a better performance and generation of the banking sector, and other sectors of the economy which share the same strategies for their better beings and optimism.

5.4 Recommendations.

Barclays Bank should be able to train its staff on credit rick management so as to stimulate its financial performance. Risk management short courses and seminars like; in financial computing and CFA, telephone banking, research and development frameworks, marketing facilities like sales promotions, advertisements and customer care, technological installations like advanced ATMcards,internet banking, posting and withdrawing charges, installation of toll free numbers for customers consultations and advices, feedback loops and interactive systems as well as mobile

Therefore, managers and other financial experts should realize that credit risk management is not all that Barclays bank needs to perform so well, but there are other factors that need to be considered and integrated with the risk management strategy to yield and ascertain the synergy of resource (profitability).

There is also a need for Management to address the following;

- The changes in the risk management criteria in the banking business.
- The level of financial performance in respect to the credit risk management criteria in the banking business.
- The level of financial performance changes in the financial business community.
- The costs incurred to acquire a good risk management frame work.
- The regulation and supervision of the reserve bank towards risk management in the financial sector.
- Employee's knowledge, experience, capacity and seniority as far as service delivery

  are concerned to enhance good financial performance of equity bank.
- Patent rights (trademark protection) and the laws prevailing in the financial business community should be abided.

5.5.Areas for further Research.

The following areas have not been addressed by this research report and are therefore open to any willing researcher for further studies about the financial system of Uganda.

- The impact of information technology on the level of financial performance.
- The impact of politics on the level of financial performance.
- The impact of motivation on the financial performance of banks.
- Risk management and the teasing laws of finance.
- Risk management and motivation of banks.
- Financial performance and electronic banking.

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APPENDIX I:

QUESTIONNAIRE FOR EMPLOYEES AND CREDIT RISK STAFFS

Dear Respondents,

I am a bona fide student of Kampala International University pursuing a bachelor's Degree in Business Administration specializing in Accounting. I am conducting a research on the relationship between credit risk management and financial Performance using a case study of Barclays Bank Kampala Road Branch. This research is purely for academic purposes, all the information given will be treated in utmost good faith with high confidentiality and privacy and the consent and anonymity of the respondent will be observed.

SECTION I

SECTION A: BACKGROUND INFORMATION FOR RESPONDENTS

1.1 What is your age?

Response	Code
20-25	1
26-30	2
31-35	3
36-40	4
Above 41	5

1.2 What is your sex?

Response	Code
Male	1
Female	2

1.3 What is your education level?

Certificate	1
Diploma	2
degree	3
Masters	4
Others specify	5

1.4 Years of working Experience

Response	Code
1-5years	1
5-10years	2
11years and above	3

SECTION II

Direction: Please write your preferred option on the space provided before each item.

Kindly use the rating guide below:

Response Mode	**Rating**	**Description**
Strongly Agree	(4)	You agree with no doubt at all
Agree	(3)	You agree with some doubt

Disagree (2) You disagree with some doubt

Strongly disagree (1) you disagree with no doubt at all

SECTION B: CREDIT RISK MANAGEMENT TECHNIQUES USED IN BARCLAYS BANK (TO BE ANSWERED BY credit risk staffs)

NO	Statement	1	2	3	4
1	We demand for a business plan from all clients/ borrowers				
2	We look at relevant experience of the loan applicants				
3	We consider cash flow projections of our clients in the bank				
4	We recommend all our loan applicants to have an insurance policy backing them				
5	Retention is used to cover a small proportion of loss				
6	The bank quickly responds to market changes				

SECTION C: FACTORS AFFECTING FINANCIAL PERFORMANCE OF BARCLAYS BANK (employees only)

N0	Statement	1	2	3	4
1	Our institution has enough cash to meet its obligations effectively (as and when they fall due)				
2	All our loans are paid in time				
3	The Default level in our bank has reduced for the past three years				

4	The percentage of non-performing loans in our bank has been reducing consistently				
5	Our Return on Equity has increased for the past three years				

SECTION D: RELATIONSHIP BETWEEN Credit risk management and financial performance of Barclays bank (credit risk officials and employees)

NO	Statement	1	2	3	4
1	Risk avoidance techniques employed by our bank has helped us to gain more profits in the bank				
2	The level of non-performing loans has reduced due to our credit risk policies				
3	The bank has enough cash to conduct its businesses				
4	Our profits obtained from loans have been increasing for the last three years because of our policies				
5	Our risk transfer policies have enabled us to avoid risks associated with loan defaults.				

APPENDIX II:

INTERVIEW GUIDE FOR KEY INFORMANTS (Bank managers)

1. Do you have credit risk management techniques in this bank?
2. If yes, mention some of them
3. How has the bank been performing for the last three years?
4. If good, what indicates that the performance has been good?
5. Do you think credit risk management policies employed in the bank has anything to do with the financial performance of Barclays bank?
6. If yes, how have they affected bank financial performance?

APPENDIX III

TIME SCHEDULE

Time Frame for Research Project	
Activity	**Duration (Months)**
Proposal writing	January, 2015
Data collection	February, 2015
Data editing and coding	March, 2015
Data analysis and presentation	April, 2015
Report writing and submission	May, 2015

APPENDIX IV

ESTIMATED BUDGET

Item	**Amount in total**
Materials	60,000
Meals	400,000
Typing, printing and binding	100,000
transport	120,000
Total	**680,000**