THE EFFECT OF CREDIT RISK MANAGEMENT ON THE FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN UGANDA
A CASE STUDY OF EQUITY BANK-KATWE BRANCH

BY

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DEDICATION

I dedicate this research report to my dear parents Mr. Nguyeneza Robert and Ms. Nakitto Annet. Thank you so much for the financial, moral and spiritual support you have given me up to this level. I will forever be indebted to you.

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ROA	Return on Assets
UAE	United Arab Emirates

ABSTRACT

The study investigated the effect of credit risk management on the financial performance of commercial banks in Uganda, using a case study of Equity Bank-Katwe Branch. The research was guided by the following objectives; to find out the effect of credit risk identification on financial performance of commercial banks; to establish the effect of credit risk analysis on financial Performance of commercial banks in Uganda; to find out the effect of credit risk monitoring on financial Performance of Commercial Banks in Uganda; and to assess the effect of credit approvals on the financial Performance of commercial banks in Uganda.

The study adopted case study research design and used both qualitative and quantitative approaches. The target population was 40 employees where a sample size of 38 respondents was selected. Information was solicited from respondents by the use of self administered questionnaire. During the study both primary and secondary data were collected. Primary data was collected from the respondents who were employees of Equity bank where as secondary data was collected from the internet, documentary reviews, journals and other publications. Data was analyzed with the help of SPSS and presented in tables of frequencies and percentages.

Findings of the study indicated that credit risk management is not well practiced at Equity Bank. Credit identification is not properly carried out in Equity Bank so is risk assessment. The bank failed to note the risks that it faces and to raise awareness about the risks. Lack of proper risk identification puts the bank at a disadvantage because it only learns of some risks after they have occurred and this affects its financial performance. Credit monitoring is lacking at the bank yet it is well known that credit monitoring reduces the costs of the bank and quality of the work in the bank.

The research recommends that improvements in the bank's credit identification strategies so that it is able to capture all the risks that the bank faces. Credit analysis needs to be given priority at the bank. There is a need for constant and periodic risk assessment. Proper risk analysis tools which can help the bank make informed decisions that can help the bank avoid costly and risky financial decisions that can cause the bank financial loss.

CHAPTER ONE

GENERAL INTRODUCTION

1.0 Introduction

The study is about the effect of credit risk management on the financial performance of commercial banks in Uganda, a case of Equity Bank-Katwe Branch. The study also is guided by two variables and these are; credit risk management and financial performance of commercial banks in Uganda. The independent variable (Credit Risk Management) consists of credit risk identification, credit risk analysis, credit risk monitoring and credit approvals which directly influences the efficiency of dependent variable (Financial Performance) which consists of Profitability levels, Return on assets and Market shares. This chapter contains background to the study, problem statement, purpose and objectives of the study, scope and significance of the study, definition of key terms and conceptual framework.

1.1 Background to the Study

Credit risk management began to be studied after the World War II. Several sources (Crockford, 1982; Harrington, 2003 and Williams, 1995) date the origin of modern risk management to 1955-1964. Snider (1956) observed that there were no books on risk management at the time and no risk management at the time and no universities offered course in the subject. The first two academic books were published by Mehr and Hedges (1963) and William (1964). Their context covered pure risk management, which excluded corporate financial risks. In parallel, engineers developed technological risk management models. Operational risk partly covers technological losses; today operational risk has to be managed by financial institutions. New forms of pure risk management emerged during the mid 1950s as alternatives to market insurance when different types of insurance coverage became very costly and incomplete. Several business risks were costly or impossible to insure. During the 1960s, contingent planning activities were developed and various risk prevention or self protection activities and self insurance instruments against some losses were put in place.

In Uganda, the 1980s and 1990s saw the banking system coming under severe stress where many banks were riddled by high levels of non-performing assets (credit risk) with some banks going insolvent. By 1995 the non performing loans in the banking sector had accumulated to US$34million (Tumusiime, 2005). Moreover Mugume and Ojwiya (2009) indicate that credit risk peaked during the 1990s and early 2000. Mugume and Ojwiya blame this on the "adverse selection predicament" caused by information asymmetries that makes it hard to select good borrowers from a pool of loan applications. Recently the Bank of Uganda instituted an internal programme to strengthen Banking Supervision with substantial resources being put into training and moving towards a risk-based approach to banking supervision. Apparently, there have been reported improvements in the asset quality and profitability of the Commercial Banks (Tumusiime, 2005; Kasekende, 2008).

According to Baldoni (2012), credit risk management is a structured approach to managing uncertainties through risk assessment, developing strategies to manage it, and mitigation of risk using managerial resources. The strategies include transferring to another party, avoiding the risk, reducing the negative effects of the risk, and accepting some or all of the consequences of a particular risk. The process of risk management is a two - step process. The first is to identify the source of the risk, which is to identify the leading variables causing the risk. The second is to devise methods to quantify the risk using mathematical models, in order to understand the risk profile of the instrument. Once a general framework of risk identification and management is developed, the techniques can be applied to different situations, products, instruments and institutions. It is crucial for banks to have comprehensive risk management framework as there is a growing realization that sustainable growth critically depends on the development of a comprehensive risk management framework (Greuning, 2007).

Credit risk management should be at the centre of banks operations in order to maintain financial sustainability and reaching more clients. Despite these facts, over the years there has been increased number of significant bank problems in both, matured as well as emerging economies. Bank problems, mostly failures and financial distress have afflicted numerous banks, many of which have been closed down by the regulatory authorities. Among other factors, weakness in credit risk management has all along been cited as the main cause for bank problems. Since exposure to credit risk continues to be the leading source of problems in banks world-wide, banks and their supervisors should be able to draw useful lessons from past experiences.

Once a general framework of risk identification and management is developed, techniques can be applied to different situations, products, instruments and institutions. Peters, (2011) described the development of a conceptual model of how auditors assess inherent risk in a normal audit environment and it s implementation as knowledge -based (expert) system. They asserted that the auditor begins the inherent risk evaluation process by generating expectations of accounts balances. The addition of risk evaluation completes the process of risk assessment. British Standard 4778 considers risk assessment to refer to analysis of inherent risks and their significance in an appropriate context. Organizations are exposed to various types of risks which can come from uncertainty in financial variables (financial risk), project failures, legal liabilities, accidents, natural causes and disasters as well as deliberate attacks from an adversary, (Saunders, 2010).

Since the 1980s, companies have successfully applied modern portfolio theory to market risk. Many companies are now using value at risk models to manage their interest rate and market risk exposures. Unfortunately, however, even though credit risk remains the largest risk facing most companies, the practice of applying modern portfolio theory to credit risk has lagged (Margrabe, 2007). Companies recognize how credit concentrations can adversely impact financial performance. As a result, a number of institutions are actively pursuing quantitative approaches to credit risk measurement. This industry is also making significant progress toward developing tools that measure credit risk in a portfolio context. They are also using credit derivatives to transfer risk efficiently while preserving customer relationships. Portfolio quality ratios and productivity indicators have been adapted. (Kairu 2009).The combination of these developments has vastly accelerated progress in managing credit risk in a portfolio context.

1.2 Statement of the problem

Recently the Bank of Uganda instituted an internal programme to strengthen Banking Supervision with substantial resources being put into training and moving towards a credit risk-based approach to banking supervision. Apparently, there have been reported improvements in the asset quality and profitability of the Commercial Banks (Kasekende, 2008). Credit risk management practices is an issue of concern in financial institutions today and there is need to develop improved processes and systems to deliver better visibility into future performance. Weak credit risk management is a primary cause of many business (particularly small business failures) such failures are; the inadequacy of the bank's management system for controlling loan quality which have made Equity bank has failed to perform very well hence reducing on its performance. The can be blamed for the current failure of new banks to establish themselves in the banking sector in Uganda, with the recent closure of Global Trust Bank, in 2014 and National bank of Commerce in 2013 by the Bank of Uganda (Odomel, 2014).

Though equity bank has tried to improve on credit risks by applying different credit risk practices such as; credit risk identification, credit risk analysis, credit risk monitoring and Credit approvals it's financial performance is not yet up to expectation (Equity Bank, End of Year Report 2014) The company has failed establish its self among the leading banking institutions in the country and its market share is still small. It's against this state of affairs that the researcher decided to investigate on the effect of credit risk management on financial performance of commercial banks in Uganda, using Equity Bank as a case study.

1.3 Purpose of the Study

The broad objective of the study was to examine the effect of credit risk management on financial performance of commercial banks in Uganda.

1.4 Specific Objectives

The specific objectives of the study are:

i. To find out the effect of credit risk identification on financial performance of commercial banks

ii. To establish the effect of credit risk analysis on financial Performance of commercial banks in Uganda.

iii. To find out the effect of credit risk monitoring on financial Performance of Commercial Banks in Uganda.

iv. To assess the effect of credit approvals on the financial Performance of commercial banks in Uganda.

1.5 Research Questions

i. What is the effect of credit risk identification on financial performance of commercial banks in Uganda?
ii. What is the effect of credit risk analysis on financial performance of commercial banks in Uganda?
iii. To what extent does credit risk monitoring affect financial performance of commercial banks in Uganda?
iv. How do credit approvals affect financial performance of commercial banks in Uganda?

1.6 Scope of the Study

1.6.1 Subject Scope

The study aimed at examining the effect of credit risk management on the financial performance of commercial banks in Uganda. The content was limited to four objectives and these are; determining the effect of credit risk identification on the performance of commercial banks, establishing the effect of credit risk analysis on the financial performance of commercial banks, finding out the effect of credit risk monitoring on the financial performance of Commercial Banks, and assessing the effect of credit approvals on the financial performance of commercial banks in Uganda.

1.6.2 Geographical Scope

The study was carried out at Equity Bank-Katwe Branch which is located in Makindye Division-Kampala District.

1.6.3 Time Scope

The study gathered information about the effect of credit risk management on financial performance and objectives for the three consecutive years inclusive 2013-2016. This is where the researcher could manage to get the information about credit risk management and the financial performance of commercial banks in Uganda.

1.7. Significance of Study

Academician: The study is likely to help the academicians who would like to know more about credit risk management and also to increase their knowledge of managing financial performance in the organization.

Organization: The research can be of much importance to all commercial banks such as; equity bank as they will be able to obtain information about credit risk management and know how it affects financial performance of their banks.

Policy makers: The study may help policy makers such as government agencies, NGOs by provision of data about financial performance of organizations in relation to credit risk management.

Researcher: The study will help the researcher by increasing his knowledge about the effect of credit risk management on the financial performance of commercial banks.

1.7.1 Definition of Key Terms

Credit risk management is a structured approach to managing uncertainties through risk assessment, developing strategies to manage it, and mitigation of risk using managerial resources.

Risk identification is vital for effective risk management. In order to manage credit bank risks effectively, management of bank have to know what risks face the bank. The important thing during risk identification is not to miss any risks out.

Credit-approval/Sanctions: Clear established process for approving new credits and extending the existing credits has been observed to be very important while managing Credit Risks in banks (Heffernan, 1996).

Credit Risk Monitoring: Drzik (2011) argues that credit risk monitoring refers to incessant monitoring of individual credits inclusive of Off-Balance sheet exposures to obligors as well as overall credit portfolio of the bank.

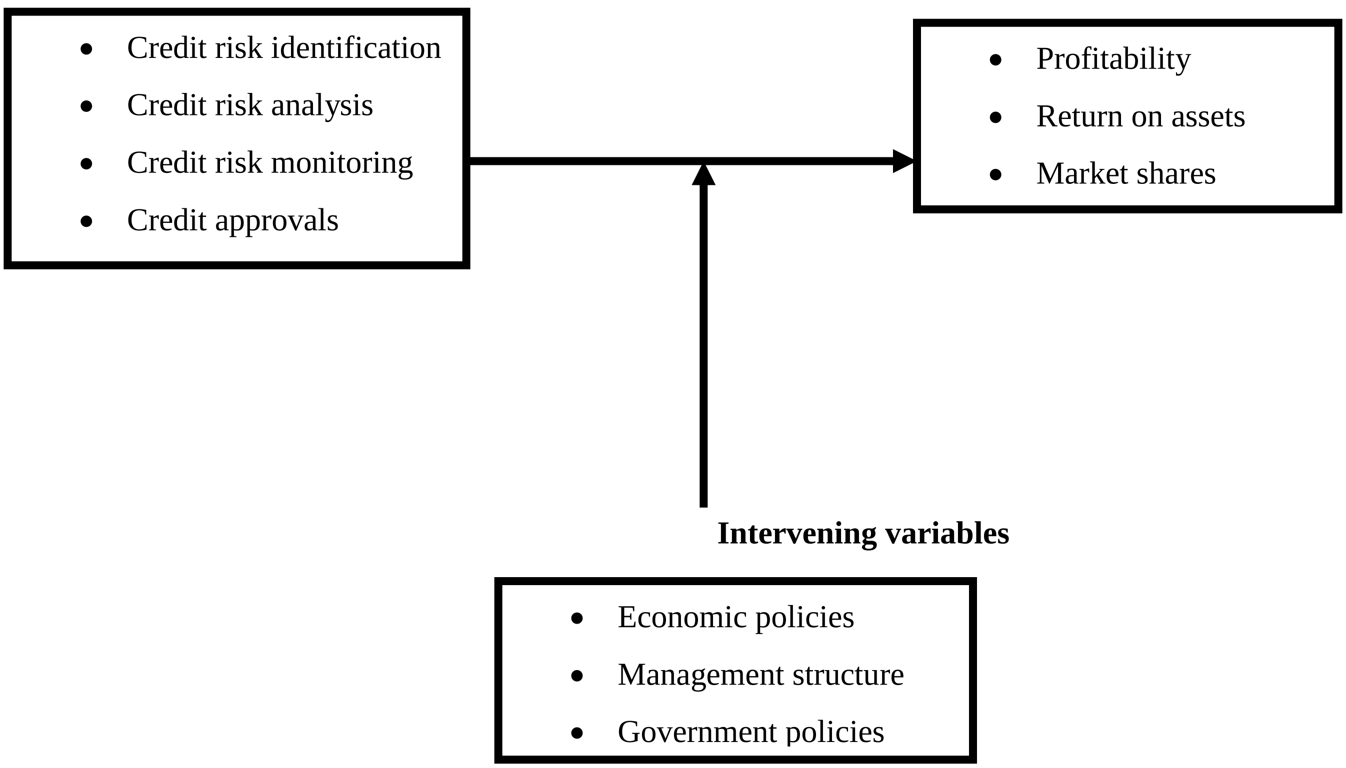
Risk can be defined as a probability or threat of damage, injury, liability, loss, or any other negative occurrence that is caused by external or internal vulnerabilities, and that may be avoided through preemptive action.

1.8 Conceptual Framework

Figure 1.1: Conceptual Framework

Independent Variable **Dependent Variable**

Credit Risk Management **Financial Performance**



Source: ***Kairu, P K. (2009). Credit Management.***

The conceptual framework shows the Independent variable (Credit Risk Management) and dependent variable (Financial Performance). The independent variable (Credit Risk

Management) consists of Credit risk identification, Credit risk analysis, Credit risk monitoring and Credit approvals which directly influences the efficiency of dependent variable (Financial Performance) which consists of Profitability levels, Return on assets and Market shares. However, the success of dependent variable may be influenced by the nature of Economic policies, Management structure and Government policies if not efficiently managed.

Credit risk management is related to financial performance through improving on decision making which minimizing losses from both bad debts and costs of debt operation while maximizing the value of credit sales and also it is related to financial performance as a management initiative to upgrade the accuracy and timeliness of financial information to meet required standards while supporting day to day operations.

Therefore, there is a significant relationship between bank performance (in terms of return on asset) and credit risk management (in terms of loan performance). Better credit risk management results in better bank performance. Thus, it is of crucial importance that banks practice prudent credit risk management and safeguarding the assets of the banks and protect the investors' interests.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter provides an overview of existing literature from various scholars on credit risk management on the financial performance of commercial banks in Uganda. It highlights various reviews relevant to the investigation about three specific objectives such as; to investigate the effect of credit risk identification on the performance of commercial banks, to establish the effect of credit risk analysis and appraisal on the Financial Performance, to find out the effect of credit risk monitoring on the Financial Performance of Commercial Banks and to assess the effect of credit approvals on the Financial Performance of commercial banks in Uganda and all these literatures will be collected from different sources such as annual reports, financial statements, newspapers, text books, journals, internet which are contained with different information about credit risk management and financial performance.

2.1 Theoretical Review

This study is informed by portfolio theory which states that many companies are now using value at risk models to manage their interest rate and market risk exposures. Unfortunately, however, even though credit risk remains the largest risk facing most companies, the practice of applying modern portfolio theory to credit risk has lagged (Margrabe, 2007). Companies recognize how credit concentrations can adversely impact financial performance. As a result, a number of institutions are actively pursuing quantitative approaches to credit risk measurement.

This industry is also making significant progress toward developing tools that measure credit risk in a portfolio context. They are also using credit derivatives to transfer risk efficiently while preserving customer relationships. Portfolio quality ratios and productivity indicators have been adapted. (Kairu 2009).The combination of these developments has vastly accelerated progress in managing credit risk in a portfolio context. Since the 1980s, companies have successfully applied modern portfolio theory to market risk.

Traditionally, organizations have taken an asset- by - asset approach to credit risk management. While each company's method varies, in general this approach involves periodically evaluating the quality of credit exposures, applying a credit risk rating, and aggregating the results of this analysis to identify a portfolio's expected losses. The foundation of the asset- by - asset approach is a sound credit review and internal credit risk rating system. This system enables management to identify changes in individual credits, or portfolio trends in a timely manner. Based on the changes identified, credit identification, credit review, and credit risk rating system management can make necessary modifications to portfolio strategies or increase the supervision of credits in a timely manner.

This makes it a relevant theory in this study because it explains the relationship between credit risk management and financial performance of commercial banks.

2.2 Conceptual Review

2.2.1 Credit Risk Management

According to (Morris, 2011), credit risk management is a structured approach to managing uncertainties through risk assessment, developing strategies to manage it, and mitigation of risk using managerial resources. The strategies include transferring to another party, avoiding the risk, reducing the negative effects of the risk, and accepting some or all of the consequences of a particular risk. Lymon and Carles (1978) defined credit risk management as a process of decision making which involves minimizing losses from both bad debts and costs of debt operation while maximizing the value of credit sales. Also Pandey (1995) defines Credit Risk Management to involve the process of making decisions relating to the investment of funds. Such decisions should be carefully analyzed as they are characterized by an element of uncertainty. Lymon and Carles (1978) also defined it as the operational strength of a firm in relation to its revenue and expenditure as revealed by its financial statements. In any organization especially commercial banks, financial performance is affected by credit risk. The indicators of credit risk management are; credit risk identification, credit risk analysis, credit risk monitoring, and credit approval.

2.2.2 Credit Risk Identification

According to peters (2011), credit risk identification is the process of taking stock of an organization's risks and vulnerabilities and raising awareness of these risks in the organization. It is the starting point for understanding and managing risks activities central to effective management of financial institutions. However, many legacy risk identification processes have not fully served institutions' risk management needs, particularly those related to firm-specific stress testing and identification of the firm's largest vulnerabilities. These processes were not sufficiently comprehensive and deep enough– failing to highlight key underlying drivers of risks. This, in turn, led to critical gaps in risk management. US regulators have taken note and have been pushing institutions to expand and enhance their risk identification processes, and clearly link risk identification to stress testing and broader risk management activities.

2.2.3 Credit Risk Analysis

According to brown (2011), credit risk analysis is neither entirely a science nor entirely an art. What credit analysis does allow us to do is gain an accurate profile of a subject at a given point in time by not only considering the publicly reported accounting statements of the subject but by also considering the: microeconomics of the entity being examined, the microeconomics of the industry or service it is in (how its industry or service peer group operate),the micro/macroeconomics of the country the subject is domiciled in and/or operates in (how the nation is perceived), and the macroeconomics of the world (what business cycle and economic cycle presently exist), the structure of the transaction, and whether the Risk/Reward Profile is accurate and adequate.

2.2.4 Credit Risk Monitoring

Drzik (2011) argues that credit risk monitoring refers to incessant monitoring of individual credits inclusive of Off-Balance sheet exposures to obligors as well as overall credit portfolio of the bank. Banks need to enunciate a system that enables them to monitor quality of the credit portfolio on day-to-day basis and take remedial measures as and when any deterioration occurs. Such a system would enable a bank to ascertain whether loans are being serviced as per facility terms, the adequacy of provisions, the overall risk profile is within limits established by management and compliance of regulatory limits. Establishing an efficient and effective credit monitoring system would help senior management to monitor the overall quality of the total credit portfolio and its trends. Consequently the management could fine tune or reassess its credit strategy /policy accordingly before encountering any major setback. The banks credit policy should explicitly provide procedural guideline relating to credit risk monitoring.

2.2.5 Credit approval

Fuser (2010) observes that credit approval is the process a business or an individual must go through to become eligible for a loan or to pay for goods and services over an extended period. It also refers to the process businesses or lenders undertake when evaluating a request for credit. Granting credit approval depends on the willingness of the creditor to lend money in the current economy and that same lender's assessment of the ability and willingness of the borrower to return the money or pay for the goods obtained plus interest in a timely fashion. Typically, small businesses must seek credit approval to obtain funds from lenders, investors, and vendors, and also grant credit approval to their customers.

2.2.2 Financial Performance

Haron (2009) asserts that financial performance is a measure of a Bank’s policies and operations in monetary terms. It is a general measure of a firm’s overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. There are many different ways to measure a bank’s financial performance. This may be reflected in the firm’s return on investment, return on assets, value added, among others and is a subjective measure of how a firm can use assets from its primary mode of business and generate revenues. Financial performance comprises the actual output or results of an organization as measured against its intended outputs (or goals and objectives). According to Richard et al. (2009) financial performance encompasses three specific areas of firm outcomes: (a) financial performance (profits, return on assets, return on investment, etc.); (b) product market performance (sales, market share, etc.); and (c) shareholder return (total shareholder return, economic value added, etc.).

Haron (2009) argues that financial performance is a measure of a Bank's policies and operations in monetary terms. It is a general measure of a firm's overall financial health over a given period of time. There are many different ways to measure a bank's financial performance. This may be reflected in the firm's return on investment, return on assets, value added, among others and is a subjective measure of how a firm can use assets from its primary mode of business and generate revenues. Bessis (1998) defines financial performance as a management initiative to upgrade the accuracy and timeliness of financial information to meet required standards while supporting day to day operations. In this study the indicators of financial performance are; Market share, Gross Profit Margin, Net Profit, Net Profit Margin, and Return on Assets (ROA).

Profitability

According to Mirakhor (2011), profitability is the primary goal of all business ventures. Without profitability the business will not survive in the long run. So measuring current and past profitability and projecting future profitability is very important. Profitability is measured with income and expenses. Income is money generated from the activities of the business. For example, if crops and livestock are produced and sold, income is generated. However, money coming into the business from activities like borrowing money do not create income. This is simply a cash transaction between the business and the lender to generate cash for operating the business or buying assets.

Return on Assets (ROA)

ROA, expressed as a percent, measures the company's ability to make money from its assets. To measure the ROA, take the pro forma net income divided by the total assets. However, because of very common irregularities in balance sheets (due to things like Goodwill, write-offs, discontinuations, etc.) this ratio is not always a good indicator of the company's potential. If the ratio is higher or lower than expected, one should look closely at the assets to see what could be over or understating the figure (Baldoni, 2012).

Market share

According to (Altamimi, 2008), market share is the percentage of a market (defined in terms of either units or revenue) accounted for by a specific entity. In a survey of nearly 200 senior marketing managers, 67% responded that they found the "dollar market share" metric very useful, while 61% found "unit market share" very useful. Marketers need to be able to translate and incorporate sales targets into market share because this will demonstrate whether forecasts are to be attained by growing with the market or by capturing share from competitors.

2.3 The effect of credit risk identification on the performance of commercial banks

Kairu (2009) argues that risk identification is vital for effective risk management. In order to manage credit bank risks effectively, management of bank have to know what risks face the bank. The important thing during risk identification is not to miss any risks out. There are a number of different techniques that can be used in risk identification. The first step in organizing the implementation of the risk management function is to establish the crucial observation areas inside and outside the corporation. Then, the departments and the employees must be assigned with responsibilities to identify specific risks.

In relation to commercial banks' practice of credit risk management, Kealhofer (2013) found that the UAE commercial banks were mainly facing credit risk. The study also found that inspection by branch managers and financial statement analysis are the main methods used in risk identification. The main techniques used in risk management are establishing standards, credit score, credit worthiness analysis, risk rating and collateral. The recent study by Khan (2011) was conducted on banks' risk management of UAE national and foreign banks. Their findings reveal that the three most important types of risks encountered by UAE commercial banks are foreign exchange risk, followed by credit risk, then operating risk.

Credit risk identification is positively significant to influence credit practices. In the case of banks, studies made especially on credit risk identification and risk mitigation includes the work of Haron and Hin Hock (2007) on market and credit risks, and Har on (2007) specifically on operational risk. Haron and Hin Hock (2007) explain the inherent risk; credit and market risk exposures in Banks. Also, they illustrate the notion of displaced commercial risk that is important in Banks. They conclude that certain risks may be considered as being inherent in the operations of conventional banks. Although the risk exposures of Banks differ and may be complex than conventional financial institution, the principles of credit and market risk management are applicable to both.

2.4 The effect of credit risk analysis on the Financial Performance

Pausenberger (2012) asserts that there are many conceptual studies made on risk analysis and assessment by reference to measurement and mitigation of risk. In practice, it is useful to classify the different risks according to the amount of damage they possibly cause. This classification enables the management to divide risks that are threatening the existence of the corporation from those which can cause slight damages. Frequently, there is an inverse relationship between the expected amount of loss and its corresponding likelihood, that is; risks that will cause a high damage to corporation, like earthquakes or fire, occur seldom, while risks that occur daily, like interest rate risks or foreign exchange risks, often cause only relatively minor losses, although these risks can sometimes harm the corporations seriously.

Altamimi (2008) highlighted that banks are somewhat efficient in analyzing and assessing risk and there is a significant different between national and foreign banks in the practice of risk analysis and assessment. Additionally, the findings show that risk analysis and assessment are influencing risk management practices. The measures are used not only for risk control purposes, but also for performance measurements and pricing. In the context of banking, few conceptual studies (Sundararajan, 2007) discuss the credit risk measurement aspects particularly on the unique risk.

According to Richard (2006), risk estimation comprises identification of the outcomes and estimation of both the magnitude of the consequences and the probability of those outcomes. The addition of risk evaluation completes the process of risk assessment. British Standard 4778 considers risk assessment to refer to analysis of inherent risks and their significance in an appropriate context. It therefore seems possible at this stage to conclude that risk assessment and risk analysis are synonymous terms.

Strutt (2013) outlines an engineering approach which defines credit risk analysis in the same terms as the Royal Society Study Group defines risk estimation and indeed claims that risk analysis is also called risk estimation. This is a narrower definition which now suggests that the preliminary conclusion above is mistaken. However, in another paper (Saunders, 2010), the same author expands his definition of risk analysis to include evaluation of acceptance or tolerance to the risk.

Kromschroder (2010) gives the fullest definition of risk analysis in a third paper where he sets out the concept in seven stages as systematic assessment (item by item - question every part of the system), identification of risks (local and glob al scale), assessment of risks (frequencies and consequences). This may involve a number of different analyses like establishing acceptable or tolerable levels of risk, evaluation of risks, determine whether the risks are as low as reasonably practicable, and determine risk reduction measures where appropriate. Risk analysis now goes beyond evaluation to include some of the decision making processes of risk management. Brainstorming is the main intuitive technique, involving a group generating ideas off the top of their heads with a philosophy of nobody is wrong let's get the ideas on the board. Although quick and simple, it lacks the comprehensive approaches of the more sophisticated techniques (Hommel, 2012).

A comprehensive risk measurement and mitigation methods for various risk arising from financing activities and from the nature of profit and loss sharing in the source of funds especially investment account holders are explained by Margrabe (2011). He concludes that the application of modern approaches to risk measurement, particularly for credit and overall banking risks is important for banks. Also, he suggests that the need to adopt new measurement approaches is particularly critical for banks because of the role play, the unique mix of risks in finance contracts.

Granting credit involves accepting risks as well as producing profits. Banks should assess the risk/reward relationship in any credit as well as the overall profitability of the account relationship. In evaluating whether, and on what terms, to grant credit, banks need to assess the risks against expected return, factoring in, to the greatest extent possible, price and non-price (e.g. collateral, restrictive covenants, etc.) terms (Margrabe 2011).

2.5 The effect of credit risk monitoring on the Financial Performance

Morris (2011) argues that the main function of the risk manager is to monitor; measure and control credit risk. The Risk Manager's duty includes monitoring of possible events or future changes that could have a negative impact on the institution's credit portfolio and the bank's ability to withstand the changes. The areas to examine critically are: Economic or industry changes, Market risk events and Liquidity conditions.

According to Mason (2012), effective credit risk monitoring requires a reporting and review structure to ensure that risks are effectively identified and assessed and that appropriate controls and responses are in place. Credit risk monitoring can be used to make sure that credit risk management practices are in line and proper risk monitoring also helps bank management to discover mistake at early stage. Credit risk monitoring is the last step in the corporate risk management process and this improves the financial performance of commercial banks.

According to Mwirigi, (2009), the shareholders of the institutions can use their rights to demand information in order to judge the efficiency of the risk management system. The director's report enables the shareholders to assess the status of the corporation knowledgeably and thoroughly. Mwisho (2011) conducted a survey of risk management practices and found that on average the lowest percentage is on the measuring, mitigating and monitoring risk that is 69% score as compared to risk management policies and procedures that is 82.4%, and internal control of banks that is 76%.

According to Ngare, (2008), the area of interest rate risk is the second area of major concern and on -going risk monitoring and management. Here, however, the tradition has been for the banking industry to diverge somewhat from other parts of the financial sector in their treatment of interest rate risk. Most commercial banks make a clear distinction between their trading activity and their balance sheet interest rate exposure. Investment banks generally have viewed interest rate risk as a classic part of market risk, and have developed elaborate trading risk management systems to measure and monitor exposure. For large commercial banks and European-type universal banks that have an active trading business, such systems have become a required part of the infrastructure. But, in fact, these trading risk management systems vary substantially from bank to bank and generally are less real than imagined (Richardson, 2012). In many firms, fancy value - at - risk models, are up and running. But, in many more cases, they are still in the implementation phase. In the interim, simple ad hoc limits and close monitoring substitute for elaborate real time systems. While this may be completely satisfactory for institutions that have little trading activity and work primarily on behalf of clients, the absence of adequate trading systems elsewhere in the industry is a bit distressing.

Parrenas (2013) agrees that credit risk monitoring involves frequent contact with borrowers, creating an environment that the bank can be seen as a solver of problems and trusted adviser; develop the culture of being supportive to borrowers whenever they are recognized to be in difficulties and are striving to deal with the situation; monitoring the flow of borrower's business through the bank's account; regular review of the borrower's reports as well as an on - site visit; updating borrowers credit files and periodically reviewing the borrowers rating assigned at the time the credit was granted.

2.6 The effect of credit approvals on the Financial Performance

Clear established process for approving new credits and extending the existing credits has been observed to be very important while managing Credit Risks in banks (Saunders, 2012). Further, monitoring of borrowers is very important as current and potential exposures change with both the passage of time and the movements in the underlying variables (Mwisho, 2011), and also very important in dealing with moral hazard problem.

Commercial Banks have a written guidelines on the credit approval process and the approval authorities of individuals or committees as w ell as the basis of those decisions. Approval authorities should be sanctioned by the board of directors. Approval authorities will cover new credit approvals, renewals of existing credits, and changes in terms and conditions of previously approved credits, particularly credit restructuring, all of which should be fully documented and recorded. Prudent credit practice requires that persons empowered with the credit approval authority should not also have the customer relationship responsibility. Approval authorities of individuals should be commensurate to their positions within management ranks as well as their expertise (Mwisho, 2011).

Credit risk approval is the process a business or an individual must go through to become eligible for a loan or to pay for goods and services over an extended period. It also refers to the process businesses or lenders undertake when evaluating a request for credit. Granting credit approval depends on the willingness of the creditor to lend money in the current economy and that same lender's assessment of the ability and willingness of the borrower to return the money or pay for the goods obtained plus interest in a timely fashion. Typically, small businesses must seek credit approval to obtain funds from lenders, investors, and vendors, and also grant credit approval to their customers.

In general, the granting of credit depends on the confidence the lender has in the borrower's credit worthiness. Credit worthiness which encompasses the borrower's ability and willingness to pay is one of many factors defining a lender's credit policies. Creditors and lenders utilize a number of financial tools to evaluate the credit worthiness of a potential borrower. When both lender and borrower are businesses, much of the evaluation relies on analyzing the borrower's balance sheet, cash flow statements, inventory turnover rates, debt structure, management performance, and market conditions (Sundarajan, 2013).

Many banks rely on loans or other forms of credit to finance day-to-day purchases or long-term investments in facilities and equipment. Credit is one of the foundations of the American economy, and small businesses often must obtain credit in order to compete. To establish credentials for any credit approval process, from short-term loans to equity funding, a small business needs to have a business plan and a good credit history. The company must be able to show that it can repay the loan at the established interest rate (Gleaner, 2010). Through feeding such small companies with credit which has undergone proper credit risk approval, commercial banks can be able to improve their financial performance.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter contains the description of how the research was conducted. It includes the research design, study area and population, sampling design and size, data collection sources, methods and instruments of data collection, data analysis, and limitations of the study.

3.2 Research Design

The research design refers to the overall strategy that one chooses to integrate the different components of the study in a coherent and logical way, thereby, ensuring that one effectively addresses the research problems; it constitutes the blueprint for the collection, measurement, and analysis of data. The researcher adopted a cross sectional research design in because of its capability in gathering a lot of data in a short time and in-depth analysis. The researcher further employed this design due to its advantages in describing and explaining events as they are.

3.3 Study Area

The area of the study was Equity Bank-Katwe Branch which is located in Kampala district, Makindye Division. Equity bank was selected because it is one of the relatively new bank in the Uganda and could offer a better understanding of how credit management affects the financial performance of banking institutions

3.4 Study Population

The population of the study constituted the employees of Equity Bank – Katwe branch. According to the banks end of year report (2014), the branch employees 45 people. It is these employees who constituted the population of the study. Both low level employees and those in managerial positions were included.

3.5 Sample Size and Sampling procedure

The sample size considered for the study was 38 respondents. Using simple random sampling 38 employees were selected to act respondents. The researcher selected respondents from all the different departments of the bank which included administration, Finance, Procurement, field officers, Marketing Department.

Table: 3.1 Sample Size

Departments	**Population**	**Sample size**
Administration department	05	04
Finance	05	05
Procurement	15	14
Field office	05	05
Marketing	10	10
Total	**40**	**38**

Source: *Krejcie and Morgan (1970)*

3.6 Data Collection Sources

Data was collected from both primary and secondary sources. The primary sources involved obtaining raw data from respondents in the different departments of Equity Bank. The secondary source involved reviewing literature related to the subject under study.

3.7 Data Collection Methods and Instruments

Questionnaire Method

Data was collected using a structured closed ended questionnaire. Questionnaires are data collection instruments that enable the researcher to pose questions to subjects in his/her search for answers to the research questions. The questionnaire was structured in a 5 point Likert scale format. A highly structured question format allows for the use of closed ended questions that required the respondent to choose from a predetermined set of responses or scale points thus making it simple on the side of the respondent.

Interview Method

Interviews were conducted in an open environment and administered by the researcher after appointment from different departments. The researcher in this case used an interview guide which guided him on how to conduct interviews. Responses captured from respondents were recorded and the interview guide helped in completing the work. This method increased the response rate, allowed the researcher to rephrases questions so as to get deeper understanding of the subject understudy, in addition to helping the research to correlate information that was got using questionnaires because respondents who were interviewed were deemed to more knowledgeable about subject under study.

3.8 Data Processing and Analysis

Quantitative data was edited before leaving the respondents. The researcher checked for uniformity, consistency, legibility, and comprehensibility. It was then coded and tabulated using Statistical Package for the Social Sciences (SPSS) version 15 for Windows. Frequencies were obtained for respondent's demographics such as gender, age bracket, education level and data was graphically represented on charts. Sarantakos (2000) describes data analysis statistically analyzing data in order to determine whether the generated hypotheses have been supported

Qualitative data was analyzed by identifying tentative themes and their concepts, the tentative themes are; effect of credit risk identification on financial performance, effect of credit risk analysis on financial Performance of commercial banks, effect of credit risk monitoring on financial Performance and the effect of credit approvals on the financial Performance. Data was analyzed during and after data collection. Data was analyzed through presentation, comparison, verbatim, quoting, explanation and discussion.

3.9 Data Quality Control

3.9.1 Validity

Validity refers to the degree in which our test or other measuring device is truly measuring what we intended it to measure. The researcher analyzed the results of the content validity of the scale. Content validity, where the content and cognitive processes included can be measured. Topics, skills and abilities should be prepared and items from each category randomly drawn. Criterion validity, which refers to the relationship between scores on a measuring instrument and an independent variable (Criterion), believed to measure directly the behaviour of the characteristics in question. The criterion was relevant, reliable and free from bias and contamination. The items that had content validity index of over 0.75 remained and the rest were discarded. The remaining items were modified, based on the experts' opinions.

3.10.2 Reliability

According to Trochim (2006), reliability is used to describe the overall consistency of a measure. A measure is said to have a high reliability if it produces similar results under consistent conditions. Reliability of the measuring instrument addresses the question of whether the results of the measuring processes are consistent on occasions when they should be consistent. For this study, the researcher's pilot was tested by the use of questionnaires among 15 respondents to ensure reliability. Using the results of the pilot study, the researcher assessed the degree of internal consistency among a set of indicators that were enumerated in the questionnaire. Cranach's alpha coefficient was used and it generally increased as the inter-correlations among test items increase, and is thus known as an internal consistency estimate of reliability of test scores. Using the results of the pilot study, the researcher assessed the degree of internal consistency by using Cronbach's alpha coefficiency by considering an acceptable rule that is between $0.6 \leq \alpha < 0.7$. Therefore, the researcher's internal consistency was 0.67.

3.10 Measurement of Variables

The researcher used a five point Likert Scale and that is from 1-strongly agree, 2-agree, 3-not sure, 4-disagree and 5-strongly disagree in order to measure the relationship between variables.

3.12 Ethical Considerations

The research complied with ethical procedures to protect the rights of the research participants, which involved the principle of voluntary participation which requires that participants do not need to be coerced into participating in this research. The following ethical measures were adhered to (Sekaran, 2003).

Right of the participant: In this study, no attempt was made to harm participants deliberately and those who can experience any form of harm be it through victimization, emotional or otherwise, were informed in advance of their right to withdraw from participating in the study.

Confidentiality and Anonymity: Confidentiality means that information from participants is not going to be divulged to the public nor made available to colleagues, subordinates or superiors. In this study, all information about participants was treated with confidentiality and the participants were anonymous (Saunders, 2003). A covering letter is assured to the respondents that all responses would be treated with utmost confidentiality and anonymity.

3.13 Anticipated limitation of the Study and their Resolutions

The following are some of the constraints that the researcher encountered during the study and how they were overcome;

Most of the respondents were not willing to give out information for fear of the real motive of the researcher. However, the researcher assured that the information needed was going to be used for academic purposes only.

The researcher faced a challenge of delays in filling in the questionnaire from the respondents leading to delays of the whole research process. In this case the researcher made frequent visits and telephone calls to remind the respondents who delayed bringing back the questionnaires.

The whole research exercise was expensive as a lot of funds were needed for travels, typesetting, and communication, to mention but a few. To solve this challenge the researcher made a budget for the research and made sure that he worked within that budget.

The researcher was faced with a challenge of limited time to carry out the research thoroughly. The researcher overcame this by diligently following the proposed time frame.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.0 Introduction

The study assessed the effects of credit risk management on the financial performance of commercial banks in Uganda, using Equity Bank-Katwe Branch as case study. A total of thirty respondents were selected from Equity Bank-Katwe Branch. Data was collected through questionnaires and interviews. This chapter therefore gives a presentation, analysis and interpretation of the findings. The findings are presented and sectioned according to the objectives of the study. When collecting data, 38 questionnaires were distributed to 38 respondents and a total of 30 questionnaires were returned, signifying a total of 79%.

4.1Respondents Personal Information

Respondents' demographic variables were taken into consideration and the researcher collected information on gender, age, and level of education.

4.1.1 Gender

Table 4.1.1: Distribution by Gender

Gender	Frequency	Percent	Valid Percent	Cumulative Percent
MALE	17	56.7	56.7	56.7
FEMALE	13	43.3	43.3	100.0
Total	30	100.0	100.0	

Source: Primary data, 2016

Information in table 1 above shows that, 56.7% of the respondents were males where as 43.3% of the respondents were females. The difference in the number of females and males who participated in the study is not as a result of the researcher's biasness but rather the composition of the study population. Implying that information given was gender balanced.

4.1.2 Respondent’s Age Bracket

Table 4.1.2 : Distribution by Age

Age	Frequency	Percent	Valid Percent	Cumulative Percent
Below 25	3	10.0	10.0	10.0
36-35	12	40.0	40.0	50.0
36-45	8	26.7	26.7	66.07
46 and above	7	23.3	23.3	100.0
Total	30	100.0	100.0	

Source: Primary data, 2016

Table 4.1.2 results above show that 40% of the respondents were between the ages of 26-35, 26.7% of the respondents were between 36-45, where as 23.7% of the respondents were 46 years and above and 10% of the respondents were below 25 years. The fact that majority of the respondents that is 40% were between 26-35 years which implies that most of them are still young and have no family responsibilities that can force them into risky activities within the bank.

4.1.3 Respondents level of Education

Table 4.1.3: Showing distribution by level of Education

Education Level	Frequency	Percent	Valid Percent	Cumulative Percent
Certificate	0	0.0	0.0	0.0
Diploma	3	10.0	10.0	10.0
Bachelors	22	73.3	73.3	83.3
Masters	5	16.7	16.7	100.0
Total	30	100.0	100.0	

Source: Primary data, 2016

Table 4.1.3 above shows that 10% were diploma holders, 73.3% of the respondents were bachelors holders, and 16.7 were master holders, and none of the employees were certificate holders. These results imply that all employees are educated enough to understand the importance of credit risk management on the financial performance commercial banks and their roles in managing credit risks.

4.1.4 Period of Service

Table 4.1.4: Showing period of service

Time	Frequency	Percent	Valid Percent	Cumulative Percent
>1year	6	20.0	20.0	20.0
1-4 Years	15	50.0	50.0	70.0
5 Years And Above	9	30.0	30.0	100.0
Total	30	100.0	100.0	

Source: Primary data, 2016

Information in table 4.1.4 above indicates that majority of the respondents that is 50% have been working with Equity Bank between 1-4 years, 20% of the respondents have been working with bank for less than a year and 30% of the respondents have been working with the bank for more than 4 years. These results imply that majority of the respondents have been with the Equity bank long enough to understand the credit risk management practices of the bank.

4.2 Credit Risk Identification and Financial Performance.

Participants were asked to answer questions relating to the effects of credit risk management on financial performance of Equity Bank and the results are as presented below;

4.2.1 The bank always takes stock of its risks

In the course of the study it was discovered that one of identifying risks is through the company taking stock of its risks. When employees from Equity bank were asked about this, they responded as follows;

Table 4.2.1: Response to the bank always taking stock of its risks

Item	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Agree	4	13.3	13.3	13.3
Agreed	5	16.7	16.7	30
Not Sure	3	10	10	40
Disagreed	11	36.7	36.7	76.7
Strongly Disagreed	7	23.3	23.3	100
Total	30	100.0	100.0	

Source: Primary data, 2016

Data in table 4.2.1 above shows that 23.3%, 36.7%, 10%, 16.7%, 13.3% strongly disagreed, disagreed, were not sure, agree and strongly agreed respectively that Equity bank always takes stock of its risks.

The findings of the study generally indicated that Equity bank does not properly take stock of its risks as supported by 60% of the respondents. This results into the bank missing some of the credit risks which end up affecting the bank negatively. Learning through experience can be so costly in business and especially in the banking sector.

The findings of the study are in line with Haselkorn et al. (2015) who said that taking a detailed stock or all risks and risk analysis that examines the nature and extent of disruptions and the likelihood of the resulting consequences is important for business as it exposes problems areas and this gives management an opportunity to deal with areas before problems arise.

4.2.2 The bank always raises awareness for risks

It was notes during the course of the study that raising risk awareness is key to risk identification. Respondents were asked to show their level of agreement to this discovery and they responded as follows;

Table 4.2.2: Response to the bank raising awareness for risks

Item	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Agree	4	13.3	13.3	13.3
Agreed	5	16.7	16.7	30
Not Sure	6	20	20	50
Disagreed	10	33.3	33.3	83.3
Strongly Disagreed	5	16.7	16.7	100
Total	30	100.0	100.0	

Source: Primary data, 2016

Information in table 4.2.2 shows that another 50% of the respondents disagreed that the bank always raises awareness of the risks. However 20% of the respondents were not sure and 30% of the respondents agreed.

The findings of the study showed that at Equity bank management does not always raise awareness of the risks. Failure to raise awareness about risks in commercial banks creates a situation of complacence among those involved in risk management and among all employees in general. This puts commercial banks at risk of falling prey of credit risks that they would not have gone through if all employees were aware of such risks and this puts financial performance of commercial banks at risk.

This findings of the study are in agreement with an OECD Report (2008) which concluded that risk information that is properly filtered through programs and policies can help to support the development of a culture of safety. A community that possesses a culture of safety is one that is aware of risks, has knowledge of mitigation strategies, and actively employs these strategies in an effort to not only manage risk, but reduce it.

4.2.3 Credit risk identification is the starting point of managing risks activities

While conducting the research is was noted credit risk identification is the starting point of managing risks. Respondents were asked to show their level of agreement to this statement and they responded as follows;

Table 4.2.3: Response to Credit risk identification as the starting point of managing risk activities

Item	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Agree	10	33.3	33.3	33.3
Agreed	15	50	50	83.3
Not Sure	2	6.7	6.7	90
Disagreed	2	6.7	6.7	96.7
Strongly Disagreed	1	3.3	3.3	100
Total	30	100.0	100.0	

Source: Primary data, 2016

Results in table 5.2.3 show that 10% of the respondents disagreed that Credit risk identification is the starting point of managing risks activities. 6.7% of the respondents were not sure and 83.3% of the respondents agreed.

The above findings indicated that most of the respondents that 82% believed that Credit risk identification is the starting point of managing risks activities. With out identifying the risks that the bank faces, then there can be risks that the bank will manage. Risks identification is an important and crucial stage of credit risk management.

The findings of the study are in line with Kairu (2009) who said that identifying risks is the first and perhaps the most important step in the risk management process. It involves generating a comprehensive list of threats and opportunities based on events that might enhance, prevent, degrade, accelerate or delay the achievement of your objectives. If you don't identify a risk, you can't manage it.

4.2.4 The Bank always establish the crucial observation areas in it's operation

While conducting the research is was noted that establishing crucial observation areas in it's operation is crucial in risk identification. Respondents were asked to show their level of agreement to this statement and they responded as follows;

Table 4.2.4: Response to the Bank always establish the crucial observation areas in it's operations

Item	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Agree	2	6.7	6.7	6.7
Agreed	4	13.3	13.3	20
Not Sure	2	6.7	6.7	26.7
Disagreed	13	43.3	43.3	70
Strongly Disagreed	9	30	30	100
Total	30	100.0	100.0	

Source: Primary data, 2016

Information in table 4.2.3 above, 30% of the respondents strongly disagreed and 44% of the respondents disagreed that the Bank always establish the crucial observation areas in it's operation, 4% of the respondents were not sure and 14% agreed where as 8% of the respondents strongly agreed.

These findings of the study generally showed that Equity Bank does not have properly established crucial observation areas in it's operation. These observation areas are important in risk identification. When they are it means that Equity Bank is not in position to identify the credit risks that it is facing as desired and failure to identify risks can lead to financial loss.

The findings of the study are in line with Khan (2011) who according to his study concluded that the first step in organizing the implementation of the risk management function is to establish the crucial observation areas inside and outside the corporation. Then, the departments and the employees must be assigned with responsibilities to identify specific risks.

4.2.5 The bank always know what risks it faces

While conducting the research it was noted knowing the risks that the bank faces is good in managing risks. Respondents were asked to show their level of agreement to this statement and they responded as follows;

Table 4.2.5: Response to the bank always know what risks it faces

Item	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Agree	4	13.3	13.3	13.3
Agreed	5	16.7	16.7	30
Not Sure	3	10	10	40
Disagreed	13	43.3	43.3	83.3
Strongly Disagreed	5	16.7	16.7	100
Total	30	100.0	100.0	

Source: Primary data, 2016

Information in table also showed that 60% of the respondents disagreed that the bank always know what risks it faces, 12% of the respondents were not sure where as 28% of the respondents agreed with the fact that bank's organizational structure is always reviewed to match the cooperate strategy

This shows that at Equity bank is not always aware of some of the risks that it is facing. This can be attributed to failure of the bank to implement proper risk assessment and identification strategies. Failure to indentify risks means that the bank operates in the dark and it sometimes gets aware of the impending risk when it's already too late.

The findings are in agreement with Kairu (2009) who argued that risk identification is vital for effective risk management. In order to manage credit bank risks effectively, management of bank have to know what risks face the bank. This helps in creating measures of guarding against that risk and thus protecting the business from the would be loss.

4.3 Credit Risk Analysis and Financial Performance of Commercial Banks

The study also aimed establishing the effects of credit risk analysis on performance of commercial banks. Participants in study were asked to answer questions relating to how risk analysis has affects the performance of commercial banks and the results are as presented below;

4.3.1 The bank always classifies risks according to the amount of damage they can possibly cause

In the course of the study it was discovered that one of identifying risks is through the company taking stock of its risks. When employees from Equity bank were asked about this, they responded as follows;

Table 4.3.1: Response to the bank always classifying risks according to the amount of damage they can possibly cause

Item	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Agree	4	13.3	13.3	13.3
Agreed	5	16.7	16.7	30
Not Sure	2	6.7	6.7	36.7
Disagreed	11	36.7	36.7	73.3
Strongly Disagreed	8	26.7	26.7	100
Total	30	100.0	100.0	

Source: Primary data, 2016

Results in table 4.3.1 shows that 13.3% of the respondents strongly agreed that the bank always classifies risks according to the amount of damage they can possibly cause, 16.7% of the respondents agreed, 6.7% were not sure, 36.7% disagreed where as another 26.7% strongly disagreed.

The findings of the study showed that Equity bank does not properly classify risks according to the possible amount of damage that they can cause. This results into failure of the bank to accurately analyze the effects of all possible risks on the performance. When risks are not accurately analyzed, they result into the bank making losses in wake of their occurrence.

The findings of the study are in agreement with Pausenberger (2012) who asserted that there are many conceptual studies made on risk analysis and assessment by reference to measurement and mitigation of risk. In practice, it is useful to classify the different risks according to the amount of damage they possibly cause. This classification enables the management to divide risks that are threatening the existence of the corporation from those which can cause slight damages

4.3.2 The bank often considers accounting statements in analyzing credits

In the course of the study it was discovered that banks often considers accounting statements in analyzing credit risks. When employees from Equity bank were asked about this, they responded as follows;

Table 4.3.2: Response to the bank often considers accounting statements in analyzing credits

Item	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Agree	4	13.3	13.3	13.3
Agreed	5	16.7	16.7	30
Not Sure	2	6.7	6.7	36.7
Disagreed	11	36.7	36.7	73.3
Strongly Disagreed	8	26.7	26.7	100
Total	30	100.0	100.0	

Source: Primary data, 2016

Results in table 6 above further indicate that 12% of the total respondents strongly agreed with the bank often considering accounting statements in analyzing credits, 18% of the respondents disagreed, 8% of the respondents were not sure, 36% of the respondents agreed that the bank often considers accounting statements in analyzing credits and 26% of the respondents strongly agreed.

These findings of the study indicated that Equity bank in many cases uses accounting reports to analyze risks. Accounting reports give good financial information and therefore their use in risk analysis is important in painting a clear picture of the possible risks that the bank is facing or likely to face.

The study findings are in line with Haselkorn et al. (2015) who asserted that audit and accounting report provide a starting point for analysing potential risks in a business. An Independent view of adherence to regulatory guidelines including a review of compliance preparations, security policies, access controls and management of risks can help in analyzing risks.

4.3.3 The bank uses brain storming to identify and analyze risks

In the course of the study it was discovered that one of identifying risks is through the company taking stock of its risks. When employees from Equity bank were asked about this, they responded as follows;

Table 4.3.3: Response to the bank uses brain storming to identify and analyze risks

Item	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Agree	2	6.7	6.7	6.7
Agreed	3	10	10	16.7
Not Sure	2	6.7	6.7	23.4
Disagreed	13	43.3	43.3	66.7
Strongly Disagreed	10	33.3	33.3	100
Total	30	100.0	100.0	

Source: Primary data, 2016

Data in table 4.3.3 show that 16.7% of the respondents agreed with the bank uses brain storming to identify and analyze risks, 6.7% of the respondents were not sure where as 78.6% of the respondents disagreed.

The findings of the study imply that Equity Bank does not brain storm when carrying out risk analysis yet brain storming is one of the techniques of generating ideas very fast. This robs the bank of quick way of coming with ideas about risk and how these risks can affect financial performance of the bank.

The findings of the study are in agreement with Khan (2011) who stated that brain storming is one of the creative techniques to gather risks spontaneously by group members. Group members verbally identify risks in a ‘no wrong answer’ environment. This technique provides the opportunity for group members to build on each other’s ideas. This generates ideas that can help in managing the impending risks within a very short time, which makes it a cost effective technique.

4.3.4 Proper risk assessment helps the bank in making informed financial decisions

In the course of the study it was discovered that one of identifying risks is through the company taking stock of its risks. When employees from Equity bank were asked about this, they responded as follows;

Table 4.3.4: Response to proper risk assessment helping the bank in making informed financial decisions

Item	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Agree	9	30	30	30
Agreed	12	40	40	70
Not Sure	4	13.3	13.3	83.3
Disagreed	3	10	10	93.3
Strongly Disagreed	2	6.7	6.7	100
Total	30	100.0	100.0	

Source: Primary data, 2016

Furthermore according to table 6 above, 70% of the respondents agreed that proper risk assessment helps the bank in making informed financial decisions, 13.3% of the respondents were not sure, and only 16.7% of the respondents disagreed

The findings of the study showed that indeed proper risk management when carried out effectively can help in making effective and informed decisions. Through proper risk analysis the bank is able to know the forms of risks that are involved in decision to made and this helps in making decision that have been weighed which reduces making faulty decisions and this improves on financial performance.

The finding rhyme with Pausenberger (2012) who said that risk analysis an essential tool when making decisions and work involves risks. It can help to identify and understand the risks that the business could face. In turn, this helps manage these risks, and minimize their impact on business plans.

4.3.5 Risk evaluation is done periodically at the bank

In the course of the study it was discovered that periodic risk evaluation is important in risk analysis. When employees from Equity bank were asked about this, they responded as follows;

Table 4.2.1: Response to Risk evaluation is done periodically at the bank

Item	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Agree	11	33.3	33.3	33.3
Agreed	16	53.7	43.7	90
Not Sure	0	0	0	90
Disagreed	2	6.7	6.7	96.7
Strongly Disagreed	1	3.3	3.3	100
Total	30	100.0	100.0	

Source: Primary data, 2016

Data in table 4.4.5 shows that 90% of the respondents agreed that risk evaluation is done periodically at the bank, none of the respondents were not sure, where as 10% disagreed.

From the findings of the study it was found out that Equity bank carries out periodic risk evaluation and this was supported by 90% of the respondents. Periodic risk assessment is good for the bank because it helps uncover new risks that come over time and at the same time helps the bank to evaluate its performance against the already known risks. This is important for financial performance because it helps the bank in constant watch of the risks that it faces that would affect its performance.

The findings of the study are in line with a study conducted by Khan (2011) in which he concluded that it is important to scan the environment from time to time to identify new and emerging risks, as the department's exposure to risk may be constantly changing.

4.4 Credit risk monitoring and financial performance of commercial banks

The study further aimed at establishing the effects of credit risk monitoring on financial performance of commercial banks. Participants in study were asked to answer questions relating to the effects of credit monitoring on financial performance of Equity bank and the results are as presented below;

4.1.1 The bank always keeps a keen eye on individual credit

While conducting the study it was discovered that keeping a keen eye on individual credit is important in credit risk monitoring. When employees from Equity bank were asked about this, they responded as follows;

Table 4.1.1: Response to the bank always keeps a keen eye on individual credit

Item	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Agree	8	26.7	26.7	26.7
Agreed	16	53.3	53.3	80
Not Sure	1	3.3	3.3	83.3
Disagreed	4	13.3	13.3	96.7
Strongly Disagreed	1	3.3	3.3	100
Total	30	100.0	100.0	

Source: Primary data, 2016

From the data obtained in table 7 above, 3.3%, 13.3%, 53.3% and 26.7%, strongly disagree, disagree, agree and strongly agree respectively with the bank always keeps a keen eye on individual credit.

The findings of the study indicated that at least Equity banks closely monitors individual credit and this is supported 80% of the respondents who agreed to it. The bank carries out regular review of borrower's reports as well as site visits to update borrower's credit files. This helps the bank to know what is happening with each individual creditor. This helps to find a solution to any problems that may be discovered with any creditor on time hence saving the bank from financial loss.

Banks must ensure that the credit-granting function is being properly managed and that credit exposures are within levels consistent with prudential standards and internal limits. Banks should establish and enforce internal controls and other practices to ensure that exceptions to policies, procedures and limits are reported in a timely manner to the appropriate level of management for action.

4.4.2 The bank always tracks the quality of credit portfolio on day-to-day basis

In the course of the study it was learned that tracks the quality of credit portfolio on day-to-day basis is important in risk monitoring. When employees from Equity bank were asked about this, they responded as follows;

Table 4.4.2: Response to the bank always tracks the quality of credit portfolio on day-to-day basis

Item	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Agree	5	16.3	16.3	16.3
Agreed	15	50	50	66.7
Not Sure	6	20	20	86.7
Disagreed	3	10	10	96.7
Strongly Disagreed	1	3.3	3.3	100
Total	30	100.0	100.0	

Source: Primary data, 2016

Data in Table 4.4.2 above shows 3.3%, 20, 10%, 20%, 50% and 16.3% disagree, not sure, agree and strongly agree respectively that the bank always tracks the quality of credit portfolio on day-to-day basis

Findings showed that Equity bank does not track the quality of credit portfolio on the day to day basis. This is not good for the bank as it puts quality of credit portfolio in jeopardy. There is need to track the credit portfolio on a daily basis so as to be sure that standards are being followed.

The findings are in line Morris (2011) who stated that in order to maintain a sound credit portfolio, a bank must have an established formal transaction evaluation and approval process for the granting of credits. Approvals should be made in accordance with the bank's written guidelines and granted by the appropriate level of management.

4.4.4 The bank credit policy provides procedural guidelines

While carrying the research it was noted that for proper credit management, bank credit policies should provide procedural guidelines. When employees from Equity bank were asked about this, they responded as follows;

Table 4.4.4: Response to the bank credit policy providing procedural guidelines

Item	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Agree	7	23.3	23.3	23.3
Agreed	13	43.3	43.3	66.6
Not Sure	2	6.7	6.7	73.3
Disagreed	5	16.7	16.7	90
Strongly Disagreed	3	10	10	100
Total	30	100.0	100.0	

Source: Primary data, 2016

Responses obtained in table 4.4.4 above shows that 23.3%, 43.3%, 16.7% and 10% of the respondents strongly disagree, disagree, agree and strongly agree respectively that the bank credit policy provides procedural guidelines.

The findings of the study showed that Equity bank's credit management policy offers guidelines on how to monitor credit risks and this was supported by 66.6% of the respondents. The question remains whether these procedures are followed. When well followed procedures of risk management help in ensuring credit risks are well monitored as stipulated.

The findings of the stay concur with Margrabe (2011) who said that banks need to develop and implement comprehensive procedures and information systems to monitor the condition of individual credits and single obligors across the bank's various portfolios. These procedures need to define criteria for identifying and reporting potential problem credits and other transactions to ensure that they are subject to more frequent monitoring as well as possible corrective action, classification and/or provisioning

4.4.5 The bank usually keeps a check at the risks already identified

In the course of the study it was also discovered that keeping a check on risks already identified is one way of monitoring risks. When employees from Equity bank were asked about this, they responded as follows;

Table 4.4.5: Response to the bank usually keep a check at the risks already identified

Item	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Agree	7	23.3	23.3	23.3
Agreed	11	36.7	36.7	60
Not Sure	3	10	10	70
Disagreed	5	16.7	16.7	86.7
Strongly Disagreed	4	13.3	13.3	100
Total	30	100.0	100.0	

Source: Primary data, 2016

The results obtained revealed that 23.3%, 36.7%, 16.7% and 13.3%, of the respondents strongly agreed, agree, disagree and strongly disagree that the bank usually keep a check at the risks already identified.

From the findings of the study, the bank usually keeps a check at the risks already identified. This is important in risk management because it helps the bank from falling prey of the same risks over and over. It helps the bank save money that would have been lost from such risks which were once indentified at also saves the bank time and resources of having to indentify same risks all the time.

Mwirigi, (2009) says that each credit proposal should be subject to careful analysis by a qualified credit analyst with expertise commensurate with the size and complexity of the transaction. An effective evaluation process establishes minimum requirements for the information on which the analysis is to be based. There should be policies in place regarding the information and documentation needed to approve new credits, renew existing credits and/or change the terms and conditions of previously approved credits.

4.4.5 Credit risk monitoring affects the costs of the bank

In the course of the study it was discovered that one of identifying risks is through the company taking stock of its risks. When employees from Equity bank were asked about this, they responded as follows;

Table 4.4.5: Response to Credit risk monitoring affects the costs of the bank

Item	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Agree	11	33.3	6.7	6.7
Agreed	16	43.3	10	16.7
Not Sure	2	6.7	6.7	23.4
Disagreed	3	10	43.3	66.7
Strongly Disagreed	1	3.3	33.3	100
Total	30	100.0	100.0	

Source: Primary data, 2016

More so results obtained revealed that 33.3%, 43.3%, 6.7%, 10 and 3.3%, of the respondents strongly agree, agree, disagree and strongly disagree that credit risk monitoring affects the costs of the bank

From the findings of the study above, credit risk monitoring affects the costs of the bank, as supported by 66.6% of the respondents. Credit risk identification process costs money and time. Therefore credits risks that have already been identifies are closely monitored it helps the bank from going through credit identification and monitoring credit risks helps to adjust to the risk on time and this saves the bank money that would have been lost in case s risk that was not being monitored occurred.

Mwisho (2011) say that efficient credit risk monitoring saves the company time and money. By effectively monitoring credit risks financial loss that would have resulted from these risks is avoided.

4.5 Credit approvals and its effects on financial performance of commercial banks

The study further aimed at establishing the effects of credit approval on financial performance of commercial banks. Participants in study were asked to answer questions relating to how credit approval affects financial performance in Equity bank and the results are as presented below;

4.5.1 Credit approval for all bank customers helps in taking calculated risks with all customers

In the course of the study it was discovered that Credit approval for all bank customers helps in taking calculated risks with all customers. When employees from Equity bank were asked about this, they responded as follows;

Table 4.5.1: Response to the Credit approval for all bank customers helps in taking calculated risks with all customers

Item	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Agree	9	30	30	30
Agreed	16	53.3	53.3	83.3
Not Sure	1	3.3	3.3	86.9
Disagreed	4	13.3	13.3	100
Strongly Disagreed	0	0	0	100
Total	30	100.0	100.0	

Source: Primary data, 2016

Results in table 4.5.1 show that 13.3% of the respondents strongly disagreed with credit approval for all bank customers helps in taking calculated risks with all customers, 3.3% of the respondents were not sure whereas 83.3% of the respondents agreed.

The findings of the study showed that indeed credit approval at Equity bank helps the bank in taking calculated risks. The Bank has a list of competent client approval officials who ensures that the clients who are being given loans have the ability to payback or the collateral that is given is worth the money being loaned to them. Approval helps in ensuring that money is given to only clients who have the ability to pay back and this saves the bank from making losses.

The findings of the study are in agreement with Saunders (2012) Granting credit involves accepting risks as well as producing profits. Banks should assess the risk/reward relationship in any credit as well as the overall profitability of the account relationship. In evaluating whether, and on what terms, to grant credit, banks need to assess the risks against expected return, factoring in, to the greatest extent possible, price and non-price (e.g. collateral, restrictive covenants, etc.) terms.

4.5.2 The bank always evaluates requests for credit

While carrying out the research it was found out evaluating requests for credit is key in credit risk approval. When respondents from Equity bank were asked about this, they responded as follows;

Table 4.5.2: Response to the bank always evaluating requests for credit

Item	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Agree	9	30	30	30
Agreed	11	36.6	36.6	66.6
Not Sure	2	6.7	6.7	72.3
Disagreed	5	16.7	16.7	90
Strongly Disagreed	3	10	10	100
Total	30	100.0	100.0	

Source: Primary data, 2016

Results in table 4.5.2 show that 26.7% of the respondents disagreed with the bank always evaluating request for credit, 6.7% of the respondents were not sure where as 66.6% of the respondents agreed

From the findings of the study it was clear that Equity bank does evaluate request for credit. This is important in choosing the right clients to extend loans to. Through evaluating request for credit, that is able to notice those clients who are credit worth and leave those who have the potential of causing financial loss to the bank.

4.5.3 The bank always approves credits for its investors

In the course of the study it was discovered that one of identifying risks is through the company taking stock of its risks. When employees from Equity bank were asked about this, they responded as follows;

Table 4.5.3: Response to the bank approving credits for its investors

Item	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Agree	11	6.7	6.7	6.7
Agreed	16	10	10	16.7
Not Sure	0	6.7	6.7	23.4
Disagreed	2	43.3	43.3	66.7
Strongly Disagreed	1	33.3	33.3	100
Total	30	100.0	100.0	

Source: Primary data, 2016

Data in table 4.5.3 further shows that 4% of the respondents strongly disagreed with the bank usually approving credits for its investors, 6% of the respondents disagree, 52% of the respondents agreed where as 36% of the total respondents strongly agreed with the statement.

From the findings of the study it was found out that equity bank ensures that all credit to investors is approved. Many small and medium businesses all depend on credit from commercial bank. However before giving out credit to such businesses the bank's approval committee has to first approve such loans. This helps in insuring that loans are given to businesses that are performing well and have the capacity to payback.

The findings of the study are in line with Gleaner (2010) who stated that many banks rely on loans or other forms of credit to finance day-to-day purchases or long-term investments in facilities and equipment. Credit is one of the foundations of the American economy, and small businesses often must obtain credit in order to compete. To establish credentials for any credit approval process, from short-term loans to equity funding, a small business needs to have a business plan and a good credit history. The company must be able to show that it can repay the loan at the established interest rate

4.5.4 The bank uses up to date financial tools to determine the credit worthiness of borrowers

In the course of the study it was discovered that one of identifying risks is through the company taking stock of its risks. When employees from Equity bank were asked about this, they responded as follows;

Table 4.5.4: Response to the bank uses up to date financial tools to determine the credit worthiness of borrowers

Item	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Agree	5	16.7	16.7	16.7
Agreed	8	26.7	26.7	43.4
Not Sure	4	13.3	13.3	56.7
Disagreed	8	26.7	26.7	83.4
Strongly Disagreed	5	16.7	16.7	100
Total	30	100.0	100.0	

Source: Primary data, 2016

Table 4.5.4 also shows that 41.4% of the total respondents disagreed with the bank using up to date financial tools to determine the credit worthiness of borrowers, 13.3% of the respondents were not sure 41.4% of the respondents agreed.

The findings of the study imply that financial tools used at Equity bank to determine the credit worthiness of borrowers are not as up to date as they should. They still relay on manual system to determine credit worth instead of up to date computer based tools which make work easy.

Lack of up to data credit worthiness tools make collection and analysis of large data about clients very difficult and because some important information about clients may be disregarded or may miss out.

The findings of the study rhyme with Gunther (2004) reviewing a borrowers probability of default is basically done by evaluating the borrowers current and future ability to fulfill its interest and principal repayment obligations. This evaluation has to take into account various characteristics of the borrower (natural or legal person), which should lead to a differentiation of the credit approval processes in accordance with the borrowers served by the bank.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This chapter presents the summary of the study findings as presented in chapter four, conclusions and recommendations plus areas for further research.

5.1 Summary of major Findings

5.1.1 Credit risk identification and financial performance

The findings of the study generally indicated that Equity bank does not properly take stock of its risks and even where stock has been taken, awareness of the risk is not properly made. This creates a state of complacence among those involved in risk management. It also results into the bank missing some of the credit risks which end up affecting the bank negatively.

It was further discovered that credit risk identification is the starting point of managing risks activities. This can best be done through the creation or establishment of observation areas. These observation areas are crucial in risk identification. Because of lack of proper identification mechanism, it was discovered that Equity bank is not aware of some of the risks that it faces. This is very dangerous for the financial performance of the bank. Since the bank is not aware of some of its risks means that it gets to learn about them only when they have occurred. This causes financial loss to the bank hence negatively affecting the bank's financial performance.

5.1.2 Credit Risk Analysis and Financial Performance of Commercial Banks

The findings of the study showed that Equity bank uses accounting reports and information when analyzing risks. This is good for the bank because accounting reports contain a lot of financial information that can be helpful. However the bank does not properly classify risks according to the possible amount of damage that they can cause. This results into failure of the bank to accurately analyze the effects of all possible risks on the bank. When risks are not accurately analyzed, they result into the bank making losses in wake of their occurrence.

The findings of the study further indicated that Equity Bank does not brain storm when carrying out risk analysis yet brain storming is one of the techniques of generating ideas very fast. This robs the bank of quick way of coming with ideas about risk and how these risks can affect financial performance of the bank. However it was discovered that the bank caries out periodic risk assessment evaluation. Periodic risk assessment is good for the bank because it helps uncover new risks that come over time and at the same time helps the bank to evaluate its performance against the already known risks.

5.1.3 Credit risk monitoring and financial performance of commercial banks

The findings of the study indicated that at least Equity banks closely monitors individual creditors. The bank carries out regular review of borrower's reports as well as site visits to update borrower's credit files. However the bank does not track the quality of credit portfolio on the day to day basis. This is not good for the bank as it puts quality of credit portfolio in jeopardy.

The findings of the study further showed that Equity bank's credit management policy offers guidelines on how to monitor credit risks. The question remains whether these procedures are followed. It was also found out that when well followed procedures of risk management help in ensuring credit risks are well monitored as stipulated. It was again discovered that the bank usually keeps a check of the risks already identified. This is important in risk management because it helps the bank from falling prey of the same risks over and over. This means that credit risk monitoring affects the costs of the bank. Findings also showed that credit risk identification process costs money and time. Therefore credits risks that have already been identifies are closely monitored it helps the bank from going through credit identification and monitoring credit risks helps to adjust to the risk on time and this saves the bank money that would have been lost in case s risk that was not being monitored occurred.

5.1.4 Credit approvals and its effects on financial performance of commercial banks

It was found out that financial tools used at Equity bank to determine the credit worthiness of borrowers are not as up to date as they should. The bank still relays on manual system to determine credit worth instead of up to date computer based tools which make work easy. In addition to that, findings of the study showed that Equity bank does evaluate request for credit. This is important in choosing the right clients to extend loans to. Through evaluating request for credit, that is able to notice those clients who are credit worthy and leave those who have the potential of causing financial loss to the bank.

Findings of the study also showed that equity bank ensures that all credit to investors is approved. Many small and medium businesses all depend on credit from commercial bank. However before giving out credit to such businesses the bank’s approval committee has to first approve such loans. This helps in insuring that loans are given to businesses that are performing well and have the capacity to payback. Findings of the study also showed that credit approval at Equity bank helps the bank in taking calculated risks. Findings showed that the Bank has a list of competent client approval officials who ensures that the clients who are being given loans have the ability to payback or the collateral that is given is worth the money being loaned to them.

5.2 Conclusion

Generally the findings of the study clearly indicate that the credit identification is not properly carried out in Equity Bank. The bank's failure to proper note of the risks it is facing, and failure to raise awareness about risks means that the bank operates in the dark in many cases. Through establishment of crucial observation areas in its operations, the bank should have been in position to identify and know which risks it faces. Lack of proper risk identification puts the bank at a disadvantage because it only learns of some risks after they have occurred and this affects its financial performance.

Findings of the study further showed that proper risk assessment is important for Equity Bank because important in making informed decisions which can help the bank avoid any financial loss. Although risk analysis is done it not a regular as it should be. This lack of regularity means that new development in as far as credit risks are concerned occur without the banks knowledge.

The banks credit policy provides procedural guidelines on how to monitor credit risks but some of these procedures are never properly followed. Yet it is well known that credit monitoring reduces the costs of the bank and quality of the work in the bank. Failure of the bank to track the quality of credit portfolio on the day to day basis puts quality of credit portfolio in jeopardy.

The bank does not use up to data financial tools to determine credit worthiness of its borrowers yet it goes ahead to approve credit for its customers. This makes the bank take some un necessary risks that are not evaluated. However the bank has a list of competent client approval officials who ensures that the clients who are being given loans have the ability to payback or the collateral that is given is worth the money being loaned to them.

5.3 Recommendations

From the above findings, the following recommendations are made;

The banks can consider ensuring that it improves on its credit identification strategies so that it is able to capture all the risks that the bank faces. The bank needs to take careful stock of the risks it faces and establish crucial observation areas in its operations so that all possible risks are identified. This will save the bank from unnecessary bad investments and deals that can cost the bank financially.

Credit analysis needs to be given priority at the bank. The bank should consider using brain storming as a technique of identifying and analyzing risks in the bank on top of accounting systems that it already uses. There is a need for constant and periodic risk assessment. Proper risk analysis tools which can help the bank make informed decisions that can help the bank avoid costly and risky financial decisions that can cause the bank financial loss.

Credit monitoring need to be reemphasized through ensuring that individual credit is monitored as well as credit portfolio on the day to day basis. The procedural guidelines provided in the credit management policy should be followed to the later and at the same time keep a check on all identified risks so as to reduce of costs of having to identify the same risks over and over.

Credit approval is important in credit risk management. Failure to make proper clear and correct credit worthiness of some clients may lead to loses. It's therefore prudent that Equity uses up to date financial tools to determine the credit worthiness of borrowers so as to avoid borrowers who are not in position to pay back, which can cause financial loss to the bank and thus negatively affecting the banks financial performance.

5.4 Areas of further research

1. Factors affecting the success of credit risk management strategies in commercial banks
2. Relevance of credit risk management on the financial performance of commercial banks
3. Factors affecting financial performance of commercial banks.

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APPENDIX I

QUESTIONNAIRE

Dear Sir/ Madam,

I am **TUMWEBAZE BOB ANTHONY**, a student of Uganda Martyrs University carrying out research on “The effect of credit risk management on the financial performance of commercial banks in Uganda”. You have been chosen to participate in this exercise as a respondent. Your response herein is highly valued and it‘s required strictly for academic purposes and therefore be assured of utmost confidentiality. Thank you for your time and co-operation.

SECTION A: GENERAL INFORMATION. (Please tick the most suitable option).

1 .Age

Below 25 ☐ 26-35 ☐ 36- 45 ☐ 46 above

2. Gender:

Male ☐ Female ☐

3. Level of education (Your highest completed level of education)

Diploma ☐ Degree ☐ Masters ☐

Doctorate ☐

4. Number of years with Equity Bank.

☐ 0-5 yrs ☐ 6-10yrs ☐ 11-15yrs ☐ 16 and above yrs

SECTION B: THE EFFECT OF CREDIT RISK IDENTIFICATION ON FINANCIAL PERFORMANCE

In this section, please tick in the box that corresponds to your opinion/view according to a scale of 1=Strongly Disagree; 2= Disagree; 3= Not Sure; 4= Agree; 5= Strongly Agree

	Credit Risk Identification	**1**	**2**	**3**	**4**	**5**
1.	The bank always takes stock of its risks					
2.	The bank always raises awareness of the risks					
3.	Credit risk identification is the starting point of managing risks activities					
4.	The bank always know what risks it faces					
5.	The bank always establish the crucial observation areas inside its operations					

SECTION C: THE EFFECT OF CREDIT RISK ANALYSIS ON FINANCIAL PERFORMANCE OF COMMERCIAL BANKS

In this section, please tick in the box that corresponds to your opinion/view according to a scale of 1= Strongly Disagree; 2= Disagree; 3= Not Sure; 4= Agree; 5= Strongly Agree

	CREDIT RISK ANALYSIS	**1**	**2**	**3**	**4**	**5**
1.	The bank always make accurate profile of a subject					
2.	The bank often considers accounting statements in analyzing credits					
3.	The bank uses brain storming to identify and analyze risks					
4.	Risk evaluation is done periodically at the bank					
5.	Proper risk assessment helps the bank in making informed financial decisions					

SECTION D: THE EFFECT OF CREDIT RISK MONITORING ON FINANCIAL PERFORMANCE OF COMMERCIAL BANKS

In this section, please tick in the box that corresponds to your opinion/view according to a scale of 1= Strongly Disagree; 2= Disagree; 3= Not Sure; 4= Agree; 5= Strongly Agree

	Credit Risk Monitoring	**1**	**2**	**3**	**4**	**5**
1.	The bank always keeps a keen eye on individual credit					
2.	The bank always tracks the quality of credit portfolio on day-to-day basis					
3.	The bank credit policy provides procedural guidelines					
4.	The bank usually keep a check at the risks already identified					
5.	Credit risk monitoring affects the costs of the bank					

SECTION E: THE EFFECT OF CREDIT APPROVALS ON THE FINANCIAL PERFORMANCE OF COMMERCIAL BANKS

In this section, please tick in the box that corresponds to your opinion/view according to a scale of 1= Strongly Disagree; 2= Disagree; 3= Not Sure; 4= Agree; 5= Strongly Agree

	Credit approvals	**1**	**2**	**3**	**4**	**5**
1.	Credit approval for all bank customers helps in taking calculated risks with all customers					
2.	The bank always monitors its borrowers keenly					
3.	The bank always evaluate request for credit					
4.	The bank uses up to date financial tools to determine the credit worthiness of borrowers					
5.	The bank usually approves credits for its investors					

Thank you very much for your participation