CREDIT POLICY AND FINANCIAL PERFORMANCE OF COMMERCIAL BANKS

CASE STUDY: BARCLAYS BANK

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DEDICATION

I dedicate this research to my parents, Mr. and Mrs. Kibirige Francis for their unwavering and continuous support that they provided financially, emotionally, and for their prayers. To my siblings, for their words of encouragement and unconditional love.

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I have met some challenges during this research but there were people that stood by me along the way to guide me through. In a humble way I would like to thank the following persons for their support.

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LIST OF ACRONYMS

ACP	Average Collection Period
BoU	Bank of Uganda
COGS	Cost of Goods Sold
SPSS	Scientific Package for Social Scientists

ABSTRACT

This study examined the effect of credit policy on financial performance of commercial banks in Uganda. The specific objectives were; To examine the effect of credit standards on the financial performance of commercial banks in Uganda; To examine the effects of credit terms on financial performance of commercial banks in Uganda; To find out the effect of collection procedure on financial performance of commercial banks in Uganda. A case study design was adopted and data collected from a sample of 35 respondents. Self-administered questionnaires and documentary review guide were used in the study. Data was analysed using SPSS version 16. And findings were presented in a tabular format showing frequencies, percentages and means. The study revealed that Credit standards have a non significant weak and negative relationship with the financial performance of commercial banks, however, this relationship is not significant which means that even if the credit standards increase or decrease, the financial performance of commercial banks is not affected in any way. The study revealed that that there is a weak negative relationship between Credit terms and financial performance of commercial banks. This means that when credit terms management is high, the financial performance of commercial banks declines however, there is a non significant relationship between the two variables therefore whether the credit terms increase or decrease in management, the financial performance of commercial banks is not greatly affected, the impact is minimal and almost not felt. It was also revealed that the collection procedure has a negative relationship with the financial performance of commercial banks which implies that an increase in the operations of the collection procedure leads to a decrease in the financial performance of commercial banks and vice versa. However, the relationship between collection procedure and financial

performance is significant and therefore collection procedure has an effect on the financial performance of commercial banks.

The key recommendations of the study include; the collection policy of the bank should keep collection costs down and bad debts within limits, there is need for the banks to impose a proper policy regarding the credit terms that will help increase financial performance. It is important to note that Barclays bank credit policy has a negative impact with the financial performance of the organization however small it may be.

CHAPTER ONE

INTRODUCTION

1.0 General Introduction

Credit policy is a set of principles that a financial organization uses in deciding who it will loan money to or give credit.

A firm’s profit will be chiefly determined by the economic conditions and the credit policy employed in their operations. Different organizations may have no control over the economic conditions but can control the trade-off between profitability and risk through effectively managing their credit policy. Financial institutions like commercial banks need to study their cooperate lending operations because they lend considerable sums to commercial customers in order to finance activities, which inevitably have an impact on their performance (Thompson, 2008). Commercial banks need to have a credit policy since a well-managed credit policy helps firms lay down procedures over which they are able to assess the credit worthiness of potential borrowers.

This chapter consists of the general introduction, background of the study, background to the case study, statement of the problem, broad objective of the study, specific objectives, research questions, scope of the study, significance of the study, justification of the study, the conceptual framework, definition of key terms and conclusion.

1.1 Background to the study

The banking industry has achieved great prominence in the Uganda economic environment and its influence play a predominant role in granting credit facilities. Credit functions of Banks enhance the ability for investors to exploit desired profitable venture. Credit creation is the main income generating activity of banks. The probability of incurring losses resulting from non-payment of loans or other forms of credit by debtors known as Credit Risk are mostly encountered in the financial sector, particularly banks. (Lewellen, 2008).

Banks just like any other organisations or firms buy inputs, transform them, and resell them at an un-imaginable price. For banks however, the only raw material is money. They buy money, set it up in stores then sell it out to another person as soon as possible who in most cases may also be the one to whom the very money has been bought.

Banks buy money through the deposits then sell it in form of loans or buy securities as argued by Lewellen (2008).Therefore; they may also be called repackagers of money which makes them a financial intermediary. Banks do all this with one major intention that is; to make a profit from buying money at a cheaper price and sell it at a higher price to deficit units.

The major concern in this research is the selling of bought money to someone else. If banks are not extra cautious about the people they sell money to and establish proper measures and guidelines to follow while selling to them, they may end up making so many losses and their eventual collapse may also be attributed to the inability to have proper guidelines.

Internationally, the United States of America, central banks implement the performance of the other banks through a country's chosen monetary policy. At the most basic level, this involves establishing what form of currency the country may have, whether a fiat currency, gold backed currency, currency board or currency, this involves the issue of some form of standardized currency, which is essential in form of promissory note. This therefore leads to the proper performance of the commercial banks in America (Palmer, 2008)

Considering the regional aspect, a case in point is the Bank of Nigeria. Recently banks witnessed rising non-performing credit portfolios and these significantly contributed to financial distress in the banking sector. Banks collect deposits and lends to customers but when customers fail to meet their obligations problems such as non-performing loans arise. Financial ratios as measures of bank performance and credit indicators were the data collected from secondary sources mainly the annual reports and accounts of sampled banks from 2004 - 2008. Descriptive, correlation and regression techniques were used in the analysis. The findings revealed that credit management has a significant impact on the profitability of Nigeria banks. Therefore, it is recommended that management need to be cautious in setting up a credit policy that might not negatively affects profitability and also they need to know how credit policy affects the operation of their banks to ensure judicious utilization of deposits. (Gray, 2009).

Elliot(2005) defines financial performance as the act, process, or manner of doing things or execution of the financial duties. The efficiency of any accounting system is measured by its ability to provide basic services and meet information needs of its customers. Financial performance can be measured in terms of effectiveness of output and costs incurred, also if they can enable business system to prepare monthly and annual reports, projections and management schedules. In Uganda, the financial sector is dominated by commercial banks that hold mainly short- term deposits by way of current and saving accounts, therefore the long-term borrowing and lending is limited. One of the major factors that influence the financial performance of commercial banks is the cost of operations. The operating costs of a bank are normally expressed as a percentage of the profits and they are normally expected to influence the financial performance of the bank in a negative manner (Swarnapali, 2014).

The central bank of the Uganda is the main center in the performance of the commercial banks in Uganda. All the banks in Uganda follow the policy that has been set up by the managers of the central bank of Uganda and this has led to the performance of these banks to become steady since the credit management policy is set from the main bank in Uganda. (Alex, 2003). For the site level, the researcher is looking at the performance of Barclays bank and how the credit policy has affected its way of actions in the field and the perception that the employees have about its credit management policy.

This study therefore attempted to look out for the numerous policies used by commercial banks to sell money and handle their credit, how applicable they are in contemporary society, their effectiveness in use and how these policies are managed or should be managed.

1.1.1 Background to the case study

Barclays bank operations started in 1927 with three branches in central and eastern Uganda. In 1969, the bank was incorporated as an independent subsidiary of the Barclays PLC. Barclays bank is a global financial services provider, engaged in retail and commercial banking, credit cards, investment banking, wealth management and investment management services all over the world with a vast international reach. Barclays bank has 39 branches in Uganda with its headquarters at 2 Hannington Road, on Nakasero Hill in Kampala. The bank employs a large number of employees of over 850. The researcher chose Barclays bank as the case study because it represents some of the successful commercial banks in Uganda in spite of all those banks that have collapsed in the previous years.

1.2 Statement of the problem

Commercial banks are predominant financial institutions and their changes in performance and structure have far reaching implications on the economy (Bohnstedt et al 2000). The very nature of the banking business is so sensitive because more than 85% of their liability is deposits from the depositors, (Saunders and Cornett 2005). Bank size has traditionally affected the types of activities and financial performance of commercial banks (Saunders and Cornett 2009). According to Paul Busharizi, Saturday vision January 28 2017, Crane bank formerly owned by Sudhir Ruparelia failed in 2015 after registering a quadrupling of the provisions for bad loans which jumped to shs.50.4billions in 2015 from the previous year's shs.11.2billions. Bank of Uganda (BoU) on July 25 2014 closed Global Trust Bank (U) Ltd. This is because since it was established in 2008, it incurred persistent losses which accumulated to shs.60 billion. Greenland bank which was started in 1991, was one of Uganda's first indigenous banks and was closed in 1999 by Bank of Uganda (BoU) following reports of unsustainable bad loans and insider lending. This was after the 1996 elections as the non performing loans came out to play again. National Bank Of Commerce Uganda Ltd was closed in 2012 due to non performing loans incurred by the bank. Considering the fact that these non performing loans are issued basing on a set credit policy by the banks, this research seeks to find out why commercial banks in Uganda continue to perform like this despite of the credit policy put in place to limit bad loans.

1.3 Broad objective of the study

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

1.4 Specific objectives

- To examine the effect of credit standards on financial performance of commercial banks in Uganda.
- To examine the effect of credit terms on the financial performance of commercial banks in Uganda
- To find out the effect of collection procedure on the financial performance of commercial banks in Uganda

1.5 Research questions

- What is the effect of credit standards on the financial performance of commercial banks in Uganda?
- What is the effect of credit terms on the financial performance of commercial banks in Uganda?
- What is the effect of collection procedure on the financial performance of commercial banks in Uganda?

1.6 Scope of the study

1.6.1 Geographical scope

The study was carried out from Barclays Bank, Abayita Ababiri branch, Entebbe road, Wakiso Uganda.

1.6.2 Subject scope

This study was focused on credit policy which is the independent variable and financial performance of commercial banks which was the dependant variable. Credit policy applied by commercial banks in Uganda is indicated by credit standards, credit terms and the collection procedure involved. Financial performance is indicated by growth in customers, profitability, and cost of operations.

1.6.3 Time scope

This study was a short period study of one year from the year 2015 to 2016 because the information from this period of time was most suitable, very recent, up to date and therefore more reliable and easy to access.

1.7 Significance of the study

- This study will be of reference to other researchers who are interested in studying the same area
- It will enable commercial banks to improve on the credit policies applied.
- It will enable commercial banks adopt to new ways of managing their credit loans

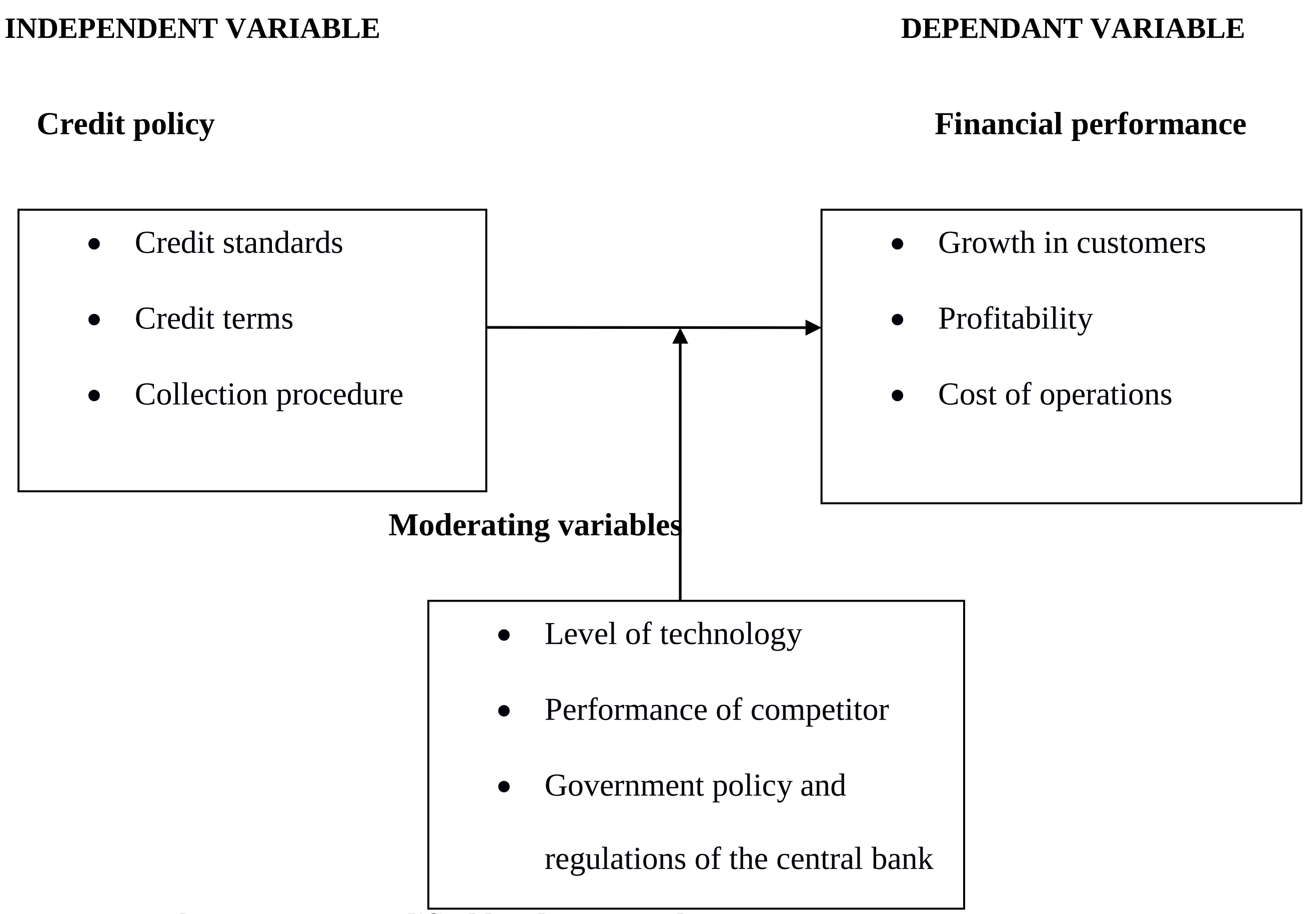
1.8 Justification of the study

The researcher decided to carry out this study because of the continuous default in paying back of loans by borrowers. It was necessary to revisit the different credit policy used by the commercial banks and evaluate how stringent and loose they should be stressed without reducing the number of customers. It was relevant in all aspects of loan borrowing and repayment like interest rates charged and payback time given to the borrowers.

1.9 Conceptual framework

According to Pandey (2011), the term credit policy is used to refer to the combination of three decision variables; credit standards, credit terms and collection procedure which often affect the profitability, customer growth and the cost of operations. However, it is important to note that other factors like government policy and regulations of the central bank, level of technology and the performance of competitors may also affect the performance of commercial banks.

Figure 1: Conceptual framework



Source: Pandey (2011) as modified by the researcher

The independent variable which is the credit policy is represented by three key dimensions which include credit standards, credit terms and collection procedure while the independent variable is represented by three dimensions which include profitability, cost of operations and growth of customers as shown in the figure above. This shows that the credit policy can be broadly explained by those three key dimensions and so is financial performance. Even though the credit policy is the key variable that affects the financial performance of commercial banks, there are also moderating variables that may at a small extent aid the financial performance of commercial banks and these include the level of technology, performance of the competitors and the government policy and regulations of the central bank.

1.10 Definition of key terms

Credit policy: These are clear, written guidelines that set the terms and conditions for issuing loans to customers, customer qualification criteria, procedure for making collections and steps to be taken in case of customer delinquency.(Arnold 2005)

Financial performance: This is the subjective measure of how well a firm can use assets from its primary mode of business to generate revenues. (David 2004)

Credit standards: these are guidelines issued by a company that are used to determine if a potential borrower is creditworthy. The system weighs five characteristics of the borrower and conditions of the loan, attempting to estimate the chance of default. The five Cs of credit are character, capacity, capital, collateral and conditions. (Pandey 2011)

Credit terms: these are the conditions under which credit will be extended to a customer. The components of credit terms are cash discount, credit period and net period, and also include interest payments. (Pandey 2011)

Collection procedure: this is a detailed statement of steps to be taken regarding when and how the past due amounts is to be collected. (Pandey 2011)

Growth in customers: This is the increase in demand for a particular service or product.

(Pugel 2005)

Profitability: This is the state of yielding a financial profit or gain. (Steven 2008)

Cost of operations: these are the expenses incurred during the execution of the daily operations of the business**. (**David 2004)

Level of technology: This is the extent to which the development and implementation of technological assets affects the operations of an organization. (William 2012)

Performance of competitor: These are the strengths and weaknesses of the competitors compared to your own services. (David 2004)

Government policy: These are the general principles by which a government is guided in its management of public affairs or the legislature in its measures. (Alan 2012)

Regulations of the central bank: This is a form of government regulation which subjects banks to certain requirements, restrictions and guidelines, designed to create market transparency between banking institutions and the individuals and corporations with whom they conduct business among other things. (David 2004)

1.11 Conclusion

The research relied on this chapter to explore into the objectives of the study and based on the findings to draw conclusions and cite areas for further research in the opinion of the researcher.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter documents the existing literature, on the topic of study. The literature review is based on the major objectives of the study which are to; examine the effect of credit standards on financial performance, examine the effect of credit terms on the financial performance of commercial banks and to also find out the effect of collection procedure on the financial performance of commercial banks

2.1 Overview of Credit Policy

2.1.1 Credit Standards

Credit standards are the guidelines issued by a company that are used to determine if a potential borrower is creditworthy. Credit standards are often created after careful analysis of past borrowers and market conditions, and are designed to limit the risk of a borrower not making credit payments or defaulting on loaned money (Girma, 2016).

Credit standards are criteria to decide to whom credit sales can be made and how much. If the firm has soft standards and sells to almost all customers, its sales may increase but its costs in the form of bad-debts losses and credit administration will also increase. The firm will have to consider the impact in terms of increase in profits and increase in costs of a change in credit standards or any other policy variable.

2.1.2 Credit Terms

According to Campsey and Brigham (2015) Credit terms or terms of credit is the agreement between a seller and buyer that lists the timing and amount of payments the buyer will make in the future. Percent discount if paid in cash / days to cash discount is available. Net amount of payment due / number of total days in credit period. In other words, Standard or negotiated terms offered by a seller to a buyer that control (1) the monthly and total credit amount, (2) maximum time allowed for repayment, (3) discount for cash or early payment, and (4) the amount or rate of late payment penalty.

The conditions for extending credit sales are called credit terms and they include the credit period and cash discount. Cash discounts are given for receiving payments before the normal credit period. All customers do not pay within the credit period. Therefore, a firm has to make efforts to collect payments from customers. The length of time for which credit is extended to customers is called the credit period. A firm's credit policy may be governed by the industry norms. But depending on its objective, the firm can lengthen the credit period. The firm may tighten the credit period, if customers are defaulting too frequently and bad-debt losses are building up (Anon, 2010).

2.1.3 Collection Procedure

Collection procedure involves a detailed list of steps for ordered execution leading to when and how to collect past-due amounts. The credit policy details the collection procedures. It can be noted that the primary objective of collection procedure and policy is to cause increase in sales, and to speed up the collection of dues. The collection policy should ensure prompt and regular collection, keep down collection costs and bad debts within limits and to maintain collection efficiency (Girma, 2016). The collection procedure should be clearly defined in such a manner that the responsibility to collect and the follow up should be clearly defined. This responsibility may be entrusted to the separate credit department or accounts or sales department. Besides the general collection policy, firm should lay-down clear cut collection procedures for past dues or delinquent accounts.

2.2 Overview on financial performance

2.2.1 Growth of customers

Growth comes from delivering the right experience, to the right customers, at the right time. It is important for the businesses to create a customer experience that attracts new profitable customers and increases the lifetime value of the customers you have. And we do it in the most efficient way possible. It can be noted that growth of customers implores an increase in the customer base of an organization. The customer base is the group of customers who repeatedly purchase the goods or services of a business. These customers are a main source of revenue for a company (Abedi, 2000). The customer base may be considered the business's target market, where customer behaviors are well understood through market research or past experience. Relying on a customer base can make growth and innovation difficult. Companies with a customer base consisting mainly of large companies may increase their customer base by pursuing small and mid-size companies (Lazaridis, 2016).

According to Ahlin and Jiang, (2008), all businesses begin with no customers. These start-ups begin with an abstract idea that slowly evolves into something someone will buy. As these products evolve from abstract ideas into primitive objects that are then further refined, the business that created the product begins to gain customers. The satisfied customers become the repeat buyers and core customer of the company. This is the process that creates the customer base. Most often, successful start-ups begin with low-end or down-market customers with low income and low costs. As the products or services that are being bought are polished and remade, a company gains higher-end customers who gain interest in the product as it reaches higher levels of functionality, use, or value. As the shift to these higher priority customers continue, they begin to be a larger source of income for the company, and slowly become the main base to whom the business lends the most importance. This process, of moving from low-end customers to more expensive and more profitable customers, is known as up streaming, and is an integral part of the theory of disruptive innovation

2.2.2. Profitability

Profitability ratios are a class of financial metrics that are used to assess a business's ability to generate earnings compared to its expenses and other relevant costs incurred during a specific period of time. For most of these ratios, having a higher value relative to a competitor's ratio or relative to the same ratio from a previous period indicates that the company is doing well. Different profit margins are used to measure a company's profitability at various cost levels, including gross margin, operating margin, pretax margin and net profit margin. The margins shrink as layers of additional costs are taken into consideration, such as cost of goods sold (COGS), operating and non-operating expenses, and taxes paid. Gross margin measures how much a company can mark up sales above COGS. Operating margin is the percentage of sales left after covering additional operating expense. The pretax margin shows a company's profitability after further accounting for non-operating expense. Net profit margin concerns a company's ability to generate earnings after taxes (Lazaridis, 2016).

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. Expenses are the cost of resources used up or consumed by the activities of the business. For example, seed corn is an expense of a farm business because it is used up in the production process. Resources such as a machine whose useful life is more than one year is used up over a period of years. Repayment of a loan is not an expense, it is merely a cash transfer between the business and the lender (Girma, 2016).

Profitability is measured with an income statement. This is essentially a listing of income and expenses during a period of time, usually a year for the entire business. Information File Your Net Worth Statement includes, a simple income statement analysis. An Income Statement is traditionally used to measure profitability of the business for the past accounting period. However, a "pro forma income statement" measures projected profitability of the business for the upcoming accounting period (Ahlin and Jiang, 2008). A budget may be used when you want to project profitability for a particular project or a portion of a business.

2.2.3Cost of operations

According to Campsey and Brigham (2015), Operating costs are expenses associated with the maintenance and administration of a business on a day-to-day basis. The operating cost is a component of operating income and is usually reflected on a company's income statement. While operating costs generally do not include capital outlays, they can include many components of operating a business including; Accounting and legal fees; Bank charges, Sales and marketing costs, Travel expenses, Entertainment costs, Non-capitalized research and development expenses, Office supply costs, Rent, Repair and maintenance costs, Utility expenses, and Salary and wage expenses. The formula for operating cost can be expressed in the following way: Operating Cost = Cost of Goods Sold - Operating Expenses.

Businesses have to keep track of both operating costs and costs associated with non-operating activities, such as interest expenses on a loan. Both costs are accounted for differently in a company's books, allowing analysts to determine how costs are associated with revenue-generating activities and whether or not the business can be run more efficiently. Generally speaking, a company's management will seek to maximize profits for the company. Because profits are determined both by the revenue that the company earns and the amount the company spends in order to operate, profit can be increased both by increasing revenue and by decreasing operating expenses. Because cutting costs generally seems like an easier and more accessible way of increasing profits, managers will often be quick to choose this method (Edwards, 2014).

However, trimming operating costs too much can reduce a company's productivity and thus, its profit as well. While reducing any particular operating cost will usually increase short-term profits, it can also hurt the company's earnings in the long-term. For example, if a company cuts its advertising costs its short-term profits will likely improve, as it is spending less money on operating costs. However, by reducing its advertising, the company is also reducing its capacity to generate new business, and earnings in the future can suffer, as can the company's growth potential (Dawkin, 2014). The best course of action, then, is to keep operating costs as low as possible while still maintaining the ability to increase sales.

In the case of a device, component, piece of equipment or facility, it is the regular, usual and customary recurring costs of operating the equipment. This does not include the capital cost of constructing or purchasing the equipment (depending on whether it is made by the owner or was purchased as a constructed system).Operating costs are incurred by all equipment unless the equipment has no cost to operate, requires no personnel or space and never wears out. In some cases, equipment may appear to have low or no operating cost because either the cost is not recognized or is being absorbed in whole or part by the cost of something else (Lazaridis, 2016).

According to Campsey and Brigham (2015) Credit terms or terms of credit is the agreement between a seller and buyer that lists the timing and amount of payments the buyer will make in the future. In other words, this is the contract that describes the specific details of the seller's payment requirements that the buyer must meet into order to purchase goods on account. Most companies have credit policies set up with vendors or customers, so purchases can be made on account. These credit purchases help speed up commerce and increase sales because it allows customers to purchase items before they actually have the funds to buy them.

Before a credit sale can be made, credit terms must be established. Most terms are dictated by industry practices and the specific goods sold in those industries. This is the standard way to write out and abbreviate term details. Percent discount if paid in cash / days to cash discount is available Net amount of payment due / number of total days in credit period. These terms mean that a customer can receive a 2 percent discount on his purchase if he pays the entire balance in cash within 10 days. This is often referred to as the cash discount period. If the discount isn't taken, the customer must pay the full invoice amount within 30 days of the purchase. This 30-day credit period is a sort of short-term financing for the customer. They can purchase goods without actually coming up with the cash immediately. They can then sell the goods to retail customers and pay for the goods within 30 days. This way the credit purchaser is never out of any cash. Obviously, this is an ideal scenario that rarely happens, but this is the idea behind the terms (Girma, 2016)

2.1 Credit standards and financial performance

Credit standards influence the quality of a firm's customers, i.e., the time taken by customers to repay credit obligation, and the default rate. The time taken by customers to repay debt can be determined by average collection period (ACP). Default risk can be measured in terms of bad-debt losses ratio the proportion of uncollected receivable. Default risk is the likelihood that a customer will fail to repay the credit obligation. The estimate of probability of default can be determined by evaluating the character, i.e., willingness of customer to pay; customer's ability to pay and prevailing economic and other conditions. Based on the above, firm may categorize customers into three kinds, good accounts, bad accounts and moderate accounts(Pandey, 2015).

It can be noted that off and on since 1967, the Federal Reserve has surveyed loan officers at a small sample of large banks about their commercial credit standards. The idea behind the survey is that the availability of bank credit depends not just on interest rates, but on credit standards as well. Notwithstanding the small and changing sample, the checked pattern of questions, and the sometimes curious responses of lenders, the reports are informative. The changes in standards that they report help to predict both commercial bank lending and GDP, even after controlling for past economic conditions and interest rates. Standards matter even in the 1990s, when capital markets were supposed to have eclipsed the role of banks in the economy. Changes in standards also help to predict narrower measures of business activity, where commercial credit availability from banks seems most crucial (Pandey, 2015). The connection between bank standards and inventories is especially promising, because inventory investment is notoriously unpredictable and heavily bank dependent.

A shock to credit standards and its aftermath very much resemble a “credit crunch.” Loan officers tighten standards very sharply for a few quarters, but ease up only gradually: two to three years pass before standards are back to their initial level. Commercial loans at banks plummet immediately after the tightening in standards and continue to fall until lenders ease up. Output falls as well, and the federal funds rate, which we identify with the stance of monetary policy, is lowered. All in all, listening to loan officers tells us quite a lot (Esposito, 2012).

There is a long list of standards, not necessarily mutually exclusive, that are given varying degrees of importance in judging applications for installment credit. Conspicuous in the list are such factors as: collateral, or durability and resale value of commodity; cash selling price of commodity; size of down payment that the buyer-borrower is willing to make; the time he needs in order to repay his debt (length of contract); ratio of monthly payment to monthly income; occupation of buyer-borrower; permanence of employment as indicated by employment record; previous installment payment record with lender; past debt payment record generally; extent of present indebtedness, installment, and other; personal character of applicant;(Girma, 2016) and permanence of residence or ownership of home. Information pertinent to some of these items is obtained directly from the contract; other items are covered in the customer's credit application blank; still others necessitate reference to friends, relatives, credit bureaus or business establishments with which the customer has had dealings.

The relative importance attached to these factors varies from one company to another, and varies even more as between the different types of articles financed. The durability and resale value of the commodity itself are unquestionably important factors, since it is an accepted principle of installment financing that the commodity purchased shall be the security for the loan. The underlying consideration is of course the possibility that repossession and resale will become necessary; in that case the avoidance of loss depends on resale value, and this in turn depends largely on the durability of the commodity. But the importance attached to durability and resale value necessarily varies from one type of commodity to another, roughly in accordance with the original cash selling price. This explains why factors relating to collateral security are given more weight in automobile than in diversified financing. It also goes far towards explaining the role of cash selling price in credit standards; cash price is merely a convenient quantitative measure that dealers and credit men use in appraising the durability and resale value of the collateral(Esposito, 2012).

The importance attached to down payment and length of contract is related both to considerations of collateral security and to considerations of debtor solvency. Down payment determines what proportion of the original loan is still to be realized if repossession becomes necessary, 2nd length of contract determines how quickly this proportion will be decreased by-repayments (Pandey, 2015).

Credit standards according to Mehta (2010), in advancing loans, credit standard must be emphasized such that the credit supplier gains an acceptable level of confidence to attain the maximum amount of credit at the lowest as possible cost. Credit standards can be tight or loose. Tight credit standards make a firm lose a big number of customers and when credit are loose the firm gets an increased number of clients but at a risk of loss through bad debts. A loose credit policy may not necessarily mean an increase in profitability because the increased number of customers may lead to increased costs in terms of loan administration and bad debts recovery. In agreement with other scholars Van Horne (2014), advocated for an optimum credit policy, which would help to cut through weaknesses of both tight and loose credit standards so, the firm can make profits.

This is a criteria used to decide the type of client to whom loans should be extended. Kakuru (2010) noted that it's important that credit standards be basing on the individual credit application by considering character assessment, capacity, condition, collateral security, capital. Character refers to the willingness of a customer to settle his obligations. It mainly involves assessment of the moral factors. Social collateral group members can guarantee the loan members known the character of each client; if they doubt the character then the client is likely to default. Saving habit involves analyzing how consistent the client is in realizing own funds, saving promotes loan sustainability of the enterprise once the loan is paid. Other source should be identified so as to enable him serve the loan in time. This helps micro finance institutions not to only limit loans to short term projects such qualities have an impact on their payment commitment of the borrowers it should be noted that there should be a firm evidence of this information that point to the borrowers character (Katende, 2010).

According to Campsey and Brigham (2015) the evaluation of an individual should involve; gathering of relevant information on the applicant, analyzing the information to determine creditworthiness and making the decision to extend credit and to what tune. They suggested the use ofthe 5Cs of lending. The 5Cs of lending are Capacity, Character, Collateral, Condition and Capital. Capacity refers to the customer's ability to fulfill his/her financial obligations. It may be assessed using the customer's past records, which may be supplemented by physical or observation.

Collateral is the property, fixed assets, chattels, pledged as security by clients. Collateral security, This is what customers offer as saving so that failure to honor his obligation the creditor can sell it to recover the loan. It is also a form of security which the client offers as form of guarantee to acquire loans and surrender in case of failure to pay; if borrowers do not fulfill their obligations the creditor may seize their asset (Girma, 2016). According to Chan and Thakor (2010), security should be safe and easily marketable securities apart from land building keep on losing value as to globalization where new technology keeps on developing therefore lender should put more emphasis on it. Capital indicates the financial strength, more so in respect of net worth and working capital, evaluation of capital may be by way of analyzing the balance sheet using the financial ratios.

Condition relates to the general economic climate and its influence on the client’s ability to pay. Condition, this is the impact of the present economic trends on the business conditions which affects the firm’s ability to recover its money. It includes the assessment of prevailing economic and other factors which may affect the client ability to pay. (Kakuru, 2010)

2.2 Credit terms and financial performance

Credit terms are simply the time limits the company sets for the customers' promise to pay for their merchandise or services received. But for many small business owners, establishing credit terms can be cumbersome

Creating the credit terms for the business has a direct influence on cash flow. Longer credit terms mean business will have to wait longer for the cash inflows from the collection of accounts receivable. In the meantime, business may experience a cash flow shortage. This implies that offering trade discounts may help speed up cash inflows from accounts receivable, and help reduce a cash flow shortage created by extended credit terms.

The credit terms of business should be designed to improve the cash flow. Some businesses allow customers to take a trade discount off the original sales price if the customer pays within a specified period of time, thus providing the customer an incentive to pay quickly and a way to improve cash flow(Esposito, 2012).

The main advantage of offering trade discounts is that it shortens the average collection period. Shortening the average collection period for accounts receivable is one of the biggest hurdles in accelerating the organizational cash inflows.

Among the various standards that are used in judging an application for installment credit, down payment and length of contract occupy a rather irregular position, for although they are dependent to some extent on what the customer will agree to, they are dependent also on the general practice of the finance company and the type of financing that is in question. As has already been emphasized, what the customer will agree to in this regard is an important factor not only in evaluating creditworthiness, but also in determining collateral security. Therefore in fixing its practice concerning contract terms the finance company has an interest in making the range of choice as narrow as competitive requirements will allow (Lazaridis, 2016).

The credit terms laid down in the contract include stipulations concerning the finance charge as well as those governing down payment and the length of time over which the payments may be spread, but finance charges involve a different set of questions and they will be discussed in a separate chapter. Down payment and contract length are singled out for consideration here because they both affect and are affected by the customer's ability to fulfill his obligation. Down payment, which is the amount paid by the installment buyer to the dealer at the time the sale is made, may consist only partly of cash, the remainder consisting of an allowance made for a trade-in. Such a large percentage of transactions involve a trade-in that it may be said with some truth that the typical installment sale is not only a sale of a commodity but is also a purchase, by the seller, of another commodity of less value, the purchase price of the second (the trade-in allowance) serving as part payment for the first(Esposito, 2012).

Customarily the trade-in allowance is considered as immediate cash and is accepted as, or applied to, the down payment, but in some cases in which the commodity given in trade has little or no resale value the seller insists on cash for the entire down payment, and the trade-in allowance merely reduces the gross price of the article sold

A Credit term is a contractual stipulation under which a firm grants credit to customers (Wamasembe, 2012); furthermore these terms give the credit period and the credit limit. The firm should make terms more attractive to act as an incentive to clients without incurring unnecessary high levels of bad debts and increasing organizations risk. Credit terms normally stipulate the credit period, interest rate, method of calculating interest and frequency of loan installments. Kakuru (2010) explains the significance of discounts in credit terms. Discounts are offered to induce clients to pay up within the stipulated period or before the end of the credit period .This discount is normally expressed as a percentage of the loan. Discounts are meant to accelerate timely collection to cut back on the amount of doubtful debts and associated costs.

According to Ringtho (2010) credit terms are normally looked at as the credit period terms of discount and the amount of credit and choice of instrument used to evidence credit. Credit terms may include; Length of time to approve loans, this is the time taken from applicants to the loan disbursement or receipt. It is evaluated by the position of the client as indicated by the ratio analysis, trends in cash flow and looking at capital position. Maturity of a loan, this is the time period it takes loan to mature with the interest there on. Cost of loan. This is interest charged on loans, different micro finance institutions charge differently basing on what their competitors are charging. The maximum loan amount per cycle are determined basing on the purpose of the loan and the ability of the client to repay (including guarantee)

2.3 Collection procedure and financial performance of commercial banks

Credit Collection and Disbursement: Külter, and. Demirgüneş (2010), noted that credit collection systems aim to reduce the time it takes to collect the cash that is owed to a firm. Some of the sources of time delays are mail float, processing float, and bank float. Obviously, an envelope mailed by a customer containing payment to a supplier firm does not arrive at its destination instantly. Likewise, the payment is not processed and deposited into a bank account the moment it is received by the supplier firm. And finally, when the payment is deposited in the bank account often times the bank does not give immediate availability to the funds. These three "floats" are time delays that add up quickly, and they can force struggling or new firms to find other sources of cash to pay their bills (Lazaridis, 2016).

Regarding the collection Procedure, The collections staff may deal with an enormous number of overdue invoices. If so, the collection manager needs a procedure for dealing with customers in a standardized manner to resolve payment issues. The detailed collection procedure involves many steps; however, the process flow noted here only generally represents the stages of interaction with a customer. These steps might be shuffled, supplemented, or eliminated, depending on the payment status of each invoice.

Assign overdue invoices (optional). When an invoice becomes overdue for payment, assign it to a collections person for collection activities. Verify allowed deductions (optional). A customer may submit a form detailing a deduction claim under the company's marketing plan. If so, verify the claim with the marketing manager and match it against deductions taken by the customer. If a deduction can be traced to the allowed deduction, submit a credit memo approval form to offset the amount of the deduction.

It also involves issuing of dunning letters. Use the accounting software to print dunning letters at fixed intervals, with each one pointing out overdue invoices to customers. Review the letters and extract any for which other collection activities are already in progress. Mail the other dunning letters to customers.

Initiate direct contact. If there are still overdue invoices outstanding, call customers to discuss the reasons for lack of payment. Following each call, record the details of the call, including the date, person contacted, reasons given for late payment, and promises to pay. Settle payment arrangements. If it is necessary to accept a longer payment period, document the terms of the payments to be made, as well as any interest to be paid and any personal guarantees of payment.

Adjust credit limit. At this point, the collections staff should have sufficient information about the financial condition of a customer to recommend to the credit staff if a reduction or termination of a customer's credit limit is in order. The credit staff is responsible for changing a credit limit and the collections staff only provides information (Lazaridis, 2016). Monitor payments under settlement arrangements. If there are special payment plans, compare scheduled payment dates to the dates on which payments are actually received, and contact customers as soon as it appears that they will miss a scheduled payment date. This level of monitoring is required to keep customers from delaying their payments. Refer to collection agency. Once all other in-house collection techniques have been attempted, shift invoices to a collection agency. At this point, the customer should certainly be placed on a credit hold list.

Sue the customer. If all other alternatives have failed, meet with the company's legal staff to determine whether the company has a sufficient case against a customer to win a judgment against it in court. Also, the customer should have sufficient assets available to pay any judgment against it. If these issues appear favorable, then authorize the legal staff to proceed with a lawsuit. Write off remaining balance. If all collection techniques have failed, complete a credit memo approval form in the amount of the invoice(s) to be written off.

Conduct post mortem. If there was a specific problem with the company's systems that caused a bad debt to occur, call a meeting of those people most closely related to the problem to discuss a solution. Assign responsibility for action items, document the meeting, and schedule follow-up meetings as necessary

A collection procedure is a detailed statement of steps to be taken regarding when and how the past-due amounts of a debt are to be collected. Each company has its own collection procedure, with information such as due dates, grace periods, penalties, date of repossession, date of turnover of delinquent account to collection agency, etc.

The collection procedure for any loan arrangement should be spelled out as part of the loan terms. It is important for borrowers to be aware of the details of the collection procedure so as to avoid penalties, and in the case of collateral or secured loans, repossession of the collateral. While collection procedures may vary for each company they should all be complaint with existing laws. What this means is that it is of utmost importance to comply with the debt collection act, especially since non-compliance carries with penalties that can range from steep fines to imprisonment.

McNaughton (2016) defines a collection procedure as the procedure an institution follows to collect past due account. Collection policy refers to the procedures micro finance institutions use to collect due accounts. The collection process can be rather expensive in terms of both product expenditure and lost good will. Collection efforts may include attaching mandatory savings forcing guarantors to pay, attaching collateral assets, courts litigation. Methods used by finance institutions could include letters, demand letters, telephone calls, visits by the firm’s officials for face to face reminders to pay and legal enforcements.

Dickerson et al., (2015) asserts that collection policy is a guide that ensures prompt payment and regular collections. The rationale is that not all clients meet their obligations, some just take it for granted, others simply forget while others just don’t have a culture of paying until persuaded to do so. According to Myers (2010) many micro finance institutions may send a letter to such individuals (borrowers) when say ten days elapse or phone calls and if payment is not received with in thirty days, it may turn over the account to a collection agency. Collection procedure is required because some clients do not pay the loan in time some are slower while others never pay. Thus collection efforts aim at accelerating collections from slower payers to avoid bad debts. Prompt payments are aimed at increasing turn over while keeping low and bad debts within limits (Pandey, 2015). However, caution should be taken against stringent steps especially on permanent clients because harsh measures may cause them to shift to competitors (Van Horn 2015). Ssemukono, (2016) states that collection efforts are directed at accelerating recovery from slow payers and decreases bad debts losses .This therefore calls for vigorous collection efforts

.The yardstick to measurement of the effectiveness of the collection policy is its slackness in arousing slow paying customer

2.4 Conclusion

This chapter looked at the effect of credit standards on financial performance, examined the effect of credit terms on the financial performance of commercial banks and also found out the effect of collection procedure on the financial performance of commercial banks. The next chapter three looked at the research methodology used.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter depicts a true summary of the research methods, approaches and strategies that the researcher pursued to attain the objectives of this research. These strategies included systematic sample selection, and use of questionnaires. At the climax of this research, the researcher was very satisfied with the information obtained as a result of the strategies opted.

3.2 Research design

According to Sekaran and Bougie (2013) a research design is a blue print for the collection ,measurement and analysis of data based on research questions of the study. The researcher used the case study design because it allows a lot of detail to be collected on a specific event. Yin (2009) defined a case study as a strategy that involves an empirical investigation of a particular contemporary phenomenon within its real life context hence in this study; the case study was Barclays bank. Approaches adopted included both qualitative and quantitative approaches because they facilitate understanding both the theoretical and numerical issues. This enabled the researcher to get a variety of information hence achieving a higher degree of validity.

3.3 Area of Study

The research was carried out in Barclays bank Uganda, Entebbe Road with an aim of establishing the effect of credit policy on the performance of commercial Banks and Barclays bank as the case in question.

3.4 Population of the study

According to Bryman and Bell (2009) population is universe from which the sample is to be selected thus study population are set of individuals, groups to be studied or tested. N. Lee and I. Lings (2008) stated that population is who you wish to generalize your result. The study population was 40 employees as provided by the human resource manager of Barclays bank, the population consisted of staff in the loan department, inspection department, operations and customer service department and risk management department.

Table 3:1 Distribution of the study population.

Respondents	**Population**
Loan department	10
Inspection department	7
Operations and customer service department	10
Risk management department	13
Total	**40**

3.5 Sample size

According to Bryman and Bell (2009) a sample is the segment of population selected for investigation thus subset of the population. As regards the confidentiality of most firms concerning credit and money, the researcher used one method of sampling. The sample size was 35 respondents.

Table 3:2 Illustration of the estimated number of respondents

Respondents	Population	Sample size
Loan department	10	9
Inspection department	7	5
Operations and customer service department	10	9
Risk management department	13	12
Total	**40**	**35**

3.6 Sampling Techniques

3.6.1 Stratified random sampling

The researcher used stratified random sampling because the population was divided into departments that represent the strata. Each member in the strata was given a unique number, then; a random sample was done in each stratum later a subject was selected from the sample. A subject is a single member or subset of a sample (Sekaran and Bougie 2013). The researcher used this approach because it ensured that the resulting sampling was distributed in the same way as population in-terms of the stratified criterion.

3.7 Data sources

The researcher used two sources of data that is primary sources and secondary sources. Primary source provides first hand information relating to a specific purpose of study while secondary sources provide already existing data of scholars who researched about the topic of the research (U. Sekaran and R. Bougie 2013). The primary source used was a questionnaire and the secondary sources used included; audited reports and financial statement of Barclays bank.

3.8 Data collection methods and instruments

The researcher used the following methods to collect data while in the field.

3.8.1 Questionnaire

According to Sekaran and Bougie (2013), a questionnaire consists of formulated written set of questions to which the respondents record their answers. The researcher personally distributed the questionnaires by going to each respondent's personal office whereby incase a respondent had any inquiries about any question; the researcher was available to help the respondent understand the questions better. The questionnaires contained both closed questions which required the respondent to tick any of the alternatives availed to them and open questions. The questionnaire was used because it facilitated collection of information in a short period of time and at a low cost and in addition, the results were easy to quantify because of the codes on the questions.

3.8.2 Secondary sources

The researcher also used this method in carrying out this research. This involved referring back to the written material other than questionnaires and interviews. Internal documents like the balance sheets, profit and loss statements, bank prospectus, bank policy documents and a few audit reports on credit performance of Barclays bank were also fully utilized in this research. External sources that included relevant texts, journals, newsletters, periodicals and publications from various authors were consulted. In addition, publications of related institutions like Bank of Uganda, International Monetary Fund and other Banking institutions were consulted.

3.9 Data management and analysis

The data was analyzed both quantitatively and qualitatively following the layout of the methods used like questionnaires and stratified random sampling to generate information from the field and data. The data from respondents was entered into an SPSS Data editor that resembles a spread sheet. The data was analyzed by use of codes and correlation to find whether there is a relationship between credit policy and financial performance of the bank. The data was displayed in graphs, tables and pie-charts from which interpretations, deductions and recommendations were made.

3.10 Reliability and Validity

Reliability is the degree of consistency between coders processing the same data indicating the extent to which the measure is free from errors (Sekaran and Bougie 2013). The strategies used by the researcher were calculated to suit the research. The truthfulness of the results should therefore not be doubted and thus treated as reliable as regards the objectives of the study According to (Sauders et.al 2003), validity is the degree to which the findings of the study are appropriate to that cause thus the evidence that the instrument used to measure the variables really measures them. The researcher subjected the questionnaires to knowledgeable personnel who were very clear and accurate as regards the information required by the researcher.

3.11 Ethical considerations

The researcher exercised a high level of ethical conduct in the course of carrying out this study by ensuring that permission was granted from the higher authorities of the faculty to collect data from the field. In addition, the researcher gained the trust of the respondents by assuring them that their information was strictly for academic purposes and highly confidential and treated it as so. An introductory letter containing all the details of the researcher was availed to the respondents to avoid any misunderstandings and discomfort from the respondents.

3.12 Limitations

Following the importance of confidentiality of organizations in money issues, the researcher was a little limited by this policy and believes that a lot could have been achieved if the strings around this policy were a little loosened.

There was fear amongst the respondents that their information could be leaked to the competitors and this made them shy away from the answering of questions. However the researcher overcame this by giving them utmost assurance that their information was treated with utmost confidentiality.

There were lots of bureaucracies in getting to the Barclays bank credit office and manager. This is because such demarcations are out of bounds to non-employees of the bank. The researcher overcame this problem by presenting a formal letter from the institution that granted sure access to these offices.

The research was very costly to the researcher in terms of transport, printing, posting and photocopying expenses. However, this was overcome through collection of enough funds from the researcher’s family that covered all the required expenses.

3.12 Conclusion

In conclusion this chapter clearly showed the strategies and methods that the researcher used in making this research. With these methods, the researcher was contented with the information established despite the few hindrances stated above.

CHAPTER FOUR

PRESENTATION AND INTERPRETATION OF THE FINDINGS

4.1 Introduction

This chapter described the characteristics of the respondents and presents the findings that were yielded from interactions on credit policy and financial performance of commercial banks. The study based on the study objectives and the following results were established.

4.2 Socio-demographic Characteristics of the Respondents

The background characteristics of the respondents were presented in the tables below and they included the gender, age group, educational level and duration of workers at the organization.

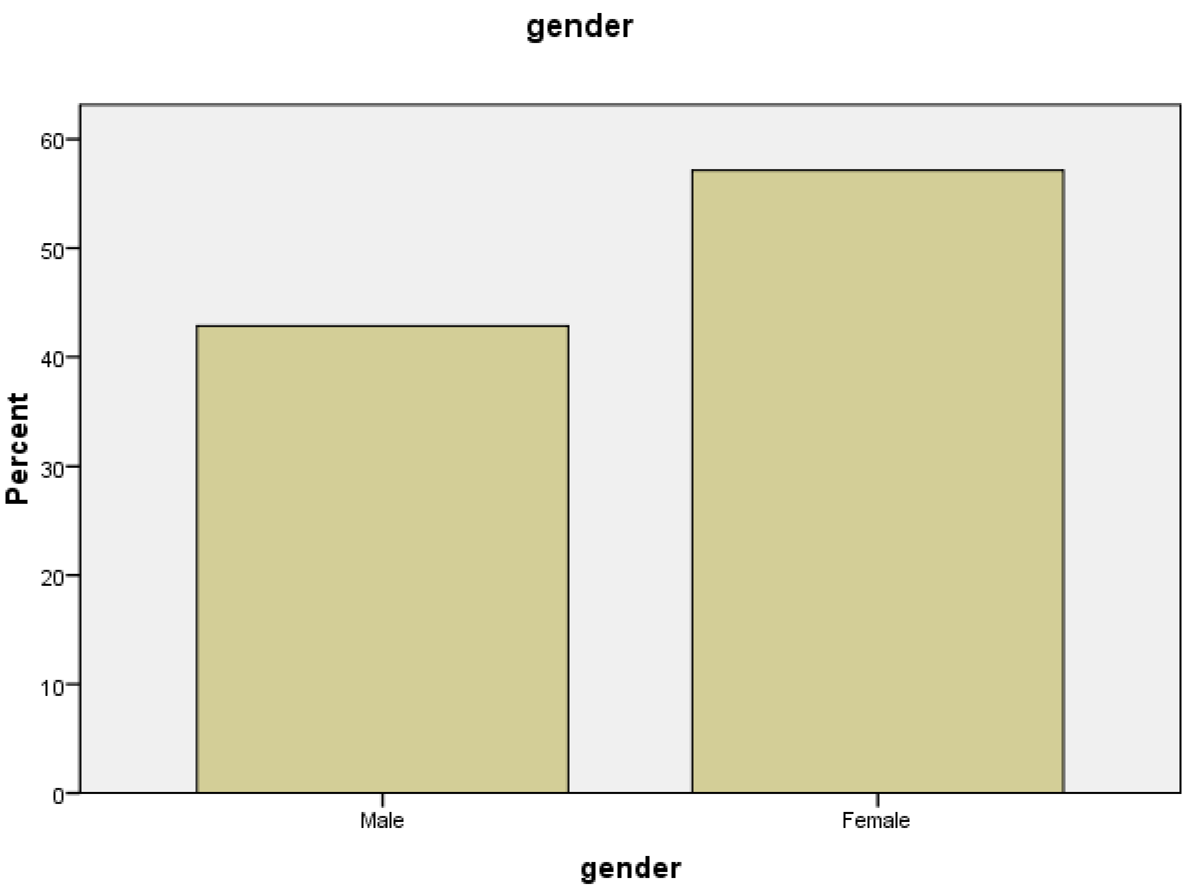
4.2.1 Gender of the Respondents

Table 4.1: Showing the Gender of the Respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	15	42.9	42.9	42.9
	Female	20	57.1	57.1	100.0
	Total	35	100.0	100.0	

Source: Primary data (2017)

Figure 2: Showing the Gender of the Respondents



Source: Primary data (2017)

According to figure 4.1, it is presented that the majority (56.1%) of the respondents were females whereas the minority (43.9%) of the respondents were males. This evidenced that there was gender imbalance as there were more females than men. This showed that there was gender imbalance in the study though the involvement of both sex helped the research to obtain unbiased data that was used in the compilation of the final report.

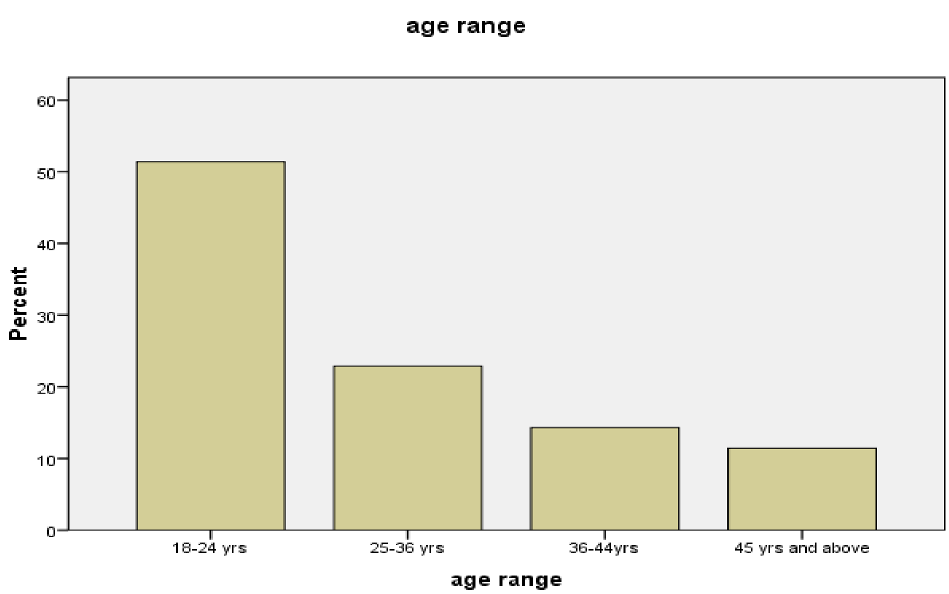
4.2.2 Age group of the Respondents

Table 4.2: Showing the Age group of the Respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	18-24 yrs	18	51.4	51.4	51.4
	25-36 yrs	8	22.9	22.9	74.3
	36-44yrs	5	14.3	14.3	88.6
	45 yrs and above	4	11.4	11.4	100.0
	Total	35	100.0	100.0	

Source: Primary data (2017)

Figure 3: Showing the Age group of the Respondents



Source: Primary data (2017)

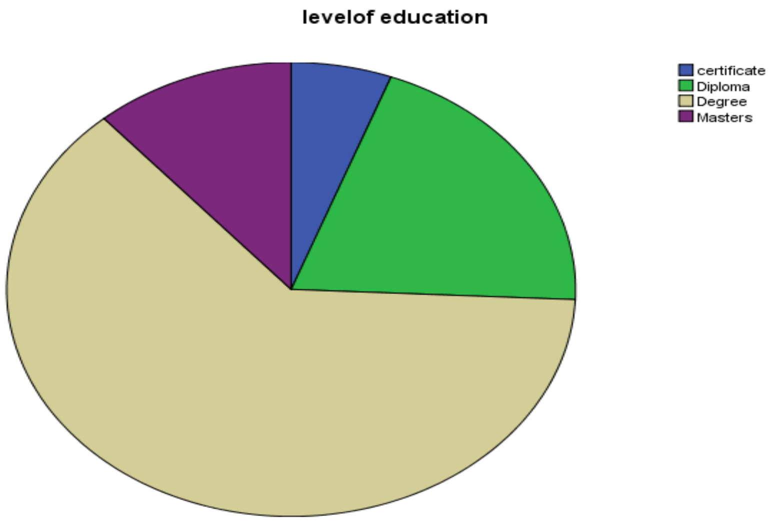
Results from figure 3 showed that the majority (51.4%), of the respondents were in the age group of 18-24 years, those were followed by (22.9%) who were in the age group of 25-36 years, then (14.3%) belonged to the age group of 36-44 years whereas the minority (11.4%) of the respondents were 45 years above 50 years. This evidenced that the study consisted of respondents with different ages therefore with different views that were relevant to the study under investigation. 4.2.3 Education Qualification of the Respondents

Table 4.3: Showing Education Qualification of the Respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Certificate	2	5.7	5.7	5.7
	Diploma	7	20.0	20.0	25.7
	Degree	22	62.9	62.9	88.6
	Masters	4	11.4	11.4	100.0
	Total	35	100.0	100.0	

Source: Primary data (2017)

Figure 4: Showing Education Qualification of the Respondents



Source: Primary data (2017)

Results from figure 4 showed the majority (52.0%) of the respondents were degree holders, those were followed by (24.0%) who had attained a diploma, (16.0%) had a certificate whereas the minority (8.0%) had masters. This helped the researcher to quickly collect data since the respondents were able to read, write and interpret the questionnaire.

4.2.4 Time in organization

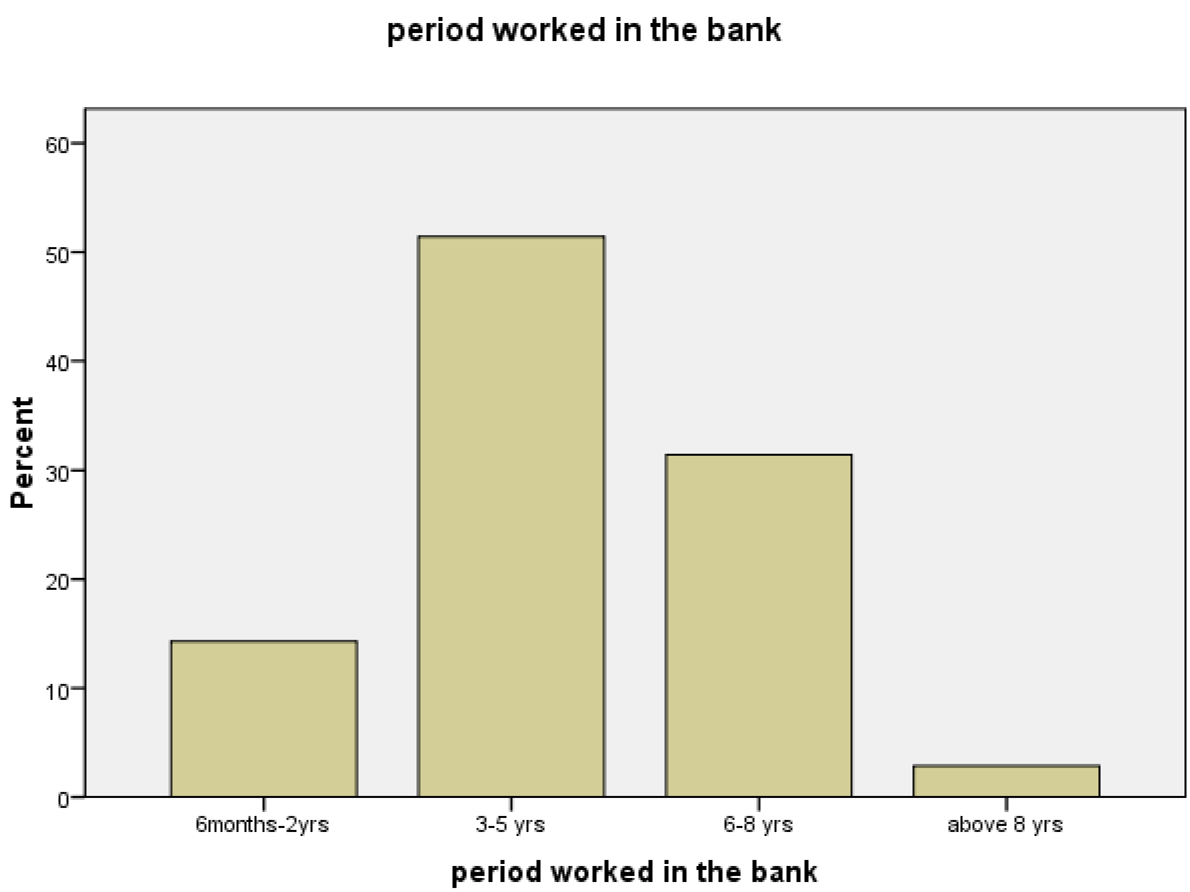
Table 4.4: Showing the Time in organization

Time	Frequency(F)	Percent (%)
6 months-2 years	5	14.3%
3-5 years	15	42.9%
6-8 years	13	37.1%
Above 8 years	2	5.7%
Total	**35.0**	**100.0**

Source: Primary data (2017)

Results from table 4.2 showed that the majority (42.9%) of the respondents were in the organization for 3-5years, those were followed by (37.1%) who were in the organization for 6-8 years, then (14.3%) in the bank for 6 months to 2 years whereas the minority (5.7%) of the respondents was above 8years. This evidenced that the study consisted of respondents with experience working in the bank had different views that were relevant to the study under investigation.

Figure 5: Showing the Time in organization



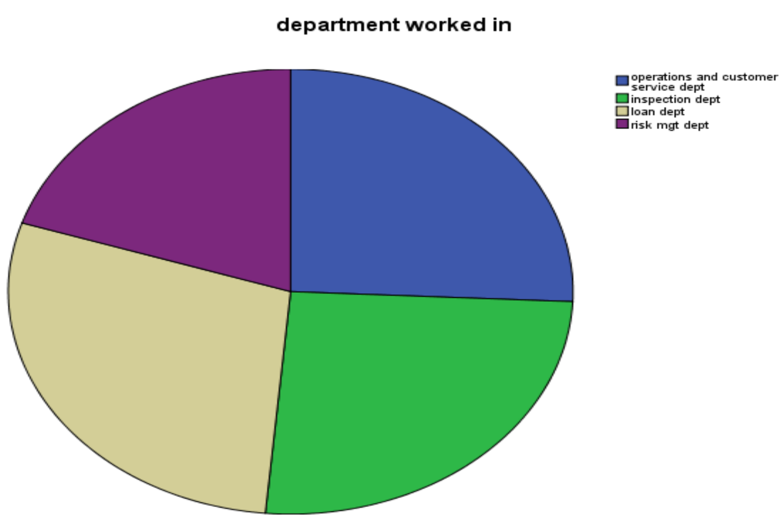
4.2.5 Department of the bank worked in

Table 4.5: Department worked in

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	operations and customer service dept	9	25.7	25.7	25.7
	inspection dept	9	25.7	25.7	51.4
	loan dept	10	28.6	28.6	80.0
	risk mgtdept	7	20.0	20.0	100.0
	Total	35	100.0	100.0	

Source: Primary data (2017)

Figure 6: Department worked in



Source: Primary data(2017)

Results from figure 5 showed that the majority (28.6%) of the respondents work in loan department, followed by (25.7%) who work in operation and customer service department and inspection department, then the minority (20.0%) work in risk management department. This shows that the various departments were represented by the different respondents

4.3 Descriptive statistics on Credit standards

The various credit standards applied by commercial banks were studied. The study collected data and was analyzed using descriptive statistics such as mean and standard deviation. According to the scale, those variables which had a mean close to 5.0 represented strongly agreed, those which had a mean close to 4.0 represented agreed, those with 3.0 represented neutral while those which had a mean close to 2.0 represented disagreed and those with 1.0 represented strongly disagree with the statements. Standard deviation was used to indicate the extent of deviation within the responses.

Table 4.5: Descriptive statistics on Credit standards

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
B1 Credit standards determine whether a potential borrower is creditworthy	35	1	5	4.54	.852
B2 Credit standards limit the risk of a borrower defaulting on loan money	35	2	5	4.80	.584
B3 Capital of the customer indicates one's ability to pay one's liabilities	35	1	5	4.17	1.272
B4 The economic conditions like state of the business cycle are relevant in assessing whether an applicant can meet credit obligations	35	3	5	4.40	.695
B5 Credit standards influence the quality of the bank's customers	35	2	5	4.60	.736
B6 The bank often uses collateral security and is usually safe and marketable.	35	3	5	4.69	.530
Valid N (listwise)	35				

Source: Primary data (2017)

Creditworthiness of a potential borrower

The findings of the study indicated the majority of the respondents of the respondents strongly agreed that credit standards determine whether a potential borrower is creditworthy. This is indicated by a mean of 4.54. However a significant standard deviation of 0.852 is a clear manifestation of varied responses from respondents as far as Credit standards determine whether a potential borrower is creditworthy is concerned.

Limit the risk of a borrower defaulting

In consideration to the findings of the study, it was presented the majority of the respondents of the respondents strongly agreed that Credit standards limit the risk of a borrower defaulting on loan money, as evidenced by the mean score of 4.80. However, the responses varied as shown by the standard deviation of 5.84. This implies that credit standards are the guidelines issued by a company that are used to determine if a potential borrower is creditworthy. Credit standards are often created after careful analysis of past borrowers and market conditions, and are designed to limit the risk of a borrower not making credit payments or defaulting on loaned money as agreed by Girma, (2016).

One's ability to pay one's liabilities

In relation to the study findings, the majority of the respondents of the respondents strongly agreed that capital of the customer indicates one's ability to pay one's liabilities, as evidenced by the mean score of 4.17 and standard deviation 1.272 explains the varying of responses between respondents that strongly agreed and those that agreed. The estimate of probability of default can be determined by evaluating the character, i.e., willingness of customer to pay; customer's ability to pay and prevailing economic and other conditions. Based on the above, firm may categorize customers into three kinds, good accounts, bad accounts and moderate accounts as revealed by Pandey, (2015).

State of the business cycle state of the business cycle

Furthermore, the study of the findings showed that the majority of the respondents agreed that the economic conditions like state of the business cycle are relevant in assessing whether an applicant can meet credit obligations. The mean score of 4.40 and standard deviation 0.695 explains the varying of responses between respondents that strongly agreed and those that agreed.

Quality of the bank's customers

In addition, the study of the findings indicated that the majority of the respondents agreed that Credit standards influence the quality of the bank's customers. This is indicated by a mean value of 4.6. However, a standard deviation of 0.736 reveals that there were varied responses from the respondents. This rhymed with Pandey, (2015) who noted that credit standards influence the quality of a firm's customers, i.e., the time taken by customers to repay credit obligation, and the default rate. The time taken by customers to repay debt can be determined by average collection period (ACP).

Bank often uses collateral security

In relation to the study findings, the majority of the respondents, agreed that the bank often uses collateral security and is usually safe and marketable,. As evidenced by the mean score of 4.69 and standard deviation 0.53 explains the varying of responses between respondents that strongly agreed and those that agreed. This implied that security should be safe and easily marketable securities apart from land building keep on losing value as to globalization where new technology keeps on developing therefore lender should put more emphasis on it.

Respondents were asked what the weaknesses of the current credit standards are and they replied; "*lack of attention to changes in economic or other circumstances that can lead to a deterioration in the credit standing of the bank's counterparties, the credit standards are not stringent enough hence they don't apply effectively to all clients as they were meant to*." in addition, the respondents were asked how the weaknesses can be overcome to improve the effectiveness of the current credit standards and they replied, "*the board of directors should review and approve periodically the significant credit standards of the bank, and in addition, the senior management of the bank, should religiously implement the credit standards approved by the board without exceptions of clients."*

4.4 Descriptive statistics on Credit terms

Under this section, the researcher explored the respondents' views about credit terms as presented in table below.

Table 4.6: Descriptive statistics on Credit terms

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
C1 Credit terms list the timing and amount of payment the borrower will make in the future	35	1	5	4.17	.923
C2 The bank's credit period is governed by the industry norms	35	2	5	4.26	.780
C3 Interest charged by the bank on loans is based on what the competitors are charging	35	1	5	3.94	1.211
C4 Discounts are offered to clients to motivate them to pay within or before the end of the set credit period	35	1	5	4.29	1.017
C5 Discounts cut back on the amount of doubtful debts and associated costs.	35	1	5	3.94	1.083
Valid N (listwise)	35				

Source: Primary data (2017)

Timing and amount of payment

In relation to the study findings, it was indicated the majority of the respondents agreed that Credit terms list the timing and amount of payment the borrower will make in the future, as evidenced by the mean of 4.17 and Standard deviation of 0.923. According to Campsey and Brigham (2015) Credit terms or terms of credit involves the agreement between a seller and buyer that lists the timing and amount of payments the buyer will make in the future.

Industry norms

In consideration to the study findings, it was presented that the majority of the respondents agreed that the bank's credit period is governed by the industry norms. This had a mean score of 4.26 which is tending towards the maximum of 5 implies that most of the respondents agreed. This implied that a firm's credit policy may be governed by the industry norms, but depending on its objective, the firm can lengthen the credit period. The firm may tighten the credit period, if customers are defaulting too frequently and bad-debt losses are building up as agreed by Anon, (2002).

Loans Interest is based on what the competitors are charging

The study findings indicated that that majority of the respondents agreed that the Interest charged by the bank on loans is based on what the competitors are charging. This is evidenced by a mean value of 3.94 although the standard deviation of 1.211 under the same test revealed as variations in responses generated.

Motivational discounts are offered to clients

According to the findings of the study, it was indicated that the majority of the respondents agreed that discounts are offered to clients to motivate them to pay within or before the end of the set credit period. This is evidenced by the mean mark of 4.29 and 1.017 from the response that discounts are offered to clients to motivate them to pay within or before the end of the set credit period

Discounts cut back on the amount of doubtful debts and associated costs

In consideration to the findings of the study, it was presented that the majority of the respondents agreed that Discounts cut back on the amount of doubtful debts and associated costs,as evidenced by the mean score of 3.94. However, the responses varied as shown by the standard deviation of 1.083. This was in line with Kakuru (2010) who explains the significance of discounts in credit terms. Discounts are offered to induce clients to pay up within the stipulated period or before the end of the credit period. This discount is normally expressed as a percentage of the loan. Discounts are meant to accelerate timely collection to cut back on the amount of doubtful debts and associated costs.

In addition to the data collected, respondents were asked what the advantages of credit terms in managing credit risk are and the few who managed to answer this question replied, "*Credit terms encourage more clients to take on loans, credit terms induce early payment of debts, credit terms also build customer loyalty since the bank is trusting its clients to pay their big amounts of debts"*

4.5 Descriptive statistics on Collection procedure

Under this section, the researcher explored the respondents' views on collection procedure as presented in table below.

Table 4.7: Descriptive statistics on Collection procedure

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
D1 Collection policy of the bank effectively ensures prompt and regular collection of debts	35	2	5	4.23	.877
D2 Collection policy of the bank keeps collection costs down and bad debts within limits	35	3	5	4.43	.655
D3 The primary objective of collection procedure is to increase sales and speed up collection of dues.	35	3	5	4.46	.657
D4 The bank spells out the collection procedure as part of the loan terms.	35	1	5	4.09	1.011
D5 The collection procedure is a detailed statement of steps to be taken regarding when and how the past due amounts of a debt is to be collected.	35	2	5	4.14	.912
Valid N (listwise)	35				

Source: Primary data (2017)

Prompt and regular collection of debts

The findings of the study indicated a big percentage of the respondents agreed that collection policy of the bank effectively ensures prompt and regular collection of debts. This had a mean score of 4.23 which is tending towards the maximum of 5 implies that most of the respondents agreed that collection policy of the bank effectively ensures prompt and regular collection of debts. The standard deviation of 0.877 which explains the responses that varies between those who strongly agreed and agreed

Collection costs down and bad debts kept within limits

According the findings of the study, it was presented that majority of the respondents agreed that collection policy of the bank keeps collection costs down and bad debts within limits, as evidenced by the mean score of 4.43 and standard deviation 0.655 which explains the varying of responses between respondents that strongly agreed and those that agreed. The collection policy should ensure prompt and regular collection, keep down collection costs and bad debts within limits and to maintain collection efficiency as agreed by Girma, (2016).

The primary objective of collection procedure is to increase sales and speed up collection of dues.

In relation to the findings of the study, it was showed the majority of the respondents of the respondents agreed that the primary objective of collection procedure is to increase sales and speed up collection of dues. This had a mean score of 4.46 which is tending towards the maximum of 5 implies that most of the respondents agreed and 0.657. This implies that the credit policy details the collection procedures. It can be noted that the primary objective of collection is to cause increase in sales, and to speed up the collection of dues. The collection policy should ensure prompt and regular collection; keep down collection costs and bad debts within limits and to maintain collection efficiency as agreed by Girma, (2016).

Bank spells out the collection procedure

In regards to the findings of the study, it was indicated the majority of the respondents agreed that the bank spells out the collection procedure as part of the loan terms. This is evidenced by the mean mark of 4.09 from the responses and standard deviation of 1.011.

Detailed statement of steps

Furthermore the findings of the study show that the majority of the respondents, agreed that the collection procedure is a detailed statement of steps to be taken regarding when and how the past due amounts of a debt is to be collected as seen from the mean of 4.14. However, the responses varied as shown by the standard deviation of 0.80. This implies that a collection procedure involves a detailed statement of steps to be taken regarding when and how the past-due amounts of a debt are to be collected. Each company has its own collection procedure, with information such as due dates, grace periods, penalties, date of repossession, date of turnover of delinquent account to collection agency as noted by McNaughton (2016)

Respondents were also asked about the challenges faced by the bank in collecting overdue payments and their replies were, "*debtors that make excuses for their late payments, clients that file for bankruptcy, clients that go out of business before their debts are paid.*" the measures given by respondents to overcome the above challenges included, "*following up the accounts department with a polite phone call or email reminder before becoming more forceful, applying the services of a debt management company in extreme cases, encouraging clients to pay electronically rather than via cheque.*"

4.6 Descriptive Statistics on Financial performance of commercial banks

The study also investigated the financial performance of commercial banks. The findings were presented, analysed and interpreted in percentages and frequencies as indicated below

Table 4.8: Descriptive Statistics on Financial performance of commercial banks

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Growth of Customers					
G1 Customers are the main source of revenue for the bank	35	2	5	4.80	.584
G2 Growth of customers induces an increase in the customer base of the bank.	35	1	5	4.69	.796
G3 The bank's target custom behaviors are well understood	35	2	5	4.54	.886
Profitability					
P1 Profitability is the primary goal of the bank and without it, the business cannot survive in the long run	35	4	5	4.83	.382
P2 Net profit ratio can be used to measure the profitability of the bank.	35	3	5	4.60	.695
P3 The profitability of the bank increases every year	35	2	5	4.20	.797
Cost of operations					
E1 Cutting costs generally is an easier and more accessible way of increasing profits in the bank	35	1	5	4.46	.950
E2 Trimming operating costs too much reduces the bank's productivity	35	3	5	4.71	.519
E3 Bank keeps track of both operating and non-operating costs	35	2	5	4.57	.739
Valid N (listwise)	35				

Source: Primary data(2017)

Source of revenue

Results from the findings show that the majority agreed that customers are the main source of revenue for the bank, as evidenced by the mean of 4.80 and standard deviation of 0.584.

Growth of customers

In consideration to the fact that Growth of customers induces an increase in the customer base of the bank. This had a mean score of 4.69 which is tending towards the maximum of 5 implies that most of the respondents agreed and a standard deviation 0.796.

Bank's target customer behaviours

It was revealed that the majority of the respondents agreed that the bank's target customer behaviours are well understood. This had a mean score of 4.54 which is tending towards the maximum of 5 and implies that most of the respondents agreed that the bank's target customer behaviours are well understood. The standard deviation of 0.886 which explains the responses that vary between those who strongly agreed and agreed.

Primary goal of the bank

The findings show that the majority agreed that profitability is the primary goal of the bank and without it, the business cannot survive in the long run, as evidenced by the mean score of 4.39 and standard deviation 0.84.

Net profit ratio

In relation to the fact that Net profit ratio can be used to measure the profitability of the bank, most of the respondents. This had a mean score of 4.60 which is tending towards the maximum of 5 implies that most of the respondents agreed and the standard deviation of 0.695 explains the responses that vary between those who strongly agreed and agreed.

Profitability of the bank

The finding from the study show that the majority of the respondents agreed that the profitability of the bank increases every year as shown by the mean score of 4.20 and a standard deviation of 0.797 which shows that the responses vary with those that agree and strongly agree.

Cutting costs

In consideration to the findings of the study, it was presented the majority of the respondents agreed that cutting costs generally is an easier and more accessible way of increasing profits in the bank, as shown by the mean score of 4.46. However, the responses varied as shown by the standard deviation of 0.950.

Trimming operating costs

In relation to the study findings, the majority of the respondents agreed that trimming operating costs too much reduces the bank's productivity, as evidenced by the mean score of 4.71 and standard deviation 0.519 explains the varying of responses between respondents that strongly agreed and those that agreed.

Bank keeps track of both operating and non-operating costs

Furthermore, the study of the findings showed that the majority of the respondents agreed that the bank keeps track of both operating and non-operating costs. The mean score of 4.57 and standard deviation 0.739 explains the varying of responses between respondents that strongly agreed and those that agreed.

4.7 Correlation Analysis

4.7.1 Correlation between credit standards and financial performance of commercial banks

Table 4.9: Credit standards and financial performance of commercial banks

Correlations

		standards	Performance
Standards	Pearson Correlation	1	-.122
	Sig. (2-tailed)		.483
	N	35	35
Performance	Pearson Correlation	-.122	1
	Sig. (2-tailed)	.483	
	N	35	35

Source: Primary Data (2017)

The table shows a weak, non significant, negative, linear relationship between Credit standards and financial performance of commercial banks. This was done with the support of the Pearson correlation product moment technique. The table above reflects the results that emerged. It comprises of variables; Credit standards and financial performance of commercial banks. The Pearson correlation (r=-0.122**) reveals that a weak negative relationship exists between credit standards and financial performance of commercial banks. The p =0.483, that is greater than the alpha level of significance of 0.05 implies that there is no significant relationship between Credit standards and financial performance of commercial banks. Credit standards are criteria to decide to whom credit sales can be made and how much. If the firm has soft standards and sells to almost all customers, its sales may increase but its costs in the form of bad-debts losses and credit administration will also increase. The firm will have to consider the impact in terms of increase in profits and increase in costs of a change in credit standards or any other policy variables as evidenced by Girma, (2016).

4.7.2 Correlation between credit terms and financial performance of commercial banks

Table 4.10: Credit terms and financial performance of commercial banks

Correlations

		terms	Performance
Terms	Pearson Correlation	1	-.088
	Sig. (2-tailed)		.613
	N	35	35
Performance	Pearson Correlation	-.088	1
	Sig. (2-tailed)	.613	
	N	35	35

Source Primary Data (2017)

The table shows a non significant relationship between Credit terms and financial performance of commercial banks. This was done with the support of the Pearson correlation product moment technique. The table above reflects the results that emerged. It comprises of variables; Credit terms and financial performance of commercial banks. The Pearson correlation (r=-0.088**) shows that there is a weak negative relationship between Credit terms and financial performance of commercial banks. The p=0.613, that is more than the alpha level of significance of 0.05 implies that there is no significant relationship between Credit terms and financial performance of commercial banks. The conditions for extending credit sales are called credit terms and they include the credit period and cash discount. Cash discounts are given for receiving payments before the normal credit period. All customers do not pay within the credit period. Therefore, a firm has to make efforts to collect payments from customers as agreed by Anon, (2002).

4.7.3 Correlation on collection procedure and financial performance of commercial banks

Table 4.11: Collection procedure and financial performance of commercial banks

Correlations

		collection	Performance
Collection	Pearson Correlation	1	-.466**
	Sig. (2-tailed)		.005
	N	35	35
Performance	Pearson Correlation	-.466**	1
	Sig. (2-tailed)	.005	
	N	35	35

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

Source: Primary Data (2017)

Results in the table show that there is moderate negative relationship between collection procedure and financial performance of commercial banks. This was done with the support of the Pearson correlation product moment technique. The table above reflects the results that emerged. It comprises of variables; Collection procedure and financial performance of commercial banks, with the Pearson correlation (r=-0.466**). This revealed a negative relationship between collection procedure and financial performance of commercial banks. The p=0.005, that is less than the alpha level of significance of 0.05, shows that the correlation between collection procedure and financial performance is significant. The above results mean that when the collection procedure increases in effectiveness, the financial performance of the commercial banks reduces. And their relationship being significant means that the collection procedure actually has an impact on the financial performance of commercial banks. Girma, (2016) agreed that the collection procedure should be clearly defined in such a manner that the responsibility to collect and the follow up should be clearly defined. This responsibility may be entrusted to the separate credit department or accounts or sales department. Besides the general collection policy, firm should lay-down clear cut collection procedures for past dues or delinquent accounts

4.8 Conclusion

In this chapter, basing on the data collected from Barclays bank, the variables of credit policy and financial performance were analyzed quantitatively and qualitatively in relation to the objectives thus the findings were relevant to the study.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This chapter brings forth the summary of the findings and conclusions drawn from the study based on the findings presented in data analysis and the study objectives. The chapter also advances the recommendations, as well as identifying the areas for further studies.

5.1 Summary of findings

5.1.1 Credit standards and financial performance of commercial banks

The study revealed that Credit standards have a non significant weak and negative relationship with the financial performance of commercial banks as seen by the Pearson correlation (r=-0.122**). This implies that when management of credit standards increases, the financial performance minimally decreases. However, this relationship is not significant as revealed by p=0.483 which means that even if the credit standards increase or decrease, the financial performance of commercial banks is not affected in any way. The researcher's findings therefore disagree with Girma (2016) who stated that credit standards determine whether a potential borrower is creditworthy, and if the firm has soft standards and sells to almost all customers, its sales may increase but its costs in the form of bad-debts losses and credit administration will also increase. The firm will have to consider the impact in terms of increase in profits and increase in costs of a change in credit standards or any other policy variable.

5.1.2 Credit terms and financial performance of commercial banks

The study revealed that that there is a weak negative relationship between Credit terms and financial performance of commercial banks as revealed by the Pearson correlation (r=-0.088**). This means that when credit terms management is high, the financial performance of commercial banks declines however according to the alpha level of significance, p=0.613 which shows that there is a non significant relationship between the two variable therefore whether the credit terms increase or decrease in management, the financial performance of commercial banks is not greatly affected, the impact is minimal and almost not felt. These findings disagree with Anon, (2010) who stated that the firm may tighten the credit period, if customers are defaulting too frequently and bad-debt losses are building up

5.1.3 Collection procedure and financial performance of commercial banks

It was revealed by the Pearson correlation (r=-0.466**). that collection procedure has a negative relationship with the financial performance of commercial banks. This implies that an increase in the operations of the collection procedure leads to a decrease in the financial performance of commercial banks and vise versa. However, The p=0.005, that is equal to the alpha level of significance of 0.05, shows that the correlation relationship between collection procedure and financial performance is significant and therefore collection procedure has an impact on the financial performance of commercial banks.This therefore agrees with the statement that the collection policy should ensure prompt and regular collection, keep down collection costs and bad debts within limits and to maintain collection efficiency (Girma, 2016).

5.2 Conclusion

5.2.1 Credit standards and financial performance of commercial banks

Credit standards do not contribute to the financial performance of commercial banks, basing on the correlation results. However, the economic conditions like state of the business cycle are relevant in assessing whether an applicant can meet credit obligations in addition to the fact that credit standards influence the quality of the bank's customers. It was also revealed that the bank often uses collateral security and is usually safe and marketable.

5.2.2 Credit terms and financial performance of commercial banks

Credit terms have no contribution to the financial performance of commercial banks. However, the interest charged by the bank on loans is based on what the competitors are charging, discounts are offered to clients to motivate them to pay within or before the end of the set credit period. Further, discounts cut back on the amount of doubtful debts and associated costs.

5.2.3 Collection procedure and financial performance of commercial banks

Collection procedure has a negative relationship with the financial performance of commercial banks. However, the collection policy of the bank keeps collection costs down and bad debts within limits and also the primary objective of collection procedure is to increase sales and speed up collection of dues.

5.4 Recommendations

Based on this study, the researcher made the following recommendations;

5.4.1 Credit standards and financial performance of commercial banks

The findings on the effects of credit standards on the financial performance can be used to ensure that the standards set perform their intended obligations without favor of clients. This will in turn reduce on the cases of engaging in contracts with incapable debtors.

5.4.2 Credit terms and financial performance of commercial banks

Barclays bank should keep credit terms stringent enough to limit bad debt losses but also loose enough to bring in more clients. There is therefore a need for the banks to impose a proper policy regarding the credit terms that will reduce on the losses brought about by the credit risk.

5.4.3 Collection procedure and financial performance of commercial banks

The ability of a client to obtain loans, based on the trust that payment will be made in the future, therefore the collection policy of the bank should keep collection costs down and bad debts within limits in order to ensure that the primary objective of collection procedure which is to increase sales and speed up collection of dues is achieved.

5.4 Areas for further Study

More study and research should be made on the following areas and topics

i) Credit policy and competitiveness of an organisation

ii) Relationship between credit policy and loan portfolio of banks.

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Appendix 1: QUESTIONNAIRE FOR BARCLAYS BANK EMPLOYEES

TOPIC: CREDIT POLICY AND FINANCIAL PERFORMANCE OF COMMERCIAL BANKS

Dear respondents

My name **is Nabunnya Solome Mary**, a student of Uganda Martyrs University Nkozi offering a bachelors' of science in Accounting and Finance degree and undertaking a research study on the above topic. I kindly request you to sacrifice some time for me and fill in the following questionnaire.The information will be treated with confidentiality and purely for academic purposes only. This study can only be successfully completed through your honest responses. I do appreciate your assistance. Thank you for sparing your time.

SECTION A: Bio data of the respondents.

Please tick as appropriate

1. Gender

1. Male	2. Female

2. Age range

1. 18-24 years	2. 25-36 years	3. 36-44 years	4. 45 years and above

3. Level of education

1. Certificate	2. Diploma	3. Degree	4. Masters	5. PHD

4. How long have you worked in the Barclays bank

1. 6 months-2 years	2. 3-5 years	3. 6-8 years	4. Above 8 years

5. Which department of Barclays bank do you work in?

1. Operations and customer service dept	2. Inspection department	3. Loan department	4. Risk management department

SECTION B

Please tick where appropriate in this section as guided by the following abbreviations.

- Strongly agree **5**
- Agree **4**
- Not sure **3**
- Disagree **2**
- Strongly disagree **1**

B.Credit standards

To what extent do you agree with the following statements in relation to credit standards?

	Statement	5	4	3	2	1
B1	Credit standards determine whether a potential borrower is creditworthy					
B2	Credit standards limit the risk of a borrower defaulting on loan money					
B3	Capital of the customer indicates one's ability to pay one's liabilities					
B4	The economic conditions like state of the business cycle are relevant in assessing whether an applicant can meet credit obligations					
B5	Credit standards influence the quality of the bank's customers					
B6	The bank often uses collateral security and is usually safe and marketable.					

In your own view, what are the weaknesses of the current credit standards of the bank in managing credit risk?

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How can the above weaknesses be overcome in order to improve the effectiveness of the current credit standards

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C.Credit terms

Please indicate the extent to which you agree or disagree with the following statements in relation to credit terms.

	Statement	5	4	3	2	1
C1	Credit terms list the timing and amount of payment the borrower will make in the future					
C2	The bank's credit period is governed by the industry norms					
C3	Interest charged by the bank on loans is based on what the competitors are charging					
C4	Discounts are offered to clients to motivate them to pay within or before the end of the set credit period					
C5	Discounts cut back on the amount of doubtful debts and associated costs.					

What are the advantages of credit terms in managing credit risk?

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What challenges does the bank face in setting effective credit terms?

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D. Collection procedure

Please indicate the extent to which you agree or disagree with the following statements as related to the collection procedure

	Statement	5	4	3	2	1
D1	Collection policy of the bank effectively ensures prompt and regular collection of debts					
D2	Collection policy of the bank keeps collection costs down and bad debts within limits					
D3	The primary objective of collection procedure is to increase sales and speed up collection of dues.					
D4	The bank spells out the collection procedure as part of the loan terms.					
D5	The collection procedure is a detailed statement of steps to be taken regarding when and how the past due amounts of a debt is to be collected.					

What are the challenges faced by the bank in collectingoverdue payments from clients?

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What measures does the bank put in place to overcome these challenges?

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E. Financial performance of commercial banks

In this section, please indicate the extent to which you agree or disagree with the following statements in relation to the financial performance of Barclays bank.

	Statement	5	4	3	2	1
	Growth of customers					
G1	Customers are the main source of revenue for the bank					
G2	Growth of customers induces an increase in the customer base of the bank.					
G3	The bank's target custom behaviors are well understood					
	Profitability					
P1	Profitability is the primary goal of the bank and without it, the business cannot survive in the long run					
P2	Net profit ratio can be used to measure the profitability of the bank.					
P3	The profitability of the bank increases every year					
	Cost of operations					
E1	Cutting costs generally is an easier and more accessible way of increasing profits in the bank					
E2	Trimming operating costs too much reduces the bank's productivity					
E3	Bank keeps track of both operating and non operating costs					