# CREDIT RISK MANAGEMENT AND FINANCIAL PERFORMANCE OF FINANCIAL INSTITUTIONS

## A CASE STUDY OF BARCLAYS BANK UGANDA

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## DEDICATION

I dedicate this research to my Late grandfather RwamukagaYoweri (the first), and my late sister Rebecca Kaahwa.

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The Lord has been faithful in granting me the strength, wisdom, knowledge and the courage needed throughout the period of study.

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God bless you all.

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## ABSTRACT

The major objective of this study was to establish the role of credit risk management in financial performance of financial institutions. The specific objectives were; to establish relationship between risk mitigation and financial performance of financial institutions, the impact of risk monitoring impact on financial performance in financial institutions, the effect of risk diversification on financial performance of financial institutions.

A case study design was used to conduct the study with a sample size of 40 respondents. Various data collection instruments were used in this study and these include; questionnaires and interview guide.

The findings revealed that there is a positive and significant correlation between the credit risk management and financial performance of financial institutions ($r = 0.674$). That is as the level of credit risk management increases or decreases, the financial performance of financial institutions increases and decreases respectively. This means that the change in credit risk management is strongly correlated with the change in the levels of financial performance of financial institutions. The results further show that the Sig. (2-tailed) value is 0.01 which indicates that there is statistically significant correlation between the credit risk management and financial performance of financial institutions. From the study it revealed that credit risk management strongly affects the financial performance of financial institutions.

The researcher therefore recommends educating employees on credit risk mitigation, risk monitoring and risk diversification more often to avoid defaulting clients when loans are not well monitored by bank which increase losses. The bank should revise their internal controls, diversify their loan portfolio, and improve the procedures to obtain loans by clearly designing credit policies, improve communication channels with clients.

# CHAPTER ONE

# GENERAL INTRODUCTION

## 1.1 Introduction

Over the last few years the importance of managing risk has been increasingly acknowledged. Organisations all over the world are under pressure to identify all the business risks they face; social, ethical and environmental as well as financial and operational, and to explain how they manage them to an acceptable level (René 2002). Meanwhile, the use of enterprise-wide credit risk management frameworks has expanded, as organisations recognise their advantages over less coordinated approaches to credit risk management.

This chapter presents a basis for the study on determining the relationship between credit risk management and financial performance of financial institutions. The chapter comprises of a background of study, problem statement, study objectives, research questions, research hypothesis, scope of study, the study's significance, definition of terms and the conceptual framework.

## 1.2 Background of study

Financial institutions date way back as far as the fifteenth century when the Catholic church established pawn shops that carried out the role of providing loans to their people in order to render ruthless loan sharks and money lenders irrelevant and out of business(Helms 2006). These pawn shops were situated all over Europe Helms (2006) in 1895 the opening of Indonesia People's Credit Bank was a major landmark in the history of financial institutions. According to Chijoriga (1997) credit risk is the most expensive risk in financial institutions and in case of occurrence its impact is more fatal any other risk as it directly impacts on the solvency of financial institutions. The magnitude of loss and financial damage caused by the credit risk is severe as it is bound to cause a high level of loan losses and even eventual bank failure as a worst case scenario. According to Basel (1999), financial institutions have been faced with complications over the past years for a handful of reasons, the major cause seeming to be lax credit standards for borrowers and counterparties that leaves banks in major loss crisis. Present day situation has a wave of commercialization as microfinances evolve into financial institutions to encourage business sustainability and mitigate credit risk by managing it effectively. Sundaresan (2008) goes on to highlight 2005 as the year that was declared ''the year of microfinance'' as more investment was being channelled into financial institutions.

Kargi (2011) found in a study of Nigeria banks from 2004 to 2008 that there is a significant relationship between banks performance and credit risk management. He found that loans and advances and non-performing loans are major variables that determine asset quality of a bank. He believes credit risk management increases profitability of banks by keeping and maintaining pressure of this risk in acceptable boundaries to creating a framework for understanding effect of credit risk management. On the contrary, Kithinji (2010) carried out a study between 2004 and 2008 on the impact of credit risk management on profitability and business sustainability of commercial banks in Kenya and her findings revealed that as much as credit risk management might influence sustainability, it is to a small extent as the bulk profit of commercial banks is influenced by other variables besides credit.

According to Ngaruiya(2008) study on the effectiveness and impact of credit management on the business sustainability and profitability, a case study of Finca Uganda, the bank's lenient credit management policy was a cause of major losses as the bank incurred heavy credit collection costs leading to business deterioration. Loans were also found to be the major source of profit for the bank but were facing a hindrance of poor client appraisal. The findings showed that credit risk management holds a strong relationship with the financial performance and profitability.

Barclays bank is a multinational British bank that is three centuries old.Its history dates way back to James Barclay in 1736 from whom the bank's name originated, after he became a partner in the private bank. The partnership was known as Freame and Barclay, and later as Barclay, Bevan & Co upon being relocated to Lombard Street where other banks were located. Barclays and nineteen other banks amalgamated in July 1896 to form Barclay and Company Limited and from that time on expansion to other nations began. Barclays Bank Uganda is a commercial bank, one out of 23 commercial banks licensed by the bank of Uganda. It is primarily involved in meeting the banking needs of the individuals, small and medium businesses as well as large corporations it conducts cash operations and emphasises on risk management as an essential element of long time success. It is the third largest commercial bank in Uganda with approximately 12% of all bank assets in the country. Barclays Bank opened for business in Uganda in 1927 with two branches in the capital city Kampala and Jinja the country's second commercial centre.

In February 2007, due to its proper risk management frame work and policy, it managed to acquire Nile Bank Uganda limited and thus strengthening its presence in the country. It employs more than 1000 colleagues, 53 branches and 80 ATM machines in service. In 1960s, commercial banks included local operations of Barclays bank as well as other banks.To guard against this inconsistence, Barclays Bank develops strategies to either eliminate or reduce fraud risk which is the major aim of risk management (Dawson and Rodney,2002).

Risk management is the process of identifying, measuring and assessing the risk that originates from late payment or failure to pay up on loan obligations, and developing strategies and precautionary actions to manage the risks involved. It looks forward to the rewards of good performance of the bank's finances, growth and increase on the Bank's lending power. The Bank's main goal is to ensure well business sustainability from internal early warning systems and management responses that prevent small problems from exploding into larger ones by focusing on credit risk management.

### 1.3 Problem Statement

According to Simon (2010) the 2007-09 financial crisis was caused by failure to manage credit risk properly and implementation in relation to risk management. Notably some financial institutions did not implement credit risk management practices that were aligned with accepted good practice.

Risk management practices within commercial banks continue to be inefficient and inadequate and this is evidenced by the consistent decline in the profit margins, increasing number of dormant account holders, high loan defaults and increasing high interest rates. (Monitor, 2009). These occurrences have led to the compromising of the financial performance in the commercial banks and if the problem persists and remains unchecked, then financial performance is likely to remain undesirable.

### 1.4 Purpose of the study

#### 1.41 Major objective

The study is to establish the relationship between credit risk management andfinancial performance of financial institutions.

### 1.42 Specific objectives of study

(i) To determine the relationship between risk mitigation and financial performance of financial institutions.

(ii) To find out how risk monitoring impacts onfinancial performance of financial institutions.

(iii) To assess the effect of risk diversification on financial performance of financial institutions.

### 1.5 Research Questions

(i) What is the relationship between risk mitigation and financial performance of financial institutions?

(ii)How does risk monitoringimpact on financial performance in financial institutions?

(iii)What is the effect of risk diversification on financial performanceof financial institutions?

### 1.60 Scope of study

### 1.61 Content scope

The basic concentration of the study is on the aspects of credit risk management like credit risk mitigation, credit risk monitoring and risk diversification and their relationship with performance of financial institutions and its aspects like profitability, interest rate and loan portfolio performance.

### 1.62 Geographical scope

The study is being carried out in Barclays bank Uganda at the headquarters at 2 Hannington Road on Nakasero Hill because this branch has the highest number of customers and borrowers at that as compared to other branches of Barclays bank Uganda.

### 1.63 Time scope

The research is being conducted in the period between 2nd January 2012 to 27th march 2015 with financial data from 2014 to 2015 being analysed as this is a single period or snapshot study and it is considering the data on credit risk management in Barclays bank of Uganda. The study is being carried out analysing Barclays Bank Uganda financial data of the past 3 years in order to brainstorm means and resolve the meagre credit risk growth in the banking sector.

## 1.7 Significance of the study

The study is meant to assist managers in dealing with the growing credit risk as the form of management is a determinant in financial performance of institutions.
Due to the diversity and rampant changes in the financial sector in the 21st century, adaptation to changes in the business world is much faster, so managers can be able to borrow ideas off the findings of this study and apply them.

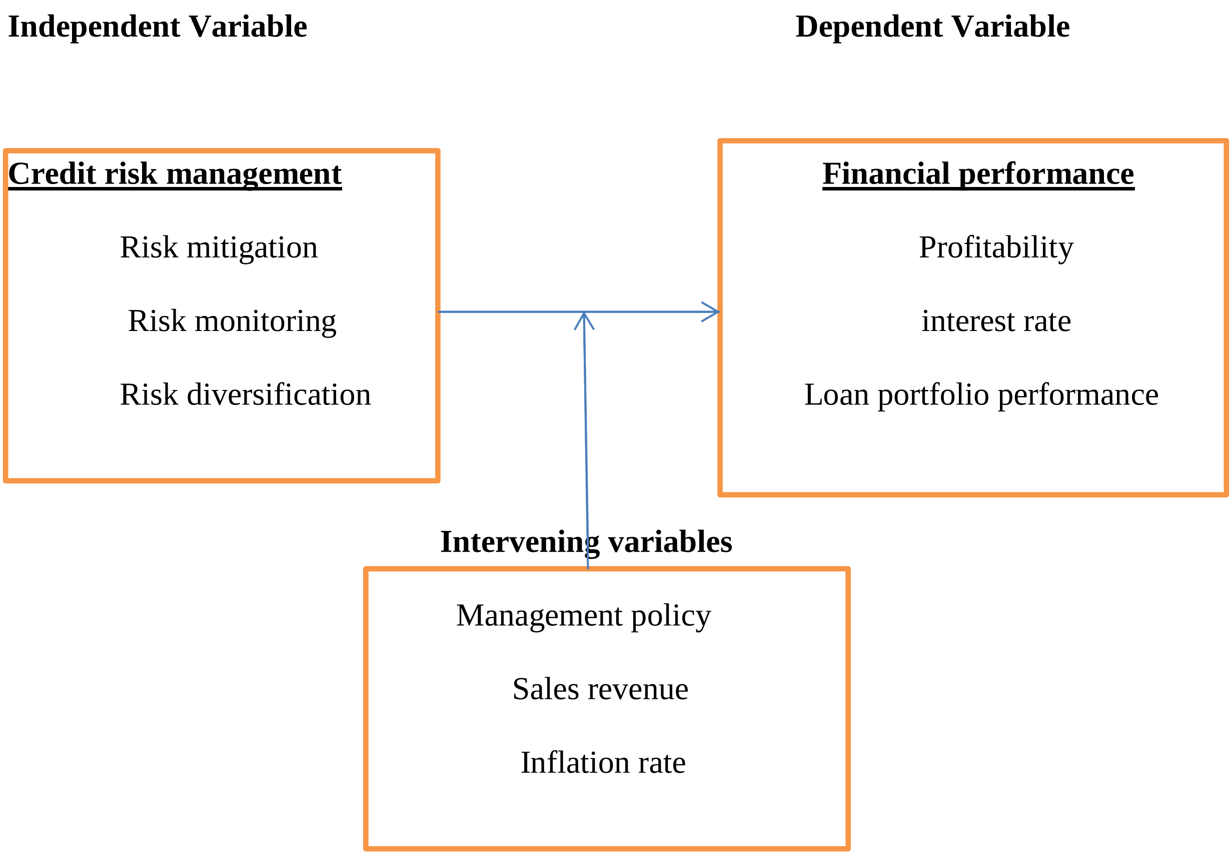
In addition the findings of this research will be used by consultants, credit-offering businesses and accountants interested in credit risk management and financial performance of institutions. These results can on a higher level determine government policy as it will enlighten policy makers on the seriousness of credit risk management.

## 1.8 Conceptual framework

The model presented in conceptual framework that will be used to guide the study is presented in the figure. The model shows credit risk management as an independent variable with its dimensions risk mitigation, risk monitoring and risk diversification that impact on financial performance. On the other hand, financial performance is the dependent variable focusing on profitability, interest rate and loan portfolio as its dimensions. However, there are intervening variables in this relationship which include management policy, sale revenue and inflation rate as they affect both the dependent and independent variable. The relationship between credit risk management and financial performance conceptualized and depicted in figure 1, the independent variable impacts on the intervening variables which in turn determine the final outcomes of profitability, interest rate and loan portfolio. Therefore in order to determine the relationship between credit risk management and financial performance one must take into account management policy, sales revenue and interest rate.

**The relationship between credit risk management andfinancial performance of Barclays bank Uganda**

***Fig.1 Conceptual Framework***




Source: Self developed from review of (Dhanani and Groves 2001) and (Williamson, 2010)

### 1.9 Definition of terms

**Risk management** is the identification, assessment, and prioritization of risks followed by coordinated and economical application of resources to minimize, monitor, and control the probability and/or impact of unfortunate events.

**Management Policy** defines the scope or spheres within which decisions can be taken by the subordinates in an organization. It permits the lower level management to deal with the problems and issues without consulting top level management every time for decisions.

**Loan portfolio performance** refers to the ratio of non-performing and performing loans o a bank. This in turn depicts how well the Bank in general is performing in terms of loan management.

**Risk mitigation**: is the systematic reduction in the extent of exposure to a risk and the likelihood of its occurrence.

**Risk monitoring**: This is the act of overseeing loans issued by the loan officer and bank management in order to facilitate loan recovery. It may also be defined as the process of keeping track of the identified risks, monitoring residual risks and identifying new risks, ensuring execution of risk plans, and evaluating their effectiveness in reducing risk.

**Risk diversification**: This is a portfolio strategy designed to reduce exposure to risk by combining a variety of investments, such as stocks, bonds and real estate, which are unlikely to all move in the same direction.

**Profitability**: is the state or condition of yielding a financial profit or gain. It is often measured by price to earnings ratio.

**Inflation rate**: The rate at which the general level of prices for goods and services is rising and subsequently, purchasing power is falling.

**Interest rate**: the loan proportion of a loan that is charged as interest to the borrower, typically expressed as annual percentage of the loan outstanding.

### 1.10 Conclusion

In order to establish the relationship between credit risk management and financial performance, the relationship between the independent variables of risk mitigation, risk monitoring and risk diversification and the dependent variables of profitability, interest rate and loan portfolio performance ought to be established. With the help of the intervening variables of management policy, sales revenue and interest rate, this relationship will be made possible.

# CHAPTER TWO

# LITERATURE REVIEW

## 2.1 Introduction

Chapter two is basically handling a review on past literature of scholars on the topic being addressed which is Credit risk management. Related work of other scholars that talked about the variables cited to influence credit risk management and business financial performance. The chapter is covering as far as credit risk management practices that entail credit risk monitoring, credit risk mitigation and credit risk diversification.

According to Khambata, Dara et al (1996), Banks give out loans to borrowers but there is always a possibility of borrowers failing to pay back. Therefore management must devise means to mitigate this risk as a form or level of uncertainty always pops up.

## 2.2 Overview of credit risk management and financial performance

Risk management is the process of controlling risks, the severity and likelihood of adverse events in order to improve performance (MainelIi, 2001). Barret, (2001) defines risk management as a disciplined approach to the identification, analysis and mitigation of risks, which could prevent or inhibit an organization from achieving its objectives. Korari (1995) defines credit risk as the possibility that borrowers will default in repaying loans taken. The most significant way therefore commercial banks can regulate the volume of credit to ensure profitability would be through establishing credit risk management policies to help them in proper management of their loan portfolios (Pandey, 1993). ). Effective communication and reporting on an organization's risk management policies at all levels, development of risk training courses, involvement of staff in responding to early warning systems and establishing reporting channels for control breaches and creation of a positive risk management culture (Carey, 2001).

One major motivation to conduct this study was the importance of credit risk management for the bank's performance and profitability. Financial performance is company's ability to generate new resources, from day-to-day operation over a given period of time and it is gauged by net income and cash from operation. The financial performance measure can be divided into traditional measures and market based measures (Aktan andBulut, 2008). Hardaker et al. (1997) defined risk management as the systematic application of management policies, procedures and practices to the task of monitoring risk. Since exposure to credit risk continues to be the leading source of problems in banks world-wide, banks and their supervisors should be able to draw useful lessons from past experiences. Banks should now have a keen awareness of the need to monitor credit risk (Basel, 1999).

Financial performance is the result of a firm's policies and operations in monetary terms. These are reflected in the firm's returns return on investment, return on asset and value added. It is also used as a general measure of a firm's overall financial health over a given period of time and can be used to compare similar firms across the same industry (Maria, 2008). Kargi (2011) found in a study of Nigeria banks from 2004 to 2008 that there is a significant relationship between banks performance and credit risk management. He found that loans and advances and non-performing loans are major variables that determine asset quality of a bank. Risk mitigation needs to be approved by the appropriate level of management in order to increase profitability in a company. For example, a risk concerning the image of the organization should have top management decision behind (Payle, 1997).

Hempel, Simonson and Coleman (1994) believe that whatever the degree of risk taken, loans losses could be minimized by organizing and managing the lending functions in a high professional manner. Schmit and Kendall (1990) assert that risk management is about the performance of activities designed to minimize the negative possible losses. Akkizidis et al (2007) points out that the survival and success of financial institutions depend on the efficiency on how they mitigate risks this implies that in order for a bank to perform financially and exist, it must first of all mitigate risk. The profitability ratios are considered to be the basic bank financial ratios. In other words, the profitability ratios give the various scales to measure the success of the firm. The profitability ratios can also be defined as the financial measurements that evaluate the capacity of a business to produce yield against the expenses and costs of business over a particular time period (Kaplan, 2001). Capital adequacy refers to the sufficient amount of banks equity to absorb any shock that a bank may experience (Ong and Teh, 2013). Garcia-Herrero et al., (2009) showed a positive impact of capital on bank profitability

From accounting point of view, Return on assets is considered an inclusive measurement indicator of total bank performance and profitability (Sinkey and Joseph, 1992). Research and tests carried out by Ruziqa (2013) where he tested the impact of credit risk and liquidity risk on the financial performance of conventional banks in Indonesia. It was found that credit risk has a negative relationship with financial performance. This means the higher the credit risk, the lower the financial performance. Wilson, (1988), expressed the benefits of diversification of credit portfolios. Findings in his research indicated that a significant difference in portfolio performance for the diversified portfolio to different economies and those restricted to a region. According to Neuberger (1995) there are clear benefits of revenue diversification such as the ability to diversify risk while increasing the volume of financial transactions within a financial institution.

## 2.3 ACTUAL REVIEW

### 2.3.1 Risk mitigation and Financial Performance

Risk mitigation is basically about the use of different methods to prevent losses, control losses and claims of financial institutions. Risk mitigation techniques create a safe environment for financial institutions and these techniques are adopted depending on the various risks the financial institution is exposed to and these may be first priority claims with cash and securities. A loan exposure may be guaranteed by a third party, or a bank may even purchase credit derivatives to offset various forms of credit risk (Basel 1999). Risk management is the human activity which integrates recognition of risk, risk assessment, developing strategies to manage it, and mitigation of risk using managerial resources (Apps, 1996). A major angle from which risk mitigation is approached is monitoring and control of losses in order to act as a preventive measure to the risk. Bobakovia (2003) claims that the profitability of a bank depends on its ability to foresee avoid and monitor risks. Sundararajan (2007) concludes that the application of modern approaches to risk measurement, particularly for credit and overall banking risks is important for banks. Also, he suggests that the need to adopt new measurement approaches is particularly critical for banks because of the role play, the unique mix of risks in finance contracts. In a rational world, the objective of a risk assessment should be to identify all the pertinent risks, analyse them carefully, and mitigate the down-side impact of those risks as far as it is possible and economic to do so. The remaining risks need to be monitored and controlled as much as possible and contingency plans put in place, should the risk event occur (Lewin, 2000). .

Loan portfolio performance refers to the rate of profitability or rate or return of an investment in various loan products thus broadly, it looks at the number of clients applying for loans, how much they are borrowing, timely payment of instalments, security pledged against the borrowed funds, rate of arrears recovery and the number of loan products on the chain. The loan products may comprise of; Salary loans, Group guaranteed loans, Individual loans and corporate loan (Puxty et al, 1991).Khan (2008) asserts that the real risk from credit is the deviation of portfolio performance from its expected value. Therefore mitigation tactics are used to control this form of deviation. Piana (2002) defines the interest rate as the profit over time due to financial instruments. In a loan structure whatsoever, the interest rate is the difference (in percentage) between money paid back and money got earlier, keeping into account the amount of time that elapsed. When establishing the interest rate to the public, banks all over the world make reference to these rates (e.g. "1.5% more than Central Bank Base Lending Rate- BLR " - the famous inter-bank interest rate for loans in Shillings). If the firm is a sound primary firm with excellent trustworthiness, the bank would agree an interest rate only slightly higher than the rate the same bank would be requested to pay in the inter banking market from other lending institutions. By contrast, for smaller industrial firms, the rate usually would be significantly higher because of the worsened credit risk. Reilly and Norton (2003) define interest rate risk as the uncertainty regarding the ending-wealth value of the portfolio, due to changes in market interest rates between the time of purchase and the target date. It involves two component risks in turn: price risk and coupon-reinvestment risk.

Merton (1989) postulates that a key feature of the franchise of financial institutions (including banks) is the bundling and unbundling of risks. However, not all risks inherent in their business should be borne directly by them; some can be traded or transferred whiles others can be eliminated altogether. It is therefore useful to defragment the risks inherent in their activities and assets into three distinctive subgroups in accordance with their nature so that the appropriate strategies can be adapted to mitigate them. Kliem et.al (1997) narrates a four-step process: risk identification, risk analysis, risk mitigation and risk follow-up. Every bank should have a process to identify and approve loan policy and underwriting exceptions and to document any mitigating factors.

Haschimi (2007) studies the determinants of bank net interest rate margins in 10 Sub-Saharan African countries. He finds that credit risk and operating inefficiencies (which signal market power) explain most of the variation in net interest margins across the region. Macroeconomic risk has only limited effects on net interest margins in the study. Generally, interest rate risk is the potential for changes in interest rates to reduce a bank‘s earnings or value. Most of the loans and receivables of the balance sheet of banks and term or saving deposits, generate revenues and costs that are driven by interest rates and since interest rates are unstable, so are such earnings. Though interest rate risk is obvious for borrowers and lenders with variable rates, those engaged in fixed rate transactions are not exempt from interest rate risks because of the opportunity cost that arises from market movements (Bessis, 2010).

Brewer and Lee (1986) argued that in reality Commercial banks can be highly leveraged large non-performing loans or large security losses can bring about insolvency. This is also true that for purposes of credit risk exposure mitigation, each bank must maintain an allowance for loan losses associated with its loan portfolio (Hundman, 2003). According to Cuthbertson and Nitzsche (2003), risk management technology has been transformed over the last decade. The speed of information flow and the sophistication of the international financial markets enable banks to identify, assess, manage and mitigate risk in a way that was just not possible ten years ago. The most current credit modelling software in place is Basel 11 Accord.

Risk management needs cooperation and teamwork encourages success. Trust among an organization's members is an important prerequisite to changing those related to alliances, thus mitigating risk, as organizations are unwilling to adopt alliance-like organizational structures that make them vulnerable to the fluctuation of the environment (McAllister, 1995). Communication provides opportunities for clarification, for making sense of an organization's progress, and for members to discuss improvement to an organization and the impact of using different risk mitigation strategies (Carey, 2001). Grabowski and Roberts (1999) claim that communication plays an important role in risk mitigation. It provides opportunities for clarification, for making sense of the organization's progress, and for members to discuss how to improve the organization and the impact of using different risk mitigation strategies.

Holmquist(2004) contended that identifying responsibility lies on management that should have appropriate staff in place making sure that the methods applied are proper and all effort will undergo to report any loss event to make the management aware of the prevalent risk. In addition, there is a need to work on a process that will mitigate the exposure. Normally, the procedure should be firm-wide and it should summarize the prevalent exposure, the loss experience encountered, and the applicable business environment in accordance to assessment made. However, just as the best way to understand the full extent of the bank's credit risk is to analyse aggregate loan data, an important element of analysing exceptions is for banks to track and analyse policy and underwriting exceptions in the aggregate,(Yasuda,2006).

Preager (1964), commercial banks can reduce and control credit risk through use of internal financial controls. These are so classified because they do not utilize external financial market. Clearly, every financial institution, regardless of size, must understand the risks it is taking, and how to control and mitigate those risks. We have seen too well and too painfully in the past several years, in the largest banks and in the smallest, what happens when systems and management understanding are not commensurate with the risks being taken. The consequences fall not only on bank owners, staff, and customers, but potentially on the entire economy. Management of commercial banks should make sure that risks don't undermine the safety and soundness of our nation's most important lenders (Kohn, 2010).

It is becoming increasingly important to mitigate financial risks in financial institutions and financial risk management and risk management tools and instruments have developed to a great extent to mitigate and improve financial performance (Carey, 2001). All risks can be never fully avoided or mitigated simply because of financial and practical limitations (Moteff John, 2005). In order to facilitate risk mitigation, there are many conceptual studies made on risk analysis and assessment by reference to measurement and mitigation of risk. In practice, it is useful to classify the different risks according to the amount of damage they possibly cause Fuser, (1999). The function and objective of both corporate governance and risk management is to maximize shareholder value (Sobel&Reding, 2004; Busco, Frigo, Giovannoni, Riccaboni, &Scapens, 2005). They are connected to assist organizations to better understand risks, to improve and deliver its objectives and to mitigate, assess, and manage risk in an appropriate manner (Manab, Kassim&Hussin, 2010).

### 2.3.2 Risk monitoring and financial performance

Credit monitoring is defined as a tool or mechanism to review or audit credit and it includes credit auditing and checking to determine the extent of the match between existing and awarded credit and the policies and procedures approved to guarantee achievement of a number of objectives such as (Joseph, 2006). Risk monitoring involves collateral which is the borrower's asset that is pledged in exchange for receipt of the loan and may be retained upon failure to fulfil the obligations of the agreement in a timely and adequate manner. According to Ringtho (1998) the entire credit period affects profitability by increasing the average collection period thereby impacting negatively on the profitability. Therefore the entire survival of financial institutions is upon their ability to collect and make earnings and this requires a functionally efficient credit risk management system. Establishing a good credit management policy in which a bank sets credit standards, credit terms and collection procedure successfully determines the financial conditions and profitability of commercial banks (Mugisha, 1995)

Robinson (1962) and Anjichi (1994) stated that many agonies and frustrations of slow and distresses credits can be avoided by good loan supervision. In order to effect good loan supervision, physical stock of materials and finished goods ought to be monitored and inspected. Employee morale in this exercise is important so as to ensure they perform their tasks efficiently and with great enthusiasm. Baldoni, (1998), the area of interest rate risk is the second area of major concern and on-going risk monitoring and management. Ijäs (2002) found that monitoring payment behaviour of the customer is usually not a problem because the sales people know the biggest customers and the credit control department knows the customers that pay the slowest. Ijäs also states that it is important to know how important this company is to the customer's operations. If the role of the company is significant to the customer, it will probably notice the problems to pay debtors the latest because customers in financial difficulties tend to pay the most important suppliers first.

Magala (2001) and Lary (2009) refer to monitoring as needed to ensure that planned administrative, operational and financial tasks and activities are carried out in a timely and proper manner such that set internal control objectives and organizational performance are achieved. Bessis (2010) confirms that the goal of risk management is to measure risks in order to monitor and control them, and also enable it to serve other important functions in a bank in addition to its direct financial function. Basel (2000) twelfth principle, the maintenance of appropriate credit management and monitoring procedures and standards, banks must have monitoring system over the structure and type of the credit portfolio, taking into consideration the credit concentrations which occur as a result of the credit portfolio that have a high level of direct and indirect credit. Corporate governance also helps a company to attain its corporate objectives, and monitoring performance is a key element in achieving these objectives. Good corporate governance should ensure proper incentives for the board and management to pursue objectives that are in the interests of the company and shareholders. It should also facilitate effective monitoring; thereby encouraging firms to use resources more efficiently (Rayner, 2003).

According to Rossi (1993), monitoring is important to service delivery because it provides vital feedback on how services are being delivered and whether delivery of those services makes any difference in terms of achieving the organizations specified goals. For any system to perform effectively there must be a monitoring system. Monitoring also shows whether the system in place is performing effectively, as this can be seen from service delivery (Boidman, 1993). The purpose of monitoring is to determine whether internal control is adequately designed, properly executed, and effective. Internal control is adequately designed and properly executed if all the five control components (control environment, control activities, risk assessment, information and communication and monitoring) are present and functioning as designed (Athony, 2004), Monitoring aims at determining whether organizational members are carrying out or have carried out their tasks efficiently and effectively as required by the organizations policies (Spillane, & Reimer, 2000).

According to Okello, et al (1999), a good credit risk management framework integrate into banks operations to set systematic processes of identifying, measuring and monitoring the risk to help management keep an eye on the big picture. The credit risk agencies thereby monitor risk associated with the different borrowers using a credit rating model as a management tool in order to prevent risk. Banks very frequently suffer from poor lending practice (Koford&Tschoegl, 1999). Monitoring, and other appropriate steps, are necessary to control or mitigate the risk of connected lending when it goes to companies or individuals (Basel, 1999).

Rejda (2003), argues that for the effective risk management process, periodical reviews and evaluations of the risk management program must be carried out to determine whether risk management objectives have been achieved, He asserts that risk management costs, safety programs and loss prevention programmes must be carefully monitored. Loss records must also be examined to detect any changes in frequency and severity of occurrence of losses. Hazeltine and Bull (2003) highlighted that the individual model is the most expensive and labour intensive model for the financial institutions as the clients have to be monitored and far more and deeper field research is necessary in order to choose the right clientele, especially because these people have no tangible collateral or credit history and in most cases are illiterate. Sources of information for the field officer are the family, friends and the leaders of the community.

Effective credit risk management involves establishing an appropriate credit risk environment; operating under a sound credit granting process; maintaining an appropriate credit administration that involves monitoring process as well as adequate controls over credit risk (Basel, 1999; Greuning and Bratanovic, 2003; IAIS, 2003). Further, monitoring of borrowers is very important as current and potential exposures change with both the passage of time and the movements in the underlying variables (Donaldson, 1994; Mwisho, 2001), and also very important in dealing with moral hazard problem (Derban et al., 2005). Derban et al 2005 went on further to add through credit standards, the financial institution establishes the credit worthiness of a customer. It involves evaluation of the customer to identify possible risks of lending to the customer as well as establishing the customer’s capacity to repay the loan. When the financial institution matches loan terms to its client needs, the cheaper it is for the client in clearing costs in the loan recovery process. Clear established process for providing new credits and extending the existing credits has been observed to be very important while managing credit risk (Heffernan, 1996).

### 2.3.3 Risk Diversification and financial performance

.When non-profits are moving away from concentrated dependence on a single revenue strategy (Froelich,1999), the topic of revenue diversification has been called to the forefront. Revenue diversification refers to the process of changing the level of diversity of revenue structure (Siegel et al.,1995) and this concept has been applied to numerous other areas within economics and finance. Belk et al (1993) identifies with diversification as a defensive reaction where exposure is mitigated by spreading risk or currency assets into several portfolios or currency outlay. It is due to comparative advantages of stronger currencies. As a concept, diversification refers to the process of changing the level of revenue diversity and selecting assets to minimize risk, so a jurisdiction with a diversified revenue structure can be described as relying on a variety of revenue sources (P. B. Siegel & Johnson, 1995).

Scott, Gardner and Mills (1988) diversification risk arises if a bank management invests largely in one of category assets. A case in point is Penn square bank failure. This bank failed to diversify its loan portfolio as most of its loans were heavily concentrated in the oil industry. Since the uncertainty of revenue sources or fluctuations in revenue streams can cause disruption in service delivery and other long-term inefficiencies revenue diversification comes into play as a remedy (Hendrick, 2002). One thing to bear in mind is that the risk, which can be eliminated by diversification, is called unique risk or unsystematic risk; however, a well-diversified portfolio is still subject to market risk, such as the performance of the overall economy (Brealey; & Myers, 1991).

Brealey; & Myers (1991) explained that in corporate finance, risk means the market return is hard to predict or volatile over time. According to portfolio theory, diversification helps to reduce risk or variability, provided that different stocks in an investment portfolio do not move in exactly the same direction or the price changes of different stocks are less than perfectly correlated. Jose Lopez, (2000), discussed that there is value in diversification of credit portfolios and this value of credit portfolios may be measurable. Brannan, (2000), supported this by arguing that diversification is the primary tool for lenders to control borrower risk, and went on to site the fact that risks arise well before default occurs and warned against the construction of ‘’bullet proof’’ portfolios that can under perform.

In non-profit sectors, revenue diversification as a financial strategy has been broadly accepted and there is evidence that a diversified revenue structure may increase the financial health and sustainability of an organization (Chang, 1994; Frumkin, 2002). Laeven and Levine (2007) found out that diversification helped reduce credit risk and that chances of reducing the level of non-performing loans by diversification increased with diversification. Legrand(1993), adds that diversification across customers is justified, considering the modern portfolio theory, if the customers’ repayment abilities (which have earlier been defined as the general ability to make profits), have low correlation. It is possible that firms’ profit making abilities have low correlations with others in the market.

Diversification by product line can be achieved by offering a wide variety of lending services (Swarens, 1990).Wilson’s argument emphasises advocacy of diversification of credit portfolios as the benefits outweigh the challenges of crossing over to different sectors of the economy and this was later criticized by Campbell et al. The degree of diversification for a credit portfolio will depend on several other factors like; size of portfolio, issues of maturity variation among others (Campbell et al., 2001) As expressed by Chiorazzoet al (2008), as a result of activity diversification, the economies of scale and scope caused through the joint production of financial activities leads to increase in the efficiency of banking organizations further strengthening the argument that product mix reduces total risks because income from non-interest activities is not correlated or at least perfectly correlated with income from fee based activities and as such diversification should stabilize operating income and give rise to a more stable stream of profits (Uzhegova, 2010).

On the contrary Montgomery (1985) explains that it has also been shown that highly diversified firms have less market power in their respective markets than more focused firms. De Vries (2005) and Lehar (2005) discussed that diversification of risk at financial institutions does not decrease the likelihood of systemic risk. Wagner (2006) backs this by stating that diversification results in a reallocation of risks within the financial system, whereas, De Vries (2005) and Lehar (2005) argue that diversification increases the probability of multiple defaults. It is important to note that even if a reallocation of risk does not reduce total risk, insolvency risk for individual banks can still be significantly reduced if banks only hold the amount of risk they can manage efficiently and not necessarily hold all the risk they originate.

DeYoung and Roland (2001) associated revenue diversification with decrease risk adjusted profits and by extension increases insolvency risk. In studying emerging economies, volatility of performance measures is an incomplete measure of bank risk; in some cases it may even signal efficiency. Karkrah and Ameyaw (2010) further presented that the second part which has to do with risk diversification could lead to a negative relationship between bank size and profitability. In the sense that, increased diversification may lead to lower credit risks and as a result cause lower returns. Stiroh (2004) was more conclusive by saying that he finds some gains to diversification within broad activities (such as lending and non-interest activities), but no benefit from diversification across broad activities. Stiroh and Rumble (2006) find that diversification of income through non-traditional activities is positively associated with bank stability. Increasing financial transactions indicates an increase in sales which is an indicator for healthy financial performance

Besides revenue diversification, financial slack of a government can also serve as a means to mitigate the negative impact of revenue instability and uncertainty. However, slack resources might weaken the effect of revenue diversification on fiscal performance by providing an alternative revenue source and presumably, it may increase revenue instability (Hendrick, 2002). Sanford (1985), diversification can reduce risk rapidly with diversification of investment at no cost in expected profits. In other words, the business enterprise is more likely to be profitable. Total risks of loan provision fall as a variety of loan products and borrowings from different industries increase, assuming a correlation between markets is not perfect. The conclusion eventually is that regulation provides safety and ensures soundness of the banking system.

According to Gopinathan(2009), gross profit is the total revenue subtracted by the cost of obtaining the revenue. It tells you how much money the business would have made if it did not pay any other costs or expenses mostly from selling, general and administrative expenses. Both corporation and industry influence business unit profitability but corporation has the larger influence (Hendrickz 1999).In today's globalized economy; competition is becoming ever more intense. Many companies are trying very hard not only to satisfy their customer's needs but where possible exceed them. This can only be achieved through cost reduction, improvement in product performance, increased customer satisfaction and a constant effort towards world class organizations. In order for companies to survive and grow in the future, it is essential that they deliver high quality goods and services. Those that can deliver quality are the ones that will prosper in the next century (Ross, 1994).

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A customer is happy and secure when he/she invests in a risk free business and wants to be equally happy on each further occasion. Therefore, risk management and profitability are closely related aspects and need to be handled with extra emphasis if a business is to hit high profitability over a given period (Gizycki, 2001). Financial institutions should manage their risks well if they are to maximize their profitability. This should be done through a prioritization process whereby the risks with the greatest loss and greater probability of occurrence are handled first and those with lower probability of occurrence and therefore lower losses are handled in a descending order (Lam and sames 2003). It is expressed by Hishigsuren and Husseini (2007) that the failure to control transactional and portfolio risks in credit risk management can lead to low profitability and consequential insolvency of the financial institution. The main objective of the study is thereby to find out the extent to which the credit risk management practices have impacted on the profitability of Barclays Bank Uganda.

Herrero (2003) indicates that poor bank profitability, low net interest margins and low gross domestic profit as some of the causes of bank failure. Wichern (1984) observe the consistency, determinants and uses of accounting and market value measures of profitability. They find that differences between accounting and market measures of profitability suggest the validity of cautioning remarks concerning the use of accounting data as it has a primarily historical interpretation unlike market value measures of profitability which are forward looking. In addition they find that there exists a significant explanatory role for television advertising, leverage and industry growth as determinants of profitability.

Pasha and Khemraj (2010), states that the impact of real interest rates on non-performing loans is extensively documented in the literature. In fact, several studies report that high real interest rate is positively related to this variable. This variable is constructed by subtracting the annual inflation rate from the weighted average lending rate of each bank.
These interest rate risks show the basic change in net of bank interest income and market value of equity in comparison with the changes which occur in market interest rates (Koch and MacDonald, 2005).Interest rate risks originate as a result of mismatch between the due assets and liabilities, thus leading to difference in cost of refinance or reinvestment (Rose and Hudgins, 2005).

**2.5 Conclusion**

Mr. Leo Omolo of Bank of Uganda says that although banks have a great role to play, credit risk has been identified as a serious threat to their performance. Banks find difficulties in lending out to customers/ borrowers due to failure or non-payment. For an improved financial performance, the bank needs to incorporate risk management into its operational and long range planning activities. Anderson (2008) concluded that risk management reduces a firm's average capital expenditure and contract costs as it eases access to resources.

Rosenberg et al (2009) sums credit risk management up by saying credit risk encompasses both the loss of income resulting from the financial institution's inability to collect anticipated interest earnings as well as the loss of principle resulting from loan defaults.

Thus there are reforms being introduced by bank of Uganda to help curb credit risk and stimulate financial performance. (Mr.Kasekende) the central Bank will introduce a capital charge that is in compliance with the Basel I Accord and eventually introduce a capital charge for credit risk based on the Basel II Accord.

# CHAPTER THREE

# RESEARCH METHODOLOGY

## 3.1 Introduction

This chapter presents the methods that helped the researcher in carrying out the study. This section is categorized with the following; the research design, area of study, the study population, sample size, sampling techniques, data collection methods, data collection instruments, quality control, measurement of variables, analysis and presentation, ethical issues and study limitation.

## 3.2 Research design

This study was undertaken using a case study research design and was adopted in this study to credit risk management and financial performance of financial institutions. The study employed both qualitative and quantitative techniques that helped in the data collection process. The qualitative methods focused on collecting descriptive information especially from those working in the company with experience while the quantitative methods focused on using tables, pie and bar charts for ease of understanding.

## 3.3 Area of study

The study was carried out at Barclays Bank headquarters branch at 2 Hannington Road on Nakasero Hill, KampalaUganda's capital and largest city.

## 3.4 Study population

The target population composed of male and female bank staff, supervisors and managers involved in the study of credit risk management and financial performance. The total population for the study was 45 respondents in bank sourced through the Human Resource

Manager. The heads of various departments, supervisors, manager and bank staff made up the population.

## 3.5 Sample size and selection

### 3.5.1 Sample size

The study was based on a sample size of 40 that was drawn from a population of 45. The sample size of was derived from table of Morgan and Krejcie. According Morgan and Krejcie (1970, pp.605-607) where a total population is 45, a sample size of 40 respondents from Barclays Bank will be chosen to carry out the study.

**Table 1: Showing the respondents**

| CATEGORY | Number of persons | Percentages |
|---|---|---|
| **Management executives** | 8 | 20% |
| **Loan officers/credit risk managers** | 12 | 30% |
| **Employees** | 20 | 50% |
| **TOTAL** | 40 | 100% |

## 3.6 Sampling technique

The sampling techniques are processes for selecting suitable sample, or representative part of population for the purpose of determining characteristics of the whole population. The selection of sample of respondents was based on non-probability and probability sampling technique because the population is homogenous for staff members in accounts and auditing department. And the researcher used purposive sampling and stratified random sampling to choose specific respondents basing on their familiarity with the subject and their ability to give information readily.

## 3.7 Data collection

Primary and secondary sources of data were consulted.

### 3.7.1 Primary sources

According to Amin (2003), primary data is that kind of data that has been gathered for the first time, it has never been reported anywhere. Primary data was obtained directly from original sources such as managers, supervisors and employee who were in credit risk management process at Bank. The researcher got data from Barclays Bank administering the questionnaires to the staff members and interviewing the managers and supervisors and this enabled the researcher to cover a large population quickly and at are reasonable cost

### 3.7.2 Secondary sources

Amin (2003) defines secondary data as that kind of data that is available, already reported by some other scholars. Secondary data was collected from relevant material related to the variables under investigation and these included policy documents and abstracts of the various scholars relating to the topic of discussion in question. Secondary data for this study was gotten from sources like libraries, online information, text books, and newspapers. This was because it was readily available and easier to comprehend, as it comprised of extensively researched work.

## 3.8 Data colllection tools

### 3.8.1 Questionnaires

A questionnaire is a reformulated written set of questions to which respondents record their answers, usually within rather closely defined alternatives. Questionnaire was used on the basis that the variables under study cannot be observed for instance the views, opinions, perceptions and feelings of the respondents. The questionnaire was equally used because the information had to be collected from a large sample in a short period of time (Sekaran, 2003).The questionnaire was used in collection of data from respondents (management and staff members). The questionnaires consisted of both open and close ended questions administered to respondents of Barclays bank.

### 3.9 Quality Control Methods

Data quality control comprised reliability and validity of data collection instruments.

#### 3.9.1 Validity

Validity refers to truthfulness of findings or extent to which the instrument is relevant in measuring what it is supposed to be measured (Amin, 2003). To ensure the content validity of the study instruments used in this study questions were discussed with the help supervisor for scrutiny, clarity and removal of ambiguity. After his comments and discussion with me, the tools were adjusted accordingly.

#### 3.9.2 Reliability

Reliability is dependability or trustworthiness and in the context of a measuring instrument, it is the degree to which the instrument consistently measures whatever is measuring (Amin, 2003).

For qualitative data, reliability of the instruments was ensured through discussing with authorities, colleagues, and participants about the instruments intended to measure and asking them whether the instruments designed would capture the required data.

### 3.10 Measurement of variables

The researcher used previous researches are for purposes of interviews and helping to develop interview guides and questionnaires which were both opened and self-administered where respondents selected a suitable number on the five point Likert scale ranging from strongly agree as response 1 to strongly disagree as response 5. According to Mugenda (1999) and Amin (2003) the Liker scale is able to measure perception, attitudes, values and behaviors of individuals towards a given phenomenon. This assisted the respondents to rate their perceptions accordingly.

### 3.11 Data management and Analysis

The field data was managed, analyzed and presented using both qualitative and quantitative methods.

#### 3.11.1 Quantitative data

Quantitative data got from the questionnaires is computed into a frequency counts and percentages. The research was carried out using Statistical Package for Social Scientists (SPSS) which was used for carrying out a Pearsons correlation coefficient and frequencies to analyze the data to determine the degree and predication financial performance of financial institution of Barclays Bank.Microsoft excel bar charts and pie charts were also used to present and analyze data. The estimated proportions of the respondents who agree and disagree with the statements that measure the effectiveness of the credit risk management variables that is, risk mitigation, risk monitoring and risk diversification. The use of standard mean deviations are also applied to further establish the relationship between the independent variables and dependent variables (Bryman 2004)

#### 3.11.2 Qualitative data

The research was carried out with the use of categories to classify and analyze the interview guide and present them in a descriptive form. Both formal and informal methods to collaborate information from the questionnaire .Interview guides were prepared and used during the face-to-face interviews. This method is flexible, accurate and quicker in yielding results.

### 3.12 Ethical considerations

The researcher got an introductory letter and a valid identification card from Faculty of Business Administration Management, Uganda Martyrs University Nkozi. This introduced the researcher to the respondents in the Barclays Bank. During data collection, the rights were respected where the researcher was able to first seek for permission of all the respondents for their response.

The researcher ensured confidentiality of the information to protect and enable respondents trust him with the information from sensitive questions. Sensitive information or issues were not to be explored unless the researcher requests the respondents to provide the information and used exclusively for achieving a Degree. All the necessary protocols were observed and all the respondents were thanked for their participation in the study.

### 3.13 Limitations of the study

The researcher was faced with time constraint to carry adequate research within required time. Since the research required a lot of collecting of data from the field, analyzing and processing of data was involved this was difficult to compile. But of the short time used by researcher was maximally used when the researcher employed both qualitative and quantitative techniques.

The researcher had a small sample for the study which provided some biased information; some errors presented and were also not representative of the entire population. But aware of the limitation of small sample size which had high level of error in the study this was minimized by using a multi-method of collecting data to reduce error such as questionnaire, interviewing guides to avoid biased information.

Human errors and biasness are other limiting factors of this study. This is because some data was obtained through discussions and interviews therefore there is the possibility of human error of omitting some vital information. Respondent may have also exaggerated important information in order to give their organization a positive credit for fear of what seem invasions into the organization's privacy.

### 3.14 Conclusion

SPSS is one of the most widely used available and powerful statistical software packages that covers a broad range of statistical procedures, which allows a researcher to summarize data (e.g. compute means and standard deviations), determine whether there are significant differences between groups, examine relationships among variables (e.g. correlation, multiple regression), and graph results (e.g. bar charts, line graphs) (Kirkpatrick and Feeney, 2003). Despite the challenges in the data collection with the help of qualitative and quantitative methods, the research findings are being analyzed effectively.

# CHAPTER FOUR

# PRESENTATION, ANALYSIS AND DISCUSSION OF FINDINGS

## 4.1 Introduction

This chapter presents analyses and discusses the study findings. It is comprised of three sections namely; the section that presents the background information, the section that deals with the presentation of the findings of the study objectives using item mean results and correlation results and the section that studies the combined relationship between the independent variable and the dependent variable using correlation analysis. The response rate of the respondents was out of the 40 questionnaires sent out to the field, 40 usable questionnaires were returned giving a percentage response rate of 100 %.

**SECTION A**

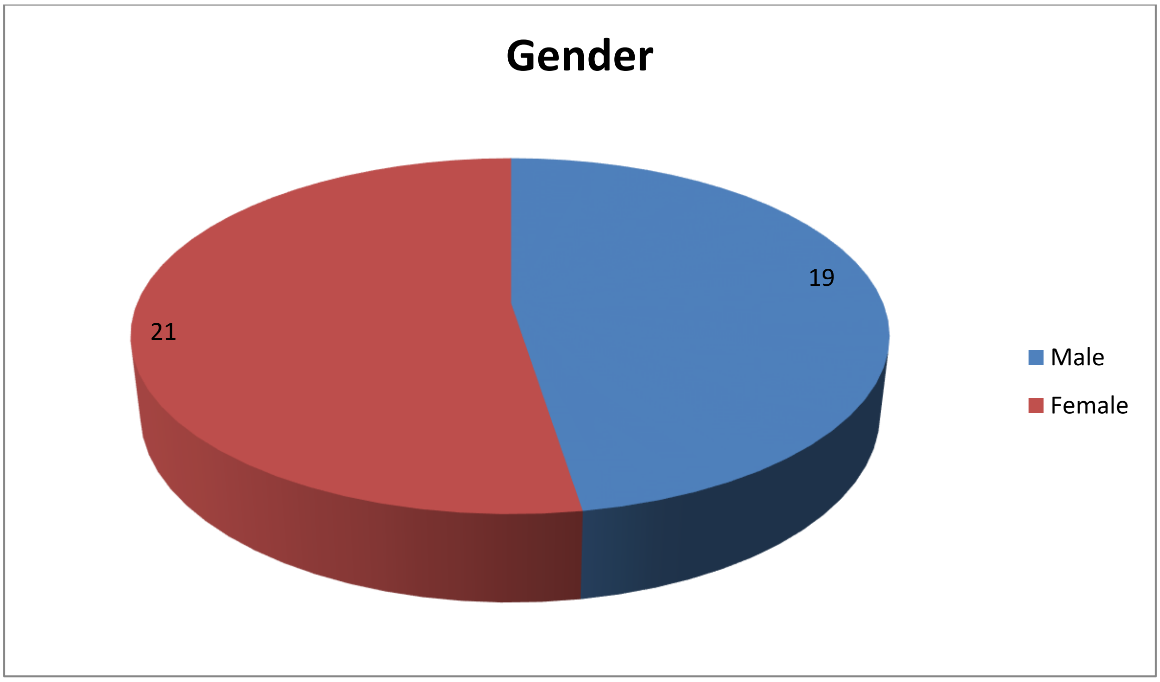
## 4.2 Background information

Respondents were required to state their gender, marital status, education level and duration in the work place. The following were the results;

### 4.2.1 Gender

The pie chart 1 shows the gender distribution of the respondents that participated in the research.

*Fig 2 Pie chart 1: Gender characteristics of respondents*



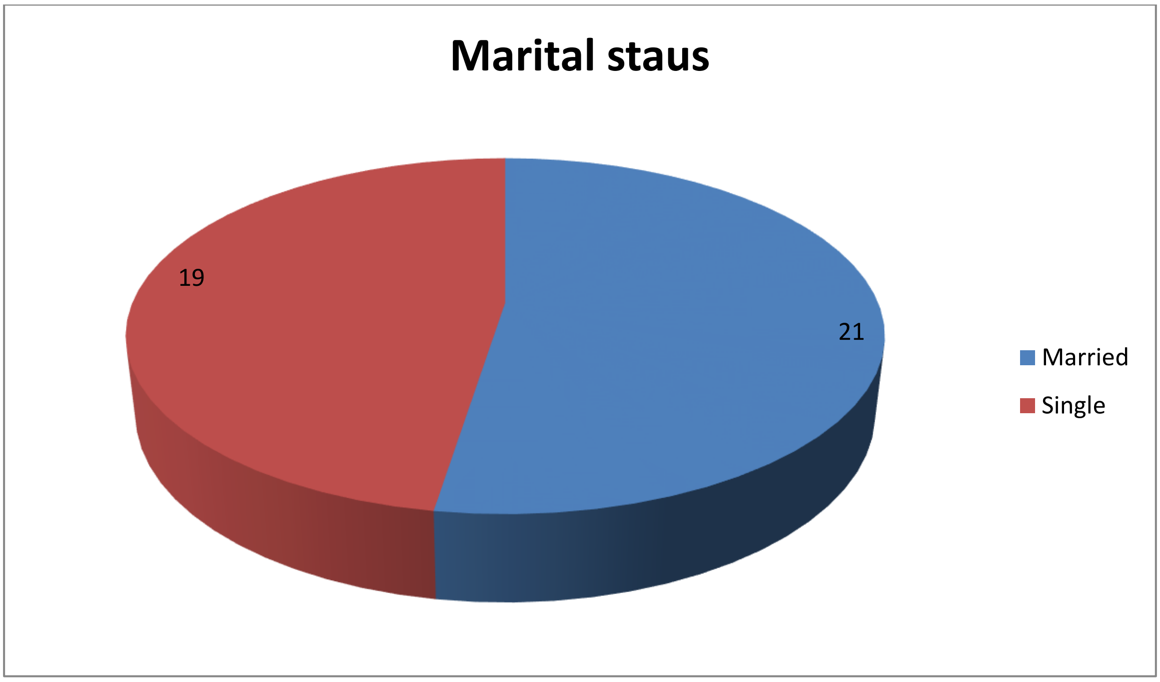

**Source:** primary data (2015)

From the pie chart above, the results revealed that the majority of the respondents who provided information were 52.5% (21) female whereas male were 47.5% (19) respondents that were the minority. This postulates that there was a fair gender balance of which female respondents were slightly more than male respondents. The company policy in general encourages gender balance in the different departments.

### 4.2.2 Marital status

Frequency tabulation was used by the researcher to present the marital status in the company of the respondents. This is as shown below:

***Fig 3.Pie chart 2: showing the marital status of the respondents***



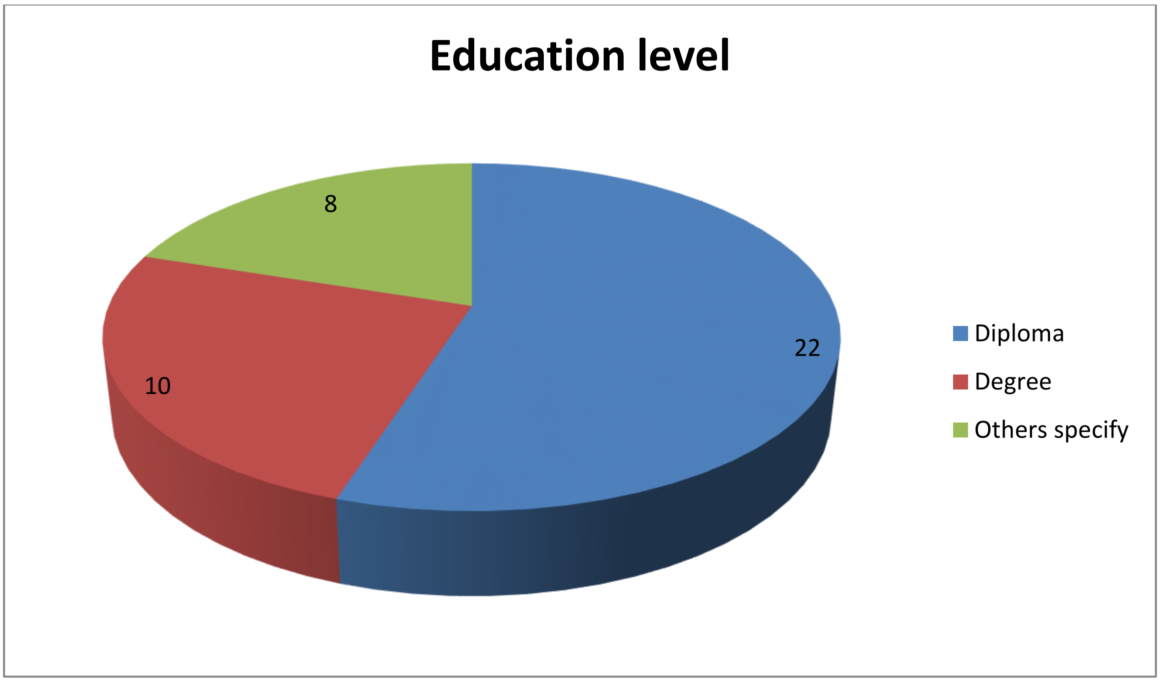

**Source**: primary data (2015)

From Pie chart 2, above findings indicated that 52.5% (21) of respondents were married as the majority and single employees were 47.5% (19) of the respondents which was the minority of the respondents. According to one of the respondents, the bank policy does not hold a stand on whether one should be married or not thereby explaining the small margin between the married employees and the single employees as the bank does not base of marital status in recruitment of employees.

### 4.2.3 Education level

The study also captured data on the highest level of education attained by the respondents and it is shown in the pie chart 3 below:

***Fig 4.Pie chart 3showing the highest level of education attained by respondents***



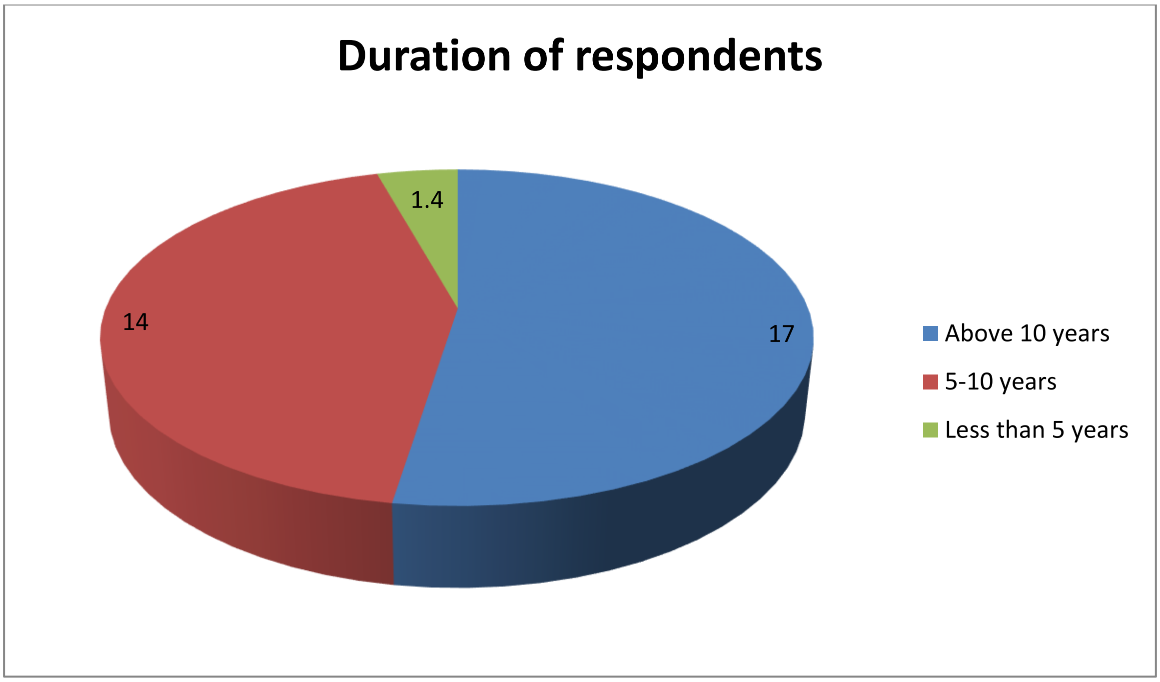

**Source:** primary data (2015)

From the pie chart 3 above, the results showed that 55% (22) of the respondents attained diploma level of education and they were the majority, 25% (10) of respondents attained degree level of education and 20% (8) of the respondents had attained certificates and professional courses like ACCA and CPA. This shows that the bank considers minimum qualifications of a certificate or professional course in their recruitment processes and practices. This ensures a certain standard level of education among the employees. This asserts that the respondents involved in the research have the required minimum knowledge on the processes and practices of the bank that attribute to credit risk management and financial performance in order to give the rightful accurate information required.

### 4.2.4 Duration of the employees

The duration of the employees refers to the duration for which the respondents/employees have been employed within the bank.

***Fig 5.Pie chart 4: showing the duration of respondents***




**Source:** primary data (2015)

Of the respondents 42.5% (17) emerged as the majority with over 10 years' experience, followed by 35% (14) of 5-10 years and the minority of 22.5% (9) of less than 5 years. The bank seems to have a good employee retention system and this could be as a result of favorable employee benefits for example one respondent spoke of the bank providing employees with loans for which they provide no collateral and pay off their salary in small portions. These results show that the majority of the respondents have spent over 5 years implying that they are well experienced and able to provide vital information on the credit risk management situation and financial performance of the bank.

## SECTION B

### 4.3.1 Credit risk management

This research section is aimed at establishing whether the bank practices credit risk management and if it does what practices it employs in order to yield financial performance. Respondents were asked if there was any kind of training in respect to credit risk management, and the findings were presented as follows. The findings revealed that all the 40 respondents (100%) stated yes, implying that the bank had engaged them in training in respect to credit risk management.Carey (2001) in the literature postulates that development of risk training courses, involvement of staff in responding to early warning systems and establishing reporting channels creates a positive risk management culture and this is consistent with the findings.

**The following processes and techniques are applicable to risk management**

The researcher proceeded to ask respondents to state whether the following processes and techniques are applicable or not applicable as far as risk management is concerned in Barclays Bank and the findings were presented as here under.

***Table 1: showing how credit risk mitigation is applicable***

| **Statements** | **Frequency (N)** | **Percentage (%)** |
|---|---|---|
| Very applicable | 25 | 62.5 |
| Applicable | 15 | 37.5 |
| Fairly applicable | 0 | 0 |
| Not applicable | 0 | 0 |
| **Total** | **40** | **100** |

**Source:** primary data (2015

According to findings presented in the Table 1 above, credit mitigation was very applicable with response of 62.5% (25) followed by applicable with 37.5% (15) of respondents while fairly applicable and not applicable emerged as the lowest both scoring 0% (0). The findings show that the bank policy recognizes mitigation of risk as a pillar in the bank's credit management practices. The respondents seem to have all been engaged practically in risk mitigation that involves different practices and steps meant to control and reduce risk. The respondents showed that risk mitigation was applicable to the bank credit risk management as no respondent ticked ‘not applicable’ and the majority 62.5% (25) respondents ticked ‘very applicable’. This finding is in line with the author Carey (2001) who states that is becoming increasingly important to mitigate financial risks in financial institutions and financial risk management and risk management tools and instruments have developed to a great extent to mitigate and improve financial performance.

***Table 2: showing applicability of risk monitoring in credit risk management***

| **Statements** | **Frequency (N)** | **Percentage (%)** |
|---|---|---|
| Very applicable | 17 | 42.5 |
| Applicable | 23 | 57.5 |
| Fairly applicable | 0 | 0 |
| Not applicable | 0 | 0 |
| Total | 40 | 100 |

**Source:** primary data (2015)

According to findings presented in the Table 2 above, risk monitoring was applicable with response of 57.5% (23) followed by very applicable to the respondents with 42.5% (17) of respondents and fairly applicable and not applicable with 0% (0). Credit risk monitoring thereby is one of the methods the bank uses in order to manage credit or default risk. The bank employees were well versed with risk monitoring as a respondent explained that the use on phone calls to remind loan defaulters allows not only the staff but also the clients to monitor their loan obligations. The findings from all the respondents this indicated that credit risk monitoring was applicable as far as risk management is concerned in the bank. According to Bessis (2010) from the literature review, the goal of risk management is to measure risks in order to monitor and control them. Monitoring also shows whether the system in place is performing effectively, as this can be seen from service delivery (Boidman, 1993). These findings assert that it is of importance to monitor risk in order to ensure steady risk management.

***Table 3: showing risk diversification in credit risk management***

| **Statement** | **Frequency (N)** | **Percentage (%)** |
|---|---|---|
| Very applicable | 6 | 15 |
| Applicable | 11 | 27.5 |
| Fairly applicable | 19 | 47.5 |
| Not applicable | 4 | 10 |
| **Total** | **40** | **100** |

**Source:** primary data (2015)

According to findings presented in the Table 3 above, risk diversification was fairly applicable with 47.5% (19) of the respondents, followed by 27.5% (11) who said it was applicable , 15% (6) showed that it very applicable and 10% (4) of the respondents revealed that it was not applicable to risk management. The bank processes thereby involve risk diversification as a form of credit risk management but in particular sections of the bank as certain employees considered it not applicable. A large number of respondents found risk diversification fairly applicable as they did not consider it as a major factor in credit risk management. The above findings clearly showed that most of the respondents were recognizing risk diversification as applicable (a sum of 90%) to credit risk management as compared to the 10% (4) that said it was not applicable to credit risk management in the bank. The majority 90% respondents that indicated applicable are backed by studies by Laeven and Levine (2007) who found out that diversification helped reduce credit risk and that chances of reducing the level of non-performing loans by diversification increased with diversification. Stiroh and Rumble (2006) further found that diversification of income through non-traditional activities is positively associated with bank stability.

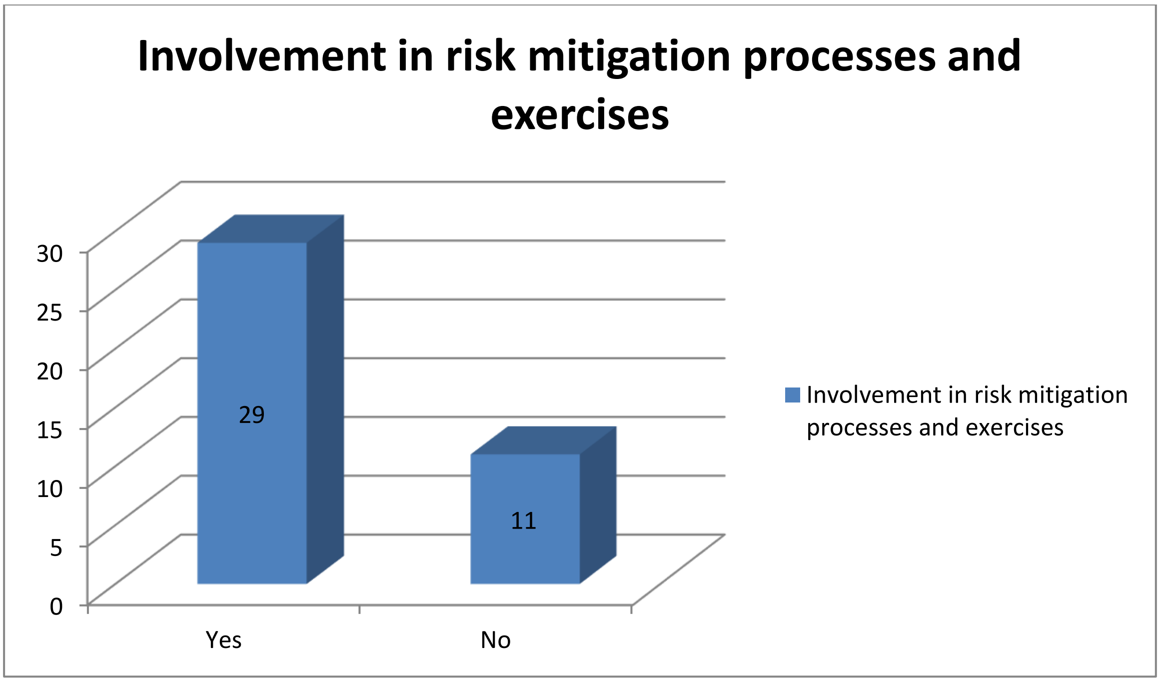
On the contrary, the 10% (4) respondents that considered risk diversification not applicable are backed by authors like Montgomery (1985) that explains it has also been shown that highly diversified firms have less market power in their respective markets than more focused firms. Highly diversified firms refers to firms that invest and engage in several unrelated forms of business and industry for example a firm may invest in the petroleum industry and deal in stocks and real estate as well. Wagner (2006) also states that diversification results in a reallocation of risks within the financial system.

**SECTION C**

### 4.3.2 Risk mitigation

The bar chart 1 represents the responses of the different respondents in relation to their involvement in risk mitigation processes and exercises in the bank.

***Fig 6.Bar chart 1: showing the employees involvement in risk mitigation processes and exercises***



**Source:** primary data (2015)

This research question aimed at establishing whether the employees were involved in the bank's mitigation processes and exercises, findings revealed in bar chart above; 29(72.5%) revealed that they were involved in processes and exercises while 11(27.5%) of the respondents showed that they were not involved. The bank involves the majority of staff in risk mitigation processes as the bank policy requires that all employees play a role in risk mitigation as credit risk is the biggest threat to the bank's existence. The majority 72.5% (29) respondents confirmed their involvement in risk mitigation processes and exercises of which Holmquist (2004) in the literature contended that identifying responsibility lies on management that should have appropriate staff in place making sure that the methods applied are proper and all effort will undergo to report any loss event to make the management aware of the prevalent risk. In addition, there is a need to work on a process that will mitigate the exposure. This confirms the need for management involvement in risk mitigation processes.

**Applicability of planning in risk mitigation**

The researcher proceeded to ask respondents to state how relevant the following practices of planning, implementation and progress monitoring in risk mitigation at the bank and the findings were presented as here under.

***Table 4: showing how planning is applicable to risk mitigation***

| **Responses** | **Frequency (N)** | **Percentage (%)** |
|---|---|---|
| Very applicable | 9 | 22.5 |
| Applicable | 10 | 25 |
| Fairly applicable | 21 | 52.5 |
| Not applicable | 0 | 0 |
| **Total** | **40** | **100** |

Source: primary data (2015)

According to findings presented in the Table 4 above, showed how relevant planning was to risk mitigation. 52.5% (21) of the respondents showed that it was fairly applicable, followed by 25% (10) which revealed that they agreed that it is applicable, while 22.5% (9) showed that it very applicable and finally 0% (0) for not applicable. Planning is relevant in the risk mitigation process in the bank as the bank has a risk mitigation process for example a clients a screened to determine whether they are credible to receive a loan and this criteria to determine credibility must be planned for. Most respondents found planning fairly applicable showing as much as it is vital, it may not be the most important part of risk mitigation. The findings show that all respondents recognized how planning practice is applicable to the risk mitigation in the bank. Payle (1997) emphasizes that risk mitigation needs to be approved by the appropriate level of management in order to increase profitability in a company. Planning being the major role of top management only confirms the relationship between risk mitigation and planning as top management approval is required in risk mitigation.

***Table 5: showing the application of implementation in risk mitigation***

| **Response** | **Frequency (N)** | **Percentage (%)** |
|---|---|---|
| Very applicable | 25 | 62.5 |
| Applicable | 15 | 37.5 |
| Fairly applicable | 0 | 0 |
| Not applicable | 0 | 0 |
| **Total** | **40** | **100** |

**Source:** primary data (2015)

According to findings presented in the Table 5 above, showed how relevant implementation was to risk mitigation. 25(62.5%) of the respondents showed that it very applicable to the mitigation while 15(37.5%) of the respondents showed that it applicable while fairly applicable and not applicable amounted to 0% (0) each. The bank risk mitigation process is thereby dependent on the implementation. The steps involved in risk mitigation ought to be followed strictly in the implementation. The respondents mainly considered implementation very applicable and this illustrates the essence of the implementation process showing that the bank employees considered it even more important than planning. The findings are translated that all the respondents agreed with implementation as an important practice in risk mitigation carried out by the employees to regulate risks incurred by the bank. Sundararajan (2007) concludes that the application of modern approaches to risk measurement, particularly for credit and overall banking risks is important for banks. Also, he suggests that the need to adopt new measurement approaches is particularly critical for banks in order to identify all the pertinent risks, analyze them carefully, and mitigate the down-side impact of those risks as far as it is possible and economic to do so. The modern practices are a form of implementation thereby expressing the importance of implementation to risk mitigation.

***Table 6: showing how progress monitoring is applicable to risk mitigation***

| **Responses** | **Frequency (N)** | **Percentage (%)** |
|---|---|---|
| Very applicable | 6 | 15 |
| Applicable | 10 | 25 |
| Fairly applicable | 24 | 60 |
| Not applicable | 0 | 0 |
| **Total** | **40** | **100** |

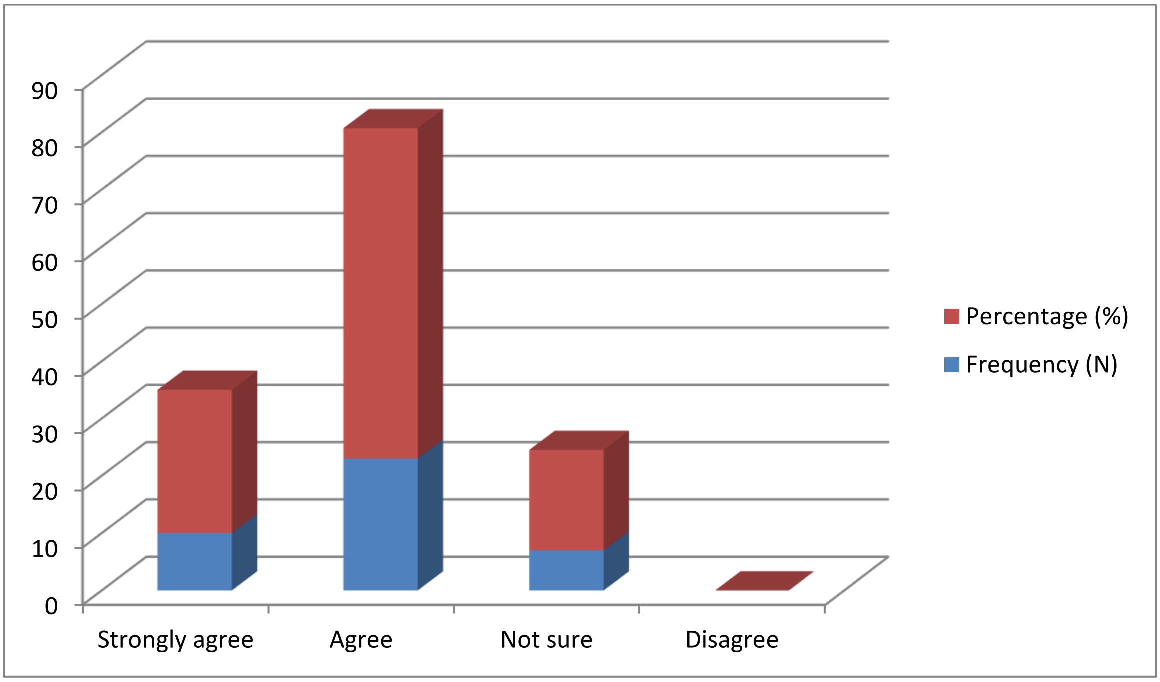
**Source:** primary data (2015)

The findings presented in the Table 6 above, showed how relevant progress monitoring was to risk mitigation. Progress monitoring is basically a follow up on the risk mitigation process by indicating what steps have been taken as far as it is concerned. 60% (24) of the respondents showed that it was not applicable, followed by 25% (10) which revealed that they agreed that they were fairly applicable, while 15% (6) showed that it was very applicable and finally 0% (0) that stated that it was not applicable. The relevance of progress monitoring is recognized in the bank risk mitigation policy and processes. As the majority of employees ticked fairly applicable, the bank processes involve progress monitoring in risk mitigation but it is not as emphasized as implementation. Bobakovia (2003) illustrates that risk mitigation involves monitoring and control of losses in order to act as a preventive measure to the risk further adds that the profitability of a bank depends on its ability to foresee avoid and monitor risks. This backs up the study findings that showed a majority sum of 100% respondents agreeing on the applicability of progress monitoring in risk mitigation.

**Emphasis the bank puts in risk mitigation**

When respondents were asked to state their level of agreement or disagreement on how their bank carries out risk mitigation and how much emphasis has been put for its success, they responded as below in the bar chart 2.

***Fig 6.Bar chart 2: showing how emphasis the bank puts in risk mitigation***




**Source:** primary data (2015)

This research question aimed at establishing whether the employees' bank carries out risk mitigation and putting much emphasis on how it's successful. Findings revealed in table above that 57.5% (23) of respondents agreed that the bank carries out risk mitigation as the majority, 25% (10) revealed that they strongly agreed while 17.5% (7) of the respondents were not sure whether the bank carried out risk mitigation. Bank management and policy emphasizes risk mitigation practices as a control measure. A few employees were not sure as their departments are not involved in risk mitigation despite the majority being involved. The above findings show 83.5% (33) respondents agree that the bank emphasizes risk mitigation practices while 17.7% (7) respondents were not sure and 0% (0) disagree. This shows that the employees and bank in general acknowledge the effort and emphasis the bank puts into risk mitigation, of which according to Lewin (2000) risks need to be monitored and controlled as much as possible and contingency plans put in place, should the risk event occur. This illustrates that the research findings agree with the various authors in the literature in terms of the importance of risk mitigation in financial institutions.

**Risk mitigation processes are set in order to improve the bank's loan portfolio performance**

When respondents were asked to state their level of agreement or disagreement agreement on how risk mitigation processes are set in order to improve the bank’s loan portfolio performance and the findings were presented as below.

***Table 7: showing how risk mitigation improves bank’s loan portfolio performance***

| **Responses** | **Frequency (N)** | **Percentage (%)** |
|---|---|---|
| Strongly agree | 18 | 45 |
| Agree | 17 | 42.5 |
| Not sure | 5 | 12.5 |
| Disagree | 0 | 0 |
| **Total** | **40** | **100** |

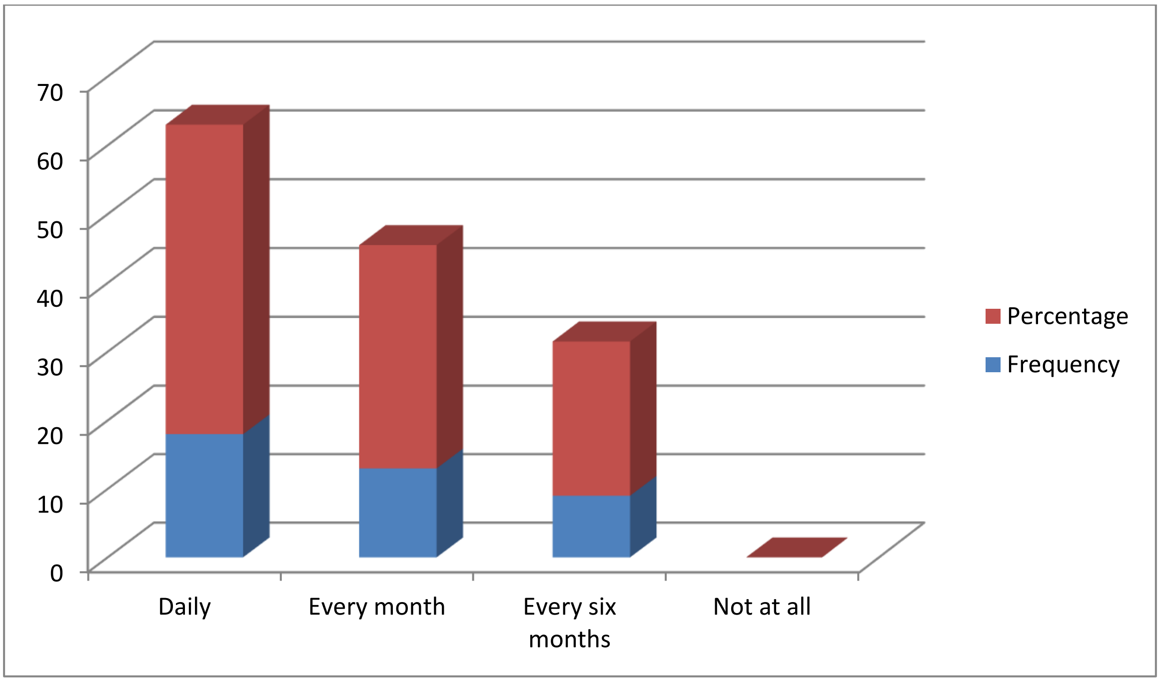
**Source:** primary data (2015)

Loan portfolio refers to the total amount of money given out in different loan products, to the different types of borrowers. This may be comprised of; salary loans, group guaranteed loans, individual loans and corporate loans. (Puxty et al., 1991)This research question aimed at establishing whether the risk mitigation processes are set in order to improve the bank's loan portfolio performance where the employees revealed that 18(45%) of the respondents strongly agreed, 42.5% (17) of the respondents agreed, 12.5% (5) of the respondents were not sure and 0% (0) disagreed. The bank insists on risk mitigation processes as a means of improving its loan portfolio. Most employees agreed while a few were not sure as a particular respondent explained how different departments have different roles and targets, so not all employees may be actively involved in risk mitigation. These findings depict that most of the respondents agreed that risk mitigation processes in the bank are carried out to improve loan portfolio performance. Hundman (2003) states that it is true that for purposes of credit risk exposure mitigation, each bank must maintain an allowance for loan losses associated with its loan portfolio. This expresses the contribution of risk mitigation in the loan portfolio structuring and performance.

**Risk mitigation entails portfolio diversification for example stocks, bonds, mutual funds and real estate, varying of securities in risk**

The Bar chart 3 expresses the time frame and intervals within which respondents claimed risk mitigation practices are carried out in the bank.

***Fig 7.Bar chart 3: showing how risk mitigation portfolio diversification according to time frame***




**Source:** primary data (2015)

This research question aimed at establishing whether the risk mitigation entails diversification for example stocks, bonds, mutual funds and real estates, varying of securities in the risk. Findings revealed in table above that 45% (18)of respondents agreed that the bank carried out investment daily to diversify their risks, 32.5% (13) of the respondents revealed that they invested in various securities every month 22.5% (9) and 0% (0) of the respondents showed that they invested in those securities to mitigate the risks. The findings show that the bank processes and practices involvestocks, bonds, mutual funds and real estates in order to vary the securities of risk. The majority 45% (18) respondents stated daily followed by 32.5% (13) respondents that stated monthly. Belk et al (1993) in the literature identifies with diversification as a defensive reaction where exposure is mitigated by spreading risk or currency assets into several portfolios or currency outlay. Thereby supporting the bank practice of diversification of which the majority of respondents marked it as a daily practice.

### 4.3.3 Risk monitoring

Respondents were asked in the questionnaire whether the bank carries out any training on risk monitoring., and the findings revealed that all the respondents 40 (100%) stated yes, implying that the employees had undertaken had any kind of training in respect to risk monitoring.

**Processes and techniques are applicable as far as risk monitoring is concerned**

Table 8 illustrates the replies of different respondents when asked about the applicability of evaluation in risk monitoring.

***Table 8: showing evaluation process and how it is applicable to risk monitoring***

| Responses | Frequency (N) | Percentage (%) |
|---|---|---|
| Very applicable | 26 | 65 |
| Applicable | 14 | 35 |
| Fairly applicable | 0 | 0 |
| Not applicable | 0 | 0 |
| **Total** | **40** | **100** |

**Source:** primary data (2015)

According to findings presented in the Table 8 above, showed how the processes and techniques be applicable as far as risk monitoring 65.5% (26) of the respondents showed that it was very applicable, followed by 35% (14), with fairly applicable and not applicable managing 0% (0) each. Evaluation of clients in risk monitoring in the bank’s day to day activity is applicable as a means of deciding who to grant a loan and who not to. A loan officer explained that certain clients may be notorious for defaulting on their loan obligations, so the bank should evaluate and make sure such individuals are not allowed into the system. The finding reveal the applicability of evaluation of clients in risk monitoring as all employees (100%) agreed that need for evaluation of the clients in risk monitoring.

Rejda(2003) argues that for the effective risk management process, periodical reviews and evaluations of the risk management program must be carried out to determine whether risk management objectives have been achieved. Derban et al 2005 went on further to add through credit standards, the financial institution establishes the credit worthiness of a customer and this involves evaluation of the customer to identify possible risks of lending to the customer as well as establishing the customer's capacity to repay the loan. The findings thereby are in line with different researchers that agree on the applicability of evaluation in risk monitoring.

**Identification process and risk monitoring**

Table 9 summarizes the responses of the different bank employees involved in the study in relation to risk identification and risk monitoring.

***Table 9: showing identification process and how it is applicable to risk monitoring***

| **Responses** | **Frequency (N)** | **Percentage (%)** |
|---|---|---|
| Very Applicable | 22 | 55 |
| Applicable | 16 | 40 |
| Fairly applicable | 2 | 5 |
| Not applicable | 0 | 0 |
| **Total** | **40** | **100** |

**Source:** primary data (2015)

According to findings presented in the Table 9 above, showed how the processes and techniques are applicable as far as risk monitoring; Identification processes in this case refers to discovering of areas in which risk may arise. 55% (22) of the respondents showed that it was very applicable to identify the clients and 40% (16) of the respondents revealed that it was applicable to the employees in the bank, 5% (2) indicated it to be fairly applicable and 0% (0) respondents indicated it being not applicable. Risk identification is practiced in the bank as a step towards risk monitoring, upon identification of risk, then the bank employees may monitor the risk. Risk monitoring according to Kliem et.al (1997) involves a four-step process: risk identification, risk analysis, risk mitigation and risk follow-up. The study results agree with Kliem et al as they show (100%) of applicants agreeing with identification as a relevant process in risk monitoring.

**Implementation contingency process and how it is applicable to risk monitoring**

Table 10 below indicates the relevance and application of implementation contingency process in risk monitoring.

***Table 10: showing implementation contingency process and how it is applicable to risk monitoring***

| Responses | Frequency (N) | Percentage (%) |
|---|---|---|
| Very applicable | 2 | 5 |
| Applicable | 11 | 27.5 |
| Fairy applicable | 17 | 42.5 |
| Not applicable | 10 | 25 |
| **Total** | **40** | **100** |

**Source:** primary data (2015)

According to findings presented in the Table 10 above, showed how the implementation contingency process is applicable as far as risk monitoring. 17(42.5%) of the respondents said it was fairly applicable, 11(27.5%) said that it was applicable and 25% (10) of the respondents said it not applicable to implement contingency and finally 5% (2) respondents found it very applicable. Implementing contingency is carried out by the bank as a means of risk monitoring. When the bank ascertains that a defaulter is unable to pay up, then the contingency which is usually sale of collateral as a last alternative is applied. Most respondents found contingency fairly applicable as a couple of employees considered it to be the less desirable and most extreme stage in risk monitoring. There is a majority of 75 % (30) respondents that agree that implementing contingency is applicable in risk monitoring as compared to the 25% (10) respondents that found it not applicable. Lewin (2000) postulates that risks need to be monitored and controlled as much as possible and contingency plans put in place, should the risk event occur. This implies that as much as risks are monitored, contingency plans ought to be implemented in case of failure.

**Execution of plans process and how it is applicable to risk monitoring**

Execution of plans process as a factor of risk monitoring was investigated. The table below shows the findings of the study in terms of responses from the respondents.

***Table 11: showing execution of plans and how it is applicable to risk monitoring***

| Responses | Frequency (N) | Percentage (%) |
|---|---|---|
| Very applicable | 5 | 12.5 |
| Applicable | 10 | 25 |
| Fairly applicable | 25 | 62.5 |
| Not applicable | 0 | 0 |
| **Total** | **40** | **100** |

**Source:** primary data (2015)

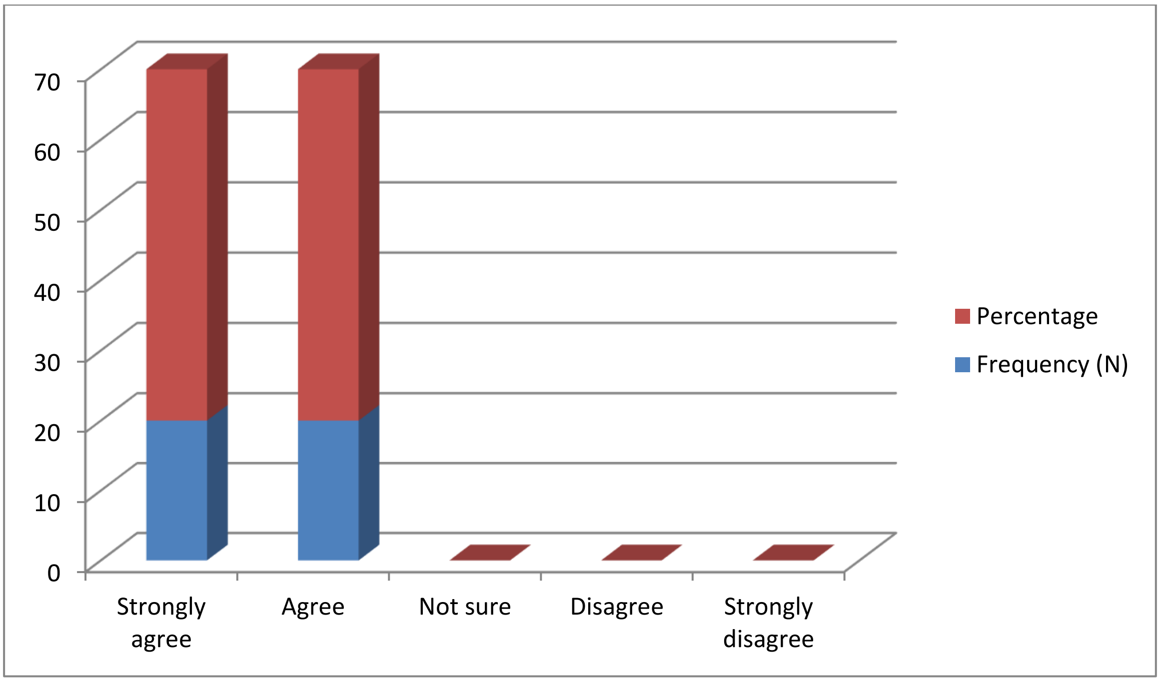
According to findings presented in the Table 11 above, showed how execution of plans is considered applicable in risk monitoring as far as the employees of the bank are concerned. Execution of plans relates to the risk monitoring process going on as planned. 62.5% (25) respondents said it was fairly applicable, 25% (10) of the respondents were applicable 12.5% (5) of the respondents said it very applicable and 0% (0) respondents said it was not applicable. Bank plans must be well executed in order to perform risk monitoring effectively. Any mistakes will affect the risk monitoring process. Most employees found execution of plans fairly applicable to the risk monitoring process as they did not find it very crucial.

The findings illustrate that 100% (40) respondents agreed with the applicability of execution of plans process in risk monitoring. Magala (2001) and Lary (2009) refer to monitoring as needed to ensure that planned administrative, operational and financial tasks and activities and this definition encompasses execution of plans as part of risk monitoring.

**The bank's effort to monitor its risks**

When respondents were asked to state their level of agreement or disagreement on whether the bank does its best to monitor risks as shown below.

***Fig 8.Bar chart 4: showing whether respondents agree that the bank does its best to monitor risks***




**Source:** primary data (2015)

According to findings presented in the bar chart 4 above, showed that the bank has done its best to monitor risk; 50% (20) of the respondents strongly agreed and 50% (20) agreed that the bank does its best to monitor risks while 0% (0) disagreed. This implies that the bank employees have noticed and acknowledged the bank management efforts to monitor risk as credit risk stands as a major challenge to the banking industry. 100% of the respondents acknowledged the bank's effort in monitoring risk. According to Rossi (1993), monitoring is important to service delivery because it provides vital feedback on how services are being delivered and whether delivery of those services makes any difference in terms of achieving the organizations specified goals.

**Efficient and successful risk monitoring increases bank sales**

Respondents were asked to state their level of agreement or disagreement on whether efficient and successful risk monitoring increases bank sales, the following responses were gathered.

***Table 12: showing whether efficient and successful risk monitoring increases sales***

| **Responses** | **Frequency (N)** | **Percentage (%)** |
|---|---|---|
| Strongly agree | 6 | 15 |
| Agree | 13 | 32.5 |
| Not sure | 14 | 35 |
| Disagree | 7 | 17.5 |
| Strongly disagree | 0 | 0 |
| **Total** | **40** | **100** |

**Source:** primary data (2015)

Increase in bank sales refer to a higher number of transactions in terms of deposits, withdrawals and loans issued. According to findings presented in the Table 12 above, showed how efficient and successful risk monitoring, the bank expects future banking to increase in sales; 35% (14) of the respondents were not sure, 32.5% (13) of the respondents agreed, 17.5% (7) of the respondents had disagreed and15% (6) of the respondents had strongly agreed.  The bank's risk monitoring practices once efficient and successful may increase sales. Most respondents agreed with strongly agree and agree as a stand implying agreement as a remarkable number were not sure as a few disagreed. The uncertainty of the implication of efficient and successful monitoring in the field of sales illustrates that for sales to increase there are other factors that come into play as much as several employees believe sales would increase. 17.5% (7) disagreed while the 47.5% (19) respondents agreed that efficient and successful risk monitoring increases sales of the bank while 35% (14) were not sure. Good corporate governance should ensure proper incentives for the board and management to pursue objectives that are in the interests of the company and shareholders. It should also facilitate effective monitoring; thereby encouraging firms to use resources more efficiently (Rayner, 2003). The main objective of financial institutions is to increase sales thereby monitoring may lead to increase in sales.

**Time frame of evaluation, identification, execution of plans and implementation of contingency plans**

Table 13 is a table showing the respondents' stand on how often evaluation, identification, execution of plans and implementation of contingency plans are practiced in the bank.

***Table 13: showing time frame of evaluation, identification, execution of plans and implementation of contingency plans***

| **Time frame** | **Frequency (N)** | **Percentage (%)** |
|---|---|---|
| Daily | 3 | 7.5 |
| Every month | 21 | 52.5 |
| Every 6 months | 16 | 40 |
| Not at all | 0 | 0 |
| **Total** | **40** | **100** |

**Source:** primary data (2015)

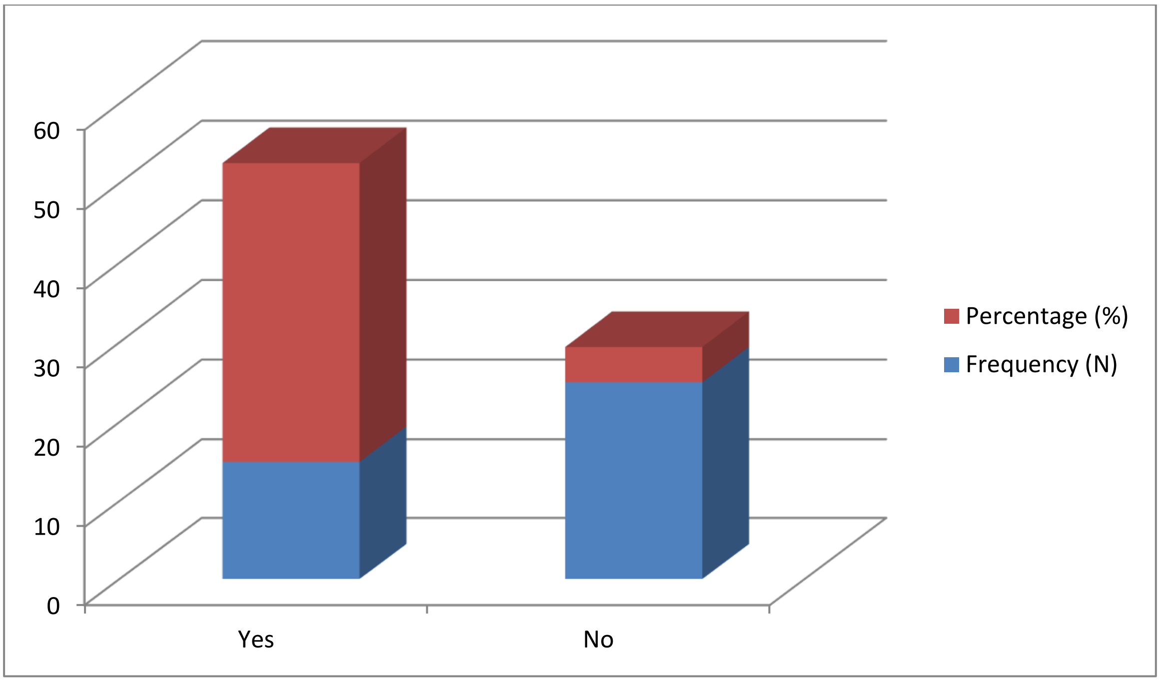
Risk monitoring encompasses evaluation, identification, execution of plans and implementation of contingency plans and table 13 above shows how often respondents said these practices are carried out; 21(52.5%) of the respondents were monitored every month, 16(40%) of the respondents were monitored every 6months and 3(7.5%) of the respondents were monitored daily. Practices of evaluation, identification, and execution of plans and implementation of contingency plans that amount to risk monitoring are carried out often in the bank as most arise on a monthly basis, some every 6 months and a few on a daily basis. A summation of 60% (24) respondents stated that the practices ofevaluation, identification, and execution of plans and implementation of contingency plans are practiced often (daily/monthly) while 40% (16) indicated that the bank carries out these practices every 6 months. With reference to Basel (2000) twelfth principle, the maintenance of appropriate credit management and monitoring procedures and standards, banks must have monitoring system over the structure and type of the credit portfolio, taking into consideration the credit concentrations which occur as a result of the credit portfolio that have a high level of direct and indirect credit. This postulates that the different employees in different departments carry out the practices of evaluation, identification, and execution of plans and implementation of contingency plans entailed in risk monitoring at different instances depending on their department.

### 4.3.4 Risk diversification

**Bank training for employees in respect to risk diversification**

Bank training of employees on risk diversification is represented in the table 23 below.

***Fig 9.Bar chart 5: showing how training for employees in risk diversifications***




**Source:** primary data (2015

According to findings presented in the bar chart 5 above, showed how your bank perform any form of training for employees in respect to risk diversification; 25(62.5%) of the respondents said no and 15(37.5%) said yes on how the bank performs any form of training for employees in respect to risk diversification. Risk diversification training refers to teaching employees on the different measures and processes banks use to distribute risk. The bank management does not engage most of its employees in risk diversification as it consider risk diversification as a minor element in risk management while some respondents agreed to have been involved in risk diversification training. A majority number of 62.5% (25) employees stated that they had not been engaged in any form of risk diversification training while 37.5% (15) employees had been involved in risk diversification training. This lack of risk diversification training could be interpreted as risk diversification being considered less relevant in the bank's risk management. Montgomery (1985) explains that it has also been shown that highly diversified firms have less market power in their respective markets than more focused firms. This is further emphasized by scholars Karkrah and Ameyaw (2010) that presented that risk diversification could lead to a negative relationship between bank size and profitability.

**Processes and techniques applicable as far as risk diversification is concerned**

The researcher proceeded to ask respondents to state how relevant the following practices were in risk diversification at the bank and the findings were presented as here under.

***Table 14: showing portfolio diversification is applicable to risk diversification***

| **Responses** | **Frequency (N)** | **Percentage (%)** |
|---|---|---|
| Very applicable | 16 | 40 |
| Applicable | 17 | 42.5 |
| Fairly applicable | 7 | 17.5 |
| Not applicable | 0 | 0 |
| **Total** | **40** | **100** |

**Source:** primary data (2015)

According to findings presented in the Table 14 above, showed that 42.5% (17) of the respondents said it was applicable, 40% (16) of the respondents said very applicable, 7.5% (7) of the respondents said it fairly applicable and 0% (0) of the respondents considered portfolio diversification not applicable to risk diversification. The bank practices as far as risk diversification is considered involve portfolio diversification.

The majority number 100% (40) respondents considered portfolio diversification applicable in risk diversification. According to Scott, Gardner and Mills (1988) diversification risk arises if a bank management invests largely in one of category assets. A case in point is Penn square bank failure. This bank failed to diversify its loan portfolio as most of its loans were heavily concentrated in the oil industry. This indeed relates to the emphasis in the findings where all respondents confirmed a relation between portfolio diversification and risk diversification.

**Risks by securities and risk diversification**

The Table 15 is a break-down of the respondents' view on the relationship between the variation of risks by securities and risk diversification in the bank.

***Table 15: showing variation risks by securities is applicable to risk diversification***

| **Responses** | **Frequency (N)** | **Percentage (%)** |
|---|---|---|
| Very Applicable | 19 | 47.5 |
| Applicable | 17 | 42.5 |
| Fairly applicable | 4 | 10 |
| Not applicable | 0 | 0 |
| **Total** | **40** | **100** |

**Source:** primary data (2015)

The findings presented in the Table 25 above, showed how risks vary by securities; the majority being 47.5% (19) respondents agreeing with varying risks being very applicable to risk diversification, followed by 42.5% (17) stating applicable, 10% (4) stating fairly applicable and no respondent 0% (0) agreeing with varying risks not being applicable. The bank uses varying individual risks as a form of risk diversification.

The entire population of participants in the study 100% (40) agreed with applicability of varying risks in risk diversification while no individual disagreed. Studies by Michalak and Uhde (2009)emphasized that  the growing popularity of credit risk securitization can be put down to the fact that banks typically use the instrument of securitization to diversify concentrated credit risk exposures and to explore an alternative source of funding by realizing regulatory arbitrage and liquidity improvements when selling securitization transactions. These studies are in line with the findings of the research.

**Variation securities by industry is applicable to risk diversification**

In this table 16 results showing the respondents' reaction to the applicability of variation of securities by industry to risk diversification.

***Table 16: showing variation securities by industry is applicable to risk diversification***

| **Responses** | **Frequency (N)** | **Percentage (%)** |
|---|---|---|
| Very applicable | 4 | 10 |
| Applicable | 25 | 62.5 |
| Fairly applicable | 11 | 27.5 |
| Not applicable | 0 | 0 |
| **Total** | **40** | **100** |

**Source:** primary data (2015)

According to findings presented in the Table 16 above, showed how applicable varying securities by industry is in risk diversification according to the various respondents; 25(62.5%) of respondents ticked applicable, 11(27.5%) of the respondents fairly applicable, 4(10%) of respondents said very applicable and 0% (0) not applicable. Variation of securities by industry is practiced in the bank as the bank engages in real estate and stocks. A respondent explained how banks are now involved in the stock exchange and trade.Modak, (2001) expresses securitization to have emerged globally as an important technique for bundling assets and segregating risks into marketable securities. This typically involves the transfer of assets from the originator to a vehicle company which then issues securities to investors backed by the cash flows on the transferred assets. The findings illustrate that the majority of respondents 100% (40) agreed that varying securities by industry is applicable to risk diversification as Modak explained about segregation of risks. According to Sanford

(1985), diversification can reduce risk rapidly with diversification of investment at no cost in expected profits.

**Credit or default risk and risk diversification**

When respondents were asked to state their level of agreement or disagreement on how the bank has tried to reduce credit or default risk through risk diversification, the following responses were gathered.

***Table 17: showing how the bank has tried to reduce default risk through risk diversification***

| **Responses** | **Frequency (N)** | **Percentage (%)** |
|---|---|---|
| Strongly agree | 9 | 22.5 |
| Agree | 25 | 62.5 |
| Not sure | 6 | 15 |
| Disagree | 0 | 0 |
| Strongly disagree | 0 | 0 |
| **Total** | **40** | **100** |

**Source:** primary data (2015)

Table 17 above, shows whether respondents agree that the bank has tried to reduce credit or default risk through risk diversification; 62.5% (25) of the respondents had agreed, 22.5% (9) of the respondents strongly agreed and 15% (6) of the respondents were not sure and 0% disagreed that the bank tried to reduce or default risk through risk diversification. The respondents agreed that the bank puts in effort in order to reduce credit or default risk by deploying risk diversification as it has been engaged in different ventures and even insures against certain risks. Christian Bluhm et al (1964) defined credit default risk as the risk to earning or capital due to borrower's late or non-payment of loan obligations. 83% (34) of the respondents recognized the bank's effort to reduce credit or default risk through risk diversification while 15% (6) were not sure and none disagreed.

**An effective credit diversification plan in order to increase in customer base**

The question posed was meant to determine the level of agreement or disagreement on how effective credit diversification plan has been to the bank's expectations in future banking to increase in customer base, the following responses were gathered.

***Table 18: showing if an effective credit diversification plan can increase in customer base***

| **Responses** | **Frequency (N)** | **Percentage (%)** |
|---|---|---|
| Strongly agree | 7 | 17.5 |
| Agree | 14 | 35 |
| Not sure | 11 | 27.5 |
| Disagree | 4 | 10 |
| Strongly disagree | 0 | 0 |
| **Total** | **40** | **100** |

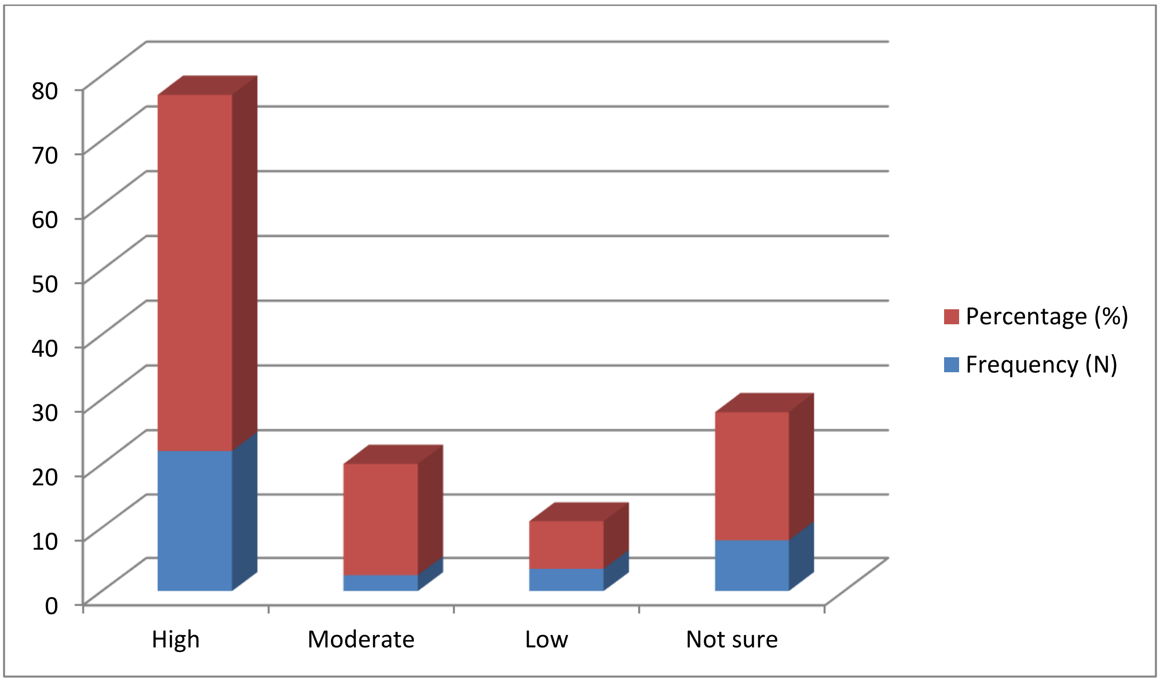
**Source:** primary data (2015)

The Table 18 above, showed how effective credit diversification plan has been to the bank's future banking in order to increase in customer base; 35% (14) of the respondents agreed, 27.5% (11) of the respondents were not sure,, 17.5% (7) of the respondents strongly agreed, and 10% (4) of the respondents disagreed. Effective risk diversification plans are used in particular sections of the bank as other sections do not consider effective risk diversification essential as it does not apply to their department. Some respondents dismissed an effective risk diversification plan as a necessity to increase customer base as a remarkable number were not sure. From the findings, 52.5% (21) respondents agreed that effective credit risk diversification plan increases customer base while 10% (4) of the respondents disagreed and 27.5% (11) were not sure.

### 4.4 Financial performance

This bar chart 7 here under presents the respondent views on the current profitability level of the bank.

***Fig 10.Bar chart 6: showing the current profitability level of the bank***



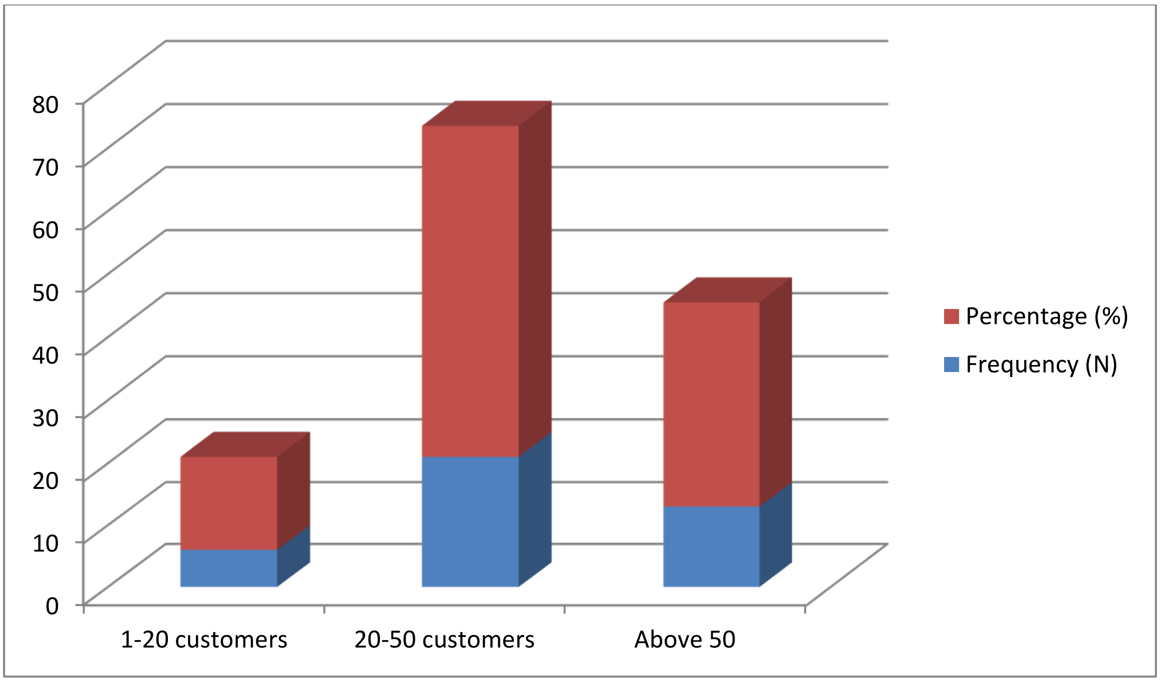

**Source**: primary data (2015)

Results presented in the bar chart 6 above, showed what the current profitability level in the bank is as far as the respondents are concerned, 55% (22) of the respondents said high, 20% (8) of the respondents not sure, 17.5% (7) moderate and 7.5% (3) low profitability level in the bank. The bank profitability level is high despite the credit risk of fraud and loan defaulters involved while it could have been much higher if it was not threatened by credit risk. The employees believed that the bank's profitability level is high as respondents explained that the bank not only earns from the banking industry but also invests in other industries. 55% majority of respondents rated the current bank profitability level of the bank as high. This can be attributed to the risk management practice benefits. According to Kargi (2011) credit risk management increases profitability of banks by keeping and maintaining pressure of this risk in acceptable boundaries to creating a framework for understanding effect of credit risk management. This supports the research findings of a majority 55% considering the bank's current profitability to be high. On the other hand, a considerable number of 17.5% (7) respondents considered the profitability level moderate and 7.5% (3) considered the current bank profitability level low.

**How many customers do you think fail to pay their loan obligations monthly**

Respondents were asked to indicate the number of loan defaulting customers monthly and the bar chart 7 shows the results.

***Fig 11.Bar chart 7: showing how many customers fail to pay their loan obligation monthly***



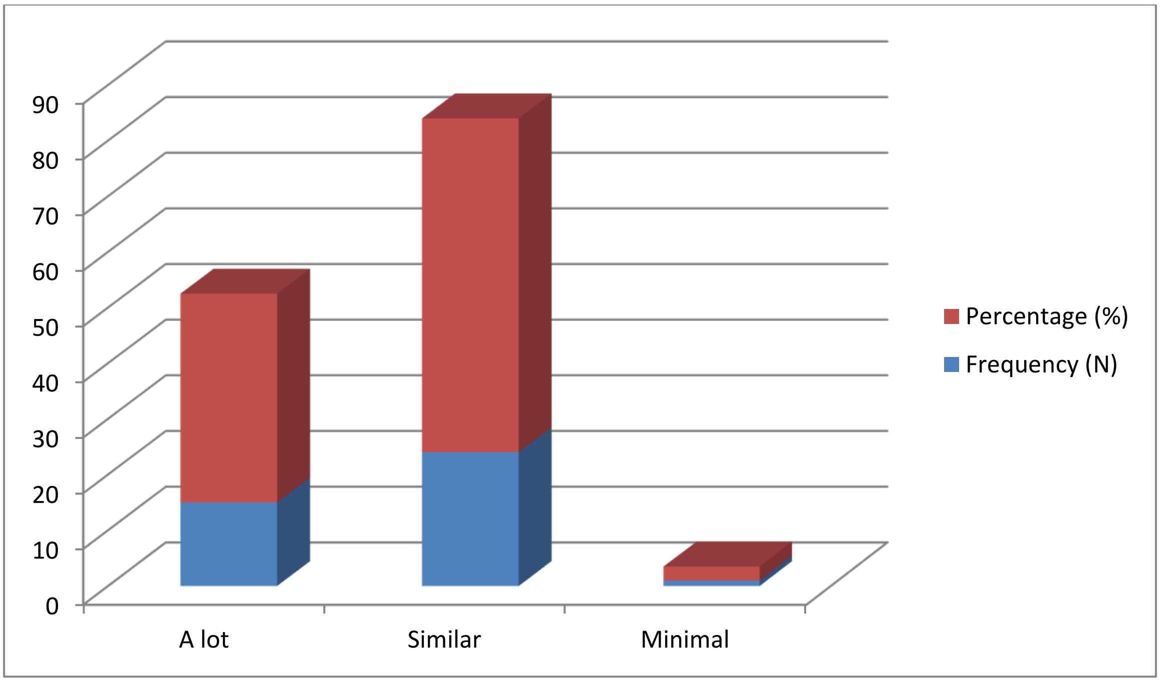

**Source**: primary data (2015)

In the bar chart 7 above, employees stated how many customers do you think fail to pay their loan obligations monthly; 52.5% (21) of respondents indicated 21-50 customers, 32.5% (13) of the respondents were above 50 customers and 15%(6) of the respondents were 1-20 customers. The bank credit department faces a moderate number of credit defaulters as it is impossible to totally eliminate credit risk, thereby they allow an acceptable level of loan defaulting. 21-50 customers received a majority 52.5% indication, of which it was designed as an average number. Above 50 was designed to be on the higher side, and it received 32.5% (13) respondents with the lowest score of 15% (6) respondents claiming 1-20 loan defaulters. The moderate number 21-50 received the highest percentage explaining the fact that elimination of credit risk is an uphill task. Dictor Devendra Jain (2010) states that we are in a dynamic uncertain world where the economic climate and developments in lending agencies can affect changes in the interest rates, it is impossible to eliminate all the risk in any business activity. This thereby supports the study findings as credit risk still exists despite the efforts to eliminate it.

**How much the bank has lost due to fraud committed this year as compared to the past year.**

The bank loses money annually as a result of fraud. When respondents were asked to make a comparison of the bank's losses as a result of fraud this year as compared to the previous year, they presented the information below.

***Fig 12.Bar chart 8: showing how much the bank lost due to fraud committed than previous***




**Source**: primary data (2015)

According to findings presented in the Table 31 above, showed how much has the bank lost due to fraud committed this as compared to the past year; similar 60% (24) of respondents and 37.5%(15) of the respondents had a lot and 1 (2.5%) respondent indicated minimal amounts. The bank faces a problem of fraud of as cases are slowly on the rise as compared to the past year. A respondent in the bank management explained that internal controls are revised often in order to curb fraud as the bank ensures that any form of technological advancement applicable is deployed. The individual employees are given personal secret passwords in order to protect them and track who performed what transaction. The employees are urged to change these passwords on a monthly basis. These findings of 60% saying similar suggest that there is an ongoing fraud problem, while the 40% that say a lot suggest that fraud in the bank is only increasing. Ernst & Young's 2000 International Survey on Fraud further reveals that 82percent of identified frauds were committed by employees, almost a third of which were by management and the abuse of bank computer systems frequently caused by lax controls on access to computer passwords. This suggests that the bank should look further into internal controls in order to solve the problem of fraud.

**Measures that have been put in place to increase financial performance**

This area is covering the different dynamic measures the bank has put in place to increase financial performance.

**Cost reduction and financial performance of the bank**

Financial performance is assumed to increase upon cost reduction. Respondents were asked how used or not used cost reduction techniques are used to increase financial performance, and they responded as shown in table 19.

*Table 19: showing how cost-reduction increases financial performance of the bank*

| **Responses** | **Frequency (N)** | **Percentage (%)** |
|---|---|---|
| Commonly used | 27 | 67.5 |
| Used | 13 | 32.5 |
| Fairly used | 0 | 0 |
| Not used | 0 | 0 |
| No opinion | 0 | 0 |
| **Total** | **40** | **100** |

**Source**: primary data (2015)

Cost reduction in this case refers to any method the bank uses to shrink costs of management, operations and maintenance. According to findings presented in the Table 19 above, showed cost reduction; 27(67.5%) of the respondents was commonly used by bank to reduce cost and 13(32.5%) of the respondents were used to cost reduction. Cost reduction is commonly used in the bank financial department in order to yield high financial performance as the new banking systems call for fewer employees as software performs their tasks. The majority 67.5% (27) respondents agreed that cost reduction is commonly used and 32.5% (13) respondents agreed that cost reduction is used. Cost reduction, improvement in product performance, increased customer satisfaction and a constant effort towards world class organizations. (Ross, 1994).

**Risk reduction and financial performance of the bank**

Risk reduction is used as a means for increasing financial performance at the bank. The respondents were asked about their opinion on how the bank uses risk reduction and the reactions were as represented in table 20 below.

*Table 20: showing how risk reduction increases financial performance of the bank*

| **Responses** | **Frequency** | **Percent** |
|---|---|---|
| Commonly used | 3 | 7.5 |
| Used | 32 | 80 |
| Not used | 3 | 7.5 |
| No opinion | 2 | 5 |
| **Total** | **40** | **100** |

**Source**: primary data (2015)

Findings presented in the Table 20 above, showed how risk reduction increases the financial performance of the bank; 80%(32) of the respondents who were majority said that it is fairly used, 7.5%(3) of the respondents both said it was commonly used and not used while 5%(2) of the respondents had no opinion about whether it increased financial performance of then bank. Risk reduction entails practices that minimize the chances of the bank succumbing to risk. Risk reduction is fairly emphasized in the bank as it avoids reaching a level where risk reduction retards profitability since every transaction bares a level of risk. The majority of the respondents 87.5% agreed that risk reduction is used in the bank. Carol, Sheedy and Elizabeth (2004) assert that techniques to manage risks include: risk avoidance, loss financing, risk reduction and loss prevention and control. This shows the relationship between risk reduction and financial performance.

**Capital adequacy and financial performance of the bank**

Capital adequacy is considered to increase financial performance of the bank and table 23 represents the opinion of the respondents as far as capital adequacy and financial performance is concerned.

*Table 21: showing how capital adequacy increases financial performance of the bank*

| Responses | Frequency (N) | Percentage (%) |
|---|---|---|
| Commonly used | 0 | 0 |
| Used | 0 | 0 |
| Fairly used | 1 | 2.5 |
| Not used | 27 | 67.5 |
| No opinion | 12 | 30 |
| **Total** | **40** | **100** |

**Source**: primary data (2015)

Capital adequacy relates to the availability of massive sums of finance in the bank departments. 67.5% (27) of the respondents believe capital adequacy is not used to increase financial performance, 30% (12) of the respondents revealed that they had no opinion, 2.5% (1) of the respondent said it was fairly used to increase financial performance. The bank departments do not apply capital adequacy as a form of practice to increase financial performance. Respondents explained that the different departments are provided with a budget within which they work for a financial period, therefore they do not enjoy any form of excess capital. The findings contradict Ong and Teh, (2013) who defined capital adequacy as the sufficient amount of banks equity to absorb any shock that a bank may experience. The findings show that respondents believe that capital adequacy is not used in the bank to compliment financial performance

### 4.5 Correlation analysis

***Table 22showing the correlation of risk management and financial performance***

| | | Risk management | Financial performance |
|---|---|---|---|
| Risk Management | Pearson Correlation | 1 | .674** |
| | Sig. (2-tailed) | | .001 |
| | N | 40 | 40 |
| Financial performance | Pearson Correlation | .674** | 1 |
| | Sig. (2-tailed) | .001 | |
| | N | 40 | 40 |

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

The results from Pearson correlation revealed that there is a positive and significant correlation between the credit risk management and financial performance of financial institutions (r = 0.674). That is as the level of credit risk management increases or decreases, the financial performance of financial institutions increases and decreases respectively. This means that the change in credit risk management is strongly correlated with the change in the levels of financial performance of financial institutions. The results further show that the Sig. (2-tailed) value is 0.01 which indicates that there is statistically significant correlation between the credit risk management and financial performance of financial institutions.

## 4.6 Conclusion

The results of the Pearson correlation thereby assert that in order to attain financial performance, credit risk management is very important. The positive relationship and significance of credit risk management to financial performance in financial institutions is realized meaning any variation in credit risk management will affect financial performance.

# CHAPTER FIVE

# SUMMARY, CONCLUSION AND RECOMMENDATIONS

## 5.1 Introduction

This chapter presents the summary, conclusions and recommendations arising out of the research findings in chapter four and suggestions for further research.

## 5.2.1 Summary of study

It is important to reflect on the objectives of the study before summarizing the findings. As stated in chapter one, the study report had three specific research questions; what is the relationship between risk mitigation and financial performance of financial institutions? How does risk monitoring impact on financial performance in financial institutions? And what is the effect of risk diversification on financial performance of financial institutions? Barclays Bank Uganda Limited, at the headquarters (main branch) was the source of data questionnaire and interviews (formal and guided) these were the tools used for collecting the data. This section presents a summary of the major findings made by the study, in line with the study objectives.

## 5.3.1 Bio data

Results revealed that the majority of the respondents who provided information were 52.5% (21) female whereas male were 47.5% (19) respondents that were the minority. Findings indicated that 52.5% (21) of respondents were married as the majority and single employees were 47.5% (19) of the respondents which was the minority of the respondents.55% (22) of the respondents attained diploma level of education and they were the majority, 25% (10) of respondents attained degree level of education and 20% (8) of the respondents had attained certificates and professional courses like ACCA and CPA. Of the respondents 42.5% (17)

emerged as the majority with over 10 years' experience, followed by 35% (14) of 5-10 years and the minority of 22.5% (9) of less than 5 years.

### 5.4.1 Effect of risk mitigation on financial performance of financial institutions

From the findings, the results revealed that 29(72.5%) respondents revealed that they were involved in processes and exercises, 21(52.5%) of the respondents showed that planning was fairly applicable, 25(62.5%) indicated that implementation is very applicable, 24(60%) showed that progress monitoring is fairly applicable,23(57.5%) of respondents agreed that the bank emphasizes, 18(45%) strongly agreed that risk mitigation improves the bank's loan portfolio, 17 (42.5%) agreed which can be summed up as 35(87.5%) agreeing and 5(12.5%) of the respondents were not sure that risk mitigation improves loan portfolio performance, findings revealed that 18(45%) of respondents agreed that the bank carried out investment daily to diversify their risks.

### 5.4.2 Effect of risk monitoring and financial performance of financial institutions

The results revealed that all the respondents 40 (100%) revealed how evaluation was relevant to risk monitoring 26(65.5%) showed that it was very applicable, , 22(55%) of the respondents showed that it was very applicable to identify the clients and 18(45%) of the respondents revealed that it was applicable, 17(42.5%) of the respondents said implementation of contingency was fairly applicable, 25(62.5%) said execution of plans was fairly applicable, all respondents strongly agreed to the bank doing its best to monitor risks, showed how efficient and successful risk monitoring, while respondents 14(35%)were unsure if effective and successful risk monitoring would increase sales, 13(47.5%) of them agreed; 21(52.5%) of the respondents stated that risks were monitored every month, 16(40%) of them stated every 6months.

### 5.4.3 Effect of risk diversification and financial performance of financial institutions

From the findings the respondents revealed that 25(62.5%) of them had not done any training in respect to risk diversification, 33(82.5%) considered risk diversification applicable in financial performance, 36 (90%) respondents marked vary by securities as applicable in risk diversification, while varying securities by industry was applicable according to all respondents to different extents, 25(62.5%) of the respondents had agreed that the bank has tried to reduce default risk by risk diversification, 11(27.5%) of the respondents were not sure if an effective risk diversification plan increases customer base as 21(52.55%) of the respondents agreed.

## 5.5 Conclusions

Fair gender balance of respondents depicts the company policy in general as it encourages gender balance in the different departments. Bank policy does not hold marital status as a recruitment prerequisite. Respondents showed that the recruitment policy requires at least a certificate or professional course in a relevant field for an employee to be recruited.

Respondents agreed to have been involved in training with respect to credit risk management. The respondents confirmed the applicability of risk management techniques, risk mitigation, risk diversification and risk monitoring with only risk diversification emerging with a few respondents saying it is not applicable.

The bank was found to carry out training in risk mitigation and risk monitoring but a majority claimed not to have been trained in risk diversification. Bank emphasis and applicability of risk monitoring, risk mitigation and risk diversification was confirmed by the respondents. Capital adequacy was found not applicable in the bank's financial performance factors while cost reduction and risk reduction were applicable.

From the findings on the relationship between the independent variable and the dependent variable, the study revealed that there is positive strong relationship between credit risk management and financial performance of financial institutions which means that the change in credit risk management is strongly correlated with the change in the levels of financial performance of financial institutions. The results further show that the Sig. (2-tailed) value is 0.577 which indicates that there is statistically significant correlation between the credit risk management and financial performance of financial institutions.

### 5.6 Recommendations

From the study findings, the researcher recommends that;

Barclays bank should carry out several training and seminars to educate its employees on credit risk mitigation, risk monitoring and risk diversification more occasionally to avoid defaulting clients when loans are not monitored by bank which cause increase in loss.

The bank should continue revising their internal controls on loans especially on loan defaulting and fraud so as to improve financial performance to avoid constant fraud committed the previous year by the bank which give clients ability to assess of risks of products available before making the right decisions and there should be client's needs assessment, coordination and advice on them on the ventures of ventures and have proper follow ups and continuous supervisions are required since traders may be reluctant to pay.

The bank should engage in more risk diversification practices and processes in order to eliminate risk of insolvency as a result of credit risk. Diversification in terms of variation of risks by securities and risk by industry are recommended for the bank in order to eliminate chances of melt down.

Portfolio diversification with respect to loan portfolio by development of techniques and processes that compliment portfolio diversification would ensure that the bank risk is well spread out. This improves stability as chances of insolvency are reduced.

The bank should embrace more e-banking innovations in order to improve the banking system and reduce fraud, as it has been seen in the study that most fraud is carried out within an organisation by its own employees. E-banking also reduces the cost of operations and machines reduce on the number of staff employed thereby reducing costs, of which cost reduction is a recipe for increased financial performance.

The organization should improve on credit policies that are in place and train employees on how the credit policies in different situations on loan give outs. Therefore they should consider rating their clientele for loans with reference to collateral, capacity, capital, character and conditions.

Improving the procedures to obtain loans and clearly designing credit policies as well as improved communication channels could help to bridge the gap of uncertainties. Clients must indicate their most appropriate mode of communication as certain clients may prefer email as compared to phone calls.

Corporate governance should be improved to ensure that an effective risk management program is in place. Risk transfer strategies should be executed to lower the cost of hedging undesirable risks as well as increase the organization's capacity to originate desirable but concentrated risks.

### 5.7 Suggestions for further study

The research focuses on credit risk management and financial performance of financial institutions. Further research suggestion could be for a researcher to concentrate on the core of credit risk management to other risks management faces. Credit risk emerges as the major risk financial institutions face but exploration of other risks would unveil other challenges financial institutions face.

The research was limited to a single financial institution as resources and time frame was limited, further research could explore more financial institutions as banking industry’s development and diversity has led to innovation in financial institutions. Different types of banks have emerged to satisfy the demand of innovation in financial markets.

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**APPENDICES**

**Appendix i**

# QUESTIONNAIRE

Dear respondent,

I am a student carrying out a research study on **'' credit risk management and financial performance of financial institutions''**, you have been selected to participate in the study as a respondent. Your views will be kept and treated confidentially in line with the study. I appreciate every contribution that you make in furthering this research endeavour. Thank you for your time and cooperation.

**SECTION A: Background of the respondents**

i) Name (optional)……………………………………………………………………

Please tick the right option in the space provided

ii) Gender: ☐ Male ☐ Female

iii) Position held

……………………………………………………………………………

iv) Marital status: ☐ ☐ Married Single

v) Highest academic qualification: Degree ☐ Diploma ☐

If others specify ……………………………………………………………………

vi) For how long have you worked in the bank?

| Less than 5 | 5-10 | Above 10 |
|---|---|---|
| | | |

**SECTION B: Credit risk management**

i) Does your bank involve you in any kind of training in respect to credit risk management?

Yes ☐ No ☐

ii) Could the following processes and techniques be applicable as far as risk management is concerned?

**VA – Very applicable, A-applicable, FA- Fairly applicable,**

**NA- Not applicable, NO- No opinion**

| | VA | A | FA | NA | NO |
|---|---|---|---|---|---|
| Credit risk mitigation | | | | | |
| Risk monitoring | | | | | |
| Risk diversification | | | | | |

iii) The bank has done its level best to reduce credit or default risk. To what extent do you agree?

| Strongly agree | Agree | Not sure | Disagree | Strongly disagree |
|---|---|---|---|---|
| | | | | |

iv) Since credit risk is associated with default of borrowers, when do you remind a defaulting customer?

Immediately ☐

Every month ☐

Every after two months ☐

Not at all ☐

v) Following effective credit risk management plan, the bank expects future banking to increase in customer base and financial performance. To what extent do you agree?

| Strongly agree | Agree | Not sure | Disagree | Strongly disagree |
|---|---|---|---|---|
| | | | | |

**SECTION C: Risk Mitigation**

i) Are employees involved in the bank's risk mitigation processes and exercises?

Yes ☐ No ☐

ii) How relevant are the following practices in risk mitigation at the bank?

**VA – Very applicable, A-applicable, FA- Fairly applicable,**

**NA- Not applicable, NO- No opinion**

| | VA | A | FA | NA | NO |
|---|---|---|---|---|---|
| Planning | | | | | |
| Implementation | | | | | |
| Progress monitoring | | | | | |

iii) Your bank carries out risk mitigation. Emphasis has been put in to make sure it is successful. To what extent do you agree?

| Strongly agree | Agree | Not sure | Disagree | Strongly disagree |
|---|---|---|---|---|
| | | | | |

iv) Risk mitigation processes are set in order to improve the Bank's loan portfolio performance. To what extent do you agree?

| Strongly agree | Agree | Not sure | Disagree | Strongly disagree |
|---|---|---|---|---|
| | | | | |

v) Risk diversification entails portfolio diversification for example stocks, bonds, mutual funds and real estate, varying of securities in risk for example different investments and varying securities by industry. How often are these practices carried out in the daily bank operations?

Daily ☐

Every month ☐

Every 6 months ☐

Not at all ☐

**SECTION D: Risk Monitoring**

i) Does your bank involve you in any kind of training in respect to risk monitoring?

Yes ☐ No ☐

ii) Could the following processes and techniques be applicable as far as risk monitoring is concerned?

**VA – Very applicable, A-applicable, FA- Fairly applicable,**

**NA- Not applicable, NO- No opinion**

| | VA | A | FA | NA | NO |
|---|---|---|---|---|---|
| Evaluation | | | | | |
| Identification | | | | | |
| Implementation of contingency | | | | | |
| Execution of plans | | | | | |

iii) The bank has done its best to monitor risk. To what extent do you agree?

| Strongly agree | Agree | Not sure | Disagree | Strongly agree |
|---|---|---|---|---|
| | | | | |

iv) With efficient and successful risk monitoring, the bank expects future banking to increase in sales and profitability. To what extent do you agree?

| Strongly agree | Agree | Not sure | Disagree | Strongly disagree |
|---|---|---|---|---|
| | | | | |

v) Since risk monitoring encompasses evaluation, identification, execution of plans and implementation of contingency plans, how often are these practices carried out in the daily bank operations.

Daily ☐

Every month ☐

Every 6 months ☐

Not at all ☐

**SECTION E: Risk Diversification**

i) Does your bank perform any form of training for employees in respect to risk diversification?

Yes ☐ No ☐

ii) Could the following processes and techniques be applicable as far as risk diversification is concerned?

**VA – Very applicable, A-applicable, FA- Fairly applicable,**

**NA- Not applicable, NO- No opinion**

| | VA | A | FA | NA | NO |
|---|---|---|---|---|---|
| Portfolio diversification | | | | | |
| Vary risks by securities | | | | | |
| Vary securities by industry | | | | | |

iii) The bank has tried to reduce credit or default risk by risk diversification. To what extent do you agree?

| Strongly agree | Agree | Not sure | Disagree | Strongly disagree |
|---|---|---|---|---|
| | | | | |

iv) Following effective risk diversification methods and strategies, the bank expects future banking to increase in customer base. To what extent do you agree?

| Strongly agree | Agree | Not sure | Disagree | Strongly disagree |
|---|---|---|---|---|
| | | | | |

v) Since credit risk is associated with default of borrowers, when do you remind a defaulting customer?

Immediately ☐

Every month ☐

Every after two months ☐

Not at all ☐

**SECTION F: FINANCIAL PERFORMANCE**

i) What is the current profitability level of the bank?

| High | Moderate | Low | Not sure |
|---|---|---|---|
| | | | |

ii) How many customers do you think fail to pay back their loan obligations monthly?

| 1-20 | 21-50 | Above 50 |
|---|---|---|
| | | |

iii) In your opinion, how much has the bank lost due to fraud committed this as compared to the past year?

| A lot | Similar | Minimal |
|---|---|---|
| | | |

iv) To increase financial performance of the bank, which measures have been put in place?

Commonly used (CU), Used (U), fairly used (FU), Not used (NU), No opinion (NO)

| | CU | U | FU | NU | NO |
|---|---|---|---|---|---|
| Cost reduction | | | | | |
| Risk reduction | | | | | |
| Capital adequacy | | | | | |

v) What do you think may hinder financial performance improvement, apart from credit risk?

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vi) How do you think this problem can be improved upon to realize an increase in the financial performance of the bank?

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**Thank you for your cooperation**

## Appendix ii

## INTERVIEW GUIDE

1) What is the bank policy on Gender balance in the different departments and marital status?

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2) How different and specialised are the roles and targets of different departments within the Bank?

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3) Apart from the usual bank activities of deposits, withdrawals and issuing of loans, what other activities does the bank engage in that may not be directly related to banking?

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4) What internal controls are in place to curb fraud and how often are they revised?

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5) What kind of privileges and benefits do employees of the bank enjoy from the bank by virtue of being employees?

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6) In order to monitor loans, what measures does the bank deploy?

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7) Risk diversification has been recommended lately as a risk management method. What is your opinion on this?

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**Appendix iii**

Uganda
Martyrs
University

making a difference

**Office of the Dean**
**Faculty of Business Administration and Management**

*Your ref.:*
*Our ref.:*

Nkozi, 24th February, 2015

**To Whom it may Concern**

Dear Sir/Madam,

**Re: Assistance for Research**:

Greetings and best wishes from Uganda Martyrs University.

This is to introduce to you________________________________ who is a student of Uganda Martyrs University. As part of the requirements for the award of the Degree of Bachelor of Business Administration and Management of the University, the student is required to submit a dissertation which involves a field research on a selected case study such as a firm, governmental or non governmental organization, financial or other institutions.

The purpose of this letter is to request you permit and facilitate the student in this survey. Your support will be greatly appreciated.

Thank you in advance.

UGANDA MARTYRS UNIVERSITY
OFFICE OF THE DEAN
25 FEB 2015
FACULTY OF BUSINESS ADMINISTRATION & MANAGEMENT
SIGN:....................................

Yours Sincerely,

Moses Kibrai
**Dean**

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