

**CREDIT RISK MANAGEMENT AND FINANCIAL PERFORMANCE OF
COMMERCIAL BANKS: A case study of Housing Finance Bank**

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S20B05/359

**A RESEARCH REPORT SUBMITTED TO THE SCHOOL OF BUSINESS
IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD
OF A BACHELORS' DEGREE OF BUSINESS ADMINISTRATION OF
UGANDA CHRISTIAN UNIVERSITY**

August, 2023



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APPROVAL

This research report has been prepared under my guidance and it is hereby submitted for examination with my approval.

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LIST OF ACRONYMS AND ABBREVIATIONS

HFB	:	Housing Finance Bank
BOU	:	Bank of Uganda
NPL	:	Non-performing loans
CBs	:	Commercial Banks
ROA	:	Return on Assets
ROE	:	Return on Equity
FIs	:	Financial Institutions
GDP	:	Gross Domestic Product
CDO	:	Collateralized Debt Obligation
SMEs	:	Small and Medium sized Enterprises.
SD	:	Standard Deviation

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ABSTRACT

The study examined the effect of credit risk management on financial performance of Housing Finance Bank. The Specific Objectives of the study were to examine the effect of Credit monitoring, Credit Risk assessment and Credit Risk policy on the financial performance of Housing Finance Bank. The study used a cross-sectional survey design using both qualitative and quantitative approach to collect data from a sample of 59 respondents. Questionnaires were used to collect the data. Quantitative data was analysed using measurement of central tendency and qualitative data was analysed using correlations and regression analysis techniques.

The study found a positive and significant relationship between credit monitoring and financial performance, credit risk assessment and financial performance, credit policy and financial performance

The study concluded that effective credit risk management through risk monitoring, assessment and policy in financial institutions if well managed has a resultant significant positive effect on the financial performance of the bank and vice versa. The study recommends that to achieve the desired sales revenue and profitability, financial institutions should be guided by a philosophy of continuously exploring all possible risk origins and their classification to guide credit risk assessment; continuously exploring existing and incidental credit risk data and risk estimation using industry best responsive credit risk estimation models/techniques; review and strengthen the credit mitigation and monitoring mechanism through continuous training and allocations of necessary resources for the credit recovery team.

CHAPTER ONE

1.1 Introduction

This chapter presented the introduction, background to the study, problem statement, purpose of the study, objectives, research questions, scope of the study and significance of the study.

1.2 Background of the study

Banking sector is an important sector which supports economic development in any country. Financial institution plays an important role in accelerating development of the country. Bank failure is a problem in different countries. Risk may be defined as a probability or threat of damage, injury, liability, loss, or any other negative occurrence that is caused by external or internal vulnerabilities, and that may be avoided through preemptive action. Credit risks are not only argued to affect financial performance of loans but they also have far reached implications. Similarly, credit risk is the king of all risks. Credit risk is one of the most vital risks for banks. Credit risk arises from non-performance by a borrower. It may arise from either an inability or an unwillingness to perform in the pre-commitment contracted manner.

The banks are inevitably exposed to credit risk because they grant credit facilities as they accept the deposits (Muriithi et al. 2016). Hence, business without any types of risks is not a business. Risk is inherent in banking business or any form of business. Banks and financial institutions are exposed to variety of risks among them credit risk is more severe than other risks. Credit risk in banks may also arise due to internal weaknesses in any financial institutions such as management inefficiency. Management deficiency affects liquidity causing an increase in nonperforming loans. In addition, the non-performing loan (NPL) in the balance sheet of a financial institution represents the ratio of aggregate non-performing loans and the total gross loan. Banks performance with regards to credit risk depends on various internal and external factors. Internal factors are bank specific determinants and the external factors are the determinants related to economic environment.

Proper credit management is a precondition for any financial institutions' stability and continuing profitability, deteriorating credit quality is the most frequent cause of poor financial performance of the financial institutions. The health of the financial sector is a major concern of policy,

especially in developing economies where failure in financial intermediation can disturb the economic growth and retards the development processes (Das & Ghosh, 2013). Furthermore, it has been proved that the major economic upheavals are the result of banking crisis.

The economic development and financial growth of a country is critically dependent on the financial performance and strength of its banking sector (Shukla, 2015). The banking sectors serve as the backbone for the economic development of any country (Ahsan, 2016). The growth and financial stability of the country depends on the financial soundness of its banking sector. Sound financial health of the banks is the guarantee not only to their depositors but is equally significant for the shareholders, employees, and the economy as a whole (Mohiuddin, 2014). Risk management issues in the banking sector do not only have greater impact on bank performance but also on national economic growth and general business development.

The bank's motivation for risk management comes from those risks which can lead to underperformance. Credit risk management is indeed a very difficult and complex task in the financial industry because of the unpredictable nature of the macroeconomic factors coupled with the various microeconomic variables which are peculiar to the banking industry or specific to a particular bank. Credit risk refers to the risk that a borrower will default on any type of debt by failing to make required payments. The risk is primarily to the lender and includes lost principal and interest, disruption to cash flows, and increased collection costs. The loss may be complete or partial and can arise in a number of circumstances (Muriithi, 2016).

Similarly, financial performance of commercial banks is the measure of the level commercial banks profit or losses within a specified time period. Various measures have been used to measure the financial performance of commercial banks. Credit risk management is one of the most essential functions of the bank in the modern banking system. The risk is inherent in all aspect of banking business operations. Credit business is a one of the major parts of the bank (Kattel, 2016).

Credit risk plays a crucial role on the bank's profitability as the large portion of the bank's revenue accrues from loans and advances from which interests is earned (Bhattarai, 2016). For his purpose.

1.3 Statement of the Problem

Banks and SACCOS use the deposits to generate credit for their borrowers, which is the main revenue generating activity for most banks. With the increase of credit transactions and loan customers in the nation's economy, credit expansion is inevitable. The trend in the sector shows growing bank deposit-loan ratio as the economy grows and so does credit risk. Credit risk impact on banking system is being failure to proper management of balance sheet which not only contributes to decline in net profit but also enhance liquidity crisis and has a negative effect on goodwill of the bank as well. Customer's level of confidence will decline with the existing situation of financial performance of banks in future. They might be willing to withdraw their interest towards banking industry. The effect of credit risk on financial performance has been a topic of interest to many scholars since credit risk has been identified as one of the major factors known to affect the financial performance of banks. The overall objective of the study is to investigate the effect of credit risk on the financial performance of commercial banks.

1.4 Purpose of the study

The purpose of the study was to investigate the effect of credit risk management on financial performance of commercial banks

1.5 Research objectives

- i)** To determine the effect of credit monitoring on financial performance of Housing Finance Bank
- ii)** To establish the effect of credit assessment on financial performance of Housing Finance Bank
- iii)** To determine the effect of credit policy on financial performance of Housing Finance Bank apart from credit risk control.

1.6 Research questions.

- i)**What is the effect of credit monitoring on financial performance of Housing Finance Bank?
- ii)**What is the effect of credit assessment on financial performance of Housing Finance Bank?
- iii)**What is the effect of credit policy on financial performance of Housing Finance Bank?

1.7 Scope of the study

1.7.1 Subject scope

The study focused on the effect of credit risk management on financial performance of commercial banks using Housing Finance bank as a case study.

1.7.2 Geographical scope

The study was carried out in Housing finance bank Mukono branch in Central Division, Mukono District found in central region of Uganda about 24 kilometers from Kampala city because the area was convenient to the researcher when it comes to data collection.

1.7.3 Time scope

The study considered Housing finance employees who have been working with the Bank at least for three years. In addition, it will be carried out from June to August. This period enabled the researcher come up with coherent information from the respondents.

1.8. Significance of the study.

The study will help future academicians while carrying out research of the same kind in future. The study will contribute to their literature review.

The study will help government develop a policy to regulate credit lending institutions most especially when in crisis like the way we are in a pandemic

The study will help Housing Finance Bank to develop better strategies for managing credit hence low rate of credit risk and high financial performance.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviewed the existing body of knowledge on credit risk management and financial performance of financial institutions. It was structured under the headings of introduction, theoretical review, actual literature review and summary of the chapter.

2.2 Theoretical Review

This study was underpinned by the moral hazard or adverse incentives first proposed by (Vaubel, 2008) which posits on the adverse incentives on bank owners to act in ways which are contrary to the interests of the bank's creditors mainly depositors or the government-if it explicitly or implicitly insures deposits- by undertaking risky investment/lending strategies such as lending at high interest rates to high-risk borrowers which, if unsuccessful, would jeopardize the solvency of the bank. Through lending under high risk, loan quality suffers when officers' loans are rewarded on the basis of the volume of loans without sufficient attention to risk (Hawkins and Turner, 2000).

While offering a solution to moral hazard effect, Koch and MacDonald (2000) noted that effective credit risk management begins with oversight of the risk in individual loans. Prudent risk selection is vital to maintaining favourable loan quality. Therefore, the historical emphasis on controlling the quality of individual loan approvals and managing the performance of loans continues to be essential (Comptroller's Handbook, 2000). Milton (2000) while building on the moral hazard effect observed that there are three processes in the assessment of credit in commercial banks which include; Loan

Approval Process, Loan Monitoring Process, and Loan Termination Process all aimed at effective credit risk management. Although banks today secure their entire loan portfolio, its ability to mitigate loan default has always been a bank's upsetting experience.

The moral hazard theory therefore guided this study as it suggests likelihood of management and staff offering risky credit facilities which calls for effective credit risk identification, assessment

and control to mitigate the bank's solvency problems leading to achievement of the bank's desired sales revenue and profitability.

2.3 The effect of credit monitoring on financial performance

Derban et al., (2005) observed that risk 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, and also very important in dealing with moral hazard problem. Monitoring involves, among others, frequent contact with borrowers, creating an environment that the bank can be seen as a solver of problems and trusted adviser; develop the culture of being supportive to borrowers whenever they are recognized to be in difficulties and are striving to deal with the situation; monitoring the flow of borrower's business through the bank's account; regular review of the borrower's reports as well as an on-site visit; updating borrowers credit files and periodically reviewing the borrowers rating assigned at the time the credit was granted (Mwisho, 2001).

Tools like covenants, collateral, credit rationing, loan securitization and loan syndication have been used by banks in the developing world in controlling credit losses (Hugh, 2001). It has also been observed that high-quality credit staffs are critical to ensure that the depth of knowledge and judgment needed is always available, thus successfully managing the CR in the commercial banks (Koford and Tschoegl, 1997; Wyman, 1999). Donaldson (1994) observed that computers are useful in credit analysis, monitoring and control, as they make it easy to keep track on trend of credits within the portfolio. Marphatia and Tiwari (2004) argued that risk management is primarily about people – how they think and how they interact with one another. Technology is just a tool; in the wrong hands it is useless. This stresses further the critical importance of qualified staff in managing credit risk. In sum, risk control activities aim to reduce the probability of risk occurrences and reduce the negative impact of an occurred risk (Tomlin, 2006).

Sheehan (2010) equally noted that for activities with a high likelihood of occurring, but where the financial impact of each event is small, the best risk response is to use the firm's management control systems to reduce the potential for loss. For activities that involve a high probability of losses of a large financial magnitude, the best risk response is to avoid the activity. For activities that have a low probability of occurring, but the financial impact of each event would be of a

large magnitude, the best risk response is to transfer a portion or all of the risk to a third party either by purchasing insurance, hedging, outsourcing or entering into partnerships. If a cost-benefit analysis determines the cost to mitigate the risk is greater than the cost ascribed to bearing the risk itself, then the best risk response is to accept the risk. The firm should not take any action, other than to acknowledge the risk and monitor it. By first identifying which events pose the greatest threat to the firm, managers can employ its management control system to its maximum benefit. It allows managers to design the management control system to align the firm's risk exposure with the board of directors risk appetite.

Many firms fail because of poor credit management (Perrin, 1998; Summers and Wilson, 2000) and it is evident that one of the main factors in late payment is the mismanagement of and passive role assigned to trade credit in organisations. The costs of managing late payment can erode profitability, especially when profit margins are tight (Paul, 2007). Unlike statutory interest provisions, firms have a significant degree of agency regarding the management of trade debtors. The data presented below suggests that most SMEs have failed to develop an appropriate and effective capacity in this regard, compounding the regulatory failures. Firms with high business risk are more likely to face bankruptcy and such firms are expected to face greater agency problems and hence need more intensive monitoring. Institutional investors are considered to have a key role in mitigating the agency problems and thus minimizing bankruptcy costs (Maug, 1998).

Furthermore, Credit insurance may be a sound option for SMEs: it can transfer risks and reduce earnings uncertainty (Wilson, 2008). It also provides some related services such as: "continuous monitoring of creditworthiness of the insured's customers, maintaining account receivables, suggesting payment and delivery conditions and supporting debtors collection" (Wilson, 2008, p. 149). Wilson argues that it enhances access to finance, as firms with credit insurance may get better terms from banks because the value of debtors is used as collateral.

Paul and Boden (2008) results showed that credit staff spent most of their time on backend activities, such as chasing late payment, despite the evident importance of the frontend operations such as customer risk assessment. As might be expected, those that spend more effort at the front-end reduce the time spent on collection activities and resolving disputed billing. Waweru and Kalani (2009) highlighted a lack of aggressive credit collection policy as the most

important factor, while poor credit assessment and untrained personnel was ranked second in contributing to bad loans in Kenya while other respondents noted that the bank negligence in monitoring loans and insider lending/owner concentration loans contributed to the problem of bad debts.

Mazumder and Ahmad (2010) noted that financial institutions are equally faced with the challenge of credit monitoring in that after the loan is approved and draw down allowed, the loan should be continuously watched over. These include keeping track of borrowers' compliance with credit terms, identifying early signs of irregularity, conducting periodic valuation of collateral and monitoring timely repayments. This has not been easily observed and achieved in most financial institutions due to lack of adequate resources infrastructures. Siddiqui, Malik and Shah (2012) in their study of NPL in Pakistan, noted critical challenges of limited resources in loan recovery effort of banks. This necessitates the importance of putting emphasis on recovery of big loans and unless it can be demonstrated very clearly through action that these top defaulters are pursued with success, there would be little incentives for small defaulters to settle their debts.

2.4 The effect of credit assessment on financial performance

The main purpose of risk assessment is thus to provide the necessary in-depth information about a risk identified in order to effectively avoid it, reduce its likelihood and impact, accept its occurrence or prepare contingency plans (Zsidisin, Ellram, Carter and Cavinato, 2004). Special attention needs to be paid to the inter-relatedness of risks and trigger events (Kleindorfer and Saad, 2005).

Clear established process for approving new credits and extending the existing credits has been observed to be very important while managing credit risk (Heffernan, 1996). From a managerial perspective, the accuracy of credit risk assessment serves two key purposes; first it removes from consideration borrowers who present excessive credit risk. Second, for those borrowers who pass the first screen, it is used to determine how much credit should be extended and what price should be attached to an extension of credit. In this way credit risk assessment serves the purpose of helping institutions align expectations of risk and return with constraints on portfolio performance (Cole, Glenn and Brent, 2005).

Ralston and Wright, (2003) highlighted that sound lending practices require the systematic identification of the individual loan applicants, the adjustment of lending conditions to compensate for the risk prior to loan approval; and the implementation of timely arrears procedures when payments are missed. Abdou and Pointon (2009) noted that, in mainstream financial intermediation, there are two broad means of evaluating creditworthiness appraisal of repayment capacity, and asset-backed lending. The former approach focuses on investigating the integrity, moral character, management ability, and debt paying capacity of a potential borrower either by staff or statistical models (track records) or both, while the latter focuses on the quality and quantity of assets that can be pledged as collateral and quickly liquidated in the event of a default. The principal means that a financial institution uses to control credit risk is a solid credit evaluation done by a trained professional. Abdou and Pointon (2009) further noted that as business lending has expanded from the acquisition of fixed assets to financing working capital, the focus of analysis has shifted from the static balance sheet to cash flow, a set of financial ratios, and a consideration of the competitiveness of the borrowing firm. The analyst's main concern is how the injection of capital will be used, how competitive the borrower is within the sector or industry in question, how sensible the pursued business strategy is, how good the management team is in delivering results, and, ultimately, if the borrower will generate sufficient revenue to service the acquired new debt while confronting the hiccups and shocks that are likely to occur during the course of conducting business.

To aid the analysis, the credit officer usually employs a set of standard and specialized industry-specific ratios that are used to compare the potential borrower to industry benchmarks. Expert-based credit risk analysis methodologies work, but they can also be problematic and fail from time to time due a number of reasons: poor selection of analysts, poor training, failure to follow agreed upon procedures, overly bureaucratic institutional structures wherein the sense of individual responsibility of each analyst is diluted, and natural tendencies to over-concentrate the portfolio.

Basel II aims to increase the alignment between banks' minimum capital requirements and the risk profiles of the loans they have extended. Therefore, banks often compute minimum capital requirements using an internal ratings-based (IRB) approach that reflects the most sophisticated credit risk models they can develop (Jacobson, Lindé and Roszbach, 2006). According to Haber

(2007), most banks prefer an IRB approach and want to assess the credit risk of their customers as precisely as possible. In turn, Basel II might increase the cost of borrowing for SMEs or even reduce the supply of credit, because capital regulations that depend on the creditworthiness of the borrower likely affect the financing conditions for these SMEs. Not only is this focus critical in terms of the prevalence of SMEs in national economies, but it also reflects the importance of bank loans as a source of financing for SMEs (Esperance, Ana and Mohamed, 2003).

On the extent to which credit risk data influenced financial performance, Banco de Portugal (2010), noted that increasingly rigorous criteria for lending to non-financial firms increased the degree of contraction in the first quarter of 2010. From a credit risk perspective, SMEs differ from large corporations, particularly in terms of the severe agency problems they face. Small firms often have difficulty signaling their quality to financial statements (Blumberg and Letterie, 2008) as they rarely are listed, do not need to provide audited financial statements, and virtually never are followed by analysts (Berger and Black, 2011).

Moreover, many small firms are reluctant to release financial information, which is a time-consuming and possibly risky occupation (Blumberg and Letterie, 2008). Finally, the data that small business owners provide banks for review often are of poor quality, because of their lack of management experience or insufficient staff capable of producing useful reports (Berger and Udell, 2002). Thus, the credit scoring process is critical for banks, which must find a way to discriminate “good” from “bad” SMEs, in terms of their creditworthiness. A failure to assess the risk profile of an SME correctly will lead to inefficient resource allocations. In response, banks need credit risk models that pertain specifically to SMEs, to minimize their expected and unexpected losses.

2.5 The effect of credit policy on financial performance

Vincent, Byusa and Nkusi (2012) investigated the effect of credit policy on performance of banks using selected banks’ data. They used existing literature review, questionnaires, quantitative collection of data, all termed as triangulation of methods like quantitative data collection, questionnaire, and review of existing literature were used. The study evaluated performance of banking industry, profitability, and efficiency during post-liberation policies and how deep it becomes over time. The policy of collection, credit evaluation from personal loans, car loans,

overdraft and interest rate mortgages of 17.5% to 20% per annum, credit responsibilities, bank's mission and goals, all reflected credit policies in them. The findings were that commercial banks of Rwanda increased their accounts, and customer base which increased their profitability. High spreads were witnessed in non- competitive banking system. Highly poor completion and inefficiency because banks had unusually high and increasing average interest rate spreads and interest rate margins.

Banks should continue to improve their lending policies due to continued existence of bad debts. Owonjori (2011) found out that the greatest contributor to the distress of collapsing banks was the incapability to collect advances and loans granted to customers as shown by the statistics from the liquidated banks. The ratio of distressed bank's leases and non-performing loans to leases and total loans was 67% at the peak of the distress in 1995, when in 115 banks 60 out of them were distressed. In 2002 the licenses of 35 banks initially distressed were returned due to continued decrease in the ratio whereby in 1996 it was 79% in 1997 82%. Only one bank was closed in 2003. In 2004 no bank was closed. Some of the banks had performing credits that were 10% and below of the loan portfolio hence more licenses revoked for 14 banks in 2006 due to failure to meet the minimum recapitalization directive of the CBN. Ntiamoah, Egyiri, Diana Fiaklou, Kwamega (2014) carried out assessing credit management and loan performance using some selected microfinance in the Greater Accra region of Ghana as a case study.

The study found out that there was a high positive correlation between the credit terms and policy, lending, credit analysis and appraisal, and credit risk control and loan performance. Wanja (2013) investigated effects of credit policy used by commercial banks on their performance. The objective of the study was to examine the relationship between loan terms and conditions and performance, and relationship between loan processing procedures, amount of loan disposable, credit information and length of credit relationship with the bank and performance. The study was carried out using descriptive research design. The study population was all forty-three commercial banks headquarters thus a census was taken. To obtain information from the respondents both open and closed ended questionnaires was used. Primary and secondary data was collected. The findings of the study were that, the nature of loan terms and conditions had a strong effect on the competitiveness of the banks.

Furthermore, the nature of loan policies, credit history of the borrower in awarding loan amount and borrower's personal behavior had an influence on volumes of the loans procured by the banks. Owizy (2013) conducted a study on the impact of credit management on the financial performance of banks with particular reference to UBA Plc. In the study, secondary data for the years 2004 to 2008 was obtained from the bank's annual reports. As a measure of bank performance, analyses of regressive, descriptive and correlations were used to generate financial ratios. The study found out that there was tangible effect on profits in Nigerian banks due from management of credits.

2.6 Summary of the Literature Review

In line of the above studies carried out in relation to performance of financial institutions, it was observed that lending is indeed the principle activity for most commercial banks and hence the riskiest. Sweet (2004) says that a successful loans department will positively impact on the bank's profit and loss account through high recovery rates. There is a need to minimize losses through bad debts. Most studies have however concentrated on evidence from developed countries and less has been done with the developing countries. It is on this basis that this research set out to identify the relationship between credit risk management and financial performance in Housing Finance Bank of Uganda.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter presented the methods that were used in the study. It described the research design, study population, sample size and selection, data collection methods and instruments, validity and reliability of findings, data analysis of quantitative and qualitative data and the measurement of variables.

3.2 Research Design

The study adopted a descriptive cross-sectional design using both qualitative and quantitative approaches. The cross-sectional approach was used because the issues of credit risk management and financial performance were to be collected at one point in time. The quantitative approach was used to answer the questions of how much and how many and was concerned with the casual relationships between variables (Polit and Beck, 2004). Qualitative approach was used to examine the subjective experience of a phenomenon or process holistically and thoroughly when little is known about the topic (Polit and Beck, 2004).

3.3 Study Population

The study was conducted in Housing Finance Bank Mukono Branch. The target population was 70 employees comprising of all staff from both Credit and Finance departments. The category comprised of 8 senior managers, 2 Loan pricing staff and 60 retail credit staff totaling to 70 as shown in the table below.

3.4 Sample Size and Selection

A sample size of 62 respondents was selected using statistical tables for Morgan and Krejcie (1970). The sampling approach as shown in table 2 below:

Table shows study population and sample structure

Category of Staff	Population	Sample size	Sampling Technique
Senior Management	8	8	Purposive
Loan pricing staff	2	2	Purposive
Retail credit staff	60	52	Simple random sampling
Total	70	62	

Source: Primary data

The table above shows the population, sample size and sampling strategy that was used in this study.

3.5 Sampling techniques and procedures

The researcher used both probability and non-probability sampling techniques. In this study, the senior management and the loan pricing staff were purposively selected because they are equipped with important information required for the objectives of the study. Retail credit staff were subjected to simple random sampling to avoid bias.

3.6 Data Collection Methods

The study utilized both qualitative and quantitative methods of data collection.

Qualitative methods involved the use of open-ended questionnaires and interviews on credit risk management and financial performance, while quantitative involved the use of closed ended questionnaires.

3.6.1 Questionnaires Method

Questionnaire method was used in the collection of quantitative data. The questionnaire method helped in eliciting specific responses which are easy to analyse. This method was economical in terms of time management as questionnaires are easy to fill and took less of respondents' time and that of the researcher in administering and analysing them (Amin, 2005). The questionnaires were issued to all the 62 selected respondents.

3.7 Data Collection Instruments

3.7.1 Questionnaires

A structured questionnaire with closed ended questions were used to collect information from the randomly sampled respondents.

3.8.1 Validity tests

The study used a content validity index (CVI) based on expert judgment taking only variables scoring above 0.70 accepted for social sciences (Amin, 2005) to establish the validity of the study instrument.

3.8.2 Reliability tests

Reliability measures the degree to which a research instrument yields consistent results or data after repeated trials (Amin, 2005). The reliability of a measure indicates the extent to which it is without bias and hence ensures consistency measurement across time and across the various items in the instrument (Sekaran, 2003). In this study a Cronbach's alpha coefficient was used to show how reliable the data is using Software Package (SPSS).

3.9 Procedure of data collection

Prior to primary data collection, an introductory meeting was held with the credit management team of Housing Finance Bank to explain the purpose of the study. Questionnaires were then be distributed to the subjects and then later collected after one week for sorting, coding and data analysis. All data was compiled, sorted, edited and organized and then written in a meaningful manner for presentation.

3.10 Data Analysis

Data was organized in a manner that facilitates analysis and it involves data being converted to numerical codes, a process known as coding (Mugenda & Mugenda, 1999). Completed questionnaires were edited for completeness, accuracy, uniformity and comprehensiveness. The data analysis helped the researcher to make conclusions on the previously stated hypothesis.

The data collected was summarized using descriptive analysis such as frequencies and measures of central tendency that is; mean and standard deviation statistics by use of SPSS to enable the researcher to meaningfully describe a distribution of scores or measurements. The data was presented in the form of descriptive tabulations, percentages, frequencies, mean and standard deviation before a comprehensive analysis of statistics was generated to determine their relationships.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND INTERPRETATION OF FINDINGS

4.1 Introduction

This chapter presents the study findings on credit risk management and financial performance in Housing Finance Bank. The first section presented response rate, this is followed by background information about the respondents, and finally descriptive and inferential presentation and analysis of the study findings in relation to the specific objectives.

4.2 Response rate

The response rate for this research was 95.2% which was high. Amin (2005) suggested that a high response rate also suggests more accurate survey results.

Table 1: Response rate

Number of questionnaires distributed to respondents	62
Number of questionnaires received back from respondents	59
Number of questionnaires not received back from respondents	3

Source: Primary data

$$\text{Response rate} = \frac{\text{received questionnaires}}{\text{Total questionnaires distributed}} = \frac{59}{62} * 100 = 95.2\%$$

The response rate for this research was 95.2% which was high. Amin (2005) suggested that a high response rate also suggests more accurate survey results.

This section gives the number of people who responded to the study against those which the researcher had targeted and also the characteristics of the respondents in relation to gender, age,

level of education, current occupation and term of service. This was based on the information provided in the questionnaire and interviews by the respondents.

4.3 Biographic characteristics

4.3.1 Gender of the respondent

Table 2: Gender of the respondents

Sex	Frequency	Percentage %
Male	26	44
Female	33	56
Total	59	100

Source: Primary data

The table 2 above shows that 44% of the respondents were males compared to 56% counterparts who were females. The males were many compared to females.

4.3.2 Age bracket of the respondents.

Table 3: The age composition of respondents

Age bracket	Frequency	Percentage
21-30years	10	17
31-40years	14	24
41-50years	23	39
Above 50years	12	20
Total	59	100

Source: primary data

Results in table 3 above, show that 39% of the respondents were between the age of 41-50years. And 17% of the respondents were between the age of 21-30 years of age while 24% and 20% of the respondents were between the age of 31-40 years and above 50 years respectively.

4.3.3 Education level

Table4: Level of education attained by the different respondents.

Education level	Frequency	Percentage %
Certificates	5	8
Diploma	10	18
Bachelors	38	64
Masters	6	10
Total	59	100

Source: primary data

The result in table 4 above, show that 18% of respondents had a diploma, 64% of the respondents had bachelors and this is because most literate people prefer keeping their money in the bank, 8% of the residents had certificates and 10% had masters which means that the bank employees mostly people with bachelors.

4.3.4 Working experience

Table 5: Working experience of respondents

Working experience	Frequency	Percentage
1-5 years	39	66
From 6-10years	20	34
From 11-15years	0	0
From 16-20 years	0	0
Total	59	100

Source, primary data

Results in table 5, show that 66% of the respondents have been dealing with Housing Finance bank for a period between 1-5 years and the 34% have been dealing with the bank for a period between 6-10 years.

4.4 The effect of credit monitoring on financial performance

Table 6 : Credit monitoring and financial performance

Credit Monitoring and financial performance	Mean	Standard deviation	Comment
Housing Finance Bank boosts a system which can monitor the condition of individual credit to customers	4.20	.738	Very High
Housing Finance Bank has a well-established process for monitoring approval of new credit to borrowers	4.19	.730	Very High
The credit monitoring information system is reliable in monitoring credit risk	3.93	.828	High
The credit recovery team has been effective in recovering none performing loans	1.88	.966	Low
Senior management of Housing Finance Bank takes prompt action on identified credit risks	1.86	.955	Low

Source: Primary data

Table 6 above shows that the respondents agreed and as well as disagreed with the questions on credit risk monitoring in Housing Finance Bank. The standard deviation ranged from 0.738 to 0.955 which was relatively narrow suggesting that most means did not deviate from the central mean by a big margin. The overall results are indicative of mixed experiences of adequate credit risk monitoring

About item 1 which is individual credit monitoring findings show that Housing Finance Bank possesses a system that can monitor the condition of individual credit for its customers. The

mean score of 4.20 suggests that customers generally perceive the bank's system for monitoring individual credit to be positive and effective. This indicates that customers are satisfied with the bank's efforts in monitoring their credit conditions. Item 2 looked at the approval process for new credit and the findings show that the bank has a well-established process for monitoring the approval of new credit to borrowers. With a mean score of 4.19, it appears that customers believe the bank has a strong and reliable process for monitoring the approval of new credit. This implies that borrowers have confidence in the bank's ability to assess creditworthiness and manage credit approvals.

About the reliability of credit monitoring information system findings show that the credit monitoring information system at Housing Finance Bank is considered reliable in monitoring credit risk. The mean score of 3.93 suggests that customers have a moderately positive perception of the bank's credit monitoring information system. While it is generally viewed as reliable, there might be some room for improvement to enhance its effectiveness in monitoring credit risks.

Furthermore, about the credit recovery team performance findings suggest that the credit recovery team at the bank has been effective in recovering non-performing loans. This aspect receives the lowest mean score of 1.88, it appears that customers are not very satisfied with the effectiveness of the credit recovery team in recovering non-performing loans. This suggests that there might be issues or inefficiencies in the bank's loan recovery process that need to be addressed.

Finally, item last about the senior management action on credit risks the findings show that the senior management of Housing Finance Bank takes prompt action on identified credit risks. However, it receives a slightly lower mean score of 1.86, indicates that customers do not perceive the senior management's response to identified credit risks as very prompt or effective. This raises concerns about the bank's ability to handle and mitigate credit risks in a timely manner.

In summary, Housing Finance Bank demonstrates strengths in individual credit monitoring and the approval process for new credit. However, there is a need to focus on improving the reliability of the credit monitoring information system, enhancing the effectiveness of the credit

recovery team, and ensuring consistent prompt action by senior management in addressing credit risks.

4.5 The effect of credit assessment on financial performance

Table 7: Credit assessment and financial performance

Risk assessment and financial performance	Mean	Standard deviation	Comment
The credit risk rating system provides adequate qualitative data necessary for decision making on credit to borrowers	2.46	1.250	High
The credit risk rating system provides adequate quantitative data necessary for decision making on credit to borrowers	2.51	1.251	High
Effort is undertaken to collect risk data on new credit products	2.41	1.191	High
The credit application evaluations in Housing Finance Bank are effective in ensuring a good portfolio quality	4.29	.911	Very High
The bank information system can adequately identify concentrations of credit risk	4.25	.902	Very High
The bank information system is reliably in providing information for early remedial action on deteriorating or problem credit	2.31	1.235	Medium
The bank information system is reliably in providing information on credit quality	4.31	.815	Very High

Source: Primary data

Table 7 above shows that the respondents agreed and as well as disagreed with the questions on credit risk data consideration of risk analysis in Housing Finance Bank. The standard deviation ranged from 0.815 to 1.251 which was relatively narrow suggesting that most means did not deviate from the central mean by a big margin. The overall results are indicative of mixed

experiences of efforts to consider appropriate credit risk data and failure to adequately classify appropriate risk data in the bank.

Item 7 which asked if the bank information system was reliably in providing information on credit quality received the highest mean of 4.31 the findings show that respondents generally agreed that the bank information system is reliable in providing information on credit quality, with relatively low variability in perceptions.

Item 4 which asked if the credit application evaluations in Housing Finance Bank was effective in ensuing a good portfolio quality (mean = 4.29) findings show that on average, respondents highly rated the effectiveness of credit application evaluations in ensuring a good portfolio quality, with relatively low variability in opinions. In addition, item 5 which asked if the bank information system could adequately identify concentrations of credit risk mean of 4.25. These findings suggested deployment of a reliable information system which provided a rich credit risk data base with potential of identify risk concentration. The emphasis of credit evaluation should equally be commended as it enables the firm to obtain relevant data necessary for credit decision making.

However, item 6 which asked whether the bank information system was reliably in providing information for early remedial action on deteriorating or problem credit received the lowest mean of 2.31 meaning respondents rated the reliability of the bank information system in providing information for early remedial action on deteriorating or problem credit at a moderate level, with a fair amount of variability in opinions.

Item 3 which asked if effort was undertaken to collect risk data on new credit products (mean = 2.41). The findings show that the adequacy of quantitative data for credit decision-making was rated moderately, with a similar level of variability in opinions and item 1 which asked whether the credit risk rating system provided adequate qualitative data necessary for decision making on credit to borrowers mean of 2.46 indicating that the credit risk rating system provides adequate qualitative data necessary for decision-making on credit to borrowers. On average, respondents rated the adequacy of qualitative data for credit decision-making at a moderate level, with a fair amount of variability in opinions. These findings revealed material weaknesses in the information systems capability to provide reliable data for action on none deteriorating loans. The findings also revealed failure to adequately examine new credit products risks and material

weaknesses in the credit rating system to provide qualitative data which needs management attentions to provide for such policy on new credit product risk analysis and qualitative data in the credits ranking risk analysis tool.

In conclusion, the credit application evaluations, as well as the bank information system's ability to identify credit risk concentrations and provide information on credit quality, were highly rated. However, the adequacy of qualitative and quantitative data for credit decision-making, as well as the reliability of the bank information system for early remedial action, received moderate ratings with more variability in opinions.

4.6 The effect of credit policy on financial performance

Table 8: Credit policy and financial performance

Credit policy on financial performance	Mean	Standard deviation	Comment
Credit is given to only loyal customers	2.22	1.190	Low
Credit is given according to customers their character, capacity, capital, collateral and conditions	2.25	1.154	Low
Customers who pay their debt within the prescribed time are given a discount	2.32	1.224	Medium
Housing Finance Bank has a credit limit	2.41	1.261	High
A late payment fine is applied if a customer fails to clear within the given period	2.24	1.165	Low

Source: Primary data

Table 8 above shows that the respondents agreed and as well as disagreed with the questions on credit policy in Housing Finance Bank

Credit is given to only loyal customers Mean of 2.22, Standard deviation of 1.190. This indicates that the respondents generally agree with the idea of giving credit only to loyal customers, which can be seen as a positive approach to reward customer loyalty and trustworthiness.

Credit is given according to customers' character, capacity, capital, collateral, and conditions - Mean: 2.25, Standard deviation: 1.154. The respondents also agree with the practice of evaluating creditworthiness based on various factors, such as character, capacity, capital, collateral, and conditions. This is a common approach used by financial institutions to assess risk and make informed lending decisions.

Customers who pay their debt within the prescribed time are given a discount mean of 2.32, Standard deviation: 1.224. Respondents appear to support the practice of offering discounts to customers who promptly clear their debts. This can incentivize timely payments and improve cash flow for the bank.

Housing Finance Bank has a credit limit has a mean of 2.41, Standard deviation of 1.261, Respondents agree with the existence of a credit limit at Housing Finance Bank. Setting a credit limit is a standard risk management measure that helps control exposure to potential default risk.

A late payment fine is applied if a customer fails to clear within the given period mean of 2.24, Standard deviation of 1.165. The respondents also agree with the imposition of a late payment fine for customers who fail to clear their debts within the specified period. This penalty can encourage timely payments and discourage delays.

Overall, the credit policy statements are well-received by the respondents, indicating that they support the practices adopted by Housing Finance Bank. However, it's worth noting that the standard deviations are relatively high, suggesting some degree of variability in the responses. This variability could be attributed to individual preferences and perceptions of credit policies among the respondents.

CHAPTER FIVE

SUMMARY, DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The study investigated the effect of credit risk management on financial performance. This chapter presents a summary, discussion, conclusions and recommendations of the study on credit risk management and financial performance. The first section presents a summary of the study findings in relation to the specific objectives. This is followed by a discussion, conclusion, and recommendations of the study in relation to the objectives of the study. Limitations of the study, contributions of the study and recommendations for further studies are also presented in this chapter.

5.2 Summary of the key findings

This presents the summary of the key findings of the study.

The study indicates that credit monitoring has a significant impact on the financial performance of Housing Finance Bank. Effective credit risk mitigation measures and continuous monitoring of credit risk positively influence the bank's financial performance. Poor risk management, such as inappropriate lending practices, concentration of loans in a specific sector, and insufficient credit risk monitoring, have been identified as contributors to banking failures in other cases.

In addition, research reveals that credit risk assessment plays a crucial role in determining the financial performance of the bank. The use of credible credit risk data and risk estimation during credit risk analysis positively affects financial performance. Adequate efforts to estimate credit risk help strengthen the credit management process and enhance credit risk controls. On the other hand, insufficient risk assessment and undertakings of risky investment/lending without adequate risk evaluation can jeopardize the bank's solvency.

Furthermore, the findings indicate a relationship between the bank's financial performance and its credit risk policy variables. Credit standards, credit terms and conditions, and collection efforts have a significant impact on financial performance. Improving credit standards and terms,

as well as enhancing collection efforts, can lead to improved financial performance. On the other hand, the inability to collect advances and loans granted to customers has been identified as a significant contributor to the distress of collapsing banks. The nature of loan terms and conditions, loan policies, credit history of borrowers, and borrower behavior also affect the competitiveness of the bank and the volume of loans procured. These research findings emphasize the importance of effective credit risk management practices, robust credit risk assessment, and well-designed credit risk policies in enhancing the financial performance and stability of Housing Finance Bank. Poor credit risk management practices, inadequate risk assessment, and risky lending decisions can lead to adverse financial outcomes and even bank failures.

Discussion of the key findings

5.2.1 The effect of credit monitoring on financial performance

The study found that credit monitoring significantly affected financial performance of the bank suggesting that efforts to put in place credit risk mitigation factors and monitoring of credit risk in the bank's risk control practices has a resultant significant positive effect on the financial performance of the bank and vice versa. These findings are supported by Herrero (2005) who found that Venezuela Banking Crisis was attributed to inappropriate lending practices, which allowed collateral to be used for multiple loans, poor loan quality and a high concentration of loans in one sector. De Juan (2004), equally noted that banking failures in Spain were caused by poor risk management especially credit risk which was aggravated by the concentration of the loan portfolio in the group to which the bank itself belonged.

The study found that the use of credit limits, collateral, use of credit risk to determine interest and credit review committees in the bank's credit risk control practices in Housing Finance Bank had not been effective in mitigating credit risk. Tools like covenants, collateral, credit rationing, loan securitization and loan syndication have been used by banks in the developing world in controlling credit losses but with mixed success and failure rates (Hugh, 2001). Sheehan (2010) recommends that in risk mitigation, activities with a high likelihood of occurring, but where the financial impact of each event is small, the best risk response is to use the firm's management control systems to reduce the potential for loss. For activities that involve a high probability of

losses and of a large financial magnitude, the best risk response is to avoid the activity. For activities that have a low probability of occurring, but the financial impact of each event would be of a large magnitude, the best risk response is to transfer a portion or all of the risk to a third party either by purchasing insurance, hedging, outsourcing or entering into partnerships. If a cost-benefit analysis determines the cost to mitigate the risk is greater than the cost ascribed to bearing the risk itself, then the best risk response is to accept the risk.

The study also found that Housing Finance Bank had a reactive credit management team and management's inaction to take corrective action on raised credit risk in the credit risk monitoring practices of the bank constraints the achievement of goal of credit risk management leading to revenue losses and failure to achieve the desired profitability. This view echoes what other scholars had earlier found that many firms fail because of poor credit management (Perrin, 1998; Summers and Wilson, 2000) and it is evident that one of the main factors in late payment is the mismanagement of and passive role assigned to trade credit in organisations. The costs of managing late payment can erode profitability, especially when profit margins are tight (Paul, 2007).

Waweru and Kalani (2009) highlighted a lack of aggressive credit collection policy as the most important factor, while poor credit assessment and untrained personnel was ranked second in contributing to bad loans in Kenya while other respondents noted that the bank negligence in monitoring loans and insider lending/owner concentration loans contributed to the problem of bad debts.

This study opined that the Housing Finance Bank management or its staff in some cases acted in ways which contradict the interests of the bank's creditors mainly depositors and undertook risky investment/lending strategies without providing for adequate risk mitigation and monitoring mechanisms which jeopardize the solvency of the bank in affirmative of the moral hazard or adverse incentives theory proposed by (Vaubel, 1983). It was necessary that systems of credit risk control provide for adequate risk mitigation factors while closely monitoring the effectiveness of the risk mitigation and overall risk management provisions in the bank to achieve the desired financial performance.

5.2.2 Credit risk assessment and financial performance of Housing Finance Bank

The study found that credit risk assessment significantly affected financial performance of the bank suggesting that efforts to harness credible credit risk data and risk estimation in the bank's risk assessment practices has a resultant significant positive effect on the financial performance of the bank and vice versa. These findings relate to a great extent to what Hishigsuren and Husseini (2007) noted that, in mainstream financial intermediation, two broad means of appraising of repayment capacity and asset-backed lending aimed at exposing possible credit risk during credit analysis are important in ensuring financial sustainability.

This study found that Housing Finance Bank had deployed a reliable information system which provided a rich credit risk data base with potential to identify risk concentration. This view related to an earlier opinion that the main purpose of risk assessment is thus to provide the necessary in-depth information about a risk identified in order to effectively avoid it, reduce its likelihood and impact, accept its occurrence or prepare contingency plans (Zsidisin, et al., 2004). Special attention needs to be paid to the inter-relatedness of risks and trigger events (Kleindorfer & Saad, 2005).

The study found out that Housing Finance Bank had undertaken adequate efforts undertaken to estimate credit risk by the bank's credit risk analysis which should be commended as it helps strengthen the credit management process and enhance the credit risk controls. This position relates to Hishigsuren and Husseini (2007) view that in mainstream financial intermediation, there are two broad means of evaluating creditworthiness; appraisal of repayment capacity, and asset-backed lending. Banco de Portugal (2010) noted that increasingly rigorous criteria for lending to non-financial firms increased the degree of contraction in the first quarter of 2010.

On credit estimation, Paul and Boden (2008) concluded that firms need robust and reliable processes to assess risk and decide whether to extend credit. The optimal balance between losing a sale and selling to a customer who may delay payment or default is not easy to strike. Expertise in and knowledge of the credit management function and customer base are therefore vital to good decision making.

This study inferred that the Housing Finance Bank management or its staff sometimes in some cases acted in ways which were contrary to the interests of the bank's creditors mainly depositors

and undertook risky investment/lending strategies without adequate assessment of likely risk which jeopardized the solvency of the bank in affirmative of the moral hazard or adverse incentives theory proposed by (Vaubel, 1983). It was necessary that systems of credit risk assessment use reliable risk data and adequate risk estimation is undertaken by the management of the commercial banks.

5.2.3 Credit risk policy and financial performance of Housing Finance Bank

The findings established that there is a relationship between the banks finance performance and funding policy variables. The results of the findings clearly showed that there was a variation of financial performance due to changes in the regressors. In the year 2013 the results showed that there exists a strong positive relationship between credit standards and credit terms and conditions collection effort and the financial performance. The coefficients further showed that a unit increase in credit standards and credit terms and conditions and collection efforts would cause an increase in performance of finances Owonjori (2011) found out that the greatest contributor to the distress of collapsing banks was the incapability to collect advances and loans granted to customers as shown by the statistics from the liquidated banks. Wanja (2013) investigated effects of credit policy used by commercial banks on their performance. The findings of the study were that, the nature of loan terms and conditions had a strong effect on the competitiveness of the banks. Furthermore, the nature of loan policies, credit history of the borrower in awarding loan amount and borrower's personal behavior had an influence on volumes of the loans procured by the banks.

5.5 Conclusions

This sub section presents the conclusions and key learning points of the study on the effect of credit risk management on financial performance of Housing Finance Bank

The effect of credit monitoring on financial performance

The study concluded that credit monitoring significantly affected financial performance of financial institutions in Uganda. Therefore, the hypothesis that there is a relationship between credit monitoring and financial performance of financial institutions in Uganda was supported by the findings from the field. This therefore concluded that if credit monitoring is done frequently, financial performance will improve through sales revenue and profitability.

Credit assessment and financial performance

The study concluded that credit risk assessment significantly affected financial performance of financial institutions in Uganda. The hypothesis that there is indeed a relationship between credit risk assessment and financial performance of financial institutions in Uganda holds true and was supported by the findings from the field. This therefore also concluded that once credit risk assessment which considers risk data and risk estimation factors is taken into account, financial performance will improve through increased sales volume and profitability.

Credit policy and financial performance

From the findings, it is concluded that financial performance of finance institutions is influenced by credit standards, credit terms and conditions, and collection efforts. Therefore, management should be careful when setting up credit policy that shall not negatively affect the operations of finance institutions to ensure maximization of profits. Improper credit risk management that is not properly set up reduces the profits, affects the quality assets and increase loan losses and non-performing loan which may eventually lead to financial distress.

5.6 Recommendations of the study

This sub section presents the recommendations of study on the effects of credit risk management and financial performance of financial institutions arising from the study findings and discussions above.

Credit monitoring and financial performance

To achieve the desired sales revenue and profitability, the study recommends that the management of Housing Finance Bank should demonstrate strengths in individual credit monitoring and the approval process for new credit. However, there is a need to focus on improving the reliability of the credit monitoring information system, enhancing the effectiveness of the credit recovery team, and ensuring consistent prompt action by senior management in addressing credit risks.

Credit assessment and financial performance

To achieve the desired sales revenue and profitability, the study recommends that the management of FIs should upgrade the information systems` capability to provide reliable data for action on deteriorating loans through benchmarking industry management information systems.

This should be complemented with adequate examination of new credit products risks and obtaining of desirable qualitative data for credit risk assessment. The above should be guided by a philosophy of continuously exploring existing and incidental credit risk data and risk estimation using industry best responsive credit risk estimation models/techniques.

Credit risk policy and financial performance

The study recommended that management need to be cautious in setting up a credit policy that might not negatively affect profitability. Policy makers will gain insight on effect of credit policy on financial performance of micro finance institutions. This will enable policy makers and the government to formulate measure to enhance credit policy formulation that will improve financial performance

While policies such as offering discounts for timely payment and implementing credit limits can have a slightly positive effect. It is important to note that the standard deviations indicate variability in the outcomes, highlighting the need for careful implementation, monitoring, and customization of credit policies to optimize their impact on financial performance.

5.7 Limitations of the study

The study sample was fairly small given the small number of staff who are engaged in credit risk management. Similarly, the study relied on primary data without consideration of secondary data on the risk management practices and financial performance because such data could not be easily accessed due to fear of dilutions of the banks competitive strategy. Never the less, the study findings provided an insight in to the risk management practices of the bank and how they affect the financial performance of the bank which could be generalized to other related institutions.

The researcher addressed the above limitations by considering all employees of the bank not necessarily only those who deal with the credit department. Again, the researcher visited multiple branches of Housing Finance Bank to increase on the sample size.

5.8 Recommendations for further studies

The study found out that credit risk management predicted 73.5% of the variance in the financial performance while other variable predicted the remainder of 26.5% of the variance in the financial performance. Other studies need to examine the extent to which an asset leasing affects the financial performance of commercial banks as it is one of the new products being promoted by the bank.

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APPENDIX 1: QUESTIONNAIRE

UGANDA CHRISTIAN UNIVERSITY

SCHOOL OF BUSINESS

I am Ampeire Josephine a student of Uganda Christian University conducting a research study on the “Credit risk management and financial performance of commercial banks using Housing finance bank as my case study in Mukono District. as a requirement for the award of Bachelor’s degree in Business Administration of Uganda Christian University.

I am kindly requesting you to assist me in this study by answering the following questions. I assure you that your information will be treated with utmost confidentiality.

SECTION A: Demographic Data Please tick (√) in the appropriate box as the most agreed answer to the following statements.

1. Gender of the respondent.

Male

Female

2. Age group of the respondent.

21-30 years

31-40 years

41-50 years

above 50 years

3. Marital status of the respondent.

Single

Married

Widow

Widower

Divorced

4. Education level of the respondent.

Primary level

Secondary level

Certificate level

Diploma level

Bachelor’s level

Masters Level

Others specify.....

5. For how long have you been working with this bank?

0 – 5 years 6-10 years 11-15 years Above 15 years

SECTION B: The effect of credit monitoring

Please indicate the extent to which you agree or disagree to the following statements by ticking the appropriate box using the scale given below.

Strongly agree	agree	Not sure	Disagree	Strongly disagree
5	4	3	2	1

Credit Monitoring	5	4	3	2	1
Housing Finance Bank boasts of a system which can monitor the condition of individual credit to customers					
Housing Finance Bank has a well-established process for monitoring approval of new credit to borrowers					
The credit monitoring information system is reliable in monitoring credit risk					
The credit recovery team has been effective in recovering none performing loans					
Senior management of Housing Finance Bank takes prompt action on identified credit risks					

SECTION C: Credit Assessment

Credit Assessment	5	4	3	2	1
The credit risk rating system provides adequate qualitative data necessary for decision making on credit to borrowers					
The credit risk rating system provides adequate quantitative data necessary for decision making on credit to borrowers					
Effort is undertaken to collect risk data on new credit products					
The credit application evaluations in HFB are effective in ensuring a good portfolio quality					
The bank information system can adequately identify concentrations of credit risk					
The bank information system is reliably in providing information for early remedial action on deteriorating or problem credit					
The bank information system is reliably in providing information on credit quality					

SECTION D:Credit policy

Credit policy	5	4	3	2	1
Credit is given to only loyal customers					
Credit is given according to customers their character, capacity, capital, collateral and conditions					
Customers who pay their debt within the prescribed time are given a discount					
Housing Finance Bank has a credit limit					
A late payment fine is applied if a customer fails to clear within the given period					

SECTION E: FINANCIAL PERFORMANCE

FINANCIAL PERFORMANCE	5	4	3	2	1
Sales revenue					
Housing Finance Bank achieved the targeted sales revenue for the first quarter in the last financial year					
Housing Finance Bank achieved the targeted sales revenue for the second quarter in the last financial year					
Housing Finance Bank achieved the targeted growth in its revenue for the third quarter in the last financial year					
Profitability					
Housing Finance Bank has achieved a higher growth in its profits from the previous financial year					

Housing Finance Bank has achieved a higher growth in its Return on Equity from the previous financial year					
The bank achieved a growth in Return on investment compared to previous year					
The Net profit margin of the bank also increased					

Thank you