

**LIQUIDITY RISK MANAGEMENT AND FINANCIAL PERFORMANCE OF COMMERCIAL
BANKS: A CASE OF ABSA BANK-MASINDI**

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**UGANDA CHRISTIAN
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DECLARATION

I **MUKULA MILLY HARRIET** hereby declare that this research report is my own effort with the guidance of my supervisor and has never been produced anywhere in Uganda Christian University or any other institution of higher learning for any award.

Signature.....

Date.....

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APPROVAL

This research thesis entitled “*Liquidity risk management and financial performance of commercial banks in Uganda*” has been done under my full supervision as a University Academic Supervisor and it is submitted to the Department of Business Administration for examination with my approval.

Signature



Date: **02/06/2024**

Mr. Otingole Paul
Academic supervisor

DEDICATION

I dedicate this piece of work with all sincerity to my beloved mother Mukula Betty, brothers and sisters for their support in my education career.

Great tribute goes to my University supervisor for the guidance and sense of direction during the writing of this dissertation. I also dedicate this Piece of work to all my friends for the moral support and encouragement.

Above all, I thank the Almighty God for guidance and provision towards completion of my research report.

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God bless you abundantly

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LIST OF ABBREVIATIONS AND ACRONYMS

BOU	:	Bank of Uganda
CRM	:	Credit Risk Management
CRM	:	Credit Risk Management
GDP	:	Gross Domestic Product
IRRM	:	Interest Rate Risk Management
NPL	:	Non-Performing Loans
ROA	:	Return on Asset
ROE	:	Return on Equity
USD	:	United States Dollar
ABSA	:	Amalgamated Banks of a South Africa

ABSTRACT

The financial performance of commercial banks has been averagely low in the past years. This is due to improper risk management strategies on different kind of Liquidity risks that faced commercial banks in Uganda. This causes the liquidation of some commercial banks for example CRANE bank. This main study sought to find the effect of Liquidity risk management on the financial performance of commercial banks in Uganda. The specific objectives were to assess the effect of capital adequacy, cash generation and credit policy on financial performance of the banks. The target population of the study was 40 and the sample size 36 respondents using the Slovene's formula composed by managers and executives. The study used a case study research design. The simple linear regression and multiple regression analysis were used to analyze data. The main instrument was questionnaire and key informant interview. Thus, the regression analysis showed that Liquidity risk management affects financial performance of commercial banks in Uganda. Specifically capital adequacy was regressed with financial performance, the result of the linear regression showed F-statistic 274.652 at $P < .05$; cash generation was regressed with financial performance, the result of the linear regression showed F-statistic 315.259 at $P < .05$; credit policy was regressed with financial performance, the result of the linear regression showed F-statistic 250.823 at $P < .05$; this means that both capital, cash and credit have significant effect on financial performance. The results of multiple regression analysis performed simultaneously on the variables showed that Liquidity risk management has a positive strong effect on financial performance, this means that effective Liquidity risk management will lead to a healthy financial performance of ABSA bank in Uganda. The study concluded that capital adequacy, cash generation and credit policy had statistically significant effect on Commercial banks financial performance in Uganda for the period under study and this explains 88.3 percent on the financial performance. The study recommended that given the current supervisory and regulatory policy frameworks of banks, risk managers should be more concerned with managing risk coming from financial operations and that future studies in this area be carried out for longer study periods and more independent variables, in order to bring out the true picture of the effect of Liquidity risk management on financial performance. This study advanced knowledge by linking the escalating financial performance of commercial banks in Uganda to disregard of stakeholder theory.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

Financial performance is one of the several functional areas of management but it is the center to the success of any business. Inefficient financial performance, combined with the uncertainty of the business environment often leads Business Enterprises into serious problems (Lakew & Rao, 2014). Financial performance looks at the long-term, short-term decisions and techniques which have the same objective of enabling an organization growth by ensuring that return on capital exceeds cost of capital, without making high Liquidity risks (Esokomi & Mutua, 2018). Financial performance of Commercial Banks enables decision-makers to judge the outcome of business plans and activities in objective monetary terms. It therefore facilitates measurement of an organization general financial health over a certain timeframe (Kariuki, 2014). The financial performance of Commercial Banks may be measured through; Return on Assets (ROA), Return on Investment (ROI) and Return on Equity (ROE). Therefore, if Commercial Banks manage well the risks related with liquidity, it would significantly improve on financial performance (Kinyua, 2013).

Effective and efficient liquidity risk management is essential in boosting the financial performance of Commercial Banks globally. It is the ability of a bank to fund increases in assets and meet obligations as they arise without incurring unnecessary losses (Esokomi & Mutua, 2018). Liquidity risk management is amongst the four fundamental decision areas of financial management that needs careful handling and planning for a Bank to be successful and profitable. The core relevancy of liquidity risk management is that it is strongly associated with the financial performance of Commercial Banks (Lyndon & Bingilar, 2016). Thus, this study will examine the relationship between liquidity risk management and financial performance of Commercial Banks in Uganda taking a case ABSA bank, Masindi branch.

1.1 Background to the study

The study background is will cover four perceptions, reflecting the historical, theoretical, conceptual, and contextual perspectives as presented below;

1.1.1 Historical background

Historically, Commercial Banks have existed through effective and efficient financial performance in order to maximize the wealth of shareholders through generation of adequate profits to cover for the expenses and future investment projects. In order to effectively and efficiently enhance their financial performance, Commercial Banks globally are now paying greater emphasis on proper management of their liquidity levels and positions. Being in a highly competitive financial sector, Commercial Banks are striving to enhance their financial performance through liquidity risk management (Mulinge, 2016).

In developed countries, Commercial Banks that have tried to have their financial performance goals achieved have considered adopting effective liquidity risk management practices (Keben & Maina, 2018). The liquidity risk management has been gradually considered among the major risks that can potentially interfere with the financial performance of Commercial Banks after the 2008 financial crisis (Osoro & Muturi, 2015). In Europe, the difference in monetary transmission in Commercial Banks has been affected negatively by the adverse turn in the economy since 2008, which has led to increased financial uncertainty of Commercial Banks (Ivo, 2014).

In Africa, effective and efficient financial performance of Commercial Banks is an essential measure to management as it is an outcome which has been achieved by Commercial Banks related to its authority and responsibility, not against the law, and conforming to the morale and ethic. High financial performance among Commercial Banks in Africa reflects management effectiveness and efficiency in making use of organization's resources. In Ghana, Commercial Banks are mandated to preserve an amount ranging between 10% of savings deposits and 20% in liquid accounts as well as reduce the proportion of liquidity which is idle closely to zero so that they comply with the world council of credit unions as a mechanism of managing risks of liquidity with a purpose of boosting the financial performance of Commercial Banks (Osoro & Muturi, 2015).

In Kenya, good financial performance of Commercial Banks is a critical aspect as it shows continuous growth in the financial sector and economic growth in the country (Okumu & Oyugi, 2016). In order to ensure that effective financial performance of Commercial Banks is realized in the republic of Kenya, Commercial Banks are requested to preserve 15% of its savings deposit and short-term liabilities in liquid assets as a requirement of liquidity risk management practice.

Similarly, Commercial Banks in Kenya improve on its financial performance Commercial Banks by not getting external borrowings in excess of 25% of its total assets unless the limit is waived by the authority (Osoro & Muturi, 2015).

On a national level, an analysis of the Uganda banking sector predicted that the sector was "unlikely to repeat recent historic levels of asset and profit growth" because of several recent dynamics in the market. The entrance of new banks such as, Kenya Commercial Bank, United Bank of Africa, FINCA BANK, ECOBANK, and Equity bank has increased the competitiveness in an already small market. The Uganda Banking sector report (African Alliance, 2009) said that despite the opportunities still available in the sector, factors beyond economics, such as competition, risk management will bear down on the profit margins of banks. This was because the percentage of the banking population in Uganda was very low and majority of people were multi-banked, multi-borrowed which in the long run causes bad debts as commitment to all the banks is hard to maintain "Loan and deposit growth also slowed as evidenced in first half of 2009 results (African Alliance report, 2009). Secondly, competition for deposits and political pressure on banks to lower their lending rates will likely result in a squeeze in margins over the medium term." The report cast a grey shadow on a sector that had, in recent years, seen sporadic growth both in numbers and market capitalization and asset value. There were currently twenty-two commercial banks, four credit institutions and three microfinance deposit taking institutions in Uganda. There are also foreign exchange bureaus, leasing finance institutions, and insurance companies. Many of the reasons advanced for the compressed growth are factors within and beyond-the global economic slump in the greater part of 2008/2009. The report said that in the last five years, 2003-2008, the Ugandan banking sector's total assets had grown by 20% compound to sh7.6 trillion (\$4.1bn) in a period in which Uganda's GDP growth averaged 8.3% annually. "We expected 2009/10 to be a more challenging year for Ugandan banks as a result of fewer lending opportunities, some deterioration in asset quality and margin pressure," said the report (African Alliance report, 2009).

Despite the fact that loan management contributes largely to financial performance, a number of other factors contribute to profitability of banks (Kosmidou, 2008). Cost structure and scale economics by ensuring the costs do not exceed the expected income to be generated, by use of the cost to income ratio, competitive conditions amongst other banks, internal factors such as market policy, and external factors such as economic environment also determine bank's profits. External

determinants literature suggests that the environment in which banks operate influences them like any firm. Therefore, the financial market structure, the economic condition, the legal and political environment all may influence the performance of banks. GDP (gross domestic product) which is the measure of the total economic activity within an economy is expected to have an effect on numerous factors related to demand and supply for loans and deposits. A Bank's size is also considered to be an important determinant of its performance. The reason is that large size may result in economies of scale that will reduce the cost of gathering and processing information (Kosmidou, 2008).

A significant proportion of Commercial Banks in Uganda has failed to improve on its financial performance due to lack of sufficient liquidity and poor liquidity risk management practices which has consequently led to loss of member's confidence. The poor financial performance of Commercial Banks in the country may also be attributed to poor investment decisions, poor risk management and illiquidity among Commercial Banks (Muheebwa, 2018). Thus, there was need for the current study to examine the relationship between liquidity risk management and financial performance of Commercial Banks in Kampala.

1.1.2 Theoretical background

The study will be guided by liquidity risk theory which was developed in 2007 by Acerbi and Scandolo. The theory states that financial institutions should define and identify the liquidity risk to which it is exposed for all legal entities, branches and its subsidiaries in the jurisdictions in which it is active such that there is positive financial performance (Akhtar, 2011). The theory argues that financial institutions should consider interactions between exposures to market liquidity risk and funding liquidity risk in order for financial performance to be realized. The theory iterates that deposit taking financial institutions are exposed to more funding liquidity risk which is more volatile compared to retail deposits. Under stress condition, financial institution members may demand more compensation for risk, shorter maturities period, or decline to extend financing (Akhtar, 2011).

According to liquidity risk theory, deposit taking Commercial Banks should recognize and consider the strong interactions between liquidity risk and the other types of risk to which it is exposed (Guglielmo, 2010). Various types of financial and operating risks, which include interest rate,

operational, credit, legal and reputational risks may influence bank's liquidity position. The liquidity risk can arise from weaknesses or failures in the management of other types of risks. Commercial Banks need to identify situations that can influence on public perceptions of its soundness (Akhtar, 2011). The theory addresses liquidity risk management practices as the key determinants of financial performance of a bank. It acknowledges that Commercial Banks need to identify better ways to invest their resources with the view of how easy it can be to convert them into cash whenever there is a financial need. The theory contends that a bank that puts its money in hard to convert resources is likely to face liquidity risk issues in case of need (Keben & Maina, 2018). In light with the current study, it is assumed from the theory of liquidity risk that ABSA bank has put all the necessary measures to ensure that there is effective liquidity risk management with a purpose of enhancing financial performance. The researcher believes that liquidity risk measures such capital adequacy, credit policy, and financial gap ratios among others are in place to boost the financial performance of Commercial Banks.

1.1.3 Conceptual background

“Financial performance” refers to the degree to which a financial institution or company financial health over a period of time is measured. Financial performance is also a financial action used in order to generate higher sales, profitability and worth of a business entity for its shareholders through managing its current and non-current assets, financing, equity, revenues and expenses (Ijaz & Naqvi, 2016). Financial performance reflects business sector outcomes and results that shows overall financial health of the sector over a specific period of time. It indicates that how well an entity is utilizing its resources to maximize the shareholders wealth and profitability (Ijaz & Naqvi, 2016). This study looked at the financial performance of Commercial Banks in terms of return on equity, return on assets, solvency, market growth, return on investment, and profit margin among others.

Liquidity risk refers to the risk of a financial institution being unable either to meet their obligations to depositors or to fund increases in assets as they fall due without incurring unacceptable costs or losses (Kumar & Yadav, 2013). The liquidity risk happens when the depositors collectively decide to withdraw more funds than the bank immediately has on hand, or when the borrowers fail to meet their financial obligation to the banks. Liquidity risk emerges in two cases, primarily, it arises symmetrically to the borrowers in their relationship with the banks, for instance when the banks

decide to terminate the loans but the borrowers cannot afford it. Furthermore, it arises in the context of the banks' relationships with their depositors, for instance, where the depositors decide to redeem their deposits but the banks cannot afford it. In practice, if a financial institution fails to balance gaps, liquidity risk might occur, followed by some undesirable consequences such as insolvency risk, government bailout risk, and reputation risk (Kumar & Yadav, 2013).

“Liquidity risk Management” is defined as the ability of financial institutions to enhance a balance between avoiding the problem of retaining excess liquid assets and at the same time ensuring that the financial institution does not run out of liquid assets to honour its financial commitments as they fall due (Dassie, 2018). The capability to retain assets that are easily transferrable is very much instrumental in enhancing stability in a financial system. Lack of adequate liquidity may result into failure of financial institutions to meet their obligations when the need arise which would render the entire financial system unstable (Dassie, 2018). The current study defined liquidity risk management as the capability of Commercial Banks in Uganda to avoid fall into liquidity risks by ensuring that there is; Capital adequacy, financial gap ratio, credit policy, and cash generation.

1.1.4 Contextual background

The Commercial Banks are experiencing financial performance problems emerging from a number of factors. The ineffective financial performance of Commercial Banks is usually due to ineffective management of liquidity, failure to recover the expected amount from the collateral security left by clients who fail to pay back and risk loans (Nalumu, 2011). Good liquidity risk management remains a fundamental aspect upon which most Commercial Banks depend while providing money related services to its clients as well as blistering financial performance. ABSA bank is financial institution that provide comparative services like banks and the greater part of them were shaped long time back before most commercial banks, yet their financial performance in relation with liquidity risk management is quite wanting compared to other financial institutions in the same sector (Gathurithu, 2011). Factors like poor liquidity risk management practices, poor financial management as well as capital levels affect ABSA bank as it struggles to serve its member's financial needs towards improving financial performance (Osoro & Muturi, 2015). Similarly, ABSA bank is prone to the liquidity shortage which makes it difficult to meet the financial obligations of their clients. In addition, the failure of ABSA Bank to boost its financial performance is due to lack

of sufficient liquidity and low liquidity risk management which consequently result into poor creditworthiness and loss of member's confidence. This poor financial performance may also be as a result of poor investment decisions, poor risk management and (Muheebwa, 2018). Thus, it is against this background that this study will examine the relationship between liquidity risk management and financial performance of Commercial Banks in Kampala.

1.2 Statement of the problem

Effective financial performance ensures that commercial bank's financial strategy is implemented. Good financial performance can be determined through effective liquidity risk management among Commercial Banks (Ochieng, 2018). Similarly, effective liquidity risk management helps to ensure bank's ability to meet its financial obligations as they fall due and reduces the probability of an adverse situation developing. Prudent liquidity risk management as part of the overall risk management enhances effective financial performance of Commercial Banks (Kumar & Yadav, 2013). The government of Uganda has put several regulations in place to ensure that there is effective liquidity risk management and financial performance of Commercial Banks, for instance the financial institutions ACT, 2019 postulates that Commercial Banks should lend to its clients not exceeding a predetermined proportion of the bank's total assets. The ACT also points out that the maximum amount any client may borrow from a bank should not exceed 10 percent or 25 percent of the institutional Capital (The Financial institutions ACT, 2019). Also, ABSA Bank has tried to ensure capital through maintaining minimum core capital requirement; it also ensures cash generation through members contributions and operates a sound credit policy by use of credit standards and credit terms in a bid to promote better financial performance.

Despite the remarkable efforts, ABSA bank has been unsuccessful in achieving effective and efficient financial performance (Ssekiziyivu, Mwesigwa, Joseph, & Nkote, 2017). The bank has registered a reduction in profitability/financial performance due to inadequate liquidity management techniques like ineffective credit policies in the bank. For instance, the profits for the last three years were as follows; Shs 100,974,000, Shs 80,941,000 and Shs 60,248,000 showing persistent decline in 2020/2021 to 17.8% in 2021/2022 respectively (ABSA Audit Reports, 2020 - 2022). This has consequently led to a reduction in a significant number of bank members (Kangume, 2019). Thus, if such performance trends continue to adhere to the operations of the Bank, it is most likely

that the Bank may as well collapse. Therefore, the current study seeks to examine the relationship between liquidity risk management and financial performance of Commercial Banks a case of ABSA Bank in Masindi.

1.3 Purpose of the study

The purpose of the study will be to examine the relationship between liquidity risk management and financial performance of Commercial Banks, a case of ABSA bank Masindi branch.

1.4 Objectives of the study

The study will be guided by the following specific objectives as indicated below.

1. To examine the relationship between capital adequacy and financial performance of ABSA bank.
2. To establish the relationship between cash generation and financial performance of ABSA bank.
3. To establish the relationship of credit policy on financial performance of ABSA bank.

1.5 Hypotheses

The study will be guided by the following hypotheses;

1. There is insignificant relationship between capital adequacy and financial performance of ABSA bank.
2. There is insignificant relationship between cash generation and financial performance of ABSA bank.
3. There is insignificant relationship of credit policy on financial performance of ABSA bank.

1.6 Scope of the study

1.6.1 Geographical scope

The study will be carried out at ABSA bank-Masindi branch to examine the relationship between liquidity risk management and financial performance since it is experiencing hardship in liquidity risk management (Jaramogi, 2019). Thus, this is imperative for the current study to get sufficient

literature and evidence that underpinned the liquidity risk management practices and financial performance ABSA bank.

1.6.2 Content scope

Generally, the study will examine the relationship between liquidity risk management and financial performance of ABSA bank. Specifically, the study will examine the relationship between capital adequacy and financial performance of ABSA bank, establish the relationship between cash generation and financial performance of ABSA bank., and examine the relationship between credit policy and financial performance of ABSA bank. The researcher will focus on this content scope because it will provide enough evidence in regards to liquidity risk management and financial performance of ABSA bank.

1.6.3 Time scope

The study will consider a period of 3 years that is from 2020 to 2022. The researcher will consider this period because it is when there is evidence that ABSA bank had poor financial performance at its peak as a result of poor Liquidity risk management.

1.7 Significance of the study

The results of the research may be expected to expand on the empirical review of liquidity profitability trade-off. The critical goals for business organizations are to increase profitability and shareholders' wealth. Financial specialists hold a view that focusing too much attention on profit-making could result to a weakened liquidity status of the business in question. The research may offer imperative information on factors of liquidity and how liquidity risk influences the financial performance of Commercial Banks and how to mitigate the risks.

The results of the study may also act as a basis for finance managers in Commercial Banks, insurance companies and other sectors to make investment decisions that would satisfy stakeholders' interests with regard to liquidity and financial performance.

The inferences of the study may also be useful to the students of finance and accounting in terms of empirical review as well as to those who wish to carry out further research on variables investigated, of not only Commercial Banks but also other organizations.

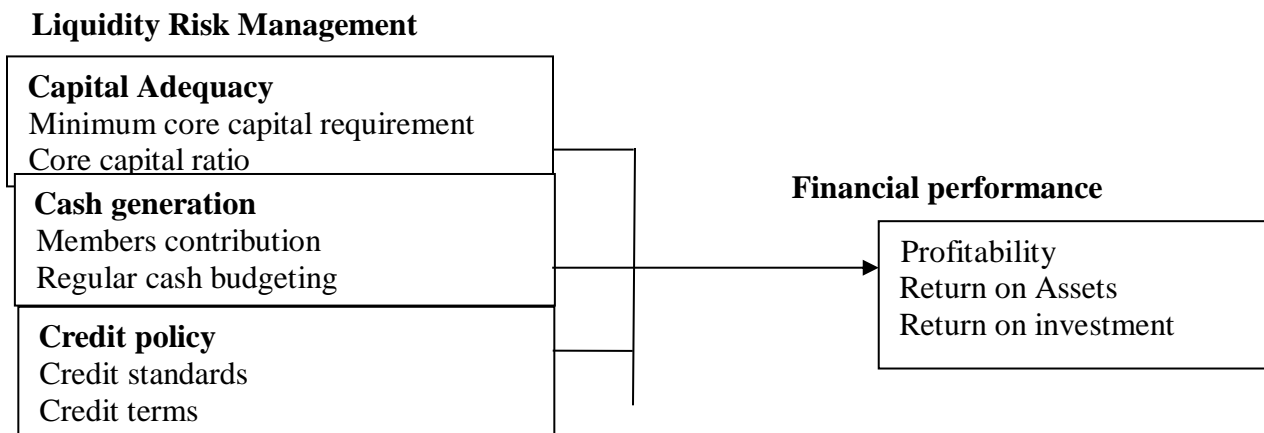
The study findings may be of great significance to bank’s management as they need to benchmark, plan and put in place appropriate banking practices that not only facilitate augmented financial performance but also satisfied public. The researcher hopes that the findings of the study offer great significance to commercial banks, not only in Uganda but globally.

The study findings may enable the government of the ministry of finance in the formulation of laws, policies and guidelines that should be followed by Commercial Banks in relation to liquidity risk management as this would enable them improve their financial performance.

1.8 Conceptual framework

The conceptual framework presents the association between liquidity risk management and financial performance.

Figure 1.1: Conceptual Framework



Source: Adopted from Kagunda (2018)

According to Figure 1: liquidity risk management has a positive relationship with financial performance. The dimensions of liquidity risk management are stated by three variables; capital adequacy, cash generation and credit policy. Similarly, the dimensions of financial performance are; profitability return on Assets and Return on investment. Kagunda (2018) holds that; capital adequacy, cash generation and credit policy directly affect levels of financial performance measured

by profitability return on Assets and Return on investment. However, unless controlled the relationship of liquidity risk management on financial performance may be influenced either positively or negatively by other factors not covered in this study. The conceptual framework shows that liquidity risk management has a direct relationship with financial performance of ABSA bank. For instance, when there is adequate capital, effective cash generation, and effective credit policies, there may be improved financial performance of ABSA bank and vice versa.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter will present the relevant literature reviewed for the study. Specifically, it contains the theoretical review, a review of literature on specific objectives, empirical studies, and literature gap.

2.1 Theoretical Review

This section enlightens on different theories that underpin the relationship between liquidity risk management and financial performance of Commercial Banks.

2.1.1 Liquidity risk theory

The liquidity risk theory was developed in 2007 by Acerbi and Scandolo. The theory states that a financial institution should define and identify the liquidity risk to which it is exposed for all legal entities, branches and its subsidiaries in the jurisdictions in which it is active such that there is positive financial performance (Akhtar, 2011).

The theory contends that financial institutions should consider interactions between exposures to market liquidity risk and funding liquidity risk in order for financial performance to be realized. The theory iterates that deposit taking financial institutions are exposed to more funding liquidity risk which is more volatile compared to retail deposits. Under stress condition, financial institution members may demand more compensation for risk, shorter maturities period, or decline to extend financing (Akhtar, 2011).

Guglielmo (2010) posts that in light with liquidity risk theory, deposit taking Commercial Banks should recognize and consider the strong interactions between liquidity risk and the other types of risk to which it is exposed with a view of enhancing financial performance. Various types of financial and operating risks, which include interest rate, operational, credit, legal and reputational risks may influence bank's liquidity position. The liquidity risk can arise from weaknesses or failures in the management of other types of risks. Deposit taking Commercial Banks need to identify situations that can influence on public perceptions of its soundness (Akhtar, 2011).

According to Keben and Maina (2018) the theory addresses liquidity risk management practices as the key determinants of financial performance of a Deposit taking SACCO. It acknowledges that Commercial Banks need to identify better ways to invest their resources with the view of how easy it can be to convert them into cash whenever there is a financial need. The theory contends that a SACCO that puts its money in hard to convert resources is likely to face liquidity risk issues in case of need (Keben & Maina, 2018).

The theory of liquidity risk was applicable to the current study since it provides a foundation of conceptualized relationship between liquidity risk management and financial performance of Commercial Banks. However, the theory does not provide a direct relationship between the liquidity risk management dimensions and components of financial performance which were conceptualized in the current study, thus the need for the current study.

2.1.2 Anticipated Income Theory

The Anticipated income theory was developed by Prochanow in 1944 on the basis of the practice of extending term loans by the US commercial banks. The theory states that irrespective of the nature and feature of a borrower's business, the bank plans the liquidation of the term-loan from the expected income of the borrower. A term-loan is for a period exceeding one year and extending to a period less than five years (Elsharif, 2016).

The Anticipated income theory posts that in order to manage liquidity risks and improve financial performance very well, Commercial Banks should estimate liquidity and meet it if scheduled payments made by creditors are based on the income that they make as a means of improving financial performance (Woodford, 2011). The theory emphasizes on relating loan repayment to income rather than relying heavily on collaterals that were made by Commercial Banks during the loan application to avoid interference with the financial performance and availability of liquidity (Woodford, 2011).

Crowe (2009) opines that the theory on anticipated income entails the ideas and equates intrinsic soundness of term loans with appropriate repayment schedules adapted to the anticipated income or cash flow of the borrower. As a result, the credit demands of business are well accommodated under this system of banking policy, and the use of loan commitments is freely pursued which

consequently expounds the financial performance of Commercial Banks (Crowe, 2009). The theory also argues that Commercial Banks should look at scheduled loan payments from their customers in terms of the income that they make as opposed to the collaterals they put when applying for the loans and overdrafts since this enhances availability of adequate liquidity and expands on the financial performance of Commercial Banks (Mulinge, 2016).

Therefore, this theory is applicable to the current study as it explains how the management of cash flow or liquidity is associated with the financial performance of Commercial Banks. This is due to the fact that the scheduled loan payments of customers act as cash flows of Commercial Banks which when adequately managed would result into improved financial performance of these Commercial Banks.

2.2 Conceptual review

This section reviews concepts on liquidity risk management and financial performance.

2.2.1 Financial Performance

Financial performance refers to the degree to which a financial institution or company financial health over a period of time is measured. Financial performance is also a financial action used in order to generate higher sales, profitability and worth of a business entity for its shareholders through managing its current and non-current assets, financing, equity, revenues and expenses (Ijaz & Naqvi, 2016).

Financial performance reflects business sector outcomes and results that shows overall financial health of the sector over a specific period of time. It indicates that how well an entity is utilizing its resources to maximize the shareholders' wealth and profitability (Ijaz & Naqvi, 2016). Financial performance is also a general measure of financial health of Commercial Banks over a given period of time. For Commercial Banks to sustain business operations and obtain funds for expansion and growth it must earn sufficient profits (Kinyua, 2013).

As a significant tool in planning, financial performance can be used to determine how well a bank can use its assets to generate revenues. Financial performance determines how well a Sacco is generating value for its member's deposits and share capital. Financial performance of bank's can be determined using various financial mixes such as ROA, ROE, earnings per share and profit after

tax (Mwania, 2017). The current study broadly looked at financial performance of Commercial Banks in terms of ROE, ROA, solvency, market growth, return on investment, level of operating expenses, and profit margin.

2.2.2 Liquidity risk management

Liquidity risk Management refers to the ability of financial institutions to enhance a balance between avoiding the problem of retaining excess liquid assets and at the same time ensuring that the financial institution does not run out of liquid assets to honour its financial commitments as they fall due (Dassie, 2018). The capability to retain assets that are easily transferrable is very much instrumental in enhancing stability in a financial system. Lack of adequate liquidity may result into failure of financial institutions to meet their obligations when the need arise which would render the entire financial system unstable (Dassie, 2018).

The concept of liquidity risk management has received serious attention all over the world particularly with the current financial situations and the state of the world economy. The concern of financial institutions including Saving and Credit Cooperatives (Commercial Banks) all over the world is to devise a strategy of managing their risks associated with liquidity in order to meet their obligations as they fall due and increase profitability and shareholder's wealth (Mwashi & Miroga, 2018).

Sound liquidity risk management is among the top priorities of a financial institution's assets as well as liabilities management. In relation with Commercial Banks' liquidity or the ability to fund increases in assets and meet obligations as they come due, it is critical to the ongoing viability of the Commercial Banks. Meanwhile, since there is a close association between liquidity and solvency, sound liquidity risk management decreases on the likelihood of Commercial Banks becoming insolvent, thus reducing the chances of bankruptcies as well as disruptive runs (Omino, 2014). Liquidity risk management is an important aspect of financial management as well as key determinant of financial performance of Commercial Banks. The main purpose of liquidity risk management is to maintain an optimal balance between current assets and current liabilities between each of the working capital components in Commercial Banks (Loutskina, 2011). According to Campello, Giambona, Graham and Harvey (2011) liquidity risk management is crucial in all financial institutions such as Banks, Micro-finance institutions (MFIs) and Commercial Banks to

ensure that customer withdrawals are met, compensate for fluctuations with in the balance sheet, as well as provide funds for financial growth. Effective liquidity risk management necessitates Commercial Banks to plan as well as estimate for liquidity demands over various periods and to consider how funding requirements may evolve under various scenarios, including adverse conditions. Commercial Banks are required to preserve adequate levels of cash, liquid assets, and prospective borrowing lines to meet expected and contingent liquidity demands (Campello et al., 2011). Liquidity risk management is an important component for the safe and sound financial performance of Commercial Banks. Sound liquidity risk management involves carefully managing assets and liabilities, both as to cash flow and concentration, to ensure that cash inflows have an appropriate relationship to approaching cash outflows since this will enhance good financial management (Campello et al., 2011).

2.3 Empirical Literature Review

This section reviews literature in relation with the specific objectives of the study.

2.3.1 Capital Adequacy and Financial Performance

Capital adequacy is defined as a quantum of fund, which a financial institution should have a plan to maintain in order to conduct its business in a prudent manner (Amahalu, Abiahu, Okika, & Obi, 2016). Bank's capital therefore depends on a number of factors such as the bank's size, the level of risk involved in its operations, the market forces, the lending policy, its management capabilities, its portfolio (assets and cash). In addition, capital adequacy is observed as a percentage ratio of a bank's primary capital to its loan and investments used as a measure of its financial strength and stability (Amahalu et al., 2016).

Capital adequacy as a concept has been in existence prior to the era of capital regulation in the banking industry and there exist several literatures on the determination of capital adequacy ratio (CAR) as well as its determinants. The concept appeared in the middle of the 1970's because of the expansion of lending activities in banks without any parallel increase in its capital, since capital ratio was measured by total capital divided by total assets (Abba, Zachariah, & Inyang, 2013). Commercial Banks need adequate capital since it is a significant indicator of safety and stability for depository institutions because they view capital as a guard or cushion for absorbing losses. The

purpose of Capital adequacy is to facilitate financial stability and as a result, the role of an individual institution in and internationally is financial stability since it increases the level of risks in the activities of banks because of the system is the central issue (Abba et al., 2013).

Adequate capital ought to be available as it supports the continued functioning of the bank; in terms of offering its mandated services to the public. Capital acts as a cushion during undesirable financial conditions (Dang, 2011). The capital of a bank creates liquidity for the bank as deposits are delicate and vulnerable to bank runs. In spite of capital being an imperative source of liquidity, it has limitations as it creates low demand for liability, which encompasses the cheapest sources to adequate capital to sustain bank operations. Capital adequacy ratio (CAR) is adopted to evaluate the level of capital available in a bank (Dang, 2011).

Capital adequacy provides a cover against losses not covered by current bank earnings and to protect depositors and other creditors against loss in the event of liquidation (Tesfai, 2015). Functionally, adequate capital was regarded as the amount of capital that can effectively discharge the primary capital function of preventing bank failure by absorbing losses (Tesfai, 2015). Malimi (2017) studied risk in banking and found that increase in adequate capital tend to lower banking risks and hence improve the asset quality and bank growth. He argued that capital adequacy serves as a tool to control excessive risk taking by banks and to prevent them from being insolvent through recapitalization. In addition, Malimi (2017) found that enough available capital supported the continued operation of Commercial Banks and other banking institutions such as commercial banks.

According to Murkomen (2016) core capital to total assets ratio is used to determine the leverage level of a financial institution. A declining trend in this ratio may predict future capital adequacy problems and upsurge in risk exposure. The increased regulations on capital requirements compels banks to change how they operate internally in terms of strong corporate governance, risk assessment methods, credit evaluation procedures, employment of more qualified staffs, and enhanced internal control procedures. Financial institutions with huge capital are able to undertake profitable ventures, expand operations and undertake calculated risks. However, banks with little capital will invest large amounts of money in government securities which are less risky instead of lending. Thus, capital adequacy is considered to have a positive relationship with efficiency

(Murkomen, 2016). The scholar further contended that adequate capital in Commercial Banks protects depositors and other creditors against losses (Murkomen, 2016).

Murkomen (2016) supported the rationale for increasing capital adequacy requirements in that financial institutions with adequate capital requirements or guidelines ensure that there is enough capital to meet the demands from the borrower hence leading to enhanced efficiency in financial institutions like Commercial Banks. However, capital requirement ratios may affect productivity of financial institutions in many ways. The first case is through bank lending, for example, Kopecky and VanHoose (2006) argued that capital requirement ratios affect the quantity and the quality of the loans made. They argued that when regulatory capital requirement ratios are introduced to a financial institution for the first time, there will be a reduction in the bank's loan book. Nevertheless, the quality of the loan book may either increase or deteriorate.

According to Mugwang (2014) Central Bank of Kenya (CBK) increased the minimum capital requirement, aimed at strengthening institutional structures and improving resilience of the banking industry in respect to the international standards. Mugwang (2014) argued that every bank was expected to maintain a minimum core capital of at least KES 1 billion (USD 12 million) by 2012 with a purpose of maintaining adequate capital. This justifies the need for the current study in Kampala. The study by Mugwang (2014) in Kenya also established that there was growth in capital compared with the assets of the Commercial Banks.

According to Hakenes and Schnabel (2010) tighter capital requirements increase the risk of individual loans and may also increase financial institution's probability of default because they relax the competition for loans and thus destabilizing the banking sector. The scholars contended in their study that Commercial Banks maintained a minimum sufficient capital with a purpose of meeting the demand of its customers (Hakenes & Schnabel, 2010). Thus, this justified the need for the study in ABSA bank in Masindi.

Naceur and Kandil (2006) studied the impact of capital requirement on the profitability of commercial banks in Egypt. The study focused on capital requirement regulations set by the Central Bank of Egypt and the Basle committee. The study found that high capital requirement increased the cost of intermediation. On the other hand, the capital requirements increased the banks' size leading to increased bank activity and therefore improved performance. The study concluded that

capital requirement regulation improved performance. Thus, need for the study in ABSA bank in Masindi.

Saona (2010) investigated the relationship between the capital structure of financial institutions in the United States and performance. It established that there existed a negative relationship between the capital ratio and the profitability for the banking industry. Similarly, Berger, Bouwman, Kick, & Schaeck (2012) found that core capital ratio helps small financial institutions to increase their probability of survival and market share at all times (during banking crises, market crises, and normal times).

A study by Barus, Muturi, Kibati, and Koima (2017) in Kenya found that; core capital to total asset requirement improved the financial performance of the SACCO, institutional capital to total asset requirement improved the financial performance of the SACCO, the minimum core capital requirement of Kshs. 10 million improved the financial performance of the Sacco and the core capital to total deposits requirement also improved the financial performance of the SACCO in Kenya (Barus et al., 2017). This justifies the need for the current study in ABSA bank in Masindi.

A core capital for deposit taking Commercial Banks improves on the efficiency and effectiveness of how Commercial Banks conduct their deposit taking business. The improved effectiveness will result into better productivity thus improved financial performance which is a key measure of productivity in monetary terms (Saidi, 2016). The current study will also find out whether core capital for Commercial Banks in Kampala has improved on their efficiency and effectiveness. Kahuthu, Muturi and Kiweu (2015) studied the effect of core capital and membership growth on performance of Commercial Banks and revealed that capital requirements and membership growth positively affected financial performance. Thus, this justified the need for the current study.

A study by Odunga, Nyangweso, Carter and Mwarumba (2013) investigated the effect of capital adequacy on the financial performance of commercial banks in Kenya. The study found that capital adequacy had no significant impact on bank performance. The study recommended that banks shift their concentration from increasing capital levels to credit risk management (Odunga et al., 2013). However, the above study targeted commercial banks yet the current study will be based on Commercial Banks in Kampala. In addition, the above scholars were investigating the effect of capital adequacy on the financial performance of commercial banks yet the current study examined

the relationship between capital adequacy and financial performance of Commercial Banks using correlation analysis.

Njoroge (2016) studied the effect of firm characteristics on the financial performance of Commercial Banks based on profitability level. The scholar employed 36 Commercial Banks registered with the Ministry of Cooperatives in Murang'a County that were operational between 2011 and 2015. The results established a positive relationship between financial performance and capital adequacy. Thus, this determines the need for the current study to examine whether capital adequacy has a positive significant association with financial performance of Commercial Banks.

2.3.2 Cash Generation and Financial Performance of Commercial Banks

According to Njeru, Njeru, Member, and Tirimba (2015) cash generation involves planning and controlling cash flows within the financial institutions and cash balances held at a point in time to foster effective liquidity management and improve on the financial performance. Efficient cash generation mechanism involves the determination of the optimal cash to hold by considering the trade-off between the opportunity cost of holding too much cash and the trading cost of holding too little. Efficient cash generation mechanism improves on the profitability of financial institutions and market value furthers the significance of efficient cash generation practices in improving financial performance (Njeru et al., 2015).

When the cash inflows or deposits in a SACCO are higher than the withdraws or cash outflow there is a net positive cash position whereas when the cash withdraws from a SACCO are higher than the cash deposits, then the cash position is negative (Owino, 2011). Therefore, when the cash flow is positive, the SACCO has a healthy financial position and can be said to be financially stable since it will be able to meet its cash requirements easily (Ombado, 2010). However, a negative cash flow position leads to instability with the SACCO not being able to meet its obligations and core responsibility of issuing loans to members in good time (Ombado, 2010). A study by Kotut (2003) established that regular cash budgeting within Commercial Banks is helpful during the process of planning for shortage and surplus of cash and has a positive and significant effect on the financial performance.

In a study by Njeru et al. (2015) it was revealed that the monthly members' contribution was low and this raised a great concern on credit availability to the borrowers since members' contribution provides direct cash in the SACCO. The study suggested that management needed to find ways to encourage regular contribution of the members since it would affect the financial performance of the SACCO. Njeru et al. (2015) also contended that proper cash budgets enhanced competitiveness of Commercial Banks. In a study by Kakaire (2019) cash planning was revealed to help Commercial Banks to maintain an optimal cash balance and this helped to boost financial performance. It can minimize the positive items and maximize the negative items that affect the cash cycle. Besides that, cash planning also helps in spotting potential cash flow gaps. In particular, cash planning serves as a reference tool for seeking funds from bankers, and in enhancing effectiveness. Proper cash planning can prevent a SACCO from bankruptcy, and therefore, profitability and sustainability of the SACCO are ensured (Kakaire, 2019). Thus, justified the need for the current study in Kampala.

Njeru et al. (2015) investigated the effect of cash generation on financial performance of deposit taking Commercial Banks in Mount Kenya region. They concluded that cash generation is critical as a liquidity management tool in deposit taking SACCO's. Hence, they concluded that cash generation policy should be put in place to attain optimal financial performance of deposit taking Commercial Banks. This justified the need for the study in Kampala to ascertain whether there is cash generation policy in place to improve on financial performance of Commercial Banks. The loans given out by SACCO are financed by shares, deposits and external borrowing.

Adequate protection of loans must be given to all assets against losses as a safeguard to deposits. Adequate provisioning should be considered as a primary source of loans protection (Rehema, 2013). Poor asset quality leads to high levels of non-performing loans leading to liquidity shortages. In addition, it will lead to inflated asset values and overstated earnings. Since member deposits aren't protected severe liquidity shortage is bound to occur because of lack of enough funds to meet the daily withdrawal demand. Practices like adequate loan provisioning, implementation of sound loan appraisal procedures, and effective recovery mechanisms can be employed to manage the loan asset and restore an optimal balance in liquidity (Rehema, 2013). This justified the need for the current study in commercial banks a case of ABSA Masindi branch. According to Mwangi (2018) for Commercial Banks to effectively generate cash and manage demand for loans, they should be able to mobilize members deposit to be higher than the demand for credit. This reduces on the huge

appetite of Commercial Banks to borrow externally to fund the borrowing needs of the members. When demand for credit exceeds the supply (through) savings, Commercial Banks tend to borrow externally, in order to bridge this gap. The current study ascertained that for Commercial Banks in Kampala to generate cash and manage demand for loans, they should be able to mobilize members deposit to be higher than the demand for credit (Mwangi, 2018).

Loan repayment is the obligation of members to ensure that Commercial Banks have adequate cash to meet new Members loan obligation. The researchers noted that there are huge credit risks encountered among different Commercial Banks, thus there should be need of SACCO management to ensure there are improved policy on credit policy and this will reduce liquidity risk and improve financial performance of the Commercial Banks (Duncan, Njeru, Member, & Tirimba, 2015). On the other hand, Duncan et al. (2015) also noted that appropriate cash control in Commercial Banks reduced on the liabilities thus increasing on the financial performance. Thus, need for the current study.

A study by Olando, Mbewa, and Jagongo (2012) found out that returns on loan investment had a positive significant relationship with growth of Commercial Banks' wealth. The researchers revealed that this was attributable to the fact that loans are the core investment for Commercial Banks. Similarly, the authors found out that cash generation through liquid investments showed a strong positive significant relationship with growth of Commercial Banks' wealth. This was attributed to the fact that liquid investments could be converted into cash easily to meet short-term obligations, thus this finances liquidity gaps hence enhancing stability of Commercial Banks (Olando et al., 2012). This justified the need for the current study.

Odhiambo (2013) studied the relationship between cash generation and financial performance of deposit taking savings and credit co-operative societies licensed by SACCO societies regulatory authority in Nairobi County. The study found out that cash generation had a statistically significant relationship with the financial performance of deposit taking savings and credit cooperative societies licensed by SACCO. The findings indicated that efficient cash inflows or generation leads to better financial performance of Commercial Banks. However, the above scholar did not show empirically whether the relationship between cash generation and financial performance of Commercial Banks was significant or not, thus this study closed this methodological gap.

2.3.3 Credit Policy and Financial Performance of Commercial Banks

Credit policy is fundamental in the management of accounts receivables of Commercial Banks. The major rationale of the policy is to ensure consistency in operation and adherence to uniform sound practices of Commercial Banks. Policies should be the same for all and are general rules designed to guide each decision, simplifying and listening to each decision-making process (Maiti, 2015). A good credit policy involves effective initiation, analysis, credit monitoring and evaluation. The credit policy of Commercial Banks influences asset quality, management quality, earnings and liquidity of Commercial Banks either positively or negatively depending on how well the policies are made and implemented (Maiti, 2015).

The credit policy gives a framework that acts as guideline when dispensing credit decisions which are some aspects and arrangements that an institution can set. This framework is fundamental principles and procedures for getting money back from clients, bearing in mind that not all borrowers will pay back since some of them will default since some customers pay while others don't pay back their loans (Moti, 2012).

Wanja (2013) argues that effective credit policy is a requirement for any SACCO in achieving high financial performance. The achievement of high profitability of Commercial Banks greatly depend on the effectiveness of their credit policies as they generate most of their income from interest earned on loan disbursed to individuals and small and medium enterprises (Wanja, 2013). Thus, the current study ascertains that for the financial performance of Commercial Banks to be increased, there would be effective credit policy as a requirement.

Ochieng (2013) advocated for an optimum credit policy, which would help to cut through weaknesses of both tight and loose credit standards so that the regulated credit unions can make profits. This is a criterion used to decide the type of client to whom loans should be extended to, to reduce chances of loan loss. Credit standards are based on the individual credit application by considering character assessment, capacity, condition, collateral, and security capital (Ochieng, 2013). The current study established that credit standards set by Commercial Banks in Kampala are based on capacity, condition, collateral, and security capital of the loan applicant.

According to Maiti (2015) a Credit term refers to contractual stipulation under which a financial institution grants credit to its clients. These credit terms give the credit period and the credit limit to the customers. The Commercial Banks should make credit terms more attractive to act as an incentive to clients without incurring unnecessary high levels of bad debts and increasing institutions risk. Credit terms usually indicate the credit period, interest rate, method of calculating interest and frequency of loan installments (Maiti, 2015). This study will investigate whether credit terms given by Kampala Commercial Banks to its customers are attractive to act as an incentive to clients without incurring unnecessary high levels of bad debts.

Credit collection policy is required by Commercial Banks since some customers do not pay the loan in time hence collection efforts aim at accelerating collections to avoid bad debts. Collection efforts are directed at accelerating recovery from slow payers and decreases bad debt losses and increases financial performance of Commercial Banks through increased profitability (Dawkin, 2010). This study assesses that credit collection policy of Commercial Banks is directed at accelerating recovery from slow payers and reduce on bad debts losses.

According to Atekit (2016) credit standards, credit terms policy and the collection effort policy were used in deposit taking Commercial Banks in Moroto to manage loans/debts. The results indicated that the credit policies significantly increase return on assets of Commercial Banks resulting into increased profitability. The study concluded that there existed a significant strong and positive relationship between credit Standards and ROA which led to significant increase in financial performance, improve return on assets and that application of credit terms policy significantly increased ROA of Commercial Banks hence decreasing loan to assets ratio that led to increase in financial performance (Atekit, 2016). This justified the need for the current study in Uganda.

A study by Ajiambo (2013) examined the effect of credit policy on financial performance of Commercial Banks in Nairobi County in Kenya. The study used regression analysis and found out that there was a positive and significant effect of credit policy on financial performance (Net profit). Thus, the current study also examined that credit policy of Commercial Banks in Kampala has a positive and significant effect on the financial performance when regression analysis was employed.

2.4 Literature Gap

Generally, the above literature reviewed presents studies that were carried out in other countries other than Uganda. Majority of the literature reviewed in light with liquidity risk management and financial performance of Commercial Banks were from Kenya thus creating a geographical gap. In addition, some studies on liquidity risk management and financial performance were conducted in commercial banks other than Commercial Banks thus creating a contextual gap. Therefore, to close the above gaps, the current study focused only on Commercial Banks in Uganda particularly ABSA bank in Masindi and assessed how liquidity risk management is associated with financial performance using empirical tests.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter covered the methods that were used in data collection. It covered the research design, study population, sample size determination, sampling technique, data collection methods and tools, validity and reliability of the instruments, procedure for data collection, data analysis, ethical considerations, and study limitations.

3.1 Research design

This study adopted a case study design which is defined as an empirical inquiry that investigates a contemporary phenomenon in depth and within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident (Yin, 2009 p.18). Case studies are suitable when there is need to understand the interaction between a specific context and a phenomenon (Jacobsen, 2002). A case study design focused on only one specific instance of the phenomenon to be studied or on only a handful of instances in order to study a phenomenon in depth. Each instance was studied in its own specific context, and in detail. Thus, applied in the context of this study, the case study design was used because in this study not all commercial banks are used but only one, that is ABSA Bank-Masindi.

The study adopted qualitative and quantitative research approaches. Quantitative methods are an objective approach to data collection used to quantify the problem by way of generating numerical data or data that can be transformed into statistics while qualitative methods are a subjective approach to data collected used to expressed texts or symbols (Amin, 2005). In this study, the quantitative approach was used because it allowed the researcher to solicit more information that was numerically quantified while the qualitative approach was used because it allowed the researcher to solicit in-depth information that was expressed in textual format (Mugenda & Mugenda, 1999).

3.2 Study Population

The study population involved a total of all the individuals who have certain characteristics and are of interest to a researcher (Banerjee & Chaudhury, 2010). The population was 40 respondents from management, Finance, Customer care, banking and credit

3.3 Sample size determination

Kombo and Tromp (2009) and Kothari (2004) described a sample as a collection of units chosen from the universe to represent it. A study that collects too much data is wasteful. Therefore, before collecting data, it is essential to determine the sample size requirements of a study (Gerstman, 2009). The study considered a sample size of Thirty-six (36) respondents. However, this sample size was determined by Sloven’s formula (1960) according to Amin (2005) as below;

$$n = \frac{N}{1 + N(e)^2}$$

$$\text{Therefore, } n = \frac{40}{1+40(0.05)^2}$$

$$= \frac{40}{1+0.1} = \frac{40}{1.1} = 36 \text{ respondents}$$

Table 1: Target population, sample size and sampling technique

Departments	Population	Sample size	Sampling Technique
Management	4	4	Purposive
Finance	4	4	Purposive
Customer care	4	4	Purposive
Banking	5	5	Purposive
Credit	23	19	Simple random
Total	40	36	

Source: field data (ABSA Human Resource Department, 2023)

3.4 Sampling Techniques

The study used both probability and non-probability sampling methods due to the complexity of the sampling units.

Purposive sampling: The study used purposive sampling technique. Amin (2005) defined purposive sampling as the process where the researcher selects a sample based on his or her experience or knowledge of the group to be sampled. This technique was used to sample staff from management, finance, customer care and banking departments because they were considered to be key informants with experience and knowledge about study variables in the research topic. It was also used because it has an assurance of quality responses and meets the specific objective of its application.

Simple random sampling: Simple random sampling technique was also used during the study. Siegel, (2004) defined simple random sampling as a procedure that ensures that each element in the population will have an equal chance of being included in the sample. It's applicable on large population with homogeneous attributes. The technique was used to sample staff from credit department in the study. It was used because it is easy to implement with random sampling, requires minimal knowledge of the population needed and there is probability of achieving a representative sample. It also meets assumptions of many statistical procedures.

3.5 Data Collection Methods

The study was guided by questionnaire survey method, interview method, and document review method.

3.5.1 Questionnaire survey method

The questionnaire survey method was important in providing information which is uniform and assures the comparability of data (Mathiyazhagan & Nandan, 2010). This method necessitated fewer interviewing skills compared to other methods since the data collection tools used involve questions which are structured or closed ended. In light with the current study, this method was appropriate in collecting data from a big number of respondents since it takes less time and less interviewing skills.

3.6 Data collection instruments

This study employed a structured questionnaire as explained in the subsequent sections below;

3.6.1 Structured Questionnaire

A self-administered structured questionnaire was the principal tool of the study. A questionnaire contained closed-ended categories of questions intended to collect quantitative data from respondents. The questionnaire that was generated by the researcher based on the study objectives and the dimensions of the independent and dependent variables. The structured questionnaire was deemed appropriate for large samples as information can be conveniently obtained hence increasing validity, offering respondents a choice from a given set of alternatives and allows for change of responses where necessary (Kulshreshtha, 2013). The questionnaire was designed to gather information from bank staff members. The questionnaire contained information related to demographic features of respondents, statements on the dimensions of the independent and dependent variable. The statements on the variables in the questionnaire was measured on a 5-point likert scale ranging from 1 to 5

3.7 Validity and Reliability

This section presented an overview on the validity and reliability of the research instruments used in the study.

3.7.1 Validity

According to Bashir (2008) validity in qualitative research means the extent to which data is plausible, credible and trustworthy. In this study the researcher will use Content Validity index through the use of ratings from experts to ensure validity of the instruments. The following formula of content validity index will be used and all items scoring above 0.70 will be considered to be valid as recommended by George and Mallery (2003).

$$CVI = \frac{\text{No. of items regarded relevant by expert}}{\text{Total Number of items}}$$

3.7.2 Reliability

Hsiao (2014) defined reliability as consistency and uniformity of responses of respondents. In order to ensure the degree to which questionnaires produce consistent results if used under the same conditions, they were pilot tested on 20 respondents from centenary bank who were not part of the

sample and the results subjected to Cronbach alpha reliability. The questionnaires were given to 20 respondents to fill in and were collected for analysis. Raw data from these questionnaires were entered into a statistical program known as the Statistical Package for Social Scientists (SPSS). Using this program, the reliability of the instrument was measured using Cronbach's Alpha coefficients for each variable. George and Mallery (2003) argues that a 0.7 alpha coefficient is an acceptable reliability coefficient.

3.8 Procedure for data collection

The researcher obtained an introductory letter from Uganda Christian University which was presented to the management of ABSA Bank that the researcher is a student pursuing a bachelor's degree in Business Administration carrying out a research study entitled "*Liquidity risk management and financial performance*". After presenting the introduction letter and given a go ahead, the researcher was in position to conduct both structured and semi-structured interviews with the respondents.

3.9 Data Analysis and presentation

Data analysis is a process of inspecting, cleansing, transforming, and modelling data with the goal of discovering useful information, suggesting conclusions, and supporting decision-making (Herrman, 2009). Both qualitative and quantitative data was analyzed as shown below;

3.9.1 Qualitative data analysis

Qualitative data analysis involved both thematic and content analysis and was based on how the findings related to the research questions. Content analysis was used to edit qualitative data and reorganized it into meaningful shorter sentences. Thematic analysis was used to organize data into themes and codes were identified (Sekaran, 2003). After data collection, information of same category was assembled together and their similarity with the quantitative data created. Qualitative data was interpreted by composing explanations or descriptions from the information. The qualitative data was illustrated and substantiated by quotation or descriptions

3.9.2 Quantitative data analysis

Quantitative data from structured questionnaires was coded and entered in SPSS version 21 for statistical analysis. The quantitative analysis involved descriptive statistics and inferential analysis. Descriptive statistics/analysis entailed frequency tables and determination of measures of central tendency mainly means and standard deviations on the variable dimensions. Correlation was used to determine the relationship between the study variables in order to provide answers to the study hypotheses. The researcher also used a simple linear regression model to examine the effect of one variable on the other at the level of significance of 0.05.

3.10 Ethical Considerations

The researcher sought consent of the respondents. This was done by designing a consent form for respondents. Respondents participated in the study on their own accord after being informed on the purpose of the study. While conducting the study, the researcher ensured high level of confidentiality while collecting the data and after. The researcher also observed the environment and all intellectual property.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND INTERPRETATION OF RESULTS

4.0 Introduction

This chapter presents, analyzes, and interprets the results of data collected from the field survey. The Data analysis and interpretation was based on the research objectives. Below are the data presentations and analysis of research findings.

4.1 Respondent Rate.

The researcher administered a total of 36 copies questionnaires administered and they were returned fully completed constituting a response rate of 100%. However, interviews were also held. The score therefore suggests an overall response rate of 100% which according to Amin (2015) is a good representation of a survey population in a given study as it's above a response rate of 70%.

4.2 Demographic Characteristics of Respondents

The demographic profiles of the respondents surveyed were based on Age, gender, level of education, area of study and years of working experience. Table 2 presents the findings of the respondents' profile:

Table 2. Showing the Age Characteristic of Respondents

Age of the respondents	Frequency	Percent	Cumulative Percent
18– 25 years	6	16.6	16.6
26 – 35 years	8	22.2	38.8
36 – 45 years	13	36.1	74.9
Above 45 years	9	25.0	100.0
Total	36	100.0	

Source: field data, 2024

The results in table above show that 13 respondents which is the 36.1% of the total respondents are aged between 36 - 45 years; 9 respondents which represented 25.0% of the total respondents were aged above 45 years; 8 respondents which represented 22.2% of the total respondent were aged between 26-35 years while minority 6 respondents which represented 16.6%

of the total respondent were aged between 18 -25. This shows us that the major of the respondents were in the maturity age which implies that they are people with purpose and vision, they are youth and at the flower of the age.

4.2.2 Gender of the respondents

On the issue of providing their responses on gender, respondents were requested to indicate their gender. The findings are presented in the Table 3 below.

Table 3. Showing the Gender characteristic of respondents

Gender of the respondents	Frequency	Percent	Cumulative Percent
Male	26	72.2	72.2
Female	10	27.7	100.0
Total	36	100.0	

Source: field data 2024

The results in table show that 26 respondents which represent 72.2% of the total respondents were male and 10 respondents which represent 27.7% of the total respondents were female. This shows that the majority gender in the banking sector in ABSA Masindi branch were male.

4.2.3 Work experience of the respondents

Table 4. Showing the year of experience of respondents

Years of Experience	Frequency	Percent	Cumulative Percent
0–5 years	9	25.0	25.0
5 – 10 years	13	36.1	61.1
10 – 20 years	8	22.2	83.3
Above 20 years	6	16.6	100.0
Total	36	100.0	

Source: field data, 2024

The findings show that 16.6% of respondents have above 20 years of experience, 22.2% have between 10 -20 years while majority 36.1% and 25.0% of respondent are in the interval of 5 -10

years and 0 -5 years of experience respectively, this means that they are still learning, they have the burning desire of success and they are obsessed by doing well.

4.2.4 Education level of the respondents

Table 5. Showing the education level of respondent

Education level	Frequency	Percent	Cumulative Percent
Diploma	9	25.0	25.0
Degree	18	50.0	75.0
Master	8	22.2	97.2
PhD	1	2.7	100.0
Total	36	100.0	

Source: field data, 2023

The results show that 9 respondents which represent 25.0% of the total respondent had only a diploma; 18 respondents which represent 50.0% of the total respondent had a degree; 8 respondents which represent 22.2% of the total respondent had a master and 1 respondent which represent 2.7% of the total respondent had a PHD. This implies that the banking sector employs educated people.

4.3 Descriptive characteristic Liquidity risk management

The independent variable of the study was liquidity management and it is broken into three components, with the total of fifteen questions, based on four-point liker scale. The respondents were asked to indicate the extent to which they agree or disagree with each question, and their responses were analyzed using SPSS. The rating scales were as follows: 1 = strongly disagree; 2 = disagree; 3 = agree; 4 = strongly agree. The responses were summarized using means and standard deviations, as indicated in table 4.3. The cohesiveness behind descriptive statistics is to summarize and present the raw data collected from the field in a clear and understandable manner (Hanneman, Kposowa & Riddle, 2013).

Table 6. Showing the mean and standard deviation showing Capital adequacy management in ABSA bank Masindi in Uganda

Statements	SD	D	A	SA	Mean	Std
	1	2	3	4		Dev
There is enough capital available to support the continued operation of this Bank	13.8% (5)	2.7% (1)	33.3% (12)	50.0% (18)	3.52	0.69
The available enough capital in this Bank, protects depositors and other creditors against losses	27.7% (10)	2.7% (2)	50.0% (18)	22.2% (8)	3.47	0.67
There are effective requirements or guidelines available for maintaining enough capital in this Bank	16.6% (6)	5.5% (2)	25.0% (9)	52.7% (19)	3.54	0.81
There is growth in capital compared with the assets of this Bank	50.0% (18)	16.6% (6)	27.7% (10)	2.7% (2)	3.63	0.66
This bank maintains a minimum sufficient capital with a purpose of meeting the demand of its customers	38.8% (14)	2.7% (1)	44.4% (16)	13.8% (5)	3.26	0.725
Average					3.57	0.68

Source: field data 2024

Statistical findings presented in Table 6 above show that the amount of capital available set by the board of directors was effectively transformed and communicated within the bank in the form of policies and procedures by the top management, with an 83.3% agreement score (mean = 3.52) and 16.5% disagreement. This shows that the bank is managing capital available very carefully by setting policies, guidelines and also by segmenting the portfolio, it the reason why it performs financially.

Relative to the above scores, 72.2% agreed that the bank has enough capital in this bank framework (infrastructure, processes, and policies) in place for managing credit risk. This can further be supported by a mean score of 3.47 and a standard deviation score of 0.67 that

were computed; however, up to a tune of 30.4% disagreed. The findings highlight enough capital strategies, for instance, customer evaluation collaterals, among others, as important techniques.

Statistics representing 77.7% (mean = 3.54), suggest that the bank has effective requirements or guidelines available for rating frameworks across all types of credit activities, while 22.1% of respondents disagreed, respectively. In addition, 30.4% of respondents agreed that the bank monitors the quality of effective requirements on a day-to-day basis and takes remedial measures as and when any deterioration occurs. However, the majority (66.6% disagreed, which suggests that banks monitor the quality of their effective requirements on a day-to-day basis.

The result in table 6 shows that a minimum sufficient capital has an overall average mean of 3.57 and the standard deviation of 0.68 which was rate very healthy; this implies that a minimum sufficient capital is generally healthy managed. Muele (2006) sufficient capital is a tool that provides framework for the entire credit risk management process. However, some bankers are lazy and ignore the process which increases the risk of the all institution.

Table 7. Showing the mean and standard deviation showing Cash generation in ABSA bank Masindi Uganda.

Statements	SD	D	A	SA	Mean	Std
This Bank conducts regular cash budgeting to eliminate liquidity issues	27.7% (10)	2.7% (2)	50.0% (18)	22.2% (8)	3.65	0.58
The proper cash budgets of this bank have enhanced Competitiveness	13.8% (5)	2.7% (1)	33.3% (12)	50.0% (18)	3.61	0.65
The growth in members' contributions has enhanced credit availability to be issued to the borrowers	16.6% (6)	5.5% (2)	25.0% (9)	52.7% (19)	3.44	0.75
There is effective cash planning in this bank	13.8%	2.7%	33.3%	50.0%	3.40	0.83
The appropriate cash control in this bank has reduced on liabilities thus increasing on the financial performance	38.8% (14)	2.7% (1)	44.4% (16)	13.8% (5)	3.63	0.72
Average					3.54	0.70

Source: field data, 2024

According to statistical results shown in Table 7 above, the bank regularly uses cash budgeting to manage interest rate risk, with a mean score of 3.65, a disagreement rate of 30.4%, and an agreement score of 72.2%. This demonstrates how the bank segments its portfolio, sets policies and procedures, and manages credit risk extremely carefully, all of which contribute to its financial success.

Relative to the above scores, 83.3% agreed that the cash budgets set by the Board of Directors are effectively transformed and communicated within the bank in the shape of policies and procedures by the top management. This can further be supported by a mean score of 3.61 and standard deviation score of 0.65 that were computed however, up to a tune 16.5% disagreed.

Statistics representing 77.7% (mean = 3.44) suggest that the effective cash planning (infrastructure, processes, and policies) in place for managing interest rate risk, while 22.1% of respondents disagreed, respectively. In addition, 83.3% of the of the majority respondents agreed that the bank regularly prepares periodic reports of interest rate risk. However, a minority 16.5% disagreed, which suggests that banks monitor the quality of their credit portfolio on a day-to-day basis.

Lastly, 58.2% wit mean score of 3.63 respondents agreed applications of interest rate risk management techniques reduce costs or expected losses, 31.5% disagreed. The findings reveal how ABSA bank Masindi considers appropriate cash control and therefore the need to improve its strategies and techniques

The result in table 7 shows that the appropriate cash control has an overall average mean of 3.54 and a standard deviation of 0.70. This implies to that interest rate risk is averagely very healthy managed in ABSA bank Masindi.

Table 8. Showing the mean and standard deviation showing credit policy management in ABSA bank Masindi Uganda.

Statements	SD	D	A	SA	Mean	Std
The credit policy of this bank ensures consistency in operation and adherence to	38.8% (14)	2.7% (1)	44.4% (16)	13.8% (5)	3.65	0.58
Effective credit policy of this bank is a requirement for achieving high financial performance	13.8% (5)	2.7% (1)	33.3% (12)	50.0% (18)	3.63	0.69
Credit standards set by this bank are based on capacity, condition, collateral, and security capital of the loan applicant	16.6% (6)	5.5% (2)	25.0% (9)	52.7% (19)	3.66	0.64
Credit terms given by this bank are more attractive to act as incentive to clients without incurring unnecessary high levels	13.8% (5)	2.7% (1)	33.3% (12)	50.0% (18)	3.57	0.78
Credit collection policy of this bank is directed at accelerating recovery from slow payers	27.7% (10)	2.7% (2)	50.0% (18)	22.2% (8)	3.51	0.0.71
Average					3.60	0.68

Source: field, data 2024

The statistical findings presented in Table 8 above indicate that there is consistency in operation and adherence for managing exchange rates. With a 38.8% agreement score (mean = 3.65), 41.5% disagreed. This shows that the bank is managing credit risk very carefully by setting policies and guidelines and also by segmenting the portfolio, which is why it performs financially.

Relative to the above scores, 83.3% agreed that the Effective credit policy set by the Board of Directors was effectively transformed and communicated within the bank in the shape of policies and procedures by the top management. This can further be supported by a mean score of 3.63 and a standard deviation score of 0.69 that were computed; however, up to 16.5% disagreed.

Statistics representing 77.7% (mean=3.44) suggest that the Credit set in place for managing exchange rate risk, while 22.1% respondents disagreed respectively. In addition, 83.3% majority respondents agreed that the bank's overall Credit set is maintained at prudent levels and consistent with the available capital. However, minority 16.5% disagreed which suggests that bank monitors quality of the credit portfolio on day-to-day basis

Lastly, 58.2% with mean score of 3.51 respondents the bank regularly prepares credit terms of exchange rate Risk, 31.5% disagreed. The findings reveal how ABSA bank Masindi considers Liquidity risk management and therefore the need to improve its strategies and techniques.

Table 8 shows that the Credit collection policy has an average mean of 3.60 and standard deviation of 0.680 which is interpreted as very healthy. This implies that the exchange rate risk is very healthy managed in the ABSA bank Masindi Uganda.

CHAPTER FIVE

DISCUSSIONS, CONCLUSION AND RECOMMENDATION

5.0 Introduction

In this chapter, the researcher discusses the findings presented in chapter four based on the research objectives; thus, it presents Discussion, conclusions, recommendations are presented and areas for further study.

5.1 Discussion of findings

In this section, the study's findings were discussed in light of the research objectives and findings of previous research. The headings of the discussion were structured according to the research objectives. The purpose of this study was to establish whether there is an effect of liquidity management, which is an independent variable, and financial performance, which is our dependent variable, on ABSA bank Masindi branch in Uganda. The independent variable was broken into three components, which are capital adequacy, cash generation and credit policy, and each of them were regressed to the financial performance of the banks cited below.

5.1.1 Effect of capital adequacy on financial performance of ABSA bank in Uganda

The research question that guided this objective was 'there is insignificant relationship between capital adequacy and financial performance of ABSA bank.' The findings for this objective were that capital adequacy affects significantly and positively financial performance of commercial banks. In the first instance the descriptive statistics shows that capital adequacy management is very healthy. The linear regression findings of this study indicated that capital adequacy had very healthy and positive significant effect on financial performance in Uganda. Similarly, the results of multiple regressions also showed that capital adequacy has a significant and positive effect on the financial performance of commercial banks in Uganda. In fact, the more individuals are motivated and involved to complete something while having a perfect knowledge of the objectives to reach them whereby they achieve them, the more individuals will complete great performance. The finding was in line with the findings of Adeusi and Oladunjoye (2014) who studied and found that capital adequacy has a positive effect on financial Performance of Banks.

5.1.2 Effects of cash generation on financial performance of ABSA bank in Uganda.

The research question that guided this objective was Is there insignificant relationship between cash generation and financial performance of ABSA bank? And in attempt to get answer for the question a null hypothesis was formulated thus: ‘Ho2 cash generation has no significant effect on financial performance of commercial banks in Uganda’. The effect was found significant though the findings revealed that cash generation management provided a high contribution to financial performance of commercial banks in Uganda. In the first instance the descriptive statistics shows that cash generation is very healthy. The Regression linear findings of this study indicated that cash generation had a very strong significant effect on financial performance of commercial banks as well. Similarly, the results of the multiple regressions also showed that cash generation is significantly and positively effects on financial performance on commercial banks in Uganda. The finding was in line with the findings of (Soyemi, 2014) Soyemi and Who maintained that cash generation has a significant positive effect on financial performance of commercial banks in Uganda? The results of this research support in some way the financial economic theory (Klimczak, 2012) by the fact that this theory expresses that hedging leads to lower volatility of cash flow and therefore lower volatility of firm value. The theory argues that the ultimate result of hedging, if it indeed is beneficial to the firm, should be higher value a hedging premium. The commercial banks make use of the strategies to hedge in order to be able to both record profits and to produce a financial performance while reducing risks. The result was consistent with other previous empirical studies namely (Tafri, 2009) Tafri and Hamid who found that interest rate risk management positively impacts on the financial performance of the Nigeria money deposit banks. These results support the study of (Zagonov, 2009) determining how banks regulate the interest rate risk, the findings where performance was negatively related to cash generation this was explained by the fact that management failed to hedge the risk similar results by (Matthias, 2012) on impact of loan growth and business model on bank risk in 15 EU countries found higher level of interest rates risk reduce bank’s exposure to leverage risk.

5.1.3 Effect of credit policy on financial performance of ABSA bank in Uganda.

The researcher derived in this objective question “There is insignificant relationship of credit policy on financial performance of ABSA bank?” And the null hypothesis tested was: credit policy has no significant effect on financial performance of ABSA bank in Uganda. The descriptive analysis shows exchange rate risk has a positive and strong effect on financial performance. The regression analysis shows that there is a positive effect of credit policy on financial performance of ABSA bank in Uganda with ($r=.826$, $\text{sig}=0.000$). These results do not support the findings of Gino Lucio and Ilias (2014) on foreign credit policy and performance of firms, the results found a negative relationship between risk and realized returns. Other authors who had a similar findings posited that foreign loans to total assets as proxy for foreign credit policy was negative to earnings for US large commercial firms (Ling, 2014) similar with the study of Noor and, Abdalla (2017) on the Impact of Liquidity risk on the Firms’ Performance of firms in Kenya, the objectives of the study were to find out how credit policy affect firms’ performance , To find out how liquidity risk affect firm’s performance, Determine the effects of market risk to firm’s performance To analyze the how credit policy affect firm’s performance. The findings were there was a significant relationship between the variables of risk and financial performance. The research concluded that Liquidity Risks had greater impact on performance of Firms. Thus, the research found that credit policy affected lending and borrowing by Financial Firms, Foreign exchange risks makes firms realize unpredictable losses this affect performance.

The multiple regression result shows that capital adequacy, interest rate risk and exchange rate risk affect financial performance of ABSA bank in Uganda with a $r=0.883$ and a P value of 0.001, it shows that credit risk and interest rate risk and exchange rate risk have both a positive effect on financial performance , this result also implies that 1% increase of the level of capital adequacy will lead to 83.7% increase in financial performance on commercial banks, 1% increase of the level of exchange rate risk lead to 85.4% increase in financial performance ,1% increase in the level exchange rate risk management lead to 82.6 increase in financial performance .

5.2 Conclusions

The purpose of this study was to analyze the effect liquidity risk management on financial performance of ABSA bank in Uganda. The result supports the key theory of the study which is stakeholder theory. The study shows how effective liquidity risk management is a key factor of financial performance with regard to Profitability, Return on Assets, and Return on investment

The R of .883, R-Square of .779 and the adjusted R-Square of .773 means that the variables: capital adequacy, cash generation and exchange rate risk explain at least 88.3% of the behavior of financial performance of ABSA bank in Uganda.

Effect of capital adequacy management on financial performance in ABSA bank in Uganda

After testing the first hypothesis the result shows that there is an effect of capital adequacy management on financial performance, which implies that effective capital adequacy management lead to high performance of commercial banks in Uganda. By this implication it means that bankers invest resources (financial and human) to manage risks which can arise in the process of granting credit.

Effect of interest rate risk on financial performance of commercial banks in Uganda.

There is a positive effect of interest rate risk management on financial performance of commercial banks in Uganda, which implies that the healthy is the interest rate risk the healthier is the financial performance of ABSA bank in Uganda. By this implication it means that bankers have understood the importance of managing interest rate and how it effects on financial performance and they make this their main job.

Effect of exchange rate risk on financial performance of commercial banks in Uganda.

The result of the regression analysis shows that there is a positive effect of exchange rate risk on financial performance of ABSA Bank in Uganda. This implies that exchange rate risk affects positively on financial performance of Uganda banks, by this implication it means that banks should manager efficiently exchange rate risk by setting clear guidelines and process.

5.3. Recommendations.

The study suggested made the following recommendations based on the findings of the tested hypothesis:

Effect of capital adequacy on financial performance of commercial banks in Uganda

The lending policies should outline the allocation and scope of credit facilities by establishing the limits which could be based on group authority that allow committees to approve large loans. Also, the frequency of committee's meetings and reporting procedures should be specified, Managers require understanding how capital adequacy management affects the banks performance to be able to ensure proper utilization of banks deposits as improper management of credit risk will increase the non-performing of the institutions this may result in to financial distress. The management should establish a capital adequacy management department so that this department can assess, analyze and monitor risks related to credits and thus prevent the outcomes that can arise by those risks instead of react when the banks are already beaten by those risks. The researcher recommends that commercial banks must not only make the analysis of the client and his business before a credit approval but also making an effective economic analysis of the running of the entire economy so that they can appraise risks such as exchange rate risk, interest rate risk and this will help them to prevent and to cover their positions.

Effect of cash generation risk on financial performance of commercial banks in Uganda

The recommendation for cash generation is that commercial banks in Uganda could focus on hedging and forecasting the macroeconomic factors that determine interest rates rather than the focusing on cash generation themselves this will enable them to project profitable business. The managers should install latest advances in their system processes to monitor interest rate risk and adequately have transparency and enhance operational efficiency. In order to ensure sustainable financial performance, Commercial Banks need to develop policies and resources tended to manage asset and liability duration mismatches effectively. Basic risk may not have manifested its influence in Banks' financial performance because of the markets insensitivity to interest rate changes on both interest earning assets and liabilities, which gives Banks ability to hedge and neutralize its effects on Net Interest Margins. However, as the market's sensitivity to interest rate develops, this risk needs to be properly attended to. Variation of Net interest Margins which has an

effect to Banks' financial performance should be effectively monitored by Commercial Banks to manage earnings volatility, so as to achieve profitability goals and increase value of the organization

Effect of credit policy on financial performance of commercial banks in Uganda

To the management at the banks, the study further recommends that the issues related to credit policy should be always taken into account in effort to improve banks foreign exchange risk management and financial performance. This is because credit policy has an effect in bank performance. Additionally, the study recommends that banks should come up with mechanism that will enable them to be ready to respond to any changes in the macro-economic environment. Through this any uncertainties created will be anticipated and easily addresses.

Commercial banks should privilege the national currency (Ugandan francs) instead of proposing their services and products in foreign currency (us dollars) and each transaction made in foreign currency must be covered, this will allow banks to not put much money in exchange rate risk management. The researcher recommends that manager should focus more in managing capital adequacy, interest rate risk and exchange rate risk because it affects the financial performance of banks in Uganda therefore if poorly managed it can cause the bankruptcy of the institutions and for the whole financial system.

5.4 Area for further study

There was a limitation on the number of independent variables used in this study as only three were considered. Future research in the area would focus on more independent variables to the regression model in order to develop more literature in this study area. The study was also limited on the number of years under study due to unavailable of data for a longer period. Future research should consider longer study periods for generalizing the results. The researcher suggests the following areas for further research as they are closely related to the outcome of the current study:

1. Operational capital adequacy and financial performance of commercial banks in Uganda
2. Impact of interest rate on commercial banks in Uganda
3. Impact of Exchange rate on commercial banks in Uganda

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APPENDICES

APPENDIX I: QUESTIONNAIRE FOR RESPONDENTS

Dear Respondent,

I am Mukula Milly Harriet (Reg no. S22/MUC/BBA/017) pursuing a Bachelor's Degree in Business administration (Accounting Option) at Uganda Christian University. I am carrying out a research study entitled; *"Relationship between Liquidity risk management and financial performance in commercial banks; A case of ABSA bank in MASINDI"*. You have been humbly selected as one of the respondents for the study and the information you will give will be treated with utmost confidentiality and used purely for academic purposes. Please respond to the alternatives by either ticking or where necessary make a brief statement.

Section A. Personal data

1. What is your gender

a) Male b) Female

2. What is your level of education

a) Diploma b) Degree c) Master d) P h D

3. How long have you worked with this bank

a) Less than 1 years b) 1-3 years c) 4-7 years d) 8 years and above

4. What is your Age;

a) 20-30 years b) 31-40 years c) 41-50 years d) 51 years and above

Section B. Capital adequacy

Please respond to the option and kindly be guided with the scoring system below. Write your rating in the space provided.

Use a Likert scale of 1-5 to rate the following alternatives where; 1- Strongly disagree [SD], 2- Disagree [D], 3- Not Sure [NS] 4 – Agree [A] 5- Strongly agree [SA].



S/N	Capital Adequacy	1	2	3	4	5
1.	There is enough capital available to support the continued operation of this Bank					✓
2.	The available enough capital in this Bank, protects depositors and other creditors against losses					✓
3.	There are effective requirements or guidelines available for maintaining enough capital in this Bank					✓
4.	There is growth in capital compared with the assets of this Bank					✓
5.	This bank maintains a minimum sufficient capital with a purpose of meeting the demand of its customers					✓

Section C. Cash generation

Use a Likert scale of 1-5 to rate the following alternatives where; 1- Strongly disagree [SD], 2- Disagree [D], 3- Not Sure [NS] 4 – Agree [A] 5- Strongly agree [SA].

S/N	Cash generation	1	2	3	4	5
1.	This Bank conducts regular cash budgeting to eliminate liquidity issues					✓
2.	The proper cash budgets of this bank have enhanced Competitiveness					✓
3.	The growth in members' contributions has enhanced credit availability to be issued to the borrowers					✓
4.	There is effective cash planning in this bank					✓
5.	The appropriate cash control in this bank has reduced on liabilities thus increasing on the financial performance					✓



Section D. Credit policy

Use a Likert scale of 1-5 to rate the following alternatives where; 1- Strongly disagree [SD], 2- Disagree [D], 3- Not Sure [NS] 4 – Agree [A] 5- Strongly agree [SA].

S/N	Credit policy	1	2	3	4	5
1.	The credit policy of this bank ensures consistency in operation and adherence to uniform sound practices					✓
2.	Effective credit policy of this bank is a requirement for achieving high financial performance					✓
3.	Credit standards set by this bank are based on capacity, condition, collateral, and security capital of the loan applicant					✓
4.	Credit terms given by this bank are more attractive to act as incentive to clients without incurring unnecessary high levels of bad debts					✓
5.	Credit collection policy of this bank is directed at accelerating recovery from slow payers and reduce on bad debts losses					✓


Section E. Financial performance

Use a Likert scale of 1-5 to rate the following alternatives where; 1- Strongly disagree [SD], 2- Disagree [D], 3- Not Sure [NS] 4 – Agree [A] 5- Strongly agree [SA].

S/N	Financial performance	1	2	3	4	5
1.	There is increased return on equity of this bank					✓
2.	There is growth in returns on assets of this bank					✓
3.	There is a higher return on investment of this bank					✓
4.	The existing assets of this bank exceed its liabilities					✓
5.	The profitability level of this bank has grown tremendously					✓
6.	There is increased customer growth of this bank					✓



APPENDIX 2: INTRODUCTORY LETTER

 **UGANDA CHRISTIAN UNIVERSITY, MBALE UNIVERSITY COLLEGE.**
A Centre of Excellence in the Heart of Africa

Academic Registrar office

To: THE BRANCH MANAGER
ABSA BANK MASINDI

Dear Sir / Madam,

Re: Academic Research

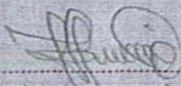
Christian greetings!


We are honored to introduce to you Mr. Mrs. / Miss MUKULA MUCY HARRIET
Of Registration Number; 1522/MUC/BBB/017 pursuing a Masters' Degree/Postgraduate Diploma / Bachelor's Degree
IN BUSINESS ADMINISTRATION (ACCOUNTING)

He/ she is required to carry out an academic research on the topic
LIQUIDITY RISK MANAGEMENT AND FINANCIAL PERFORMANCE OF COMMERCIAL BANKS, A CASE OF ABSA BANK MASINDI
and thereafter produce a well bound hard cover research report (MAROON) in color for undergraduate and three (BLACK) copies for Postgraduate students as a University requirement for the award of a degree/diploma in the academic discipline that he / she is pursuing.

We shall be grateful for the help you may offer to him or her accordingly.
Thank you.
Yours faithfully,

20 FEB 2024


Timothy Akampurira
Academic Registrar UCU-MUC



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