LOAN MANAGEMENT AND FINANCIAL PERFORMANCE IN FINANCIAL INSTITUTIONS: A CASE STUDY OF BARCLAYS BANK UGANDA

BY:

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09/MMSFM/18/034

A DISSERTATION SUBMITTED TO THE HIGHER DEGREES DEPARTMENT IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF THE MASTERS DEGREE IN MANAGEMENT STUDIES (FINANCIAL MANAGEMENT) OF UGANDA MANAGEMENT INSTITUTE

January 2012

DECLARATION

I, Lynda **Nabayiinda Were** hereby declare that this dissertation is my original work and has never been submitted for any academic award in any other institution. Due acknowledgement has been made for the work of others in this report through quotation and references.

Signed ________________________________

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APPROVAL

This dissertation has been submitted for examination with our approval as the supervisors:

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DEDICATION

This work is dedicated to my family: My husband, mum, children and siblings. God bless you for the never ending love and support.

ACKNOWLEDGEMENT

I would like to express my thanks and gratitude to various people who contributed to the completion of this work.

It was not possible to name all those who supported me but I am greatly indebted to everyone. I wish to express my sincere gratitude to my supervisors Mr. John Kittobe and Mrs. Esther Birungi Masawi whose support, guidance and constructive criticism and for their untold commitment to supervise this research.

I also appreciate the profound support and encouragement rendered by the Director General and Consultants at Uganda Management Institute for their support during the study which made this study successful.

I extend special thanks to the management of Barclays bank for accepting to support and respond to this study with commitment.

I must greatly thank my husband Jackson Were for his emotional and financial support. To my children Janelle and Jordana Were this should be an inspiration for them to achieve more academically.

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LIST OF ACRONYMS AND ABBREVIATIONS

BBU- Barclays Bank Uganda

BOU- Bank of Uganda

FDIC- Federal Deposit Insurance Cooperation

FI- Financial Institutions

FNBB- First National Bank of Botswana

GDP- Gross Domestic Product

IAS- International Accounting Standards

IASB- International Accounting Standards Board

IFRS- International Financial Reporting Standards

NPAT- Net Profit after Tax

ROTA- Return on Total Assets

TOC- Theory of Constraints

UMI- Uganda Management Institute

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ABSTRACT

This was a case study on the effects of loan management on financial performance at Barclays Bank Uganda Ltd with the objectives of examining the effects of loan pricing, loan vetting, loan collection and competition on financial performance. A case study research design using both quantitative and qualitative approaches was used on a population of loan staff and borrowers of Barclays Bank of Uganda of which 181 were sampled using systematic and simple random sampling. Quantitative and qualitative data was collected using a questionnaire, interview schedules and a documentary checklist. The data collected was analyzed using SPSS of which graphs, mean, standard deviation, correlation analyses and regression analysis techniques were used. The study found out that correlation between loan pricing, loan vetting, loan collection and competition on financial performance of BBU was 0.4, 0.5, 0.6, and 0.5 respectively while they each predicted 16%, 23%, 45% and 17% of the variance in financial performance at the bank. The study concluded that loan pricing, loan vetting and loan collection had significant impact on the financial performance of the bank and that competition also had a significant influence on the relationship between loan management and financial performance at Barclays Bank. The study recommends that for sustained financial performance; the board, management and staff of commercial banks should always ensure that the responsible persons effect reasonable loan pricing, vetting, collecting while considering competition and making appropriate changes to adopt to the industry competition. The bank's management and responsible persons should also educate customers on credit issues through customer promotions. The study recommends that other studies need to examine the influence of loan product design and customer retention on financial performance in the banking sector of Uganda.

CHAPTER ONE

INTRODUCTION

1.0. Introduction

This study was about how the loan portfolio is managed and how it affects financial performance at Barclays Bank (U) Ltd. In this study, loan management was the independent variable while financial performance was the dependent variable. This presents the background to the study, statement of the problem, objectives of the study, Hypothesis, scope of the study and the significance and justification of the study.

1.1. Background to the Study

The banking sector is one of the most important sectors in an economy. It is therefore important to monitor and manage their financial performance. This was done using the ratios, return on assets, interest income, cost to income ratio and other factors like net profit after tax and net operating income. Lending is the principle business of most commercial banks and as such the loan portfolio is the biggest asset and predominant source of revenue; and as such it is one of the biggest sources of risk to the bank making its management of paramount importance. Loan portfolio problems historically have been the main causes of bank's losses and failures (Comptroller, 1998; Ramakrishnan, 2006).

Life is becoming tougher and tougher for banks; a number of financial institutions, mainly banks such as Citi Bank, First National Bank of Botswana, Barclays bank (U) Ltd have seen a decline in their profitability. This could have been caused by various reasons either external or internal factors like inflation, poor management & competition. This research sought to determine whether loan management had a direct impact on the financial performance of commercial banks. Since, banks earn their highest gross profit from loans; the administration of loan

portfolios seriously affected the profitability of banks. Indeed, the large number of non-performing loans is the main cause of bank failures (wei-shong & Kuo-Chung 2006; Convery, 2003). Banks today confront the reality of large looming credit losses in a variety of asset classes, including mortgages, credit card loans, commercial real estate loans, unsecured loans like salary loans and many others. In addition to capital, the critical resource that banks have to absorb these credit losses is the loan loss reserve by providing for the loss from the profit and loss account depending on the level of the bad debt. The percentage of the provision is dependent on the number of days the payment has been late, either by 30, 60, 90 or more days the provision could be 20%, 50%, 100% of the total outstanding of the loan (Dugan, 2009).

Using the Mugenda and Mugenda, (1999) suggestion, the researcher considered the global perspective about loan management and financial performance, then the regional and national perspective and then the study of Barclays Bank. The famous 2007/2008 global financial crisis was a result of poor housing loan(mortgage finance) management right from awarding loans to clients that do not qualify(less credit worthy borrowers) hence increase in the default levels, coupled with deterioration in credit market functioning. This brought down some of the biggest financial firms, making it hard for businesses and people to get loans. Without loans to enable businesses run their day to day activities, big companies such as GM Motors had to close down; Citi bank had to lay off over 50,000 staff worldwide. The financial crisis started in one country but affected almost the whole world especially the developing countries that depend a lot on foreign aid and grants. Inward remittances reduced greatly affecting the most households that depend on upkeep from relatives in America and Europe (Reinhart & Rogott, 2008; Nabart, 2008).

In Europe, a number of banks saw a decline in their profits for various reasons; the Sampo Bank Group in Finland, profit before tax was negative in the first half of the year as impairment charges rose due to market conditions (Press release, August 11, 2009). Sampo Bank reiterated its earlier forecast that loan impairment charges would be high throughout 2009, and this will affect the earnings from banking activities. Impairments are where the bank provides for any losses from bad debts. The provision is made from profits earned and is reflected in the profit and loss account. This is a prudent measure to avoid forecasting on profits before they are actually earned.

In Greece, 2001 the adoption of the EURO accelerated a number of monetary conditions like increased competition among the banks and low inflation rate which led to a decline in the interest rates which the banks earns from lending outside. The lower the interest rates, the lower the income earned unless the volumes are boosted. The loss of income from lack of foreign exchange was lost since most European countries were now using a standard currency. Banks were therefore forced to seek new products and new customers which required injecting of capital for marketing, awareness and advertising for the new products and incentives for the customers. The effect of all these changes greatly impacted on the profitability of the banks (Kosmidou, 2008).

In Germany, the banking sector has recently been facing a high default rate in real estate loans resulting in accumulation of bad debts in the balance sheet. This has led the management of the banks to embark on a difficult decision on whether to workout the problem internally or to outsource or to sell their bad loan exposure to an external party. Much as all banks and financial institutions have non- performing loans in their balance sheet as a permanent phenomenon, the significant rise in non performing loans are a sign that things are not moving well. Either banks

are lending to undeserving customers, or the collection process is weak or it's an environmental issue like inflation. However, German banks suffer from a low return on equity, hence the need to concentrate on non-performing and sub-performing loans. Some of the reasons of the origin of non-performing loans in German are; (a) the banking sector itself is over banked and consolidation and restructuring becomes necessary and (b) the expiration of state guarantees for banks governed by state became effective in June 2005. Therefore these institutions have to clean up their balance sheets in order to increase their profitability (Maxted, 1994).

In Bangladesh Asia, loan defaults remain a major problem together with loan allocation (disbursement of loans to customers who would not have otherwise qualified for the loan) and loan recovery because of government interference. Once loans are not approved objectively, the quality of the loan portfolio becomes poor since most of the customers with the loans are high profile or have an attachment to government making collection of the debt even harder for the banks, hence exposing them to greater risk of loan loss. The recent financial crisis in Bangladesh has made it clear that financial institutions are facing problems mainly due to too little prudent organizational and protective regulation hence increasing the fragility of the banking sector (Chowdhury, 2002).

On the regional basis, the Annual report 2007/2008 of the National Bank of Ethiopia shows an increase of 8.9% of outstanding loans; The larger the loan portfolio, the greater the risk exposure. Therefore more controls have to be put in place to manage the increasing asset value such as, well trained staff, proper risk management such as insurance of the loans, flexible loan terms, good collection strategies and good and flexible credit policies. In Botswana for example, the First National Bank of Botswana (FNBB) report by the chief financial officer Steven Bogatsu in 2009, profits went down by 3% due to the recession. Increased impairment losses went up by

12% due to client's disposal of incomes and low interest rates. This, he said, called for increase in sound credit vetting. Further more, FNBB chief executive, Lorato Boakgomo in the presentation of half year financial results of year ended 31 Dec 2009, said "our credit risk management has to be a little tight. By this, the approval process for the loans has to be very critically analyzed to ensure that only credit worthy customers is booked and no dispensations allowed. The chance of bad debts then is greatly reduced. Situations like the 20 million Botswana Pula loss on loan advances in 2009, a 12% increase from the previous year would have been avoided (FNBB, 2009).

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, FINA 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).

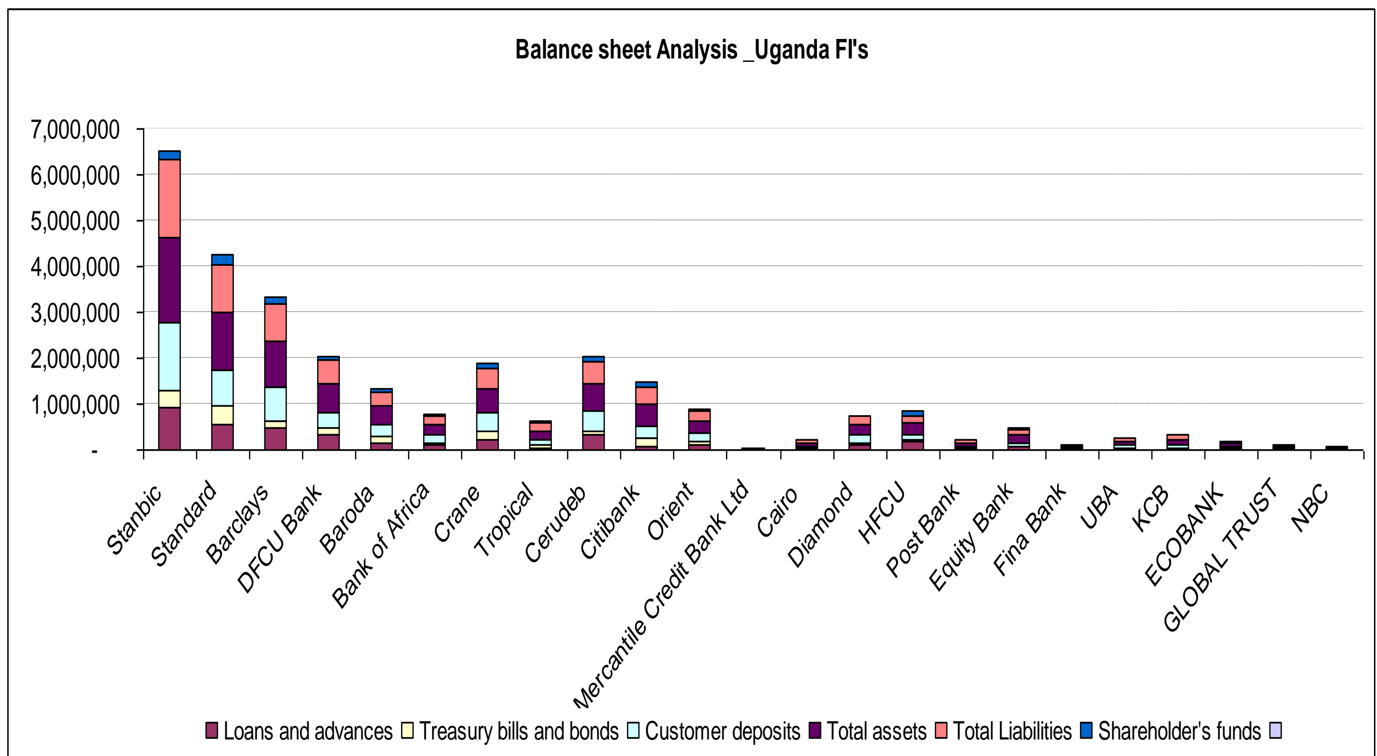
Despite the fact that loan management contributes largely to financial performance, a number of other factors contribute to profitability of banks (Kosmidou, 2008). Cost structure and scale economics by ensuring the costs do not exceed the expected income to be generated, by use of the cost to income 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).

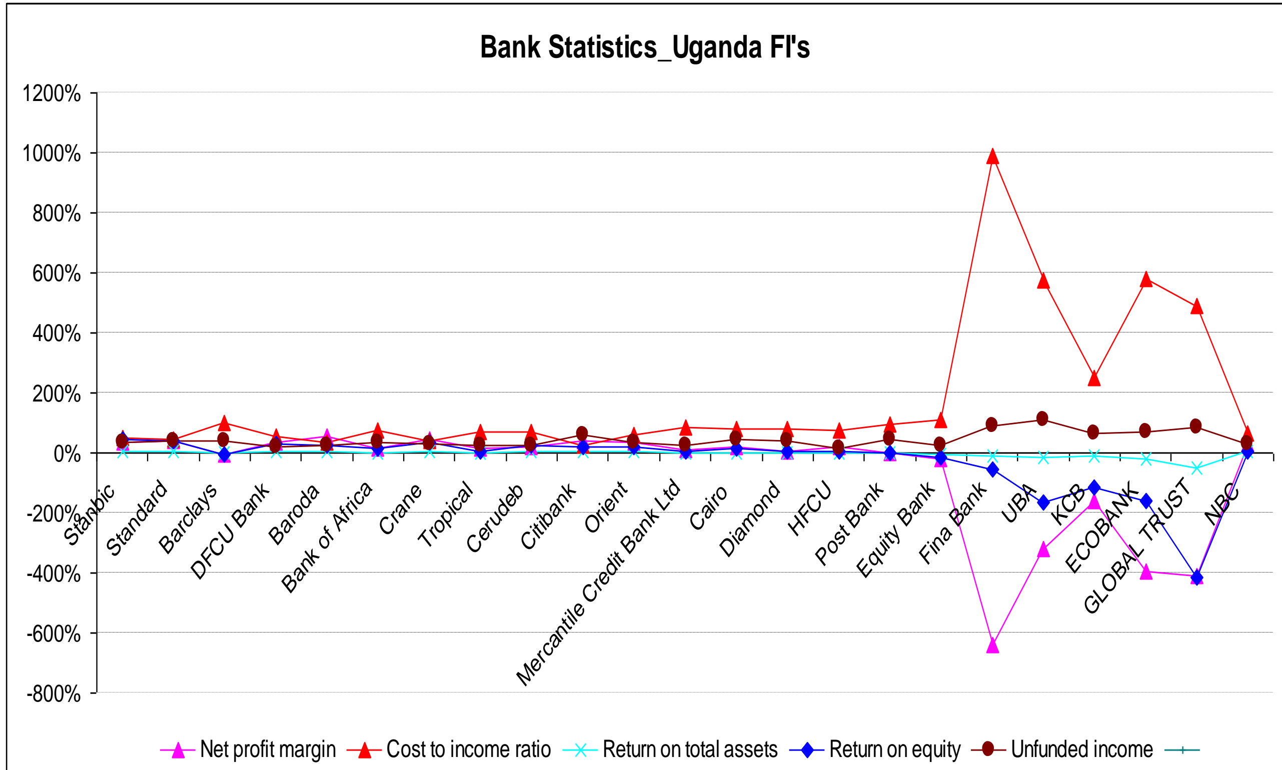
Fig.1. Trend of Barclays Bank financial performance 2006-2009

YEAR	2006	2007	2008	2009
NPAT (billions)	15.9	6.5	(17.9)	(4.7)
Impairment losses on loans and advances (billions)	6.2	30.7	14.8	8.4
Loan Portfolio (billions)	308.6	419.6	524.7	486

The Figure 1 above shows the trends in some parameters used to measure financial performance at Barclays Bank. The Net profit after tax showed a significant drop of 68% in the years 2006-2009. The bank actually registered a loss for the years 2008 & 2009 despite there being a steady increase in the loan portfolio. As a result impairment taken also increased in the same period (KPMG industrial analysis, 2009).

Fig.2. Performance of the financial services Industry in Uganda as at 31/12/2009





Source: (KPMG, Industrial analysis, 2009)

Figure 2 above shows the comparison in financial performance of the various banks in Uganda with regard to their balance sheets. Information in comparison is the loans and advances, treasury bills and bonds, customer deposits, total assets and liabilities. Whereas in Figure 2 above it is noticed that Barclays bank ranks 3rd in asset value and customer deposits, it's profitability ratios as shown in Figure 3 are too low and it doesn't feature in the top 5 profitable banks in Uganda. This clearly shows that the assets may not be well utilized to generate enough income.

1.2. Statement of the Problem

Despite controls that have been put in place like the credit reference bureau which monitors loan repayment and performance together with regular monitoring by the central bank on bank controls and performance, financial results for the past four years for Barclays Bank (U) Ltd show a down turn in the profits from Uganda Shillings15.9B to negative 4.7B Shillings which is a 68% drop (Barclays Bank Uganda, 2009). Although Barclays bank was the third in place in

asset share in Uganda in terms of value of assets at 13% amongst an economy of 22 commercial banks, and also stood at 14.3% of the market share, the third in place in terms of customer deposits in the Uganda banking industry, has a large branch network of 53 branches countrywide, it continuously showed a decline in its reported net profits and high fluctuating levels of bad debts between 2006 and 2009 which was as a result of the loan management that comprises loan pricing, loan vetting and loan collection that are some of the variables that played a major role. The impairment losses for the four years on loans and advances totaled to 60.2B Uganda Shillings against a loans of 486B shillings as a result there was indeed a need to establish the effect of loan management on financial performance (African Alliance, 2009; KPMG, 2009). The study therefore sought to investigate if indeed there was a significant relationship between loan management and financial performance in Barclays Bank.

1.3. General Objective

To establish the effect of loan management on financial performance at Barclays Bank.

1.4. Specific Objectives:

- To examine how loan pricing affects financial performance at Barclays bank
- To find out how loan vetting affects financial performance at Barclays bank
- To assess how loan collection affects financial performance at Barclays Bank
- To find out the influence of competition on the relationship between loan management and financial performance at Barclays bank.

1.5. Research Questions

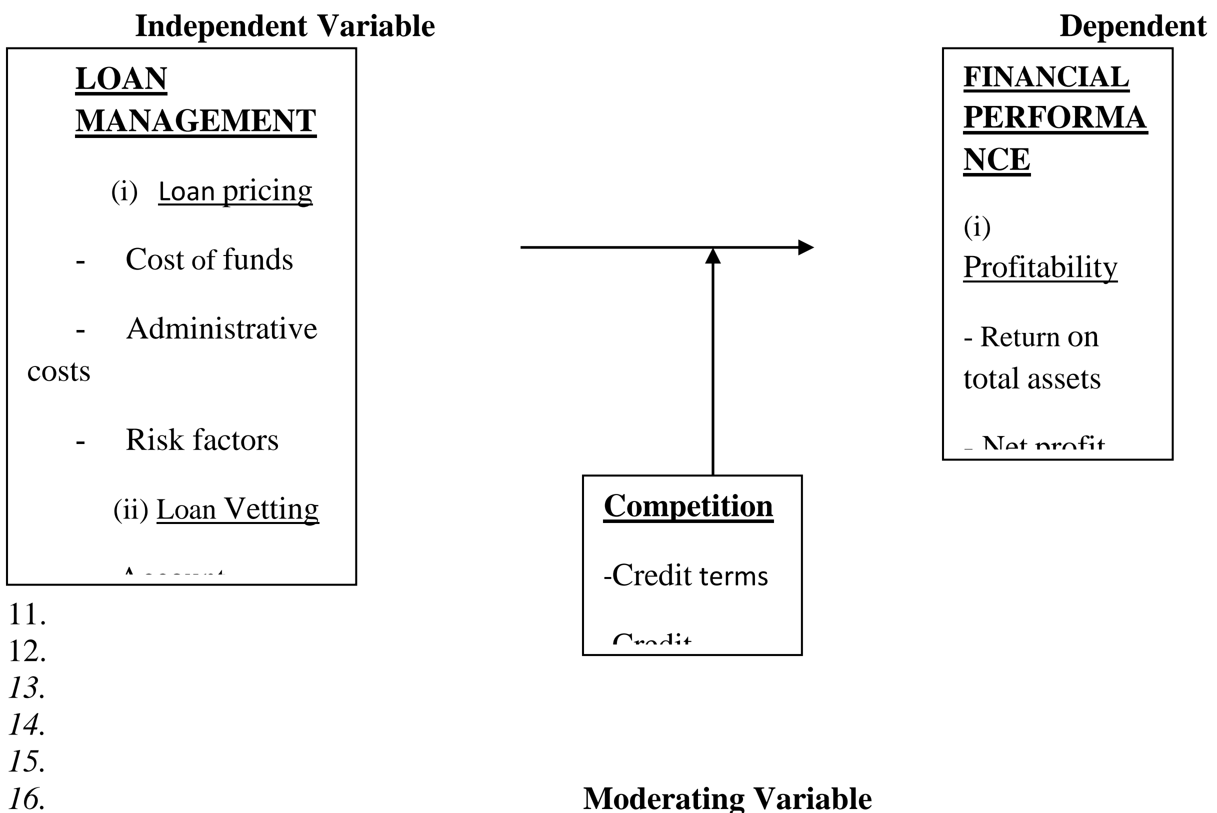
- How does loan pricing affect financial performance at Barclays Bank?
- How does loan vetting affect financial performance at Barclays bank?
- How does the loan collection affect financial performance at Barclays bank?

- What is the influence of competition on loan management and financial performance at Barclays Bank?

1.6. Hypotheses of the Study

1. Loan pricing significantly affects financial performance
2. Loan vetting significantly affects financial performance
3. Loan collection significantly affects financial performance
4. Competition positively influences the relationship between loan management and financial performance

Fig4:Conceptual Framework: Effect of loan management on Financial Performance



Source: Bouvatier, (2005); Kosmidou, (2008); Maas, (2001); Comptroller, (1998); Santomero, (2008); Pandey, (2002)

1.7. Conceptual Framework

Since financial performance cannot be achieved as a single element and a number of factors are known to contain it, this study focused on financial performance as the dependent variable and loan management as the independent variable. The contribution of loan management was evaluated and analyzed in relation to its changing roles that is in terms of loan pricing, loan vetting process, loan collection and inter bank competition, and how all these related and contributed to the financial performance of the bank which were measured by Return on Asset and net profit after tax ratios, debt turnover and level of bad debts which were the parameters used for deriving financial performance in Barclays Bank. According to Norton & Kaplan's model (1996) of the balanced score card, performance can be measured using four perspectives and these include, customer, creativity & innovation, business process & financial perspectives. This study focused on the financial perspectives. Financial performance refers to a subjective measure of how well a firm can use assets from its primary mode of business and generate revenue. Financial performance indicators were derived from financial statements; income statement, balance sheet and cash flow statements.

1.8. Significance of the Study

The study helped to reveal the gaps that Barclays needed to explore in loan management to fully utilize the loan asset to yield the desired results which is an improved and positive net profit. The results of this study would be used by Barclays Bank management to make decisions on how to improve the management on loan pricing, vetting, and loan collection and manage competition in order to improve the financial performance. It would add knowledge to scholars and academicians in the banking and financial institutions sector because the gaps on loan management and its effect on financial performance would have been covered. Customers would be able to appreciate a well managed loan process from pricing, vetting and collection and this

would build customer loyalty thereby increasing customer deposits, customer borrowings and a reduction in bad debts leading to improved financial performance.

1.9. Justification of the Study

The study was important because there was an information gap in loan management; how prices for loans were determined, criteria for loan vetting and modern techniques in loan collection with relation to how some of its different roles interact and affect financial performance of financial institutions. The gap was filled by adding more knowledge to the already available one and was to be adopted by various banks to improve their loan management and in turn increase their financial performance as that is the main objective of the bank.

1.10. Scope of the Study

The study was based in Retail Credit Department located on Jinja road, Kampala of Barclays Bank Uganda Limited whose head office is held at Plot 2 Hannington Road in Kampala. The period in focus was 2006-2009 financial years. The study sought to analyze loan management, and its effect on financial performance in Barclays Bank. The variables under study were Loan pricing, Loan vetting, and Loan collection, with competition as the moderating variable.

1.12 Operational Definitions

This is what these words or group of words mean in this study.

Administrative cost: expenses incurred in managing and controlling the loan management process like marketing, salaries, system, general operations, etc.

Bad debts: debts that may never be recovered by the bank due to the borrowers' financial position or when debtor cannot be traced.

Credit Risk: the potential of losses resulting from the failure of borrowers to repay their loans.

Credit terms: the conditions under which credit will be extended to a customer. E.g., period, rates, amount.

Credit standards: criteria that Barclays uses to determine whether to extend a loan to an applicant. May include, credit history, score or income levels.

Competition: the influence of other banks in the same market trying to get what Barclays is targeting at the same time.

Cost of funds: cost of borrowing the funds to be lent out to customers, the percentage of which is added to the cost of the product to arrive at selling price, i.e., interest rate of the loan.

Debt turnover: measure of the bank's ability to convert debts into cash and thus financial efficiency.

External collections: loan payment follow-ups done by out sourced companies or legal

Financial Performance: measuring the results of a company in monetary terms.

In house Collections: Loan payments follow ups done by staff within the company.

Loan Delinquency: this is the situation that occurs when loan payments are past due or late.

Loan Portfolio: Total value of all outstanding loans in the bank.

Loan Pricing: this refers to the interest rates levied upon the loans in the bank

Loan Provision: entries against value of assets, such as a loan provision reflecting a reduced likelihood of full repayment; preparing for a future loss.

Loan Vetting: this is the process of screening and selecting of loans before they are granted to ensure all requirements have been met.

Loan Pricing: this is the same as determining the interest rate to be charged on a given loan.

Profitability: ability of a company to generate net income on a consistent basis.

Return on Assets: The return on assets (ROA) is how profitable a company's assets are in generating revenue.

CHAPTER TWO

LITERATURE REVIEW

2.0. Introduction

Literature review is the documentation of a comprehensive review of the published and unpublished work from secondary sources of data in the areas of specific interest to the researcher. These were derived from books, journals, newspapers, magazines, master's theses, government publications, and other reports. This chapter discusses the following: the theoretical and actual literature review on loan management and its relationship to financial performance of financial institutions. The loan management variables used were, loan pricing, loan vetting, loan collections and competition with other financial institutions.

2.1. Theoretical Review

In the early 1980's, the Theory Of Constraints (TOC) started steadily evolving. This systems-based approach to management, primarily credited to Eliyahu M. Goldraff, seeks to understand the underlying cause-effect relationships that are responsible for an organization's performance. As a systematic management philosophy, TOC is based on three interrelated premises (Schragenheim & Detter, 2001 as cited by Reid, 2007). (i) Every system has a goal and a set of necessary conditions that must be satisfied if its goal is to be achieved. (ii) The overall system's performance is more than just the sum of its component performances & (iii) very few factors or constraints, often only one limit a system's performance at any given time. A constraint is anything that prevents or inhibits a system from reaching its goal. It can be either internal or external. In a bank example internal constraints may cause the loan department from collecting from bad loans in a timely manner, external constraints may include competition, inflation, and

political instability, legal and regulatory framework; All these at any one time maybe players that in addition to loan management also affect the financial performance of a bank (Reid, 2007).

2.2.1. Loan management and financial performance

Lending is the principle business activity for most commercial banks. The loan portfolio is typically the largest asset and the predominate source of revenue. As such it is one of the greatest sources of risk to a bank's safety and soundness. Whether due to lax credit standards, pricing, loan vetting, or provisioning, weakness in the economy, loan portfolio problems have historically been the major cause of bank losses and failures (Comptroller, 1998). The lending function is considered by the banking industry as the most important function for the utilization of funds. Since banks earn their highest gross profits from loans, the administration of the loan portfolios seriously affects the profitability of banks. Indeed the large number of non-performing loans is the main cause of bank failure (Wei-Shong & Kuo-Chung, 2006). Maintaining the overall health of the institutions loan portfolio is a vital endeavor. It's not unusual to discover that even properly underwritten loans may now be stressed by external factors. Institutions must therefore adopt more preventative care measures, like reviewing the pricing, vetting process, risk management policies which include debt collection and internal or external loan review programs using independent reviews to help maintain the safety and soundness of the loan portfolio (Graff, 2009).

A company should earn profits to survive and grow over a long period of time. Financial performance is the measure of how well a firm is performing in monetary terms and is normally measured by use of profit ratios. These measure the efficiency with which the company uses its resources. The more efficient the company, the greater is its profitability. The change in a

company’s profit ratios over time tells whether its performance is improving or declining. Such ratios include net profit margin, return on total assets, return on share holder’s equity. Most ratios can be calculated from information provided by the financial statements. However caution should be taken in using ratios because of certain limitations; its difficult to decide on the proper basis of comparison, comparison is rendered difficult because of differences in situations of two companies or of one company over years, the price level changes make the interpretations of ratios invalid, the ratios are generally calculated from past financial statements and thus are no indicators of the future and several of them had to be combined to paint a picture of the company situation (Pandey, 2002).

2.2.2 Loan pricing and financial performance

Figuring the cost of a loan is the first step toward arriving at its price. Like any business a bank must first recoup its costs if it is to make a profit. The largest expense of any loan is the cost of funds acquired to finance the loan. There are several ways to calculate a bank’s cost of funds for use in loan pricing: administrative overhead and loan servicing and risk factors. The accurate analysis of commercial loan pricing and profitability is a matter of critical importance in the current banking environment which is characterized by declining profitability, increased competition and general economic difficulties (Ferrari, 1992).

In recent years, the profitability of commercial loan portfolio, have been significantly affected by; deregulation, more volatile financial markets, emergence of a global economy, increased competition, greater customer sophistication, recent economic difficulties. According to Roth (2010), pricing with competition is important to ensure sound decision practices are being implemented in the domains of loan pricing and profitability. The extreme of pricing too high for the market can obviously be detrimental to the organization. Pricing for profitability regardless

of what competition is charging in your area has a few potential issues associated with it regarding management of risk. For example you may charge 5% in tier A and still be profitable but the competition is charging 7.5%f or the same tier. It would then be a bad decision to change the rates because of what competition is offering without studying its implications.

2.2.2.1 Cost of funds and financial performance

Banks that have a clear understanding of their commercial lending costs and profitability have a major advantage over competitors and a powerful tool in maintaining profitability. No longer is a banks ability to perform an accurate commercial loan pricing/ profitability analysis a luxury or merely desirable. Effective commercial loan pricing is an essential element of credit quality control and a matter of vital importance to the financial health of banks and their ability to be competitive. Chmura (1995) adds that proper loan pricing has implications on the health of a bank. Over the years, banks have been criticized for pricing loans to their best customers too high and to their riskiest customers too low. In fact a survey of credit practices at one hundred of the largest U.S. banks supports this contention. He further argues that appropriate loan pricing leads to better allocation of funds and thus to higher profits. At one end, low-risk borrowers are likely to seek out more efficient sources of funds if they price their loans too high, considering the number of commercial banks in the market and the high competitiveness. At the other extreme, if the riskiest borrowers are under priced, they will capture a larger portion of banks' funds and will very likely increase the volatility of a loan portfolios returns. However in a banking environment, it is wise to price the riskiest customers high basing on the fact that chances are high the loan will go bad before full tenure and by then a sizable interest amount will have been paid. On the other hand, how does the bank judge a risky and non risky customer? The environment is problematic. No objective market price exists for loans.

2.2.2.2 Administrative costs and financial performance

Watanabe (2009) establishes that loan Pricing and profitability is best seen when the bank's balance sheet health deteriorates, banks lending rates increase. In addition he further stipulates that this is risky as the borrower could switch banks. Customers should not bare the impact of a bank's increase in cost of funds. There are several viable options to consider when loan pricing in a market where the margins continue to shrink. Generally, a financial institutions first reaction to narrowing margins is to cut operating expenses mainly because these are more easily identifiable and measurable than value of customers and relationships. Administrative overhead is the next largest expense in a loan. It includes the total cost of the commercial loan process; loan servicing costs should be computed based on the average hourly salary rate including benefits for loan officers, other expenses like average collection period based on historic data, paper work then applied as loan costs for each loan. While margins will continue to narrow, banks can counter by using the power of pricing to offset the impact to earnings. In Barclays Bank for example, interest rates were dropped for clients who were borrowing from one organization and loan installments were deducted from the former's accounts or human resource department. This was because the administrative cost of increasing the number of collectors was reduced at it's a deduction from source with little or no risk at all. The company would then send on payment instruction that would then be applied to individual accounts electronically.

2.2.2.3 Risk factors and financial performance

Also to determine pricing, issues of risk come into play. A loan that is secured by the borrower is less risky hence the pricing may differ. Sharpe, 1990 and Rajan, 1992 as cited by Santos (2009), discuss that the financial condition of banks is important because it affects the stability of the financial system and because it may influence banks ability to lend. Naturally we may think that

banks which incur large losses increase the interest rates on their loans to corporate borrowers because these can stand the price and do not want to bank hop considering the implications it may cause. In these theories, (Santos, 2009) argue that banks which incur large losses increase their interest rates on their loans to bank dependent borrowers by more than they do it for non-bank dependent borrowers. Bankers must use their information gathering skills to price their loans relative to risk; either by history of previous loan performance, risk of a particular loan for example business loan, portfolio theory, loans are price relative to the risk the loan contributes to the bank's entire portfolio, customer relationship pricing which include customer traits such as variability of deposits, length of relationship also determine the price the loan will be given (Chmura 1995). Roth (2009), questions how prices are determined. Inquiries are set to find out if applicants of the same risk level are being priced the same, and also checking that change in rate is in line with the change in risk. Some are even requiring a profitability analysis to show the expected impact of delinquency, loss and operating expense on net revenue on total portfolio. In addition Robertson (2009) states that pricing loans effectively in a competitive market does not necessarily translate into smaller yields nor should banks be willing to accept smaller yields for less than quality loans. In Barclays Bank, it was discovered that the riskier loans that are business unsecured (with no collateral) are priced higher than the loans that have collateral attached. Salary loan are fairly priced as source of income is assured and the only risk would be if the client lost their job.

2.2.3 Loan vetting and financial performance

In this section, we shall discuss how loan vetting contributes to profitability in financial institutions. O'keefe, Olin and Richardson (2003) in their studies, establish that loan vetting practices are the primary determinant of bank credit risk and bank credit availability. Properly identifying risk in the loan portfolio is critical to the overall effectiveness of loan portfolio management. Because an institutions plans, direction and controls are based upon a perceived level of risk in the loan portfolio, for example the board of directors may establish profitability objectives for the loan portfolio which provide inadequate returns to shareholders or fail to offset future loan losses due to inaccurate assessment of risk in the loan portfolio. A breakdown in the risk identification process could seriously threaten the safety and soundness of an institution. Weakness in risk identification not only hinders sound loan portfolio management but also affect the institution's ability to determine allowance for loan losses requirements and capital, earnings and liquidity needs. The primary risk emanating from loan portfolio is credit risk and interest rate risk. Interest rate risk can result in significant credit risk in institutions where interest rate risk has been passed on to borrowers through variable rate loans (FCA, 1998). Al-Tamimi (2002), in his studies in UAE (United Arab Emirates) concluded that commercial banks use techniques such as establishing standards, credit score, credit worthiness, risk rating and collateral as a means of risk management to improve loan performance hence increase in profit efficiency. Risk management practices are a pre-condition for successful liberalization (Oldfield and Santomero, 1997). With the fast growth in credit industry and the huge loan portfolio management, Abdou (2009) identifies that credit scoring is regarded as one of the most important techniques in banks and has become a very critical tool. New scoring models have been developed to evaluate the credit risk process of both new and existing loan clients. These techniques assess and therefore

help decide who will get credit, how much credit they will get and what operational strategies will maintain the profitability of the borrowers to the lenders.

2.2.3.1 Account performance and financial performance

Loan vetting process is a key predecessor to favorable loan portfolio quality and a main task of the function is to avoid as many undue risks as possible. Account performance in essence is about character of the borrower and refers to the customer's willingness to pay. The credit manager should judge whether the customer's will make honest efforts to honor their debt obligations. The moral factor is of considerable importance in credit evaluation practice. When loans are vetted with sensible well defined credit principles, sound credit quality is much more likely to prevail. Of course there are circumstances beyond the control of even good credit practices such as in salary loans, where there could be cases of job loss, abscondment, restructuring and fraud which affect the account performance; other ways of avoiding risk should be put in place. Underwriting standards for credit allowance include identification and assessment of the applicant's repayment willingness and capacity, character, capital, conditions and collateral. Vetting in most times is based on payment history. (FDIC, 2007) it's discussed that the process of altering vetting terms and standards can involve prominent decisions by management to amend policies and procedures. In some instances, a bank may increase credit limits or target a higher proportion of solicitations to individuals in lower score bands without reducing the minimum credit score resulting in loan problems if not properly controlled. Providing credit to customers who exhibit characteristics that suggest a much higher risk of default as compared to the risk of default with traditional bank loan customers. A number of attributes are used to determine the probability of loss for a potential borrower. Such attributes

may include frequency, severity, recency of delinquencies and bankruptcy. If any is under looked or waived, then problems in realizing profit from these customers will be triggered.

2.2.3.2 Capacity to pay and financial performance

This refers to the customer's ability to pay and can be judged by assessing the customer's capital and assets which may offer as security. Capacity is evaluated by the financial position of the customer as indicated by analysis of ratios and trends (Pandey, 2002). For the majority of loans, management should consider all relevant risk factors when establishing product offerings and underwriting guidelines, for example borrowers' income and debt levels, credit score, credit history, loan size, collateral value. Management should determine whether effective procedures and controls for support functions such as perfecting liens, collecting outstanding documents like security perfections, spousal consents and obtaining insurance coverage are in place. (FDIC, 2007) further argues that in real estate lending standards; prudently vetted home loans should include an evaluation of a borrower's capacity to adequately service the debt. Vetting standards should emphasize the borrowers' ability to service the debt with cash flow rather than the sale of the collateral. A potentially dangerous misstep in vetting home equity is placing undue reliance upon a property's value in lieu of an adequate initial assessment of an applicant's repayment ability. However establishing adequate real estate collateral support in conjunction with appropriately considering the applicant's repayment ability is a sensible and necessary practice for home equity lending. FDIC, (2007) in cash secured lending underwriting practices, are less stringent as this is less risky for the bank. However a slight risk may arise from outstanding balance of an account could exceed the collateral amount either due to the account being only partially collateralized at account set-up or customer going above the set credit limit. Such debts should be based upon customer's willingness and ability to service the debt. To counter the

issues of poor or weak loan vetting/appraisal, automated underwriting and approval processes are increasingly popular and complex. Systems are based on statistical models and are based on cut-off score; Auto decline or auto approve. When an applicant is denied or approved contrary to a system's guideline, a manual review is done. However there are exceptions where approved loans contravene the banks lending policies and vetting guidelines. These should be rare and tracked separately. High volumes or very low or none exceptions indicate increased risk.

2.2.4 Loan collection and financial performance

For banks, properly managing overdue loans is a key to a sustainable, profitable business. A well functioning collections department or problem loans department is a core asset of any bank that wants to be successful. However, loans should be managed well before they become overdue or may risk being written off. One of the crucial steps in loan management as Wei-Shong and Kuo-Chung (2006) identify is loan servicing and administration. It involves loan payment notices to notify the borrower, also receive periodic delinquency information, and adjust loan terms and conditions as deemed necessary and to take legal action if non- collectable procedures and foreclosure on the loan are required. For effective collection on overdue loans, there should be separate strategies for different retail products and corporate loans. No time should be wasted on collecting loans that have a low recovery rate because this also increases the cost operations that in the long run impacts on the profits of the bank. Such loans include loans with a very small outstanding balance or skip trace loans. It is best to focus on new clients rather than the old ones with low recovery where it is recommended by some to sell the whole portfolio. In the Barclays Uganda case, the older debt is outsourced to third party debt collectors.

2.2.4.1 In House collections and financial performance

Sweet, (2004) emphasizes that all lending institutions like banks need a specialized collections department. A successful problem loan department will therefore positively impact a bank's profit and loss account through high recovery rates that will improve the bank's profitability and a lower capital charge will reduce the cost base. A part of the reason behind failure in efforts at debt collection is too little coaching and expertise. Like every undertaking which involves a fair level of experience to control the problem, obtaining the most effective skill set might make a big difference in the final results achieved in the end. When setting someone upon the task of collecting debt from delinquent clients, it is essential to supply them with the required instruction and skills to accomplish the goals set before them. Part of the expertise needed in the debt collection process is time management, correct approach and also the capacity to allocate time and assets in the efficient manner. Essential in this determination is early intervention. Setting up a program through which contact is made and maintained regularly with the clients is important so all communication is punctual and wastes little time in going after the resolution of the debt. Prioritizing contact is dependent upon knowing the odds of gaining ground with the customer. If your client is obviously merely a slow paying client, consistent pursuits as well as reminders are usually much more likely to work in recouping the late payments from them (Sweet, 2004).

On the other hand the costs associated with collections directly decrease profitability, such as hidden costs of labor, tracking past due accounts, cost of mailings, phone bills, write off on bad debts and incentives for collectors. Bad debt directly decreases profitability. Uncollected accounts receivable results in a loss that is never recovered. It is imperative that banks acquire sophisticated software for credit and collections to increase efficiency and increase profit

margins. Banks differ in methods and organization they use to manage problem loans. Successful loan work-outs depend on early identification of credit weaknesses and adverse credit trends. For banks to surface loan problems at the earliest possible stage, the positive support of senior management and board is essential. An important part of the work-out and collection process is the performance of 'post-mortem' reviews to better understand how problem loans and losses develop. An experienced work-out unit can provide valuable guidance during initial underwriting and restructures that can help to ensure that the bank's return is maximized (Comptroller, 1998). Nevertheless, non-paying customers usually are a bit more difficult and very apt to be a drain upon company time and resources when pursuing debt collection. Identifying all these as non-priorities and outsourcing all of them on to a third party debt collection agency will help preserve means to be used on those more agreeable to payment regulations and more likely to pay back the debt owed (Montana, 2010).

2.2.4.2 External collections and financial performance

With the many costs involved in running a business, having to pursue delinquent accounts can be expensive, in money and in time. Organizations around the world are increasingly considering outsourcing by use of legal firms and specialized debt collection agencies as a strategic management tool, which can be leveraged to allow them to focus on their core competencies like marketing and day to day operations. Outsourcing is viewed as a means to reduce costs, improve customer satisfaction, and provide enhanced efficiency and effectiveness. However, many organizations never realize the full benefits of an outsourcing relationship. Reasons for outsourcing debt include, cost effectiveness, company can focus on their core business, and also debt management companies are professionally trained and have the appropriate collection techniques (Smith, 2000). Outright selling of the portfolio frees up the banks balance sheet and

time as against using collection agencies that charge commission (Sweet, 2004). Once it becomes clear that the chance for a significant recovery rate is low, an outright sale of that non-performing part of the portfolio might be something to consider.

A bank should only consider outsourcing collections for those overdue loans that have a low chance of significant recovery. Outsourcing the handling of problem loans to a collection agent should be done on an exceptional basis only (Kempen, 2009). As these clients are by definition not much interest to the bank going forward there is little reason to keep these loans on the banks books. The objective of any business bank adds Sweet (2004), is to increase profits by minimizing losses through bad debts. Turning debtors into a profit centre therefore a bank needs a carefully planned and managed credit system. Outsourcing relationships fail when they are viewed as short-term or tactical solutions, rather than part of long-term strategic plans. The process of considering and/or implementing an outsourcing solution must be systematic and fully documented to achieve the desired results. A multi-step approach, including Planning, Analysis, Design, Implementation, and Operations phases, along with a contingency exit strategy, is required to achieve a successful outsourcing implementation.

2.2.5. Competition and its influence on loan management and financial performance

It has been researched for decades e.g., (Allen & Gale, 2004 as cited by Cai & Thakor, 2008) that interbank competition affect stability of the banking system. Many believe that increased competition leads to socially-excessive risk taking by banks and thus jeopardizes stability. This is because customers tend to be fickle causing banks to lower their standards and dispense on policies in order to retain customers. Bank competition influences the terms of a credit contract

and as such reduces the amount of information generated by banks during vetting and assessing. Competition banks use collateral less often than a monopolistic bank.

A case is seen in Uganda recently where Standard Chartered bank and Barclays Bank can offer up to seventy million Uganda shillings for an unsecured loan in a bid to attract the most customers from the public (Hainz, 2007). In another instance, rational firms or individuals will apply firstly to the banks which post the lowest interest rates. As a result a bank may ensure, by lowering its interest rate, that it has first choice from the population of loan applicants. Hence a bank may be able to profit by undercutting its competitors. In a model by Freixas.,Hurkens.,Morrison & Vulkan, (2004) it is seen that an inferior bank suffers losses whenever a superior bank charges the same or a lower interest rate. The reason is high quality borrowers will in the first instance approach the lender with superior technology. In the absence of competition, loans with higher credit risk may have lower liquidity risk (Boot & Greenbaum, 1993 as cited by Cai & Thakor, 2008).

A firm may follow a lenient or a stringent credit policy. The firm following a lenient credit policy tends to sell on liberal terms. Credit is granted for longer periods even to the customers whose credit worthiness is not fully known or whose financial position is doubtful. In practice it is good to follow credit policies ranging between stringent to lenient. Credit standards are the criteria which a firm follows in selecting customers for the purpose of credit extension. The firm may have tight credit standards that extend credit only to the most reliable and financially strong customers. Such standards result in no bad-debt losses and less cost of credit administration. But again the firm may not be able to expand sales. The profit sacrificed on lost sales may be more

than the costs saved by the firm. On the contrary if credit standards are loose, the firm may have larger sales but will have to carry larger receivable. The costs of administering credit and bad debt losses will also increase. Bad debt losses arise when the firm is unable to collect its accounts receivable and is dependant on the quality of accounts accepted by the firm. Credit standards influence the quality of the firms customers i.e., time taken by customers to repay credit obligation and the default rate (Pandey, 2002). There is a substantial variation of credit standards and price competition among banks; as economic outlook improves the average default probabilities of borrowers decline. This affects the profitability of screening and causes bank screening intensity to display an inverse U-shape as a function of economic prospects. Low screening activity in expansions creates intense price competition among lenders and loans are extended to lower-quality borrowers. As the economic outlook worsens, price competition diminishes, and credit standards tighten significantly (Ruckes, 2004).

Further more, Podpiera, Laurent & Schobert (2007), in their studies, find that banking competition provides welfare gains by reducing monopoly rents and cost inefficiencies, favoring the reduction of loan rates. However, there are some negative effects of banking competition through excessive risk-taking which may hamper financial stability. There is a notion that excessive competition can lead to fragility and restraints on competition are necessary to preserve the stability of the banking system with regard to proper regulation and supervision by both markets and authorities (Beck, 2008). In this competitive world, some banks may be inclined to relax lending terms and conditions beyond prudent bounds in attempts to obtain new customers or retain existing ones. Rapid growth can but does not necessarily indicate a decline in vetting standards.

2.3. Summary of the Literature Review

In light of the above studies carried out in relation to profitability of financial institutions, it is observed that lending is indeed the principle activity for most banks & hence the riskiest. Sweet (2004) emphasizes that a successful loan department will positively impact a bank's profit and loss account through high recovery rates. There is need to minimize losses through bad debts. Most studies have however concentrated on models of determining profitability and efficiency. However, internal factors like the micro management of loan pricing, loan vetting and loan collections mentioned in the conceptual framework have not been greatly analyzed and this forms the major part of my research to identify the relationship between the mentioned variables and financial performance.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter presents a description and plan of the methods that were employed in this study on how data was collected and analyzed. It particularly looked at the sources of information, research designs, sampling techniques and procedures, sample size selection, data collection methods and instruments, data processing and analysis and problems that were encountered in the research.

3.1 Research Design

A case study design was used which involved in-depth, contextual analyses of loan management and financial performance at Barclays Bank. The research design was useful because it allowed the researcher to narrow down a very broad field of research into one easily researchable topic as stated by Shuttleworth, (2008). The case study design involved quantitative and qualitative approaches which enhanced a triangulated approach of data collection and analysis of the research problem. The use of both research approaches was aimed at reducing bias; subjectivity associated with qualitative research is minimized by objectivity of quantitative research (Amin, 2005. p.55; Mugenda & Mugenda, 1999).

3.2 Study Population

The study was carried out at Barclays Bank Retail Credit Department with a population of 7 senior credit management staff, 4 from finance, 3 from loan pricing and 70 from collections and vetting teams because they majorly handle the loan management process in the bank. It also

considered 296 clients of the Bank as shown in Table 3.1. This was to give their perceptions that would in turn be used to find out what affects the loan management and as a result impact on the financial performance. Since it was impossible to study the entire population, the researcher using various sampling methods to come up with the results from which conclusions and recommendations were drawn (Mugenda and Mugenda, 1999).

3.3 Sample Size and selection

Table 3.1: Study population and sample structure

Category of staff	Population	Sample Size	Sampling technique
Senior Credit Management	7	7	Census
Finance staff	4	4	Census
Loan pricing staff	3	3	Census
Retail Credit staff (policy, MIS, collectors, vetting)	70	35	Stratified random sampling
Clients	296	132	Stratified random sampling
Total	**380**	**181**	

Adapted from R.V. Krejcie and D.W.Morgan 1970, cited in Amin, (2005 p.454)

The table above shows the population, sample size and sampling strategy that were used in this study. The five different strata used to carry out this research giving a total population of 380 and a sample total of 181 were senior credit management staff, finance staff, loan pricing staff, retail credit staff whose sample size were selected by use of census for the senior credit managers, finance staff and loan pricing staff. for the retail credit staff, systematic random sampling was used and for the bank clients, simple random sampling was used. The 35 and 132 numbers for the retail credit staff and clients was arrived at by use of proportionate stratified sampling.

3.4 Sampling techniques and procedure

Sampling is the process of selecting a sufficient number of elements from the population, so that a study of that sample and an understanding of its characteristics makes it possible for the researcher to generalize results to the population elements (Sekaran, 2003). The researcher used probability sampling techniques known as stratified random sampling which involves systematic sampling and non probability sampling method such as census which takes into account the entire population to collect data. These sampling techniques were used because they were the most suitable to this study as the population size of the strata was small to allow for census and also able to get the subjects in one location.

3.4.1. Stratified Random Sampling

This was a sampling method that involved the division of the population into smaller groups called strata. In stratified random sampling, strata were formed based on members' shared characteristics of section of work within retail credit department. A random sample from each stratum was taken in a number proportional to the stratum size as compared to the total population. This is known as proportionate stratified random sampling. It involved dividing the population into different strata sample sizes and making them proportional to strata population. It was used because it gave a higher statistical precision compared to simple random sampling; this is because the variability within the sub groups was lower compared to the variations when dealing with the entire population (Sekaran, 2003).

3.4.2. Systematic Sampling

This is a probability sampling design that involves drawing every n^{th} element in the population starting with a randomly chosen element between 1 and n. It was suitable for this study because the population was large and available in one place. This design was used for the retail credit staff and it involved every 7th staff member. This way the sample was developed quickly and with ease.

3.4.3. Simple Random Sampling

In this type of probability sampling, every person in the population had an equal chance of being selected as a subject. This sampling process had the least bias and offered the most generalizability and was used on the clientele since they are many in number and the researcher cannot get them all together at the same time. The procedure that was followed was that a questionnaire was handed over to any walk-in client that had a running loan with the Bank until the 132nd client and asked whether they were willing to participate in the study and to ensure that the questionnaire was filled in there and then to avoid losing the questionnaires and looking for the customers to refill them.

3.4.4. Census

Census is a type of non probability sampling where subjects do not depend on random sampling to participate. The entire population of 14 staff from senior management, loan pricing and finance departments was used to get the primary data. This was useful because the population

was small and easily accessible and all available information from each subject was necessary to get the data (Sekaran, 2003).

3.5. Data collection methods and instruments

The study utilized qualitative, quantitative and documentary review methods of data collection. Qualitative methods involved the use of open ended questionnaires, documentary review and interviews on loan management and financial performance while quantitative methods involved the use closed ended questionnaires.

3.5.1 Interviews and interview guides

This was an oral questionnaire administered by use of an interview guide and was done face to face with the subject. The interview guide had a set of questions that the interviewer asked the subject and questions were open so that the interviewer could get in depth information. It was good to use because it provided the researcher with rich data by use of probing questions and it yielded higher response rates mainly because it was difficult for a subject to completely refuse to answer or ignore the question. This study was administered to the senior credit management team and to the pricing and finance team because they are specialties in the areas of pricing, financial statements and decision making in the organization as compared to the rest of the staff (Mugenda & Mugenda, 1999).

3.5.2 Questionnaires

The questionnaire had pre formulated written set of questions to which respondents recorded or ticked their answers within closely defined alternatives (Sekaran, 2003). Self-administered questionnaires were employed on the clients and the retail credit staff. Both open-ended and closed questions were used by the researcher. Open ended questions allowed the respondents to

give answers in any-way they chose and according to how they felt. Closed ended questions helped the respondents make quick decisions by choosing among several alternatives before them. Self-administered questionnaires were a good choice of instrument because they were less expensive.

3.5.3. Documentary review

Documentary review is where the researcher got information from company manuals and processes to compile secondary data in areas of specific interest especially pricing and vetting, which included both published and unpublished works from other previous researchers. Data were both internal and external to the organization and was accessed through the internet and perusal of recorded or published information. Sources of secondary data included media, and regulatory frameworks of institutions, supervision manuals and lending policy manuals. Documentation had the advantage of being comprehensive, saving time and costs of acquiring the information (Sekaran, 2003). The documentation checklist comprised three forms of databases; (i) bibliographic databases, which display only the bibliographic citations, that is name of author, title of article(book), source of publication, year, volume, and page numbers. (ii) The abstract databases which in addition provide an abstract/summary of the articles. (iii) The full text databases, which provide the full text of the article.

3.6 Pre-testing of data collection instruments

The research instruments were pretested amongst 10 of the senior staff members in the bank to ensure validity and reliability of the instruments before distribution to the actual respondents.

3.6.1 Validity tests

This refers to the degree to which the instrument used to measure the variables served that very purpose for which it was intended. Validity is the degree to which results obtained from the analysis of the data actually represented the phenomenon under study (Mugenda & Mugenda, 1999). In this study the researcher used content validity that ensured the research instruments used brought about the required responses which were related to the research problem and represented the set of items that tapped the concept. Questionnaires were designed according to the study variables in the conceptual framework (Amin, 2005, P.286). The questionnaires were given to 10 senior staff members to critic and give feedback on their relevance. The coefficient of validity was obtained by use of this formula;

CVI= Total number of relevant

(Total number of valid items + total number of invalid items)

= 73/91= 0.8. CVI=0.8

Since it was greater than 0.5 which is statistically recommended, the research proceeded (Sekaran, 2003).

3.6.2 Reliability tests

Reliability is a measure of the degree to which a research instrument consistently measures the variable. Reliability is influenced by random error which may arise from inaccurate coding, ambiguous instructions to the subjects, and fatigue of the interviewer or interviewee (Mugenda & Mugenda, 1999). The split-half reliability method was used by splitting the test into 2 halves. The halves were generated by splitting the questions related to each variable were divided into

two and given to different senior managers. A score was obtained from each set of the halves and correlated to obtain a coefficient of 0.6.

The coefficient was used to determine the split half reliability coefficient by using the Spearman Brown formula for correlations.

R= 2r / (1+r) where R is the split half reliability coefficient and r is the coefficient between the 2 halves (Amin, 2005 p.299).

$$= \frac{2 \times 0.6}{(1+0.6)} = \frac{1.2}{1.6} = 0.8$$

A split-half correlation coefficient of 0.8 was obtained.

The researcher selected this method because the research needed to be done in a short time and this method suited well; it was also because it is generally recommended for questionnaires as they can be split into parts (Sekaran, 2003). This was sufficient to allow the researcher to proceed with the study.

3.6.3 Procedure of data collection

Data were obtained from primary and secondary sources. Primary data was data that was obtained firsthand by the researcher from the subjects by use of questionnaires and interviews while secondary data was information gathered from documented sources such as books, journals, newspapers and institutional manuals.

3.6.3.1 Primary data collection

Prior to primary data collection, an introductory meeting was held with the Credit Management Team of Barclays Bank to explain the purpose of the study. An accompanying letter from UMI explaining the purpose of the study was presented by the researcher to provide further proof of the researcher's intention and to seek permission to carry out the study. Questionnaires were then personally distributed to the subjects and some were sent by email to be filled out according to the sample size determined and then later collected after one week for sorting, coding and data analysis. Appointments for the interviews were set via email for the various people to be interviewed each one separately that allowed for individual opinions and openness during the interview. All data was compiled, sorted, edited and organized then written in a meaningful manner for presentation.

3.6.3.2 Secondary data collection

Secondary data was information that the researcher gathered from documented sources i.e., published books, newspapers, scientific journals and company manuals on pricing policies, vetting policies and procedures. The researcher accessed the library and resource centre for material related to loan management and read about previous similar research done on the loan management and financial performance in other countries. Material was categorized per variable as shown in the conceptual framework to make the data much easier to access and to compile.

3.7 Measurement of variables

Measurement of variables is the assignment of numbers to variables to allow for ease in data analysis by use of coding in order to test the hypothesis and answer the research questions. In this Study the researcher used 3 measurement levels; nominal, interval and ratio levels because

they were what were suited to the variables being measured. Nominal level was used to measure sex and level of education because they were mutually exclusive and exhaustive (Sekaran, 2003). Interval scale measurement by use of the likert scale was used to measure how strongly participant's agreed or disagreed with a question, statement or opinion on a 5 point scale. The measurement had an advantage that it enabled data to be subjected to further manipulation in order to generate descriptive statistics. Ratio scale is a measurement with an absolute zero to a variable stating the magnitude. In this case it measured the mean, standard deviation and correlations of the variables in the conceptual framework.

3.8 Data Analysis

This is where data obtained from the field was compiled, sorted, coded, edited, organized and written in a meaningful manner. Data had to be organized in a manner that facilitated analysis and it involved being converted to numerical codes, a process known as coding (Mugenda & Mugenda, 1999). Completed questionnaires were edited for completeness, accuracy, uniformity and comprehensiveness. The interview guide was used to check the feedback from the respondents, noting the relationships between the given answers and asked questions. The data analysis helped the researcher to make conclusions on the previously stated hypothesis.

3.8.1 Quantitative data analysis

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

statistics by use of Pearson correlation model and regression analysis was used in this study because it was the most suitable to find the relationship between variables (Mugenda and Mugenda, 1999).

3.8.2 Qualitative data analysis

Data collected were compiled, edited, coded and categorized through finding patterns, trends and relationships from the information gathered. Primary data collected like interviewees responses were analyzed for content and finding patterns and were discussed in line with the research objectives in order establish areas of convergence and divergence. The analysis involved listing and summarizing data in compilation sheets (Mugenda & Mugenda, 1999).

CHAPTER FOUR

PRESENTATION, ANALYSIS AND INTERPRETATION OF RESULTS

4.0. Introduction

This chapter presents, analyses and interprets the study findings arising from the field information collected from questionnaires, interview and documentary analysis on loan management and financial performance of BBU Ltd. The first section presents the background information about the respondents. This is followed by presentation and analysis of the study findings in relation to the specific objectives.

4.1. Response rate

The response rate for this research was 57.5% which was low due to the fact that some customers took away the forms and didn't return them to the branch and tracing them was very hard. However, Mugenda & Mugenda (1999) recommends $\geq$ 50% response rate for the research to proceed.

$$\text{Response rate} = \frac{\text{received questionnaires}}{\text{Total questionnaires distributed}} = \frac{104}{181} \times 100 = 57.5\%$$

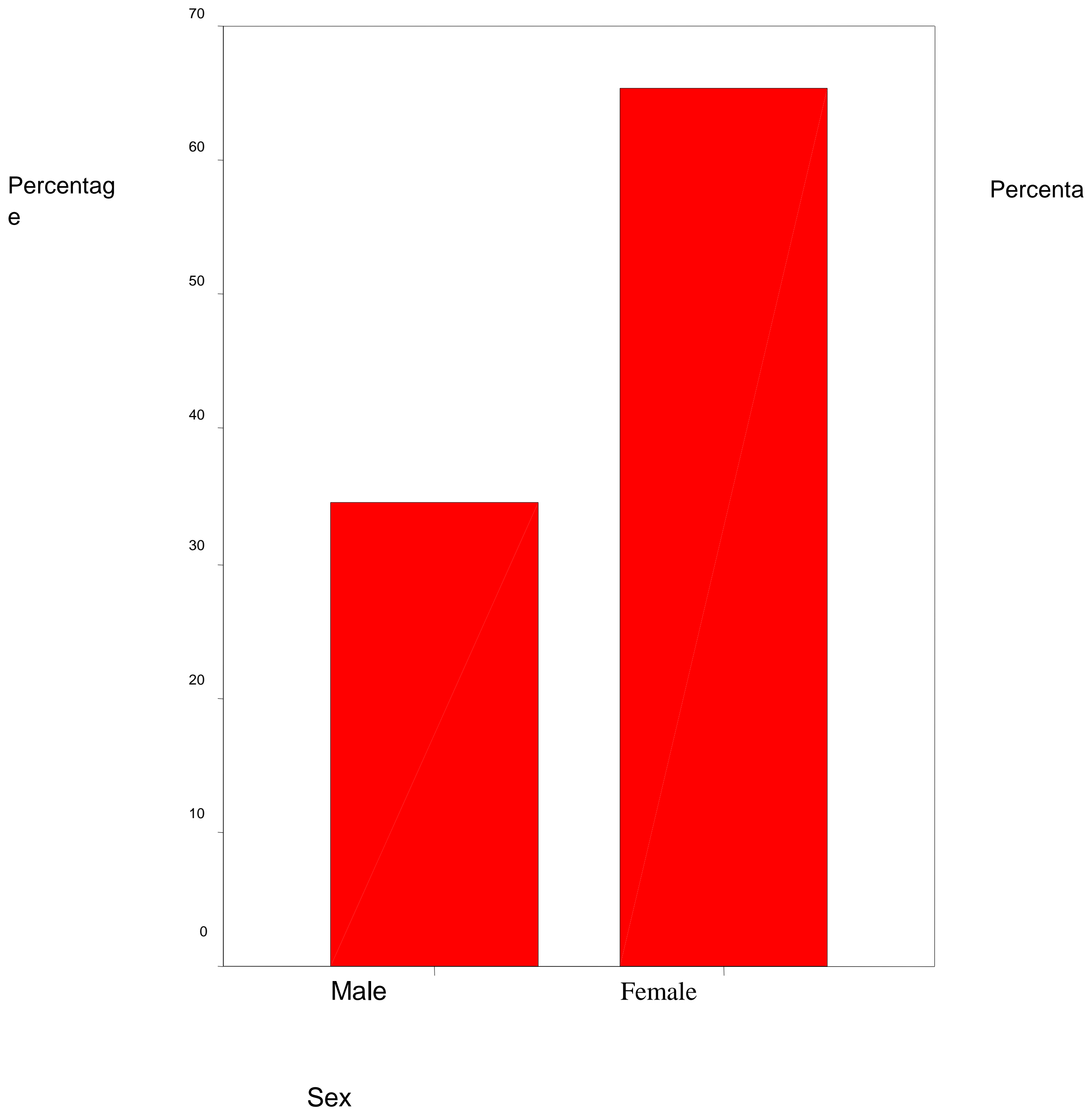
This section gives the number of people who responded to the study against those which the researcher had targeted and also the characteristics of the respondents in relation to gender, age, level of education, years worked and type of loan. This was based on the information provided in the questionnaire and interviews by the respondents.

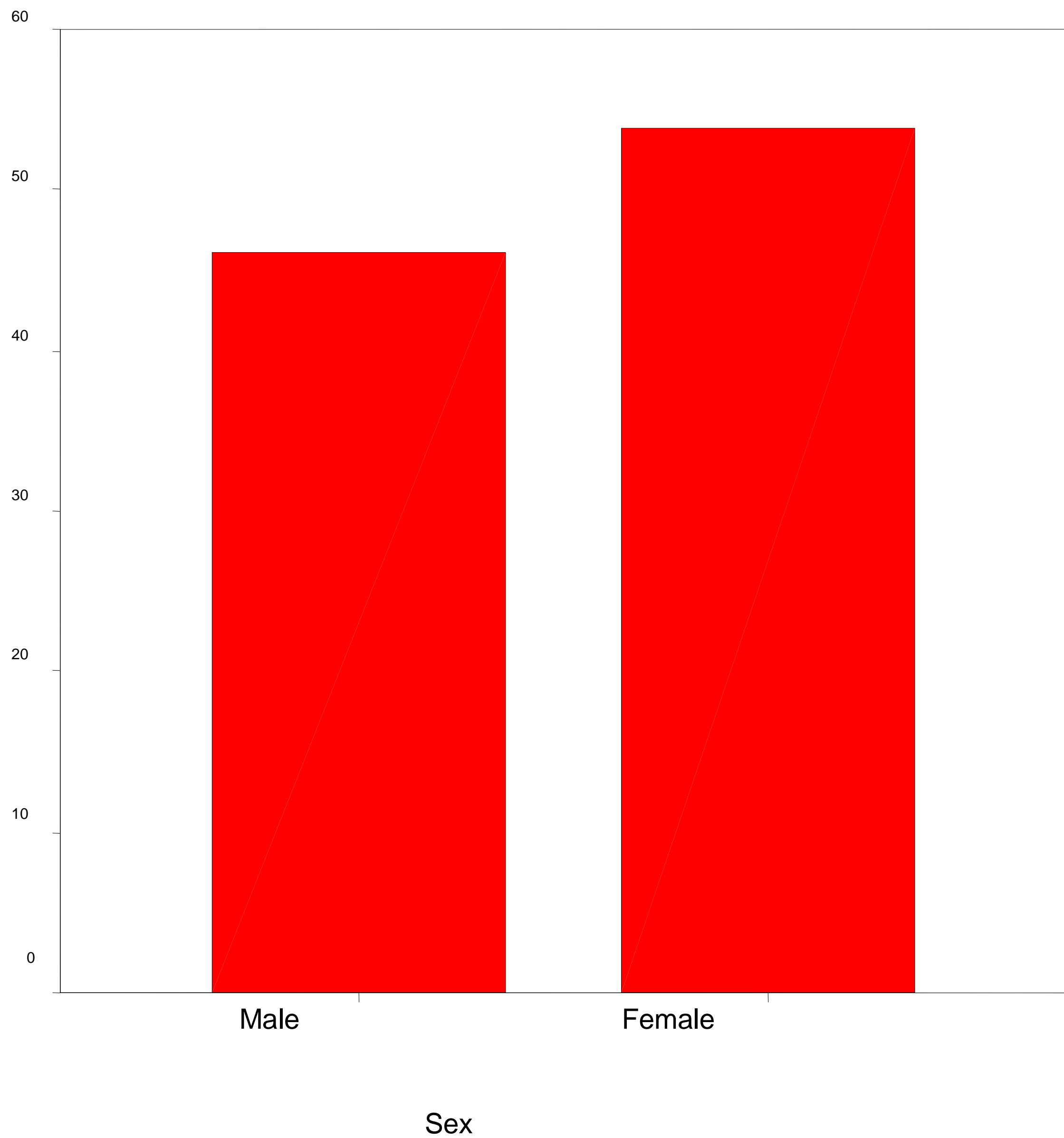
4.1.1. Distribution of respondents by sex

The gender of the respondents was arrived at by asking them to indicate their gender on the questionnaire of which the findings are presented in figure 4.1 below.

Figure 4.1: Gender of the respondents

Customers **Staff**





Source: Primary data

Figure 4.1 above shows that among the customers who responended to this study, most of them were female representing 65.5% while the male represented 34.5% of the total number of respondents. The female staff were equally more than the male as they constituted 53.8%

as compared to 46.2% of the total number of staff who responded to this study. In this study, there was no relationship with regard to sex of the respondents to the subject under study, which is loan management and financial performance in Barclays Bank.

4.1.2. Distribution of respondents by age

The age of the respondents was arrived at by asking them to indicate their age on the questionnaire of which the findings are presented in figure 4.2 below.

Figure 4.2: Showing the distribution of respondents by age

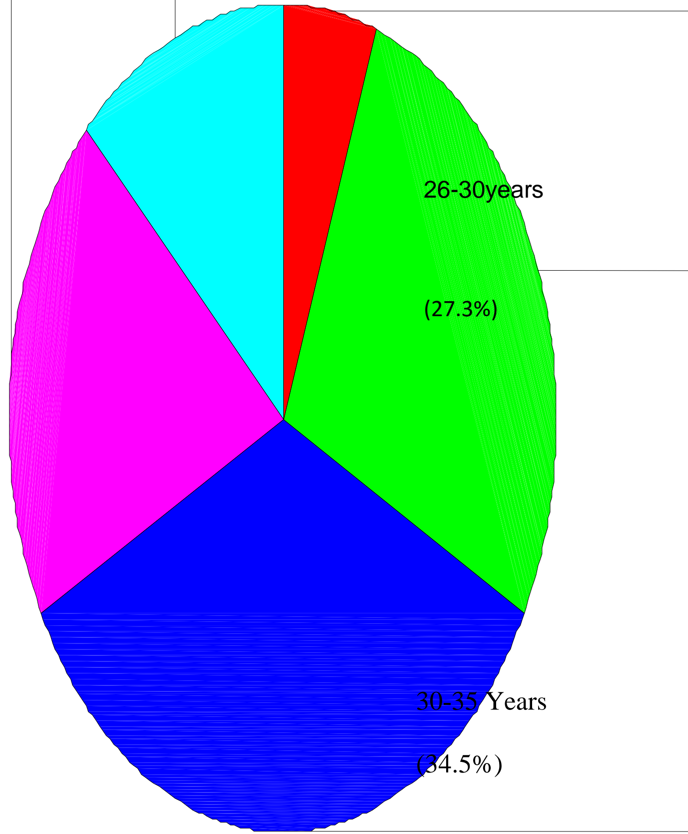
Customers **Staff**

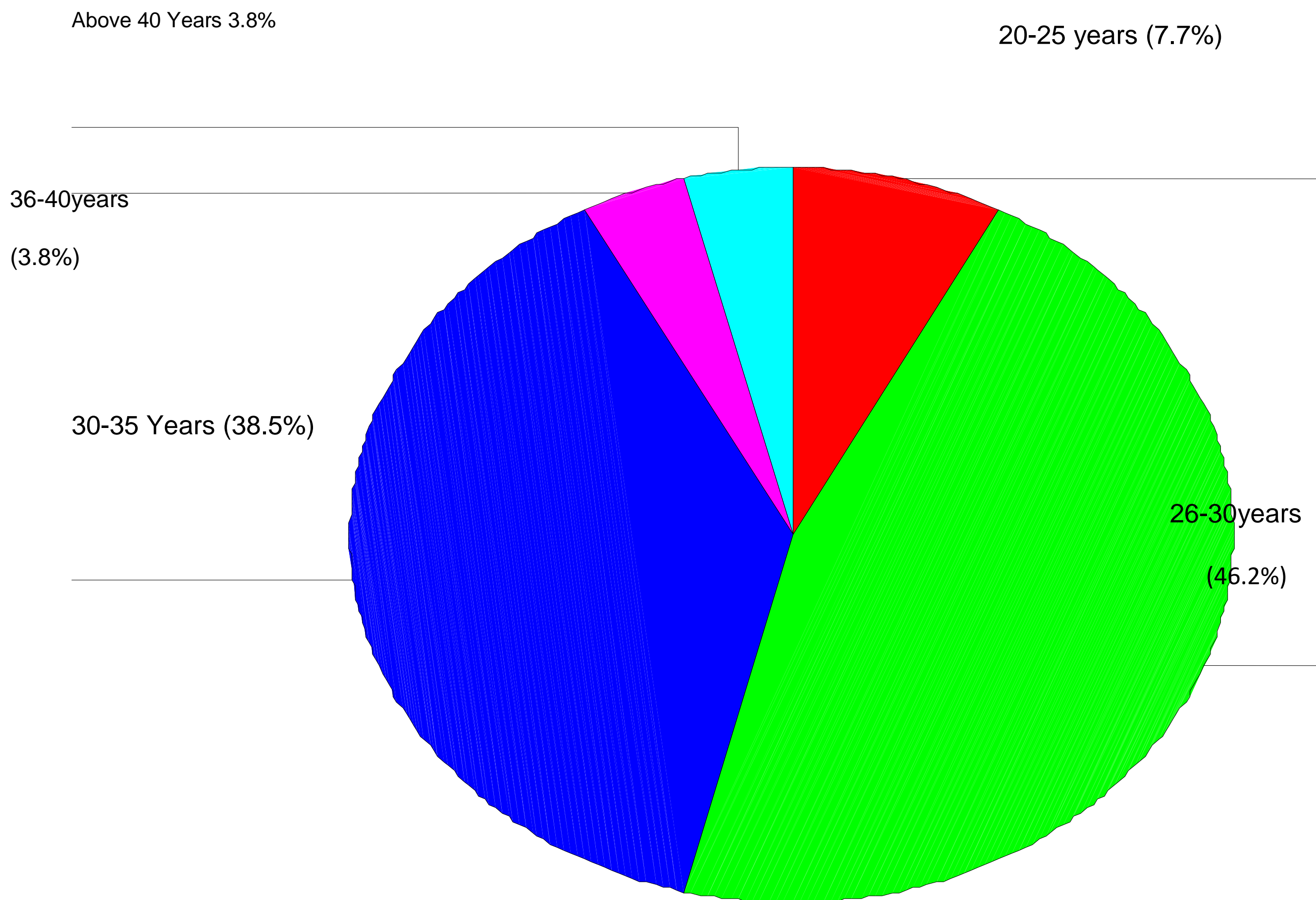
Above 40 Yrs (12.7%)

20-25 years (5.5%)

36-40years

(27.3%)





Source Primary

Figure 4.2 above shows that among the customer respondents, 34.5% were aged between 30-35 years followed by 27.3% who were aged between 36- 40 years and 26-30 years each. Those who were aged above 40 years constituted 12.7% while those who were aged between 20-25 years constituted 5.5% of the total number of customer respondents.

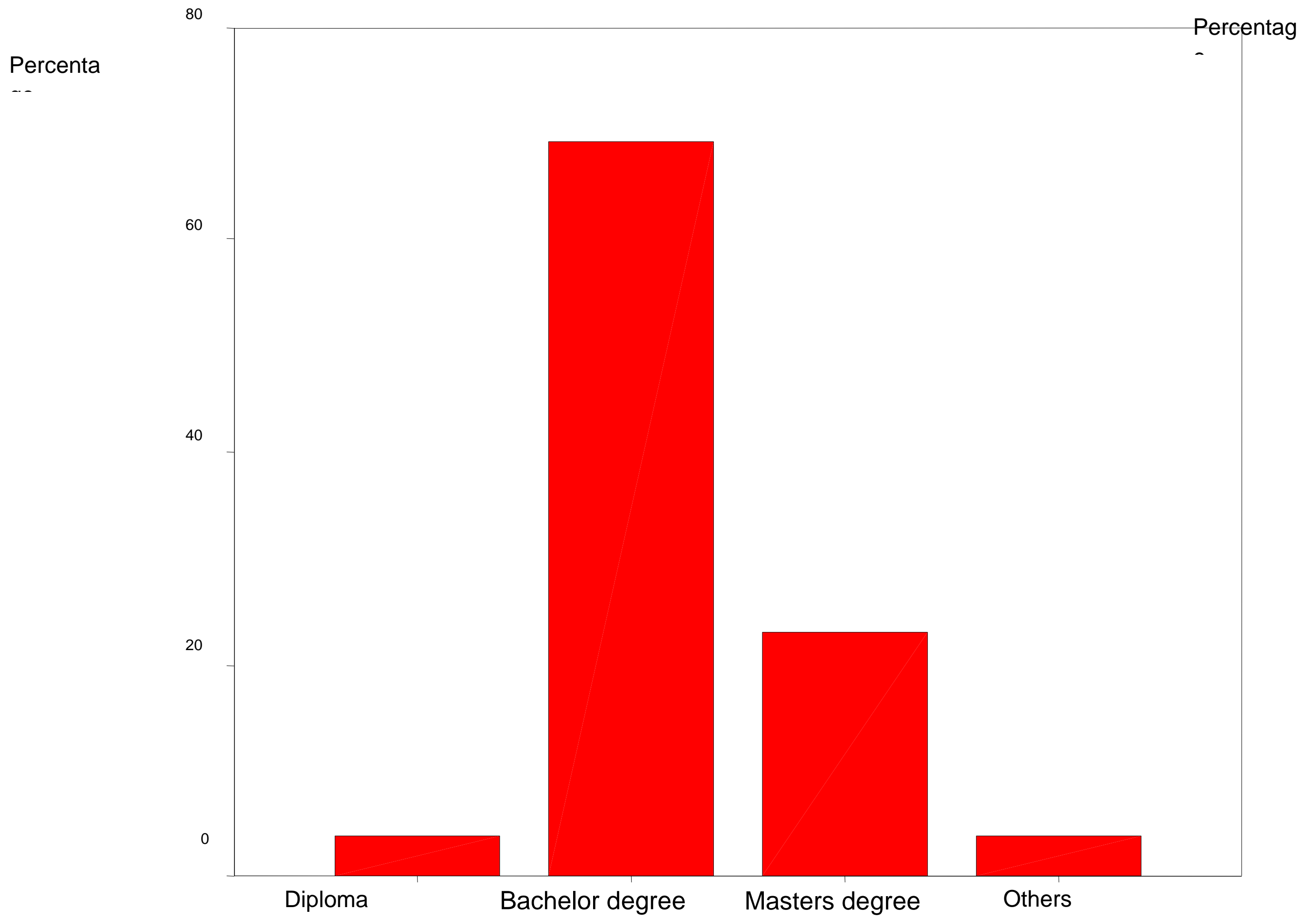
Figure 4.2 above further shows that among the staff who responded to this study, a majority of 46.2% were aged between 26-30 years followed by 38.5% who were aged between 30-35 years while those who were aged between 20-25 years constituted 7.7% of

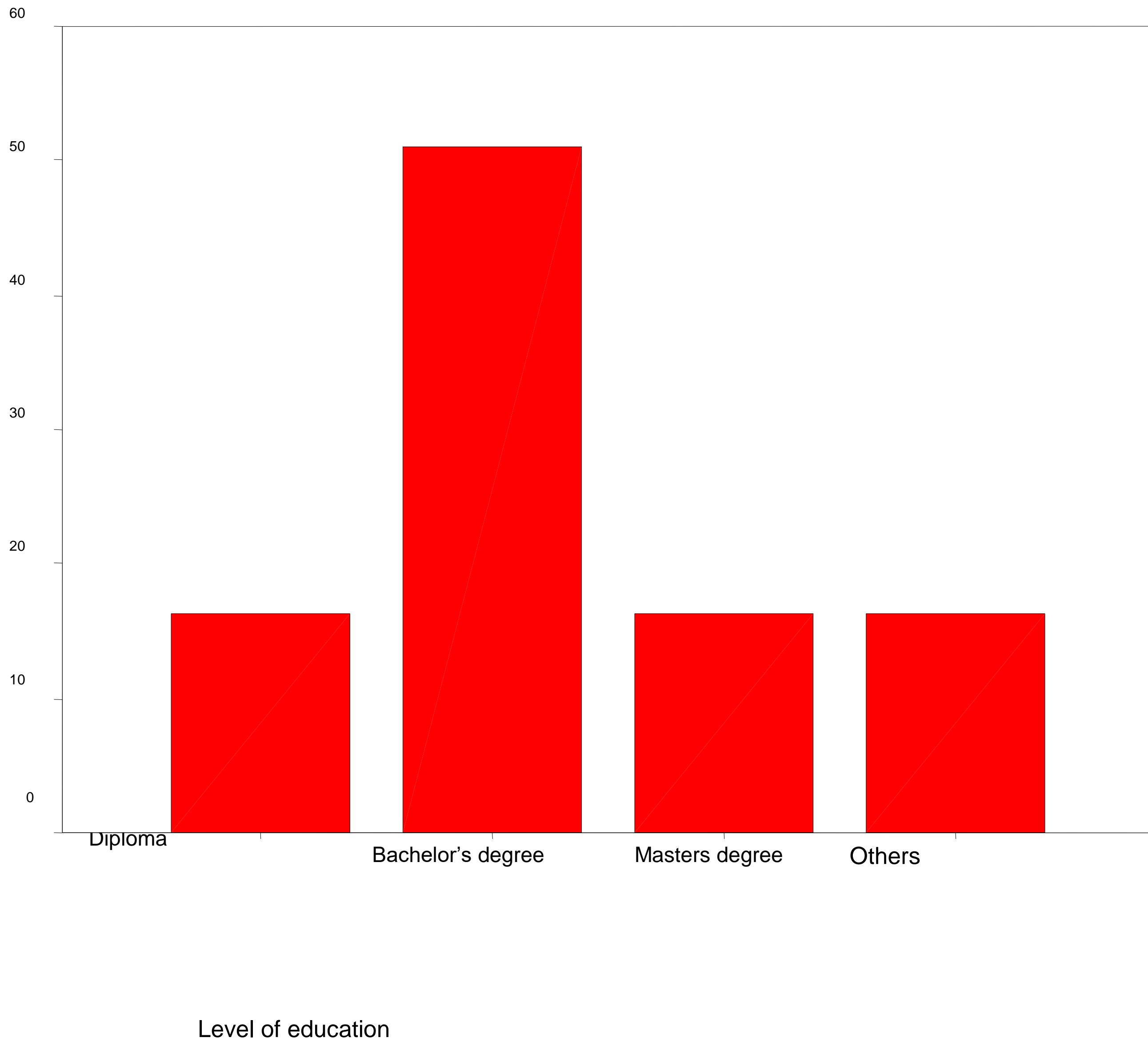
the total number of staff who participated in this study. A total of 3.8% of the staff respondents were either above 40 years of 36-40 years. This finding generally suggested that the respondents were of reasonable maturity to understand loan and financial performance issues in the banking sector by virtue of their mature age.

4.1.3. Distribution of level of education of the respondents

The level of education of the respondents was arrived at by asking them to indicate their level of education on the questionnaire of which the findings are presented in figure 4.3 below.

Table 4.3: Showing the distribution of level of education of the respondents


Level of education of staff
Percenta
Percentag
80
60
40
20
0
Diploma
Bachelor degree
Masters degree
Others
Level of education



Source: Primary data

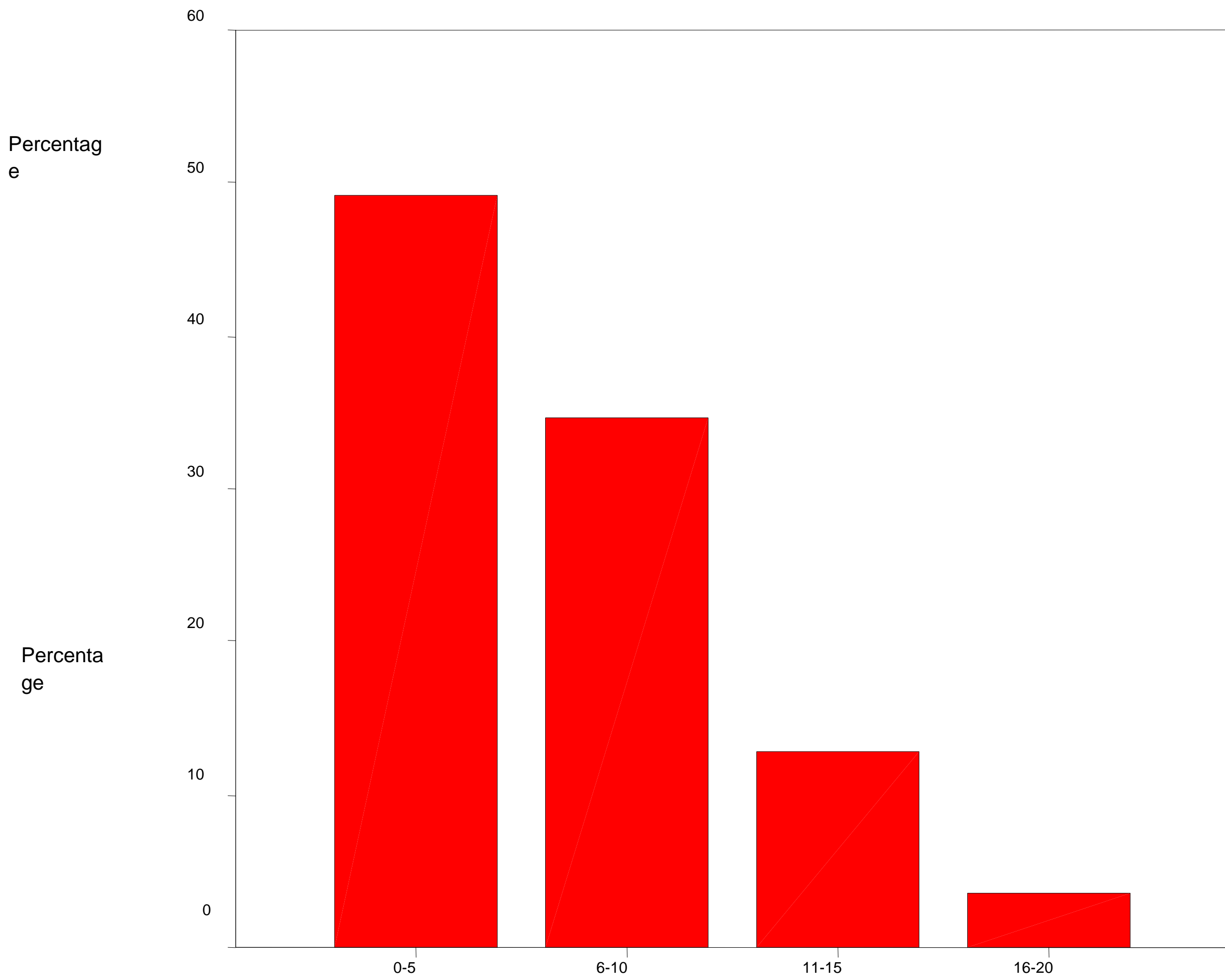
Figure 4.3 above shows that among the staff who responded to this study, the majority 69.2% were degree holders followed by 23.1% who had attained a masters degree as their highest level of education. Those who had attained a diploma level of education or other qualifications other than those mentioned above constituted 3.8% each of the total number of respondents. Most

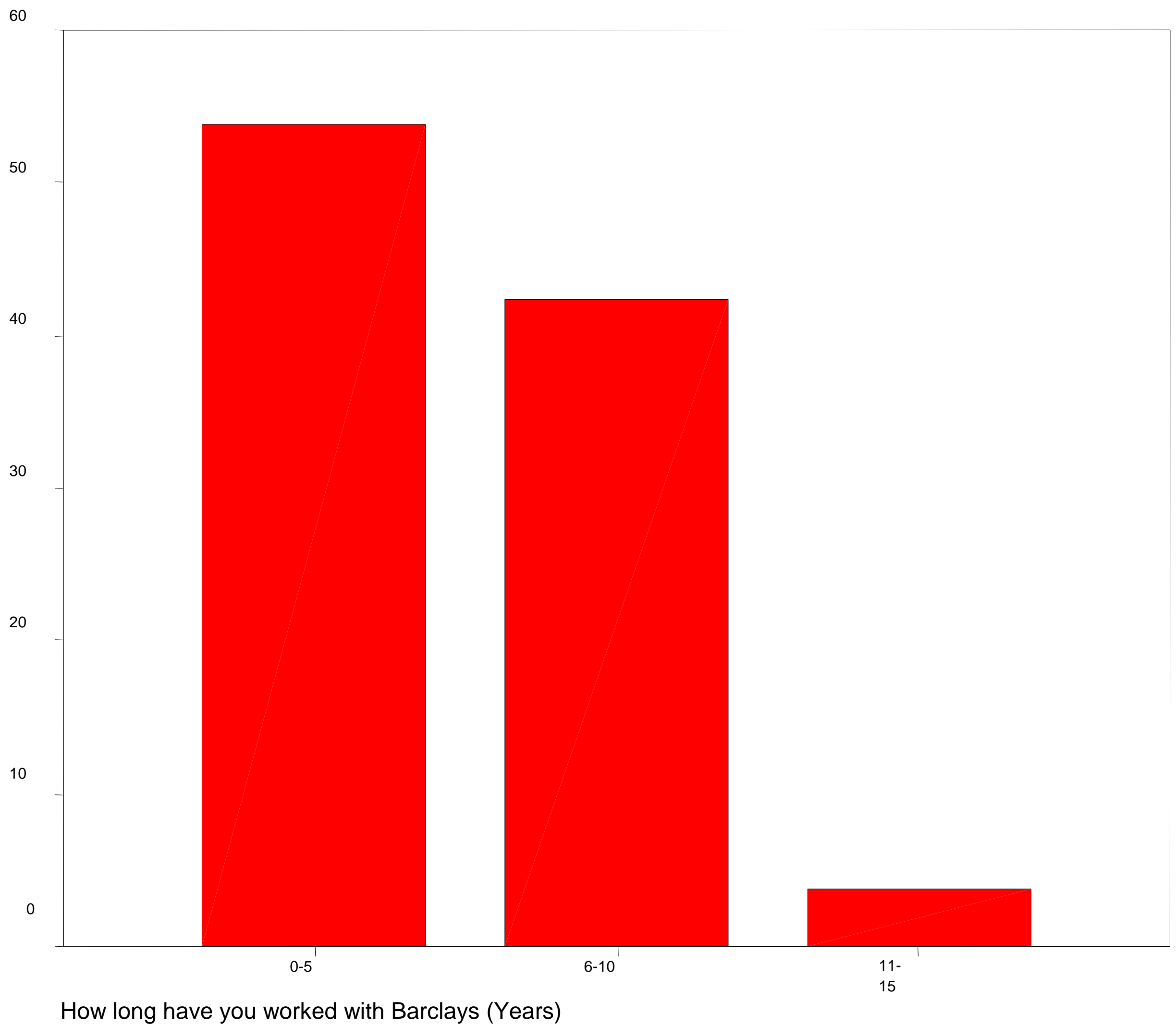
customers (50.9%) had attained a bachelor’s degree yet the rest had either attained a diploma, masters’ degree or other qualifications. This finding generally showed that the respondents were of a reasonable education level and could understand issues about loan and financial performance issues in the bank they work for or borrowed from.

4.1.4. Distribution of length of service with Barclays Bank

The length of service of the respondents was arrived at by asking them to indicate their length of service with Barclays Bank on the questionnaire of which the findings are presented in figure 4.4 below.

Table 4.4: Showing the distribution of level of education of the respondents


Length of banking with BBU
Percentag
e
Percenta
ge
60
50
40
30
20
10
0
0-5
6-10
11-15
16-20
How long have you banked with Barclays bank?



Source: Primary data

Figure 4.4 shows that a total of 49.1% of the respondents had banked with the bank for a period of 0-5 years while 34.5% had banked with the bank for a period of 6-10 years. A total of 12.7% had banked with the bank for a period of 11-15 years while only 3.6 had banked with the bank

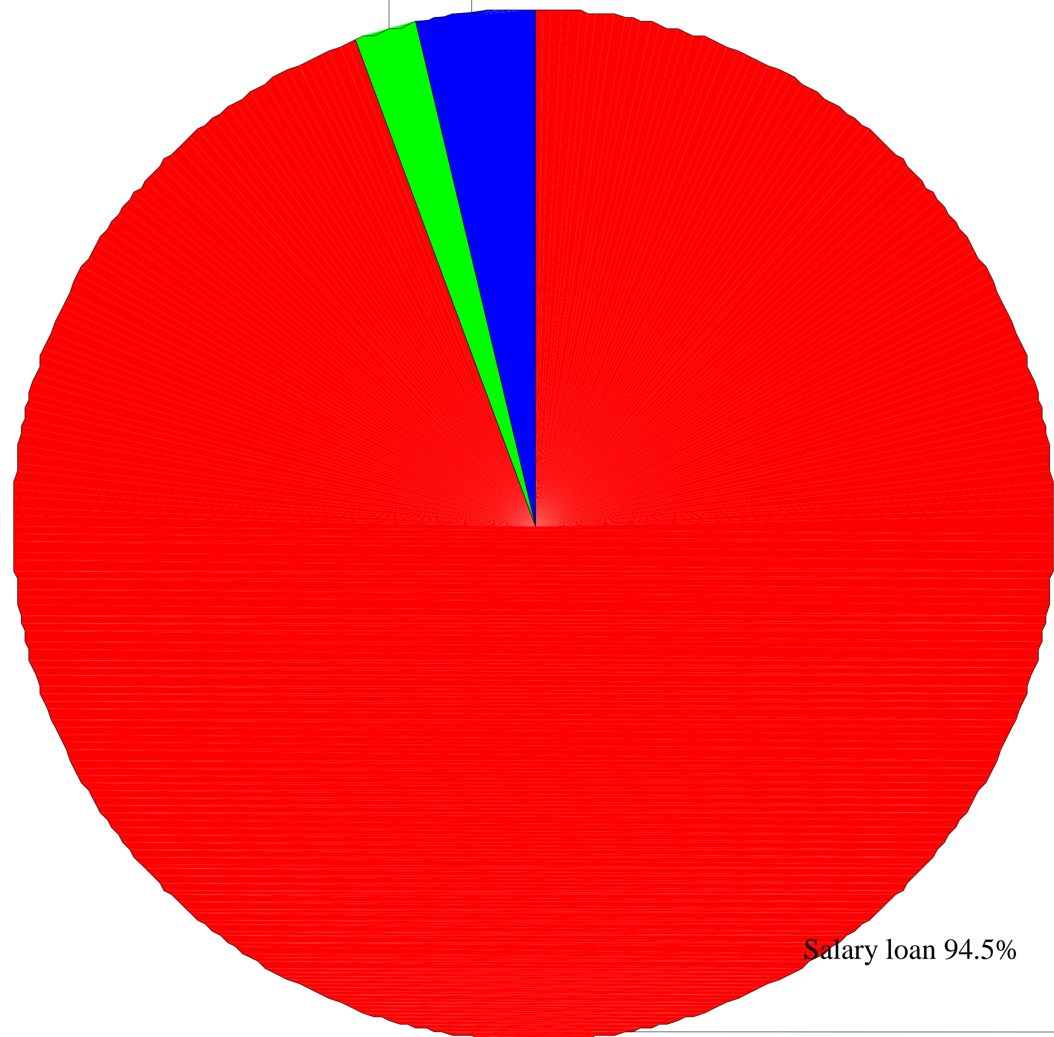
for 16-20 years. This finding suggests that the customer respondents had reasonable experiences with BBU accumulated over the period they had been with the bank. Among the staff who responded to this study, a majority of 53.8% had worked with the bank for period of 0-5 years followed by 42.3 % who had worked for a period of 6-10 years while 3.8% had worked for a period of 11-15 years suggesting that the staff had reasonable loan and financial performance related experiences accumulated over the time they had worked with their bank.

4.1.5. Distribution of type of loans with BBU Ltd

The type of loan of the respondents was arrived at by asking the customers to indicate the type of loan they were servicing in Barclays Bank on the questionnaire of which the findings are presented in figure 4.5 below.

Figure 4.5 below shows that the customers who responded to this study, a majority of 94.5% were servicing salary loans. Only 1.8% were servicing business secured loans while 3.6% were on other loan products other than those mentioned above a finding which suggested that most loan experiences were based on salary loan experiences with some little experiences from loan products.

Figure 4.5: Distribution of type of loan serviced by customers.



Source: Primary data

The next sub section presents empirical descriptive statistics, their analysis and interpretation in relation to the study objectives.

4.2. Findings

The findings are presented and analyzed using descriptive (frequency, percentages, mean and standard deviation), correlation and regression results in relation to the specific objectives. The general objective of the study was to establish the effect of loan management on financial performance at Barclays Bank.

In this section the study findings are presented as follows:

- Loan pricing and financial performance at Barclays bank
- Loan vetting and financial performance at Barclays bank
- Loan collection and financial performance at Barclays Bank
- Competition and financial performance at Barclays bank.

4.2.1. Loan pricing and financial performance at Barclays Bank

The first objective of the study was to examine how loan pricing affects financial performance in Barclays bank. The findings of loan pricing and financial performance were gathered from questionnaire, interview guide and documentary review. Loan pricing according to the conceptual framework consisted of cost of funds, administrative costs and risk factors. Loan pricing was measured using 11 items scored on 5 pint Likert scale ranging from 1 for strongly agree, 2 for agree, 3 not sure, 4 for disagree and 5 for strongly disagree. The study analyzed the loan pricing practices at BBU and the findings are presented in table 4.1 below.

Table 4.1: Showing the mean and standard deviation for loan pricing in BBU

	N	MEAN	S.D
1. Cost of funds is considered when determining loan pricing	26	2.12	1.14
2. Pricing is within reasonably confined ranges with guidance linking	26	2.19	1.13

to cost factors			
3. There are exceptions to the pricing done for some clients without considering costs involved	26	2.25	1.17
4. Cost of funds component is covered by the interest rate determination	26	1.64	0.81
5. Some administrative costs in procuring loans can be eliminated to reduce costs whilst maintaining the standards	26	2.08	0.98
6. The number of staff in loan sales and administration is enough to carry out the required tasks	26	1.85	0.88
7. Administration expenses are considered in determining interest rates in BBU.	26	1.85	0.83
8. Bulk of the loan processing work is system automated	26	2.88	1.21
9. There is criteria to determine which loan type is riskier than the other before pricing is done	26	1.65	0.85
10. All loans carry the same risk and should be priced the same	26	4.58	0.70
11. It is wrong to use historical data to determine the risk level of a loan for pricing	26	3.88	1.21

Source: Primary data

Table 4.2 above shows that the staff agreed that at BBU, cost of funds was considered when determining loan pricing (Mean = 2.12, Standard deviation 1.14) while they also agreed that pricing was within reasonably confined ranges with guidance linking to cost factors (Mean 2.19, Standard deviation = 1.13). The staff respondents equally agreed that the there were exceptions to the pricing done for some clients without considering costs involved (Mean 2.25, Standard deviation = 1.17) while they also indicated that cost of funds component was covered by the interest rate determination (Mean 1.64, Standard deviation = 0.81). These particular findings on loan pricing suggested that BBU was conscious of effective loan pricing which requires

consideration of costs of acquiring the funds to lend out and the resultant loan prices should be reasonable. The findings equally suggested that loan pricing although needs incidences of special considerations, the interest charged should cover the cost of fund for a particular loan.

Similarly, table 4.2 above shows that, the respondents agreed that some administrative costs in procuring loans can be eliminated to reduce costs whilst maintaining the standards (Mean 2.08, Standard deviation = 0.98) while they also indicated that the number of staff in loan sales and administration was enough to carry out the required tasks (Mean 1.85, Standard deviation = 0.88). The respondents equally agreed that administration expenses are considered in determining interest rates in BBU (Mean 1.85, Standard deviation = 0.83). The observation here is that BBU considered administrative costs relating to loan procurement, loans personnel and loan expenses such as verifications and vetting in its loan pricing strategies. Thus effective loan pricing should consider the administrative costs associated to the loan a client seeks to acquire from the bank.

The staff respondents equally indicated that there was a criterion to determine which loan type was riskier than the other before pricing was done (Mean 1.65, Standard deviation = 0.85). On the other hand, the staff strongly disagreed that all loans carried the same risk and should be priced the same (Mean 4.58, Standard deviation = 0.78) while they disagreed that it was wrong to use historical data to determine the risk level of a loan for pricing (Mean 3.88, Standard deviation = 1.21) suggesting that loan risk assessment needs to be considered in loan pricing. Loan risk assessment should consider loan type and use of historical data.

In an interview with the products manager, it was mentioned that:

"lots of considerations are taken into account before price is determined. These include liquidity position of the bank. I.e. how expensive are the funds the bank holds. Are they from customer deposits or are they borrowed. If it is the latter, then the loan price will be high, if it's the former, then loan price will be lower. However, competition also plays a major part in price determination, regardless on the cost of funds. Other factors such as administration costs e.g. personnel, commissions for the sales staff, lawyer's fees for secured loans all determine what price the loan will be"

The above study findings on loan pricing as expressed by staff were cross examined with the customer's knowledge of the loan pricing and the results are shown in table 4.2 below.

Table 4.2: Customers Knowledge of Loan pricing

	Yes		**N0**		**Not sure**		**Total**	
	Freq	**%**	**Freq**	**%**	**Freq**	**%**	**Freq**	**%**
(i) I know how interest rate is determined	25	45.5	19	34.5	11	20	55	100
(ii) Interest calculation is explained to borrowing Barclays customers	30	54.5	19	34.5	6	10.9	55	100
(iii) I know the importance of the interest rate charged	38	69.1	5	9.1	11	20	54	98.2
(iv) I pay other fees and commissions besides the interest rate charged	41	78.4	6	10.4	6	10.4	53	96.4
(v) Interest charged is too high	42	76.4	8	14.5	4	7.4	54	98.2

Source: Primary data

Table 4.32 above shows that only 45.5% of the customers knew how interest rate was determined and 34.5% were not certain while 20% indicated that they were not sure suggesting that about 5/10 (half) of the customers did not know how interest rates were determined. Similarly, 54.5% of the customers acknowledged that interest calculation was explained them and 34.5% did not receive interest rates calculations while 10.9% were indicated that they were not sure suggesting that about half of the customers did not receive interest rates explanations for the loans they borrowed from the bank.

Table 4.2 further shows that a total of 69.1% of the customers knew the importance of the interest rate charged while 9.1% did not know yet 30% indicated not sure suggesting that only 3/10 customers on overall did not know the importance of interest rates charged on the loans they borrowed calling for a need to explain to customers the importance of interest rates on loans by the bank. A total of 78.4% of the customers agreed that they paid other fees and commissions besides the interest rate charged while 19.4% did not yet 10.4% indicated that they were not sure suggesting that only about 2/10 customers did not pay other fees and commissions. A total of 76.4% of the customers indicated that interest charged was too high while only 14.5% disagreed yet 7.4% were not suggesting that about 8/10 customers felt that the interest charged on their loans was unreasonably too high.

4.2.1. 1. Correlation analysis between Loan pricing and financial performance in Barclays Bank

To test if there was relationship between loan pricing and financial performance in BBU a correlation analysis was conducted using Pearson's correlation coefficient and significance at the two tailed level. The findings are presented in table 4.3 below.

Table 4.3: Correlation matrix between loan pricing and financial performance

Loan pricing	Pearson Correlation	
	Sig. (2-tailed)	
	N	
Financial performance	Pearson Correlation	
	Sig. (2-tailed)	
	N	

*. Correlation is significant at the 0.05 level (2-tailed).

$P \leq 0.05$

Source: Primary data.

Table 4.3 above shows the Pearson's correlation coefficient r = 0.446* between loan pricing and financial performance suggesting that the two variables were related. The r = 0.446* and significance p = 0.022 between loan pricing and financial performance suggests that there was a high positive significant relationship between loan pricing and financial performance. This has policy implication in that to achieve the desired level of financial performance, there was need to consider cost of funds, administrative costs and risk factors. The study therefore confirmed the hypothesis that:

Loan pricing significantly affects financial performance of Barclays Bank.

The study sought to establish the extent to which loan pricing predicted the variance in the variance in the financial performance and the findings are presented in following subsection.

4.2.1.2 Regression model between loan pricing and financial performance

A regression analysis was conducted to measure the extent to which loan pricing related to the financial performance using the ANOVA techniques of adjusted R^2 values, standardized beta values, t-values and the significance measured at 0.05 level. The results are tabulated in table 4.4 below.

Table 4.4: Regression results between loan pricing and financial performance

Predictor	**Adjusted R Square**	**Df**	**Mean square**	**F**	**Sig.**

	0.166	1	0.826	5.974	0.022[a]
			Standardized coefficients	**t**	**Sig.**
	Adjusted R square	**Std error**	**Beta (*B*)**		
Constant		0.259		5.954	0.000
Loan pricing	0.166	0.113	0.446	2.444	0.022

$P \leq 0.05$

- Predictor: (constant), Loan pricing
- Dependent Variable: Financial performance

The regression model in table 4.4 above shows adjusted R^2 value of 0.166 between loan pricing and financial performance suggesting that loan pricing alone predicted 16.6% of the variance in financial performance of BBU. The $R^2 = 0.166$. The implication is that for sustained profitability and good debt turnover indicators of financial performance, commercial banks need to carry out effective loan pricing that emphasize cost of funds, risk and administrative costs.

Staff were asked to suggest ways of improving loan pricing of which the following options were given:

1. Maintaining existing practices.
2. Bank of Uganda should reduce on loan processing expenses.
3. Consider inflation rate during loan pricing.
4. Introduce new products which are not on the market.

4.2.2. Loan vetting and financial performance in Barclays Bank

The second objective of the study was to examine how loan pricing affects financial performance at Barclays bank. The findings of this objective were gathered from questionnaire, interview guide and documentary review. Loan vetting according to the conceptual framework consisted of accounting performance, capacity to pay. Loan vetting was measured using 11 items scored on 5 point Likert scale ranging from 1 for strongly agree, 2 for agree, 3 not sure, 4 for disagree and 5 for strongly disagree. The study analyzed the loan vetting practices in BBU and the findings are presented in table 4.5 below.

Table 4.5: Showing the mean and standard deviation for loan vetting in BBU

	N	MEAN	S.D
1) The credit reference bureau in the country is instrumental in loan vetting process	26	2.31	1.05
2) Accounts with poor performance are not granted additional credit	26	2.08	1.26
3) There are no cases of undue influence on the credit team from senior management	25	2.48	0.87
4) Sometimes there are errors due to mistakes from the Vetting team in studying account performance	26	2.23	1.14
5) Vetting process is clear, objective and generally consistent with Barclays standards	26	2.24	1.05
6) In all instances BBU considers ability to pay before a loan is granted	26	1.50	0.51
7) Special credit terms are granted to certain customers on a case by case basis regardless of capacity to pay	26	2.50	1.39
8) Additional information about the credit applicant is always sought from external sources before credit is given	26	2.42	1.06
9) A third party reviews all loans to ensure customer is not overstretched with loan repayment amount	26	3.81	1.10

10) Capacity to pay is considered even if collateral to cover the whole loan is provided	26	1.42	0.72
11) Overall the loan files provide adequate evidence of due diligence done on borrowers' ability to repay	26	2.65	1.23

Source: Primary data

Table 4.5 above shows that the respondents agreed that the credit reference bureau in the country was instrumental in loan vetting process (Mean = 2.41, Standard deviation = 1.05) while they also agreed that accounts with poor performance were not granted additional credit (Mean = 2.08, Standard deviation = 1.26). The staff further agreed that there were no cases of undue influence on the credit team from senior management (Mean = 2.48, Standard deviation = 0.87) while they agreed that sometimes there were errors due to mistakes from the Vetting team in studying account performance (Mean = 2.23, Standard deviation = 1.14). These findings suggested that although the BBU can be credited for considering account performance, use of a credit reference bureau and avoidance of undue influence in the loan vetting process, some errors were noticed which leads to inaccurate account performance loan venting considerations by BBU.

The staff agreed that Vetting process was clear, objective and generally consistent with Barclays standards (Mean = 2.24, Standard deviation = 1.05) while they also agreed that in all instances BBU considered ability to pay before a loan was granted (Mean = 1.50, Standard deviation = 0.51). The staff further indicated that additional information about the credit applicant was always sought from external sources before credit was given (Mean = 2.42, Standard deviation = 1.06) while they strongly agree that capacity to pay was considered even if collateral to cover the whole loan was provided (Mean = 1.42, Standard deviation = 0.72). These findings generally

revealed that the bank was conscious of the customers capacity to pay and in their loan vetting process efforts were undertaken to put in place loan vetting objectives, policies and procedures to guide assess the customers capacity to pay loan requests. This observance of the loan vetting process could contribute to a good financial performance position as it will be tested in the correlation analysis.

On the contrary the respondents disagreed that a third party reviewed all loans to ensure customer was not overstretched with loan repayment amount (Mean = 3.81, Standard deviation = 1.10) a revelation that BBU undertook less efforts if any to gain an objective position of evaluated loans from a third party in their loan vetting undertakings.

The respondents were not sure if special credit terms were granted to certain customers on a case by case basis regardless of capacity to pay (Mean = 2.50, Standard deviation = 1.39), and if on overall the loan files provide adequate evidence of due diligence done on borrowers' ability to repay (Mean = 2.65, Standard deviation = 1.23) leaving questions of if special consideration (if any) needed to be awarded to certain customers and if the loan vetting process of capacity to pay was reliable in as far as the information provided on customers files.

In an interview with the vetting and assessing managers, they explained what exactly they consider in account performance. This they said included:

> *"Looking for signs of excesses on the accounts, unpaid cheques, consistencies of the credits on the account, rejected standing orders. If any of these were observed, then chances of the customer getting a loan were minimized. However customers are not given an opportunity for a face to face interview with the assessor to explain the reasons for the account performance".*

Furthermore, the assessing mangers said they also considered ability to pay as one of the significant factors looked at in loan vetting. As in how much disposable income does the customer have? They responded indicated that :

> "*We ask questions if there are any other sources of income that are consistent for at least 6 months. E.g., allowances which have to be permanent but in all instances, ability to pay is paramount regardless of the customer having collateral or not"*

The assessing manager said in order for the vetting process of Barclays bank to get better"

> *"Our stringent policies need to be adopted because currently a lot of exceptions to policy are granted and the bank should only focus on a particular sector of income earners in a specific salary bracket and not everyone to avoid future problems in loan collection"*

The study findings on staff expressions were cross examined with the customers experiences of the loan vetting practices in BBU and the findings are presented in table 4.6 below.

Table 4.6: Customers experiences of the loan vetting process on BBU

Loan vetting	**SA**		**A**		**NS**		**DA**		**SDA**	
	F	**%**	**F**	**%**	**F**	**%**	**F**	**%**	**F**	**%**
- I am aware of what the bank looks out for before approving a loan	19	34.7	25	45.5	9	16.4	1	1.8	1	1.8
- I know how to maintain my account performance to the	20	36.4	24	43.6	8	14.5	2	3.6	1	1.8

banks' satisfaction										
- Sometimes there are uncontrollable circumstances that prevent me from paying on time	13	23.6	21	38.2	3	5.5	11	20.0	7	12.7
- I believe in face to face interviews with the loan approving manager before a loan is granted or denied.	24	43.6	19	34.5	2	3.6	8	14.5	2	3.6
- The payment terms are not communicated clearly before the loan is granted.	7	12.7	13	23.6	2	3.6	25	45.5	7	12.7
- Barclays Bank considers the customer's ability to pay before a loan is granted	31	56.4	17	30.9	5	9.1	2	3.6		
- Barclays bank considers all the customer's source of income to determine capacity to pay	18	32.2	16	29.1	11	20.0	10	18.2		
- I am consulted and involved in making the repayment schedules	16	29.1	12	21.8	3	5.5	17	30.9	7	12.7

Source: Primary data

Table 4.6 above shows that the 80.0% (34.5% for strongly agree +45.5% for agree) of the customers indicated that they were aware of what the bank looked out for before approving a loan while the 20% (16.4%+1.8%+1.8%) were not aware of what the bank looked out before approving a loans finding which suggested that 8/10 BBU borrower were aware of what BBU vetting processes and criteria. Another majority of 79.0 (35.4%+ 43.6%) as compared to 11% of the respondents indicated that they knew of how to maintain their account performance to the banks' satisfaction suggesting that about 8/10 BBU borrowers appreciated and undertook efforts

to maintain their account performance to qualify for loan requirements during the loan vetting process.

Similarly, 61.8% (as compared to 38.2% who disagreed) of the customers agreed that sometimes there were uncontrollable circumstances that prevented them from paying on time suggesting that about 6/10 borrowers were at one time constrained to pay a loan on due date due to some constraints. Another 78.1% believed in face to face interviews with the loan approving manager before a loan was granted or denied suggesting that about 8/10 customers appreciated the managers meetings of the loan vetting process and took it to have a fair outcome. Only 36.3% of the borrowers agreed that the payment terms were not communicated clearly before the loan was granted as compared to 58.2% (45.5%+12.7%) who disagreed suggesting that about 4/10 customers did not receive a communication on the payment terms before signing for the loan. This put loan repayment in precarious condition calling for a need by the management of the BBU to ensure that all loan borrowers are feed with clearly defined loan payment terms before taking up their loans.

A total majority of 87.3% of the respondents indicated that BBU considered the customer's ability to pay before a loan was granted while the rest felt that they did not, implying that overall 9/10 customers were conscious of the banks interest in the customers capacity to pay as a vital loan vetting process. Another 61.3% of the borrowers agreed that BBU considered all the customer's source of income to determine capacity to pay while 20% were not sure and 18.2% disagreed suggesting that about 6/10 BBU borrowers were aware of the need for credible sources of income to that reinforces the customer's positive outcomes of the loan vetting. Lastly, a total of 50.9% of the customers indicated that they were consulted and involved in making the

repayment schedules while 43.6% indicated that they were not consulted suggesting differential consultation for loan scheduling by the bank.

4.2.2. 1. Correlation analysis between Loan vetting and financial performance in Barclays Bank

To test if there was relationship between loan vetting and financial performance in BBU a correlation analysis was conducted using Pearson's correlation coefficient and significance at the two tailed level. The findings are presented in table 4.7 below.

Table 4.7: Correlation matrix between loan vetting and financial performance

Loan vetting	Pearson Correlation
	Sig. (2-tailed)
	N
Financial performance	Pearson Correlation
	Sig. (2-tailed)
	N

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

$P \leq 0.05$

Source: Primary data.

Table 4.7 above shows the Pearson's correlation coefficient r = 0.511** between loan vetting and financial performance suggesting that the two variables were related. The r = 0.511** and significance p = 0.008 between loan vetting and financial performance suggests that there was a high positive significant relationship between loan vetting and financial performance. This has policy implication in that to achieve the desired level of financial performance, there was need to consider customers account performance and capacity to pay. The study therefore confirmed the hypothesis that:

Loan vetting significantly affects financial performance of Barclays Bank.

The study sought to establish the extent to which loan vetting predicted the variance in the variance in the financial performance and the findings are presented in following subsection.

4.2.2.2. Regression model between loan vetting and financial performance

A regression analysis was conducted to measure the extent to which loan vetting related to the financial performance using the ANOVA techniques of adjusted R^2 values, standardized beta values, t-values and the significance measured at 0.05 level. The results are tabulated in table 4.8 below.

Table 4.8: Regression results between loan vetting and financial performance

<table>
<tr><th>Predictor</th><th>Adjusted R Square</th><th>Df</th><th>Mean square</th><th>F</th><th>Sig.</th></tr>
<tr><td></td><td>0.230</td><td>1</td><td>1.082</td><td>8.481</td><td>0.008[a]</td></tr>
<tr><td></td><td colspan="2"></td><td>Standardized coefficients</td><td rowspan="2">t</td><td rowspan="2">Sig.</td></tr>
<tr><td></td><td>Adjusted R square</td><td>Std error</td><td>Beta (B)</td></tr>
</table>

Constant		0.293		4.518	0.000
Loan vetting	0.230	0.133	0.511	2.912	0.008

$P \leq 0.05$

- Predictor: (constant), Loan vetting
- Dependent Variable: Financial performance

The regression model in table 4.8 above shows adjusted R^2 value of 0.230 between loan vetting and financial performance suggesting that loan vetting alone predicted 23% of the variance in financial performance of BBU. The $R^2 = 0.230$, The implication is that for sustained profitability and good debt turnover indicators of financial performance, commercial banks need to carry out effective loan vetting exercises with emphasis on customers account performance and capacity to pay.

Staff were asked on the ways to improve loan vetting and the findings are presented below.

1. Review current vetting standards and requirements
2. Sensitize borrowers next of keen before consenting as guarantors
3. Train staff in loan management
4. Adjust the automated system to suit changes in IT
5. Develop systems to verify customers information

Documentary review of the Barclays personal lending products manual (2007), revealed and emphasized that there is a maximum amount that can be lent out to an individual who has to have

a certain minimum income and was below retirement age. The maximum long tenor is also put into consideration as well as is the debt service ratio. i.e., ratio of loan installment amount to net salary. However it is noted that there are exceptions to all these rules as long as it's sought by higher authority.

4.2.3. Loan collection and financial performance in Barclays Bank

The third objective of the study was to examine how loan collection affected financial performance in Barclays bank. The findings of this objective were gathered from questionnaire, interview guide and documentary review. Loan collection according to the conceptual framework consisted of indicators in house and external collections. Loan collection was measured using 10 items scored on 5 point Likert scale ranging from 1 for strongly agree, 2 for agree, 3 not sure, 4 for disagree and 5 for strongly disagree. The study analyzed the loan collection practices in BBU and the findings are presented in table 4.9 below.

Table 4.9: Mean and Standard deviation results for loan collection

	N	Mean	S.D
Article I. BBU has dedicated a/c managers to handle loan payments from customers	26	1.81	0.85
Article II. Invoicing to customers on payment dates is done immediately loan has been granted	26	2.42	0.99
Article III. Adequate training is carried out for the BBU collectors to up their skills	26	2.38	1.06
Article IV. Regular personal visits are done by the debt collection team to follow-up debts	26	2.69	1.16
Article V. BBU collections department uses up to date	26	2.27	1.31

technology in debt collection			
Article VI. Occasionally members of senior management get involved in collection of debts	26	2.31	1.32
Article VII. Occasionally the legal department is involved in the department recovery process	26	1.81	1.06
Article VIII. Private debt collection agencies are the main collectors used by the company to collect on overdue accounts	26	2.77	1.27
Article IX. Transfer to external collection agencies is done by date and no subjectivity is involved	26	2.62	1.27
Article X. There are controls in place to monitor/track what the external collection agencies are doing	26	2.42	1.10

Source: Primary data

Table 4.9 above shows that the staff agreed that BBU had a dedicated a/c managers to handle loan payments from customers (Mean = 1.81, Standard deviation = 0.85) while they also agreed that invoicing to customers on payment dates was done immediately loan had been granted (Mean = 2.42, Standard deviation = 0.99). The staff equally agreed that adequate training was carried out for the BBU collectors to up their skills (Mean = 2.38, Standard deviation = 0.85) while they also agreed that BBU collections department used up to date technology in debt collection (Mean = 2.27, Standard deviation = 1.31). Similarly, the staff agreed that occasionally members of senior management got involved in collection of debts (Mean = 2.31, Standard deviation = 1.32) while they also agreed that occasionally the legal department was involved in the department recovery process (Mean = 1.81, Standard deviation = 1.06). The staff were not sure if regular personal visits were done by the debt collection team to follow-up debts (Mean = 2.69, Standard deviation 1.16). These study findings suggested that on overall, BBU undertook

internal efforts for loan collection through use of dedicated account managers, invoicing paid debts, training in debt collection, use of technology and use of senior management in debt recovery although it seemed that less field debt visits were conducted.

On external collections, the staff were not sure if private debt collection agencies were the main collectors used by the company to collect on overdue accounts (Mean = 2.77, Standard deviation = 1.27) while they were also not sure if transfer to external collection agencies was done by date and no subjectivity was involved (Mean = 2.62, Standard deviation = 1.27) but they agreed that there were controls in place to monitor/track what the external collection agencies were doing (Mean = 2.42, Standard deviation = 1.10). These particular findings suggested lack of clarity on the use of external collection interventions less their monitoring. This calls for the management of the bank to institute proper guidelines on the use of external debt collection agencies in loan recovery.

While reviewing the documentary review of the Barclays Collection manual (2009), it revealed that the goal of the collection process was to obtain prompt payments from customers with delinquent accounts while minimizing the operational expenses and risk but maintaining good customer relationship. It was mentioned that the various channels for collections that aided in contacting the customer in the quest of collecting money was telephone calls, letters and field visits which all had to be done in a timely manner and after a designated period of time after loan default.

In an interview with the head of collections in Barclays Bank emphasized that:

> "*More training is needed for the collections team especially in their negotiation skills and work ethics. However, he said before outsourcing to external collectors, more*

work should be done by the internal staff to collect on the bad loans to reduce on the commission given to the external debt collectors".

In addition, he emphasized that:

"Employers of the clients should also be involved in the collection of debts if one of their staff becomes difficult. In this way, staff will be careful before they default as they would not want to get in the bad books of their employers".

The study findings on staff expressions on loan collection were cross examined with the customers experiences of the loan collection practices in BBU and the findings are presented in table 4.10 below.

Table 4.10: Customers experiences of the loan collection process on BBU

Loan collection	**SA**		**A**		**NS**		**DA**		**SDA**	
	F	**%**	**F**	**%**	**F**	**%**	**F**	**%**	**F**	**%**
1. I know the date when my loan installment is due	31	56.4	19	34.5	1	1.8	2	3.6	2	3.6
2. My installment date and amount are communicated to me by the bank	21	38.2	17	30.9	2	3.6	9	16.9	5	9.1
3. I have ever missed out on a loan installment	11	20.0	11	20.0	4	7.3	15	27.3	14	25.5
4. Late payments are penalized by Barclays Bank	20	36.4	12	21.8	17	30.9	4	7.3	2	3.6
5. Early and on time repayments are rewarded at Barclays Bank					19	34.5	10	18.2	26	47.3

6. Reminder letters are sent to me when my loan installment is due	4	7.3	7	12.7	8	14.5	19	34.5	17	30.9
7. I receive telephone calls when my installment is past due	13	23.6	18	32.7	12	21.8	7	12.7	4	7.3
8. Sometimes frequent reminders from the bank irritate me	11	20.0	15	27.3	9	16.4	9	16.4	8	14.5
9. I do not need to be reminded to pay my loan	24	43.6	22	40.0			8	14.5	1	1.8
10. I know the consequences of paying my loan late	26	47.3	22	40.0	4	7.3	1	1.8	2	3.6

Source: Primary data

Table 4.10 above shows that 90.9% (56.4%+34.5%) of the customers agreed that they knew the date when their loan installment was due while only 7.2% disagreed did not know suggesting that only about 1/10 customers did not know when their loans were due. Similarly, 69.1% of the customers agreed that their installment date and amount were communicated to them by the bank while 26% were not informed suggesting that about 3/10 borrowers were not informed on their loan due dates and amount other than basing on the loan agreement provisions. Similarly, a total of 40% of the borrowers agreed that they had ever missed out on a loan installment while 52.8% disagreed suggesting that 4/10 customers at least missed out on their loan repayment when it was due.

Table 4.10 above further shows that 58.2% of the respondents agreed that late payments were penalized by Barclays Bank while 30.9% were not sure and 10.9% disagreed finding which suggested that at least 6/10 of the loan borrowers were not penalized while 4/10 were suffered penalties on default of payment on the due dates probably due to the type of loan borrowed. On

early and on time repayments being rewarded by the Bank, a majority of 65.5% of the respondents disagreed while 34.5% were not sure suggesting that the bank did not give any incentive for early repayments. Only 20% of the borrowers agreed that reminder letters were sent to them when their loan installment was due while 65.4% of the customers disagreed yet 14.5% were not sure revealing that about 3/10 loan borrowers were issued with reminder letters for their installments suggesting a low usage of reminder letters by the bank for defaulting borrowers. A total of 56.3% of the customers received telephone calls when their installment was past due while 20% disagreed yet 21.8% were not sure suggesting that about 4/10 customers of the bank did not receive telephone calls when their installment was past due.

A total of 47.3% of the customers agreed that sometimes frequent reminders from the bank irritated them while 30.9% disagreed yet 16.4% were not sure suggesting that about a half of the customers felt irritated by frequent reminders from the bank. Similarly, 83.6% of the borrowers agreed that they did not need to be reminded to pay their loans while 26.3% felt they needed to be reminded to pay their loans a finding which suggested that 8/10 customers did not want to be reminded of their loan repayments obligations. A total of 87.3% of the borrowers agreed that they knew the consequences of paying their loan late while 5.4% disagreed yet 7.3% indicated not sure suggesting that about 9/10 customers of BBU knew the consequences of late payment or default.

4.2.3. 1. Correlation analysis between Loan collection and financial performance in Barclays Bank

To test if there was relationship between loan collection and financial performance in BBU a correlation analysis was conducted using Pearson's correlation coefficient and significance at the two tailed level. The findings are presented in table 4.11 below.

Table 4.11: Correlation matrix between loan collection and financial performance

Loan collection	Pearson Correlation
	Sig. (2-tailed)
	N
Financial performance	Pearson Correlation
	Sig. (2-tailed)
	N

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

P≤0.05

Source: Primary data.

Table 4.11 above shows the Pearson's correlation coefficient r = 0.688** between loan collection and financial performance suggesting that the two variables were related. The r = 0.688** and significance p = 0.00 between loan collection and financial performance suggests that there was a high positive significant relationship between loan collection and financial performance. This has policy implication in that to achieve the desired level of financial performance, there was need to consider internal and external debt collection interventions. The study therefore confirmed the hypothesis that:

Loan collection significantly affects financial performance in Barclays Bank

The study sought to establish the extent to which loan collection predicted the variance in the variance in the financial performance and the findings are presented in following subsection.

4.2.3.2. Regression model between loan collection and financial performance

A regression analysis was conducted to measure the extent to which loan collection related to the financial performance using the ANOVA techniques of adjusted R^2 values, standardized beta values, t-values and the significance measured at 0.05 level. The results are tabulated in table 4.8 below.

Table 4.12: Regression results between loan collection and financial performance

<table>
<tr><th>Predictor</th><th>Adjusted R Square</th><th>Df</th><th>Mean square</th><th>F</th><th>Sig.</th></tr>
<tr><td></td><td>0.452</td><td>1</td><td>1.963</td><td>21.583</td><td>0.000[a]</td></tr>
<tr><td></td><td colspan="2"></td><td>Standardized coefficients</td><td rowspan="2">t</td><td rowspan="2">Sig.</td></tr>
<tr><td></td><td>Adjusted</td><td>Std error</td><td>Beta (B)</td></tr>
</table>

	R square				
Constant		0.241		4.429	0.000
Loan collection	0.452	0.099	0.688	4.646	0.000

$P \leq 0.05$

1. Predictor: (constant), Loan Collection
2. Dependent Variable: Financial performance

The regression model in table 4.12 above shows adjusted R^2 value of 0.452 between loan collection and financial performance suggesting that loan collection alone predicted 45.2% of the variance in financial performance of BBU. The $R^2 = 0.452$. The implication is that for sustained profitability and good debt turnover indicators of financial performance, commercial banks need to carry out effective internal and external loan collection interventions in their loan collection efforts.

Staff were asked to suggest ways of improving debt collection of which the following suggestions were outlined:

1. External debt collectors needed more time to collect bad debts
2. More training was needed for debt collectors
3. Debt collections need to be done at the branch level

On the ways of minimizing bad debts, the staff recommended the following options:

1. Improving on the loan vetting process
2. Sales persons need to adhere to existing bank policies
3. Customize products to the needs of the customers
4. Emphasize and promote loan insurance
5. The bank should emphasize secured loans

6. Reward outstanding customers and staff who perform to expectations

4.2.4. Competition and financial performance in Barclays Bank

The fourth objective of the study was to examine how competition affected financial performance at Barclays bank. The findings of this objective were gathered from questionnaire, interview guide and documentary review. Competition according to the conceptual framework consisted of indicators of credit terms and credit standards. Competition was measured using 10 items scored on 5 point Likert scale ranging from 1 for strongly agree, 2 for agree, 3 not sure, 4 for disagree and 5 for strongly disagree. The study analyzed the loan collection practices in BBU and the findings are presented in table 4.13 below.

Table 4.13: Mean and standard deviation results for competition

		N	MEAN	S.D
(i)	Sometimes there are waivers on credit terms for customers to retain them	26	2.23	0.82
(ii)	The payment terms at BBU are flexible compared with the other players in the market	26	2.65	1.20
(iii)	BBU loan amount limits are higher than other players in the market	26	2.54	1.24
(iv)	The repayment period is competitive compared to the Ugandan market	26	1.81	0.94
(v)	Occasionally BBU adjusts its credit terms to match competition	26	1.92	0.89
(vi)	BBU has had to reduce its loan requirements to attract more customers	26	2.88	1.31

(vii)	Some customers are granted loans despite not meeting the set standards	26	4.00	0.89
(viii)	A number of times dispensations on loans are done by management in order to close a sale	26	2.38	1.20
(ix)	BBU has had to reduce its loan requirements to attract more customers	26	3.35	1.26
(x)	The Credit standards in BBU are mostly dependent on what competition offers	26	3.35	1.16

Source: Primary data

Table 4.13 above shows that the staff agreed that sometimes there were waivers on credit terms given to customers in order to retain them (Mean = 2.23, Standard deviation = 0.82) while they also agreed that the repayment period was competitive compared to the Ugandan market (Mean = 1.81, Standard deviation = 0.94). The staff also agreed that occasionally BBU adjusted its credit terms to match competition (Mean = 1.92, Standard deviation = 0.89). These findings suggested that the bank put in effort to consider competition by providing customers with some attractive credit terms of loan waivers, competitive repayment periods, and credit terms adjustments.

On the other hand, the staff were not sure if; the payment terms in BBU were flexible compared with the other players in the market (Mean = 2.65, Standard deviation = 1.20), if BBU loan amount limits were higher than other players in the market (Mean = 2.54, Standard deviation = 1.24), and if BBU had to reduce its loan requirements to attract more customers (Mean = 2.88 , Standard deviation = 0.31) a finding which suggested that there seemed to be little efforts to educate loans staff on the loan flexibility and reduction requirement to meet the competition in the financial sector of Uganda.

On standards, the staff disagreed that some customers were granted loans despite not meeting the set standards (Mean = 4.00, Standard deviation = 0.89) suggesting that the bank did not compromise standard requirements due to competition. On the hand, the staff agreed that a number of times dispensations on loans were done by management in order to close a sale (Mean = 2.38, Standard deviation = 1.20) suggesting that loan rules and policies were sometimes relaxed to meet prevailing banking industry competition.

Table 4.13 further shows that the respondents indicated that they were not sure if BBU had to reduce its loan requirements to attract more customers (Mean = 3.35 , Standard deviation = 1.26) while they were also not sure if the Credit standards in BBU are mostly dependent on what competition offers (Mean = 3.35, Standard deviation = 1.16) suggesting that if any efforts to reduce loan requirements and set credit standards were undertaken to counter competitive forces in the loan market, the staff were not aware of these strategies in the loan handling practices.

The above study findings on competition as expressed by staff were compared with the customer's perception of the competition in the banking sector and the results are shown in table 4.14 below.

Table 4.14: Customers perceptions of the banking sectors competition associated to their loans

	YES		**No**		**Not sure**		**Total**	
	Freq	**%**	**Freq**	**%**	**Freq**	**%**	**Freq**	**%**
1. I have a loan in another bank	17	30.9	36	65.5			53	96.4
2. Barclays Bank loan duration terms are favorable compared to other banks	19	34.4	21	38.2	15	27.3	55	100

3. Barclays Bank interest rate is lower than that of other banks	5	9.1%	39	70.9	11	20	55	100
4. I would still borrow from Barclays even if interest rates were increased	8	14.5	36	65.5	10	18.2	54	98.2
5. Barclays Bank loan requirements are reasonable compared to other banks	23	41.8	17	30.9	14	25.5	54	98.2
6. Barclays Bank asks for too much information before granting a loan	23	41.8	24	43.6	7	12.7	54	98.2
7. I met all the requirements of the bank before the loan was granted	55	100					55	100

Source: Primary data

Table 4.14 shows that 30.9% of the BBU customers who participated in this study admitted that they had a loan in another bank while 65.5% did not. This finding suggested that about 3/10 customers could have had a loan in another bank probably due to their perception that BBU could not offer them their felt loan demands. Similarly, 34.4% of the customers indicated that Barclays Bank loan duration terms were favorable compared to other banks while 38.2% disagreed that BBU loan duration terms were not in any way favorable compared to other banks a finding which suggested that only 3/10 customers were satisfied with the loan duration terms of the bank.

Similarly, only 9.1% of the customers agreed that Barclays Bank interest rate was lower than that of other banks while 70.9% disagreed yet 20% indicated that they were not sure a finding which suggested that only 1/10 of BBU borrowers were satisfied with the bank's interest rates. Only 14.5% of borrowers agreed that they would still borrow from Barclays even if interest rates were increased while 65.5% would not yet 18.2% indicated that they were not sure suggesting that increasing interest rates would result into a loss of about 7/10 current customers of the bank.

A total of 41.8% of the borrowers agreed that Barclays Bank loan requirements were reasonable compared to other banks while 30.9% disagreed yet 25.5% indicated that they were not sure suggesting about 6/10 BBU borrowers felt that the bank's loan requirements were not reasonable compared to other banks. Another 41.8% of the borrowers agreed that Barclays Bank asked for too much information before granting a loan while 43.6% disagreed yet 12.7% indicated that they were not sure suggesting that about 6/10 Customers were not satisfied by the volumes of information demanded by the bank to be granted a loan. Lastly, all borrowers agreed that they met all the requirements of the bank before the loan was granted suggesting that the bank did not compromise loan requirements due to competition.

4.2.4. 1. Correlation analysis between competition and financial performance in Barclays Bank.

To test if there was relationship between competition and financial performance in BBU a correlation analysis was conducted using Pearson's correlation coefficient and significance at the two tailed level. The findings are presented in table 4.15 below.

Table 4.15: Correlation matrix between competition and financial performance

Competition	Pearson Correlation	
	Sig. (2-tailed)	
	N	
Financial performance	Pearson Correlation	
	Sig. (2-tailed)	
	N	

*. Correlation is significant at the 0.05 level (2-tailed).

$P \leq 0.05$

Source: Primary data.

Table 4.14 above shows the Pearson's correlation coefficient r = 0.456* between competition and financial performance suggesting that the two variables were related. The r = 0.456* and significance p = 0.019 between competition and financial performance suggests that there was a high positive significant relationship between competition and financial performance. This has policy implication in that to achieve the desired level of financial performance, there was need to carefully revaluate credit terms and standards to counter industry competition. The study therefore confirmed the hypothesis that:

Competition positively affects financial performance at Barclays bank.

The study sought to establish the extent to which competition predicted the variance in the variance in the financial performance and the findings are presented in following subsection.

4.2.4.2. Regression model between competition and financial performance

A regression analysis was conducted to measure the extent to which competition related to the financial performance using the ANOVA techniques of adjusted R^2 values, standardized beta values, t-values and the significance measured at 0.05 levels. The results are tabulated in table 4.16 below.

Table 4.16: Regression results between competition and financial performance

Predictor	**Adjusted R Square**	**Df**	**Mean square**	**F**	**Sig.**
	0.175	1	0.862	6.306	0.019[a]
			Standardized coefficients	**t**	**Sig.**
	Adjusted R square	**Std error**	**Beta (*B*)**		
Constant		0.338		3.909	0.001
Competition	0.175	0.143	0.456	2.511	0.019

$P \leq 0.05$

1. Predictor: (constant), competition
2. Dependent Variable: Financial performance

The regression model in table 4.16 above shows adjusted R^2 value of 0.175 between competition and financial performance suggesting that competition alone predicted 17.5% of the variance in financial performance of BBU. The $R^2 = 0.175$. The implication is that for sustained profitability

and good debt turnover indicators of financial performance, commercial banks need to carefully revisit their credit terms and standards to counter industry competition.

4.3: Financial performance

Financial performance was the independent variable of this study and was conceptualized to include indicators of profitability and debt turnover. Financial performance was measured using 10 items scored on a 5 point liker scale ranging from 1 for strongly agree, 2 for agree, 3 not sure, 4 for disagree and 5 for strongly disagree. This study assessed the status of financial performance as perceived by the staff and the findings are presented in table 4.17 below.

Table 4.17: Mean and Standard deviation results for Financial Performance

		N	MEAN	S.D
(i)	The level of receivables(loans) has been increasing every financial year	25	1.64	0.91
(ii)	The level of receivables(loans) has affected the profitability of the company	25	1.96	0.84
(iii)	There is a working policy on early loan repayment charge	26	1.69	0.84
(iv)	Most outstanding debts are written off	26	2.96	1.00
(v)	There has been reduction of bad debts over the last four years	26	2.85	1.26
(vi)	Occasionally loans are re-aged or restructured on a case by case basis	26	1.85	0.73
(vii)	Managers increasingly engage employees in solving business problems directly	26	2.85	1.10
(viii)	Bank services to customers are the same both upcountry or Kampala	26	2.58	1.06
(ix)	The outlets of the bank are strategically located to suit the customers	26	1.81	0.69

(x)	The bank is growing its loan book through aggressive sales	26	1.54	0.51

Source: Primary data

Table 4.17 shows that the staff agreed that the level of receivables (loans) had been increasing every financial year (Mean = 1.64, Standard deviation = 0.91) while they also agreed that the level of receivables (loans) had affected the profitability of the company (Mean = 1.96, Standard deviation = 0.84) an that occasionally loans were re-aged or restructured on a case by case basis (Mean = 1.85, Standard deviation = 0.73). The staff equally agreed that the outlets of the bank were strategically located to suit the customers (Mean = 1.81, Standard deviation = 0.69) while they also agreed that the bank was growing its loan book through aggressive sales (Mean = 1.54, Standard deviation = 0.51). These findings general revealed that BBU was in position to realize a good financial performance significant in annual increase in accounts receivable, rising repayments charges, increased loan sales and bank's strategic outlets.

On the other hand, the staff were not sure if most outstanding debts were written off (Mean = 2.96, Standard deviation = 1.00), if there had been reduction of bad debts over the last four years (Mean = 2.85, Standard deviation = 1.26), if managers increasingly engage employees in solving business problems directly (Mean = 2.85, Standard deviation = 1.10), and if Bank services to customers were the same both upcountry and Kampala (Mean = 2.58, Standard deviation = 1.06). These findings cast doubt on loans write offs, engagement of management in solving business problems and the level of customer service in the Bank's branches in the country.

In an interview with the retail products manager, he emphasized that:

> *"Competition on a large scale plays a major role in the product development. A competitive analysis is usually done to ensure the bank is still in line with what the other banks are offering on the market. Generally from the customer perspective, the bank is too stringent but from the bank's view, they demand what is relevant to offer the best service. Over the years, the bank has relaxed a bit i.e. customers can take more money without security, requirements have reduced to simplify things for the customers and all this is in line with remaining competitive in the market".*

On how best Barclays can increase its competitive edge, he says:

> *"If they improved their internal processes and customer profiling then the service would be much better and very competitive".*

4.4: Multiple regression results

A multiple regression was conducted to establish the extent to which loan management and its dimensions of loan pricing, loan vetting, loan collection and competition all combined predicted the variance in financial performance at Barclays bank. The findings of the regression analysis are shown below.

Table 4.18: Regression results between loan management and financial performance

Predictor	Adjusted R Square	Df	Mean square	F	Sig.
	0.735	4	0.806	18.327	0.000[a]
			Standardized coefficients	**t**	**Sig.**
	Std error		**Beta (*B*)**		
Constant	0.276			-0.362	0.721
Loan pricing	0.091		-0.185	-1.265	0.220
Loan vetting	0.101		0.442	3.315	0.003
Loan collection	0.078		0.635	5.442	0.000
Competition	0.082		0.433	4.160	0.000

$P \leq 0.05$

Source: Primary data

Table 4.18 shows adjusted R^2 value of 0.735 between all loan management dimensions and financial performance suggesting that the loan management dimensions under study predicted 73.5% of the variance in financial performance in BBU while other variables not covered in this study predicted the remaining 26.5% variance in financial performance. All indicators other than loan pricing (t = -1.265, p 0.220) were significant predictors of the variance in financial performance according to the multiple regression model. Loan collection had the highest influence on the variance in the financial performance (t = 5.442, p = 0.000) followed by competition (t = 4.160, p= 0.000) and loan vetting (t = 3.315, p = 0.003).

CHAPTER FIVE

SUMMARY, DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.0. Introduction

The general objective of the study was to establish the effect of loan management on financial performance at Barclays Bank. Loan management as the independent variable included dimensions of loan pricing, loan vetting, and loan collection while the dependent variable was financial performance under the indicators of profitability and debt turnover. Competition was conceptualized as the moderating variable and included indicators of credit terms and credit conditions. This chapter presents a summary of findings, discussion, conclusions and recommendations based on the study findings.

5.1. Summary

The study found out that BBU realized a good financial performance significant in annual increase in accounts receivable, rising repayments charges, increased loan sales and bank's strategic outlets but there were doubts on loans write offs, engagement of management in solving business problems and the level of customer service in the Bank's branches in the country. Loan pricing in BBU considered cost of funds, administrative costs and risk factors. Not all customers knew of loan pricing attributes used by the bank yet loan pricing had a significant relationship with financial performance (r = 446*, p = 0.022) and it predicted 16.6% of the variance in financial performance of BBU. This is indeed in line with Ferrari (1992), where he emphasizes that the largest expense of a loan is the cost of funds acquired to finance the loan.

The study found out that loan vetting in BBU relied heavily on customer's account performance and capacity to pay. On overall, a reasonable number of customers were aware of the loan vetting considerations and requirements of which some met them with easy will others felt

constrained. Never the less, the study found out that loan vetting significantly affected financial performance of Barclays Bank (r = 0.511**, P = 0.008) and it predicted 23% of the variance in the financial performance.

The study found that BBU undertook internal efforts for loan collection through use of dedicated account managers, invoicing loan payment schedules, training in debt collection, use of technology and use of senior management in debt recovery although it seemed that less field debt visits were conducted. There was a lack of clarity on the use of external collection interventions together with their monitoring. Some customers knew of their loan repayment obligations yet some did not. Loan collection had a high positive significant relationship with financial performance (r = 0.688**, p = 0.000) and it was the highest predictor of the variance in financial performance as it predicted 45.2% of the variance in financial performance.

On competition, the study found out that the bank put in effort to consider competition by providing customers with some attractive credit terms of loan waivers, competitive repayment periods, and credit terms adjustments. There seemed to be little efforts to educate loans staff on the loan flexibility and reduction requirement to meet the competition in the financial sector of Uganda. Some customers had loans in other banks and they felt that the bank's loan terms were unfavorable as compared to other banks in the country. Competition was found to have a high positive significant relationship with financial performance in the BBU (r = 0.456*, p = 0.019) and it predicted 17.5% of the variance in the BBU financial performance.

5.2. Discussion

This sub section presents the study discussion in relation to the study objectives. The first section presents a discussion on loan pricing and financial performance. This is followed by a discussion on loan vetting and financial performance, loan collection and financial performance and lastly, competition and financial performance.

5.2.1. Loan pricing and financial performance of BBU

Loan pricing included indicators of cost of funds, administrative costs and risk factors. The study found out that in BBU, cost of funds was considered when determining loan pricing, loan pricing was within reasonably confined ranges with guidance linking to cost factors, there were exceptions to the pricing done for some clients without considering costs involved, the cost of funds component was covered by the interest rate determination.

Similarly, on administrative costs, the study found out that the staff felt that some administrative costs in procuring loans can be eliminated to reduce costs whilst maintaining the standards, the number of staff in loan sales and administration was enough to carry out the required tasks. Administration expenses were considered in determining interest rates leading to the observation that effective loan pricing should consider the administrative costs associated to the loan a client seeks to acquire from the bank. In addition, Watanabe (2009) discusses that loan servicing costs should be computed based on the average hourly salary rate and other expenses like average collection period based on historic data, paper work then applied as loan costs for each loan.

On loan risk, the study found out that there was a criterion to determine which loan type was riskier than the other before pricing was done, all loans did not carry the same risk and should not be priced the same, use of historical data to determine the risk level of a loan for pricing was

felt to be vital leading to the observation that loan risk assessment should consider loan type and use of historical data through information gathering skills of previous loan performance as confirmed by Chmura, (1995).

The study found that about 5/10 (half) of the customers did not know how interest rates were determined or did not receive interest rates explanations for the loans they borrowed from the bank. Only 3/10 customers on overall did not know the importance of interest rates charged yet about 2/10 customers did not pay other fees and commissions. A total of 8/10 customers felt that the interest charged on their loans was unreasonably too high. The study confirmed the hypothesis that loan pricing significantly affects financial performance of Barclays Bank. Thus, for sustained profitability and good debt turnover indicators of financial performance, commercial banks need to carry out effective loan pricing that emphasize cost of funds, risk and administrative costs.

These study findings are in agreement with what other studies have observed. For example Ferrari, (1992) highlights that figuring the cost of a loan is the first step toward arriving at its price. Like any business a bank must first recoup its costs if it is to make a profit. The largest expense of any loan is the cost of funds acquired to finance the loan. There are several ways to calculate a bank's cost of funds for use in loan pricing: administrative overhead and loan servicing and risk factors. Further more Roth (2010), adds that pricing with competition is important to ensure sound decision practices are being implemented in the domains of loan pricing and profitability. The extreme of pricing too high for the market can obviously be detrimental to the organization. Chmura (1995) argues that appropriate loan pricing leads to better allocation of funds and thus to higher profits.

5.2.2. Loan vetting and financial performance in Barclays Bank

Loan vetting as a variable included indicators of account performance and payment capacity. This study found that the staff felt the credit reference bureau in the country was instrumental in loan vetting process and it was also confirmed that accounts with poor performance were not granted additional credit, there were no cases of undue influence on the credit team from senior management, sometimes there were errors due to mistakes from the Vetting team in studying account. The vetting process was clear, objective and generally consistent with Barclays standards while it was equally found that in all instances BBU considered ability to pay before a loan was granted yet additional information about the credit applicant was always sought from external sources before credit was given. Capacity to pay was considered even if collateral to cover the whole loan was provided. Suggesting that the bank was conscious of the customers' capacity to pay and in their loan vetting process efforts were undertaken to put in place loan vetting objectives, policies and procedures to guide assess the customers' capacity to pay loan requests. This observance of the loan vetting process could contribute to a good financial performance position as it will be tested in the correlation analysis.

There seemed to be less efforts if any to gain an objective position of evaluated loans from a third party in their loan vetting undertakings while it was not certain if special credit terms were granted to certain customers on a case by case basis regardless of capacity to pay, and if on overall the loan files provided adequate evidence of due diligence done on borrowers' ability to repay.

The study found out that 8/10 BBU borrower were aware of what BBU vetting processes and criteria while about 8/10 BBU borrowers appreciated and undertook efforts to maintain their

account performance to qualify for loan requirements during the loan vetting process. About 6/10 borrowers were at one time constrained to pay a loan on due date due to some constraints yet again about 8/10 customers appreciated the managers meetings of the loan vetting process and took it to have a fair outcome. About 4/10 customers did not receive a communication on the payment terms before signing for the loan while 9/10 customers was conscious of the banks interest in the customers capacity to pay as a vital loan vetting process. About 6/10 BBU borrowers were aware of the need for credible sources of income to that reinforces the customer's positive outcomes of the loan vetting while about 510 customers were consulted and involved in making the repayment schedules**.**

The study found a high positive significant relationship between loan vetting and financial performance leading to the confirmation of the hypothesis that loan vetting significantly affects financial performance of Barclays Bank. Thus for sustained profitability and good debt turnover indicators of financial performance, commercial banks need to carry out effective loan vetting exercises with emphasis on customers account performance and capacity to pay.

The above study findings and observations are supported by various works such as O'keefe et.al, (2003) who establish that loan vetting practices are the primary determinant of bank credit risk and bank credit availability of which properly identifying risk in the loan portfolio was critical to the overall effectiveness of loan portfolio growth and turnover. Al-Tamimi (2002), in his study of banks in UAE concluded that commercial banks use techniques such as establishing standards, credit score, credit worthiness, risk rating and collateral as a means of risk management to improve loan performance hence increase in profit efficiency. In addition FDIC, (2007) further argues that in many lending standards; prudently vetted loans should include an evaluation of a

borrower's capacity to adequately service the debt. Vetting standards should emphasize the borrowers' ability to service the debt with cash flow rather than the sale of the collateral.

5.2.3. Loan collection and financial performance in Barclays Bank

Loan collection included indicators of in house and external collections of which the study found out that BBU undertook internal efforts for loan collection through use of dedicated account managers, invoicing paid debts, training in debt collection, use of technology and use of senior management in debt recovery although it seemed that less field debt visits were conducted. On external collections, the study found a lack of clarity on the use of external collection interventions and their monitoring calling for the management of the bank to institute proper guidelines on the use of external debt collection agencies in loan recovery.

The study found out that about 3/10 borrowers were not informed on their loan due dates and amount other than basing on the loan agreement provisions while 4/10 customers at least missed out on their loan repayment when it was due. At least 6/10 of the loan borrowers were not penalized while 4/10 suffered penalties on default of payment on the due dates probably due to the type of loan borrowed. The bank did not give any incentive for early repayments while it was also found out that about 3/10 loan borrowers were issued with reminder letters for their installments suggesting a low usage of reminder letters by the bank for defaulting borrowers. About 4/10 customers of the bank did not receive telephone calls when their installment was past due while about a half of the customers felt irritated by frequent reminders from the bank. Similarly, the study found out that 8/10 customers did not want to be reminded of their loan repayments obligations while about 9/10 customers of BBU knew the consequences of late payment or default.

The study found a high positive significant relationship between loan collection and financial performance leading to the confirmation of the hypothesis that Loan collection significantly affects financial performance in Barclays Bank. Thus, to achieve the desired level of financial performance, there was need to consider internal and external debt collection interventions.

The above study findings and observations are in congruent with Wei-Shong and Kuo-Chung (2006) observation that loan payment notices to notify the borrower, also involves receiving periodic delinquency information, and adjusting loan terms and conditions as deemed necessary and to take legal action if non- collectable procedures and foreclosure on the loan are required. Hence for effective collection on overdue loans, there should be separate strategies for different retail products and corporate loans. Sweet, (2004) emphasizes that all lending institutions like banks need a specialized collections department. A successful problem loan department will therefore positively impact a bank's profit and loss account through high recovery rates that will improve the bank's profitability and a lower capital charge will reduce the cost base. A part of the reason behind failure in efforts at debt collection is too little coaching and expertise.

In addition, Smith (2000) noted that organizations around the world are increasingly considering outsourcing by use of legal firms and specialized debt collection agencies as a strategic management tool, which can be leveraged to allow them to focus on their core competencies like marketing and day to day operations. Outsourcing is viewed as a means to reduce costs, improve customer satisfaction, and provide enhanced efficiency and effectiveness. However, many organizations never realize the full benefits of an outsourcing relationship. Reasons for outsourcing debt include, cost effectiveness, company can focus on the business, and also debt management companies are professionally trained and have the appropriate collection techniques. However, Kempen (2009) concludes by highlighting that a bank should only

consider outsourcing collections for those overdue loans that have a low chance of significant recovery. Outsourcing the handling of problem loans to a collection agent should be done on an exceptional basis only.

5.2.4. Competition and financial performance in Barclays Bank

Competition included indicators of credit terms and credit standards of which the study found out that the bank put in effort to consider competition by providing customers with some attractive credit terms of loan waivers, competitive repayment periods, and credit terms adjustments. On the other hand, the study found out that there seemed to be little efforts to educate loans staff on the loan flexibility and reduction requirement to meet the competition in the financial sector of Uganda which has been significantly affected by volatile financial markets and the emergence of a global economy that similarly impacted other banks in other countries (Roth, 2010).

On standards, the study found out that the bank did not compromise standard requirements due to competition yet a number of times loan rules and policies were sometimes relaxed to meet prevailing banking industry competition. It was equally found out that if any efforts to reduce loan requirements and set credit standards were undertaken to counter competitive forces in the loan market, the staff were not aware of these strategies in the loan handling practices.

On customers' perceptions of competition, the study found out that about 3/10 customers could have had a loan in another bank probably due to their felt loan demands yet only 3/10 customers were found to be satisfied with the loan duration terms of the bank. Similarly, only 1/10 of BBU borrowers were satisfied with the bank's interest rates while it was noted that increasing interest rates would result into a loss of about 7/10 current customers of the bank.

About 6/10 BBU borrowers felt that the bank's loan requirements were not reasonable compared to other banks while another 6/10 Customers were not satisfied by the volumes of information demanded by the bank to be granted a loan. Lastly, all borrowers agreed that they met all the requirements of the bank before the loan was granted.

The study found a high positive significant relationship between competition and financial performance leading to the confirmation of the hypothesis that competition positively affects financial performance in Barclays bank. Thus, to achieve the desired level of financial performance, there was need to carefully revaluate credit terms and standards to counter industry competition.

The afore mentioned study findings and observations echo what Freixas et.al., (2004) observation that an inferior bank suffers losses whenever a superior bank charges the same or a lower interest rate. The reason is high quality borrowers will in the first instance approach the lender with superior technology. In some cases a firm may follow a lenient or a stringent credit policy. The firm following a lenient credit policy tends to sell on liberal terms. Credit is granted for longer periods even to the customers whose credit worthiness is not fully known or whose financial position is doubtful. In practice it is good to follow credit policies ranging between stringent to lenient. Furthermore, Podpiera et.al. (2007), in their studies, found that banking competition provides welfare gains by reducing monopoly rents and cost inefficiencies, favoring the reduction of loan rates. However, there are some negative effects of banking competition through excessive risk-taking which may hamper financial stability.

5.3. Conclusions

This section indicates the conclusions derived from the study based on the findings.

5.3.1. Loan pricing and financial performance in Barclays bank

The study concluded that loan pricing significantly affected firnancial performance at BBU. Therefore the hypothesis that there is a relationship between loan pricing and financial performance at Barclays Bank was supported by the findings from the field. This therefore concluded that once loan pricing which considers cost of funds, administrative costs and risk factors is taken into account, financial performance will improve through reduction of bad debts and impairments.

However study also concludes that factors like educating the customers all customers on loan pricing determinants to help them appreciate how the interest rates are derived and perhaps prevent churn leading to bad debts; The customers' education needs to focus on know how interest rates were determined, the importance of interest rates, the need for paying other fees and commissions besides the interest rate charged.

5.3.2. Loan vetting and financial performance in Barclays bank

The study concluded that loan vetting significantly affected financial performance at BBU. The hypothesis that there is indeed a relationship between loan vetting and financial performance holds true and was supported by the findings from the field. This implied that emphasis needed to be placed on client's account performance and the borrowers capacity to pay through thorough analyses. On the other hand, third party reviews on all loans to ensure customer were not overstretched was not observed during loan vetting and BBU needed to consider it if loan vetting was to impact highly on the financial performance of BBU positively through reduction of defaulters who in the long run reduce the bad debt.

5.3.3. Loan collection and financial performance in Barclays bank

The study concluded that Loan collection, both in house and external collections significantly affected financial performance at BBU. The Hypothesis stated at the beginning of the research held true that loan collections had a significant relationship with financial performance. The study emphasizes in house and external loan collection avenues as a means to increase the profitability through increase in return on total assets and reduction of bad debts through aggressive collection techniques. The study also concluded that regular personal visits and external debt collector considerations needed to be adhered to strictly by the bank if they were to get value for money from the assets.

However, the study concludes that borrowers needed to know the due dates of their loans for proper planning despite other factors like loss of jobs and inflation contributing to their defaulting on the payments.

5.3.4. Competition and financial performance in Barclays bank

The study concluded that BBU was conscious of the competition in the banking sector and undertook to respond to competition through giving customers some attractive credit terms of loan waivers, competitive repayment periods, and credit terms adjustments with little efforts (if any) undertaken to educate loans staff on loan standards management to counter competition as the staff were not aware of these strategies in the loan handling practices.

The bank's response to competition yielded positive results as completion positively influenced financial performance in Barclays bank implying that for sustained profitability and good debt turnover indicators of financial performance, commercial banks needed to carefully revisit their credit terms and standards to counter industry competition.

The study hypothesis held tru that competition had a relationship with loan management and financial performance in BBU. It was concluded that customers still sought credit services from other banks despite the loan tenure, interest rates, loan requirements were perceived not to be any different from the original bank. Therefore the need to change customers perception to win competitors needed to be addressed so as to reduce competition as a factor influencing both loan management and financial performance.

5.4. Recommendations

5.4.1. Loan pricing and financial performance in commercial banks

1. The study recommended that for sustained financial performance; the board, management and staff of commercial banks should always ensure that the responsible person should always ensure all parameters of loan pricing are taken into consideration before an actual final price is agreed upon. Majorly it should emphasize cost of funds, risk and administrative costs.
2. Efforts should be undertaken by commercial banks management and responsible persons to educate all customers on loan pricing determinants to help them appreciate how interest rates are determined, the importance of interest rates, the need for paying other fees and commissions besides the interest rate charged through customers' loan pricing sensitization promotions using avenues deemed appropriate by the bank.

5.4.2. Loan vetting and financial performance in Barclays bank

1. The study recommended that for sustained financial performance; the board, management and staff of commercial banks should always ensure that the responsible persons always carry out robust and in depth vetting exercises with emphasis on historical customers account performance and capacity to pay.

2. Efforts should be undertaken by commercial banks' management and responsible persons to educate all customers on the loan vetting considerations for a good understanding and appreciation of the process. Customers' promotions should be carried out to educate customers on how to maintain their account performance, circumstances that may prevent them from paying on time and communication of payment terms by the responsible person through promotions and road shows.

5.4.3. Loan collection and financial performance in Barclays bank

1. The study recommended that for sustained financial performance; the board, management and staff of commercial banks should always ensure that the responsible persons always carry out aggressive internal and external loan collection interventions such as reminders before loan due dates, strict adherence to the dunning process and use all media of communication like sms, email, letters and face to face visits.

2. Efforts should be directed to always ensuring that regular personal visits and external debt collector considerations are adhered to strictly by the responsible persons in the bank.

3. There was need to continuously educate all borrowers on their installment date and amount and any penalties for default. There was need to design and effectively administer incentives

for compliant customers. This needed to be complemented with continuous communication with customers

4. Customers' promotions should continuously be carried out to educate all borrowers on loan collect issues for them to appreciate their installment due date and amount and any penalties for default.

5. The use of incentives for compliant customers and communications with customers should always be observed by the responsible persons in the bank.

5.4.4. Competition and financial performance in Barclays bank

1. The study recommended that for sustained financial performance; the board, management and staff of commercial banks should always respond to competition through giving customers some attractive credit terms of loan waivers, competitive repayment periods, and credit terms adjustments through carefully and regularly revisiting credit terms and standards to counter industry competition.

2. The bank management should ensure that the responsible persons always educates loans staff on loan standards management in the face of industry competition and customers demands and interests

3. The bank management and responsible person should always ensure that customers are given reasonable and conducive loan duration and interest rates. Commercial banks equally need to seek reasonable loan requirements and customer information. Use of an established

customer data base should be developed and encouraged to collect accurate customers' inquiries with less involvement of the customers.

5.5. Recommendations for further Research.

The findings of this study focused on loan management and its effect on financial performance in financial institutions. However, further research could consider some of the following areas basing on the information gathered during the research from the literature review and the interviews carried out that may also affect financial performance in financial institutions:

(i) Controls on operational costs and the relationship with financial performance of financial institutions

(ii) The effect of customer retention on financial performance of financial institutions

(iii) Branch network and its effect on financial performance

(iv) The influence of loan products design and their influence on financial performance in the banking industry of Uganda

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P.O.BOX 27492

KAMPALA

APPENDIX 1: CUSTOMER QUESTIONNAIRE

Topic: Questionnaire on Loan Management and its effect on financial performance of financial institutions. A case study of Barclays Bank (U) Ltd

Dear Respondent,

(i) You have been randomly selected because of your unique knowledge in this area of study. Please answer all the questions by ticking or circling in the spaces provided.

(ii) This research information is purely for academic purposes only and will not be used against an individual.

SECTION A: Background Information on respondent

Circle the correct answer

1.	SEX	1. Male 2. Female
2.	Age	1. 20-25 2. 26-30 3. 30-35 4. 36-40 5. Above 40
3.	Level of Education	1. Diploma 2. Bachelors Degree 3. Masters Degree

		4. PHD 5. others(specify)
4.	How long have you banked in Barclays?	1. 0-5 2. 6-10 3. 11-15 4. 16-20 5. Above 20
5.	Type of loan	• Salary loan • Business unsecured loan • Business Secured loan • Other

SECTION B: LOAN PRICING

Please tick (√) Yes, No or Not sure

	1 **YES**	**2** **NO**	**3** **Not Sure**
I know how interest rate is determined			
Interest calculation is explained to borrowing Barclays customers			
I know the importance of the interest rate charged			
I pay other fees and commissions besides the interest rate charged			

Interest charged is too high			

Section C: Loan Vetting

Please tick (√) Yes, No or Not sure

	1 (Strongly agree)	2 (agree)	3 (Not sure)	4 (disagree)	5 (Strongly disagree)
- I am aware of what the bank looks out for before approving a loan					
- I know how to maintain my account performance to the banks' satisfaction					
- Sometimes there are uncontrollable circumstances that prevent me from paying on time					
- I believe in face to face interviews with the loan approving manager before a loan is granted or denied.					
- The payment terms are not communicated clearly before the loan is granted.					
- Barclays Bank considers the customer's ability to pay before a loan is granted					
- Barclays bank considers all the customer's source of income to determine capacity to pay					
- I am consulted and involved in making the repayment schedules					

Section D: Loan collection

Please tick (√) Yes, No or Not sure

	1 (Strongly agree)	**2** (agree)	**3** (Not sure)	**4** (disagree)	**5** (Strongly disagree)
1. I know the date when my loan installment is due					
2. My installment date and amount are communicated to me by the bank					
3. I have ever missed out on a loan installment					
4. Late payments are penalized by Barclays Bank					
5. Early and on time repayments are rewarded in Barclays Bank					
6. Reminder letters are sent to me when my loan installment is due					
7. I receive telephone calls when my installment is past due					
8. Sometimes frequent reminders from the bank irritate me					
9. I do not need to be reminded to pay my loan					
10. I know the consequences of paying my loan late					

Section E: Competition

Please tick (√) Yes, No or Not sure

	1 YES	2 NO	3 Not Sure
I have a loan in another bank			
Barclays Bank loan duration terms are favorable compared to other banks			
Barclays Bank interest rate is lower than that of other banks			
I would still borrow from Barclays even if interest rates were increased			
Barclays Bank loan requirements are reasonable compared to other banks			
Barclays Bank asks for too much information before granting a loan			
I met all the requirements of the bank before the loan was granted			

Any other comments?

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Thank you for your time.

APPENDIX 2: STAFF QUESTIONNAIRE

Topic: Questionnaire on Loan Management and its effect on financial performance of financial institutions. A case study of Barclays Bank (U) Ltd

Dear Respondent,

(i) You have been randomly selected because of your unique knowledge in this area of study. Please answer all the questions by ticking or circling in the spaces provided.

(ii) This research information is purely for academic purposes only and will not be used against an individual.

SECTION A: Background Information

Circle the correct answer

1.	SEX	1. Male 2. Female
2.	Age	1. 20-25 2. 26-30 3. 30-35 4. 36-40 5. Above 40
3.	Level of Education	1. Diploma 2. Bachelors Degree 3. Masters Degree 4. PHD 5. others(specify)
4.	Years of Experience in Banking	1. 0-5 2. 6-10 3. 11-15 4. 16-20 5. Above 20

Please tick (√) on a scale of 1-5 how strongly you agree or disagree with the following statements.

SECTION B: B 1. Loan Pricing

	1 **(Strongly agree)**	**2** **(agree)**	**3** **(Not sure)**	**4** **(disagree)**	**5** **(Strongly disagree)**
12. Sometimes cost of funds is not considered when determining loan pricing					
13. Pricing is within reasonably confined ranges with guidance linking to cost factors					
14. There are exceptions to the pricing done for some clients without considering costs involved					
15. Cost of funds component is covered by the interest rate determination					
16. Some administrative costs in procuring loans can be eliminated to reduce costs whilst maintaining the standards					
17. The number of staff in loan sales and administration is enough to carry out the required tasks					
18. Administration expenses are considered in determining interest rates in BBU.					
19. Bulk of the loan processing work is system automated					
20. There is criteria to determine which loan type is riskier than the other before pricing is done					
21. All loans carry the same risk and should be priced the same					

22. It is wrong to use historical data to determine the risk level of a loan for pricing					

B.2. Suggest any other ways to improve the pricing of loans

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SECTION C.: C 1. Loan Vetting Process

	1 **(Strongly agree)**	**2** **(agree)**	**3** **(Not sure)**	**4** **(disagree)**	**5** **(Strongly disagree)**
12) The credit reference bureau in the country is instrumental in loan vetting process					
13) Accounts with poor performance are not granted additional credit					
14) There are no cases of undue influence on the credit team from senior management					
15) Sometimes there are errors due to mistakes from the Vetting team in studying account performance					
16) Vetting process is clear, objective and generally consistent with Barclays standards					
17) In all instances BBU considers ability to pay before a loan is granted					
18) Special credit terms are granted to certain customers on a case by case basis regardless of capacity to pay					
19) Additional information about the credit applicant is always sought from external sources before credit is given					

20) A third party reviews all loans to ensure customer is not overstretched with loan repayment amount					
21) Capacity to pay is considered even if collateral to cover the whole loan is provided					
22) Overall the loan files provide adequate evidence of due diligence done on borrowers' ability to repay					

C.2. Suggest ways to improve vetting process of loans in Barclays Bank

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SECTION D: D 1 Loan Collection

	1 **(Strongly agree)**	**2** **(agree)**	**3** **(Not sure)**	**4** **(disagree)**	**5** **(Strongly disagree)**
Article XI. BBU has dedicated a/c managers to handle loan payments from customers					
Article XII. Invoicing to customers on payment dates is done immediately loan has been granted					
Article XIII. Adequate training is carried out for the BBU collectors to up their skills					
Article XIV. Regular personal visits are done by the debt collection team to follow-up debts					
Article XV. BBU collections department uses up to date technology in debt collection					
Article XVI. Occasionally members of senior management get involved in collection of debts					

Article XVII. Occasionally the legal department is involved in the department recovery process					
Article XVIII. Private debt collection agencies are the main collectors used by the company to collect on overdue accounts					
Article XIX. Transfer to external collection agencies is done by date and no subjectivity is involved					
Article XX. There are controls in place to monitor/track what the external collection agencies are doing					

E.2. Suggest ways of improving debt collection in Barclays Bank (U) Ltd

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SECTION E: E 1. Financial Performance

	1 **(Strongly agree)**	**2** **(agree)**	**3** **(Not sure)**	**4** **(disagree)**	**5** **(Strongly disagree)**
(xi) The level of receivables(loans) has been increasing every financial year					
(xii) The level of receivables(loans) has affected the profitability of the company					
(xiii) There is a working policy on early loan repayment charge					
(xiv) Most outstanding debts are written off					
(xv) There have been reduction of bad debts over the last four years					
(xvi) Occasionally loans are re-aged or					

restructured on a case by case basis					
(xvii) Managers increasingly engage employees in solving business problems directly					
(xviii) Bank services to customers are the same both upcountry or Kampala					
(xix) The outlets of the bank are strategically located to suit the customers					
(xx) The bank is growing its loan book through aggressive sales					

F.2. Suggest ways of minimizing bad debts

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SECTION F: F 1 Competition

	1 **(Strongly agree)**	**2** **(agree)**	**3** **(Not sure)**	**4** **(disagree)**	**5** **(Strongly disagree)**
(xi) Sometimes there are waivers on credit terms for customers to retain them					
(xii) The payment terms in BBU are flexible compared with the other players in the market					
(xiii) BBU loan amount limits are higher than other players in the market					
(xiv) The repayment period is competitive compared to the Ugandan market					

(xv) Occasionally BBU adjusts its credit terms to match competition					
(xvi) BBU has had to reduce its loan requirements to attract more customers					
(xvii) Some customers are granted loans despite not meeting the set standards					
(xviii) A number of times dispensations on loans are done by management in order to close a sale					
(xix) BBU has had to reduce its loan requirements to attract more customers					
(xx) The Credit standards in BBU are mostly dependent on what competition offers					

G.2. Suggest ways in which Barclays bank can compete better in the banking industry

THANK YOU FOR YOUR TIME

APPENDIX 3: INTERVIEW GUIDE FOR SELECTED BARCLAYS STAFF

Pricing

1. How is loan pricing done in BBU?
2. By what value does the cost of funds affect the price of a loan?
3. What administration costs are considered during loan pricing?
4. Do the risk factors play a major role in loan price determination? How?
5. What other factors can BBU consider before loan price is determined?

Loan Vetting

6. How is credit vetting done in BBU for both new and old loans?
7. How is account performance measured?
8. Are the customers asked for reasons for the account performance? Are these put into consideration before loans are granted?
9. What criterion is used to determine a customer's ability to repay a loan?
10. Are other sources of income put into consideration to arrive at that conclusion?
11. Are there instances when ability to pay is ignored because a loan is secured?
12. Suggest ways in which BBU can improve loan vetting in order to book better loans

Loan collection

13. How is loan collection handled in BBU?
14. do you think more training is needed for the loan collectors of BBU
15. In your opinion is the BBU collection team specialized enough to handle loan collection?
16. What is your view on the process for outsourcing debt collection?
17. Suggest ways of improving debt collection in BBU?

Financial performance

18. How has the level of bad debts affected profitability in BBU?
19. What is the trend like for the level of bad debts for the last four years?
20. suggest ways of how customers can increase their loyalty to BBU
21. suggest ways of minimizing bad debt losses in BBU
22. suggest ways in which BBU can improve its financial performance
23. in your opinion what is the cause of the low financial performance for BBU

Competition

24. Does competition have a lot to play in BBU credit terms?
25. In your opinion are the terms too lenient or too stringent?
26. Has Barclays lowered its credit standards in the last four years due to competition?
27. Do you think the BBU credit standards are competitive in the Ugandan market?
28. Suggest ways in which BBU can handle the competition issue to improve its financial performance

APPENDIX 4: DOCUMENTARY CHECKLIST

This included;

Journals- author, title, year and number of publication and where it was published.

News paper articles-Name of news paper, author, date (day, month and year).

Books- author, title, year and number of publication, where it was published and the Edition.

Reports- author, title, year, where it was presented.

Working Papers- author, title, year and number of publication and where it was published and where it was presented.