Performance of Non-African Foreign Commercial Banks in Uganda

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Abstract

The focus of this study was to establish key factors responsible for the performance of non-African foreign Commercial banks in Uganda, in the light of Global Advantage Theory. The analysis was supplemented by structure–conduct performance (SCP) and efficiency hypothesizes (ES). The study analyzed the performance of licensed non-African foreign commercial banks on average, over the period 2000-2011, using Linear multiple regression analysis. The study findings showed that, management efficiency, capital adequacy and reputation/goodwill are key factors affecting the performance of non-African foreign commercial banks in Uganda. On the contrary, credit risk has a negative impact on performance of non-African foreign commercial banks in Uganda. On a positive note, diversification, investment in securities and correct prediction of inflation are factors that drive the enhanced performance of non-African foreign commercial banks in Uganda. The emerging policy implication is that commercial banks' managements should focus on improving: management efficiency; bank reputation/goodwill; credit risk management; capital adequacy levels; diversification and investment. In addition, monetary policy regulations and instruments should not enforce high liquidity and capital adequacy levels. There is also need for regulations on non-interest income activities to harmonize the impact of diversification on all commercial banks' performance and avoid the exploitation of commercial banks' customers.

Key words: **Bank performance; Non-African foreign commercial banks; Internal and External factors:**

Introduction and Background

During the past two decades 1990-1999 and 2000-2009, the Uganda commercial bank industry underwent significant restructuring including, among other changes; liberalization (Nsambu Kijjambu, 2014). The resultant effect was the increase of foreign commercial banks to the tune of 83 percent of licensed commercial banks; however, the number of non-African foreign commercial banks remained constant. Non-African foreign commercial banks in Uganda include: Standard Chartered Bank; Barclays bank; Bank of Baroda; Citibank and later joined by DFCU Bank in 2005, an indication of sustainability compared to some domestic and African foreign commercial banks that face closure.

As at 31 December, 2011 Uganda had twenty-three licensed commercial banks (Bank of Uganda, 2011). Out of these; four were domestic; 14 African foreign and five non-African foreign commercial banks. The observation suggests that 73.6 per cent of foreign commercial banks in Uganda are African foreign commercial banks, however; non-African foreign commercial banks had 36 per cent market share compared to 46.5 per cent for African foreign commercial banks. This became a source of contention which needed to be investigated.

There is a paramount difference in performance among foreign commercial banks in Uganda. The average Return on Equity (ROE) indicates that African foreign commercial banks had 25.9 per cent, whereas non-African foreign commercial banks had 28.3 per cent. Similarly, the average Return on Assets (ROA) indicates that African foreign commercial banks had 3.0 per cent while non-African foreign commercial banks had 3.5 per cent. This suggests that non-African foreign commercial banks in Uganda perform better than African foreign commercial banks. The relatively better performance of non-African foreign commercial banks calls for investigation.

Specifically, the study intended to establish the impact of key internal factors on the performance of non-African foreign commercial banks in Uganda, so that other commercial banks can be able to adopt them to enhance their performance. This paper is organized as follows: Section one provides the background of the study, putting it in a distinctive position in the context of active bank behavior in Uganda. It explains the problem under study; objectives; scope; significance and the guiding hypothesis.

The rest of the paper is organized as follows: Section two presents empirical literature on factors affecting the performance of foreign commercial banks; followed by Section three which describes and explains the methodological approach used. Section four presents the findings and discussion of the factors responsible for the performance of non-African foreign commercial banks in Uganda. Finally, Section five presents conclusions together with emerging policy issues and suggested future studies

The Global advantage theory (Berger, et al., 2000), assumes that foreign banks have comparative advantage over domestic-owned banks leading to better performance. The main argument is that foreign banks use more advanced technology related to risk pricing, screening and monitoring. The theory assumes that foreign banks have state-of-the-art practices to deal with adverse selection and moral hazards. A moral hazard may occur when a borrower does not act in the interest of the lender such as adhering to terms and conditions of the loan contract. Other factors remaining constant, the theory expects foreign-owned banks to increase credit availability and better performance relative to domestic banks; however, further empirical evidence is required to confirm its applicability to developing countries like Uganda. This study, therefore, aimed at filling this gap in the literature, by providing empirical evidence on the factors affecting the performance of non-African foreign commercial banks in Uganda.

Miller and Parkhe (2002) found out that the variations in commercial bank performance was due to the fact that foreign banks face competitive disadvantage in the host country, due to information asymmetries, cultural and language differences. Demirgiic-Kunt and Huizinga (2000) found out that foreign banks generated higher interest margins and profits in developing countries than domestic banks. The variation in commercial bank performance was thus reported to have been due to high technology reflected in foreign banks.

Majnoni, Shankar and Varhagi (2003) in their study in Hungary (1994-2000) concluded that foreign banks persistently achieved higher profits than domestic banks. They further explained that the high profits were due to the duration of presence of the foreign bank in the host country coupled, with the nature of initial investment.

Bikram (2003) carried out a study on bank ownership and performance among Indian commercial banks categorized into: public domestic banks; old private banks (domestic) and new private banks (Foreign). The results indicated that public banks consistently had higher levels of net interest margins, mainly because of access to low-cost funds and having been in business for a longer period compared to new and private banks. The findings also indicated that the high interest margin was a result of charging high rates of interest on loans given to small and medium enterprises, taking advantage of their large network, relative to other private commercial banks that were at the disadvantage with regard to branch outreach. However, the new banks had lower operating cost ratio compared to public banks, which had significantly higher cost operating ratio due to their wide branch networks. The outcome of this study indicated that the causes of commercial bank performance variations were from cheap sources of funds, branch networks, age and differences in interest spread. In addition, new private foreign banks performed better than public and old banks, partly because of their smaller and well managed networks, together with automated and modernized systems which included diversification to fee-based activities.

Micco, Panizza and Yanez (2004) found out that foreign banks operating in developing countries, specifically located in East Asia and Eastern Europe, were characterized by high levels of profitability and lower costs. The results were consistent with findings of Demirgiic-Kunt and Huizinga (2000) and Bonin et al., (2004), which indicated that in developing countries, foreign banks tend to be more profitable than domestic banks.

Havrylchyk and Emilia (2006) investigated the efficiency of the Polish banking industry and found out that foreign banks were more efficient than domestic banks due to: loan portfolio quality, higher productivity of labor and market power. On the contrary, Sturm and Barry (2007) found out that increased domestic market incumbency reduced the efficiency of foreign banks in the host markets and thus they performed differently compared to domestic banks, unless foreign banks overused inputs to produce the required outputs.

A study by Fadzlan and Muhd-Zulkhibri (2008) conducted on the Malaysian banking sector showed that foreign banks exhibited higher technical efficiency (TE) compared to domestic banks. The higher technical efficiency of foreign banks was attributed to pure technical efficiency, implying that foreign banks were managerially more efficient in controlling their resources relative to their counterparts. However, much as the results suggested that, the difference in performance was related to banks' technical efficiency and management, there is a possibility that bank performance may be associated with the national regulatory and economic environment in their respective areas of operation. Thus further investigation is paramount in the Ugandan perspective.

On the other hand, there is a possibility that foreign banks cherry-picked the best borrowers, especially from their countries of origin to have greater loan intensity and less non-performing loans, thereby improving the quality of their portfolio and ultimately increasing efficiency (Fadzlan and Muhd-Zulkhibri 2008). Kiyota (2009), in a comparative analysis of cost and profit efficiency of domestic and foreign-owned banks in Sub-Saharan African countries suggested that foreign banks out-performed domestic banks; and revealed that the difference in performance was associated with the extent to which bank managements

put their funds to unproductive use (Kiyota 2011).

Claessens and Horen (2009) found out that foreign banks that had operated for more than eight years in a country had the best performance. The implication was that the more years a foreign bank had been active in the host country impacted on its performance. Claessens and Horen (2009) further indicated that performance variation among commercial banks depended on competition in the host country; explaining that if there was little competition in the host country, foreign banks out-performed domestic banks by generating super-normal profits.

The study by Subika, et al., (2011) in the Middle East and North Africa region had empirical evidence, to confirm that foreign banks had higher ROAs and ROEs than domestic banks. In addition, the results indicated that foreign banks generated higher Net Interest Margins (NIMS) than domestic private banks. The explanation given was that foreign banks had lower funding costs: through leveraging internal funding markets and the parents' balance sheet together with good reputation. Subika, et al., (2011) further indicated that domestic banks were under performing relative to foreign commercial banks because they were still embedded in local credit markets, whereas foreign banks were more involved in niche markets (i.e. upscale consumer lending, non-interest income business lines such as commissions, advisory services and international trade).

In order to establish why non-African foreign commercial banks performed better and what fundamental key internal factors were responsible for such better performance, the study was based on the following key hypotheses:

Hypotheses:

H_o: There are no significant key internal factors responsible for performance of non-African foreign commercial banks in Uganda

H1: There are some significant key internal factors responsible for performance of non-African foreign commercial banks in Uganda

The investigation to establish the underlying key factors responsible for Non-African foreign commercial banks' performance in Uganda is paramount, given the recent reforms of the commercial banking sector. The study provides insight for bank owners and policy makers, on factors that determine bank performance in Uganda, that is; efficient utilization of resources, for sustainable competitiveness.

The study findings inform the regulatory authorities the techniques used for persistent better performance of Non-African foreign commercial banks in Uganda.

Methodology

This section presents descriptive statistics; correlation matrix; model specification and empirical findings on the performance of non-African foreign commercial banks

The study population included all the five licensed non-African foreign commercial banks in Uganda as at 31 December 2011 (Bank of Uganda, 2011).

The study focused on the performance of non-African foreign commercial banks, purposely to establish the key underlying internal factors responsible for the banks' performance in Uganda. The time scope for the study was 2000-2011; a period during which the commercial banking sector in Uganda underwent significant restructuring including among other changes; banking sector liberalization. In addition, the main aim of choosing this particular period was to utilize the most recent financial data from commercial banks in Uganda.

Profitability is used as a proxy for bank performance, consistent with the studies of; Nsambu Kijjambu (2014), Kaushik and Lopez (1996), Staikouras and Wood (2004), Deger and Adem, (2011), Samina and Ayub (2013). Bank performance is measured in terms of ratios consistent with studies by Sagar and Rajesh, (2008), since ratios are not affected by changes in price levels.

This study used Return on Assets (ROA) and Return on Equity (ROE) as the dependent variables in line with the studies by: Ongore and Kusa (2013); Trujillo-Ponce (2012), Davydenko (2011), Sehrish et al., (2011), Oladele et al., (2011), Bennaceur and Goaied (2008),and Kosmidou (2008), among others.

Factors that affect commercial banks' performance represented by profitability are broadly classified into two; internal and external factors, (Sehrish, et al., 2011). Internal factors are mainly influenced by a bank's management decisions and policy objectives (Staikouras & Wood, 2004), whereas external factors focus on industry- related and macroeconomic variables reflected in the economic and legal environment where banks operate (Athanasoglou, et al., 2006). These are summarized in Table 1.

Table 1 shows summaries of hypothesized expectations may have an impact on the performance difference among commercial banks in Uganda.

Table 1: Internal and External independent variables

Internal variables	Measurement	Notation	Expected impact
Bank liquidity	Total loans to Total Assets	LA	+
Capital adequacy	Equity capital to Total Assets	EA	+
Credit Risk/Loan Quality	Loan loss provisions to Total Loans	LLPTL	-
Bank size	Natural logarithm of Total Assets	LOGTA	+/-
Market profit opportunity	Deposits to total Assets	DEPTA	+
Cost efficiency	Interest expenses to Equity	INTEXEQ	-
Non-interest income	Measure of diversification	INVESTTA	+
Interest income	Net interest margin to Total Assets	NIMTA	+
Cost inefficiency	Interest expenses to Total Assets	IETA	-
Bank Diversification	Non-interest income to Total income	NIITI	+
Financial leverage	Debt capital to equity capital	FL	+/-
Management inefficiency	Operating costs to Total Assets	OPEXTA	-
Management inefficiency	Operating costs to Total Income	OPEXTI	-
Reputation/Goodwill	Natural logarithm of years (old)	LLIFE	+
External variables			
Economic growth	Natural logarithm of GDP	GDP	+
Annual Inflation rate	Consumer price index	CPI	+/-
Bank interest rate	Regulatory interest rate	BIR	+/-

Source: Adopted from reviewed literature, 2013

The model developed and expanded is consistent with studies by Samina and Ayub (2013), Dietrich and Wanzenried (2011), Deger and Adem (2011), Rajesh and Chaudary (2009), Sufian and Habibuhhal (2009). The model is designed to be run on non-African foreign commercial banks, as a single entity in order to capture key factors responsible for performance of an average non-African foreign commercial bank in Uganda. The dependent variable is Yit which represented Return on Assets (ROA) and Return on Equity (ROE) for the bank (i) during the period (t), while α is a constant.

The independent variables were represented by bank specific factors in form of ratios. In this study, the following baseline model is used.

$$Yit = f(\alpha 0 + \alpha 1\ EAit, + \alpha 2LAit, + \alpha 3LLPTLit, + \alpha 4\ INTEXEQit, + \alpha 5INVESTTAit, + \alpha 6\ NIMTAit, + \alpha 7\ FLit, + \alpha 8\ LLIFEit, + \alpha 9\ OPEXTIit, + \alpha 10NIITI\ it + \ldots\ldots\ldots \alpha 11GDP + \alpha 12CPI + \alpha 13BIR) + eit. \quad (1)$$

Where; eit is the error term.

The model assumptions tested in this study included: linearity; normality; homoscedasticity; Multicollinearity and autocorrelation. Consequently, at each stage of model building, graphical methods and numerical tests were carried out to test linearity and normality, while others were done to eliminate Multicollinearity, auto correlation and heteroscedasticity.

$$Yit = f(\alpha 0 + EAit + \alpha 1\ LLPTLit + \alpha 2INTEXEQit + \alpha 3INVESTTAit\ \alpha 4 + FL\ it + \alpha 5OPEXTIit + \alpha 6LLIFFE\ it + \alpha 7\ NIITIit, + \alpha 8CPI) + eit. \quad (2)$$

Extending equation (2) to exclude variables; INTEXEQ and FL that had weak impact on non-African foreign commercial banks' performance, the following baseline model is used:

Yit = f (α0+EAit+ α1 LLPTLit+ α3INVESTTAit α4+ α5OPEXTIit+ α6LLIFFE it+ α7 NIITIit, + α8CPI) + eit. (3)

Results and discussion

Correlation Matrix

Table 2 presents information on the degree of correlation between explanatory variables used in multiple linear regression analysis for non-African foreign commercial banks. The matrix shows that correlation between bank specific variables is not strong, suggesting that Multicollinearity problems are not existing, consistent with the study by Kennedy (2008), who indicated that Multicollinearity exists when the correlation is above 0.80.

Table 2: Correlation Matrix (ROA & ROE dependent variable)

		ROA	ROE	EA	LLPTL	INVESTTA	OPEXTI	LIFFE	NIITI	CPI
Pearson Correlation	ROA	1.000								
	ROE		1.000							
	EA	.064	-.470	1.000						
	LLPTL	-.464	-.160	-.480	1.000					
	INVESTTA	-.500	-.353	-.205	.151	1.000				
	OPEXTI	-.703	-.884	.550	-.127	.360	1.000			
	LIFFE	-.088	-.161	.223	-.030	.312	.342	1.000		
	NIITI	-.187	-.179	.104	.366	.168	.269	.742	1.000	
	CPI	.116	-.229	.681	-.464	-.303	.491	.199	.007	1.000

In Table 2, the researchers present Correlations Matrix for the variable in the model for non-African foreign commercial banks in Uganda. There is a positive insignificant correlation of EA with ROA for non-African foreign commercial banks in Uganda; this observation is in agreement with the findings of Staikouras and Wood (2003) and Athanasoglou, et al. (2008) that Equity capital to Total Assets (EA) has a positive relationship with profitability. On the other hand, LLPTL has a significant negative relationship with ROA. This negative relationship signifies that risks associated with loans increase the level of loan loss provisions, and eventually reduce profits. The observations suggest that non-African foreign commercial banks have higher credit risk that tends to exhibit lower profitability levels caused by high loan loss provision. The deduction from the observation is that the quality of loan portfolio is among the factors contributing to performance variations among commercial banks in Uganda.

The study shows that INVESTTA has a significant negative relationship with ROA, consistent with findings of Hoffmann (2011) that commercial banks in the United States displayed a negative relationship between investment in securities and bank performance. This is contrary to expectations because investments are anticipated to contribute to the total income of commercial banks through non-interest income. The observations therefore suggest that non-African foreign commercial banks are over-investing, and their investment does not follow optimal investment strategy, to the extent of reducing the profits already made. The observations further imply that profits gained from diversification by non-African foreign commercial banks are offset by increased expenditure on non-interest activities.

OPEXTI, a measure of operating expenses has a significant negative correlation with ROA. The findings are similar to studies by Pasiouras and Kosmidou (2007), Kosmidou (2008), Sufian and Chong (2008) in Philippines, which showed that operating expenses had a negative impact on bank profitability, implying that expenses-management is one of the factors contributing to the performance variations among commercial banks in Uganda. LLIFE, a measure of reputation or goodwill has insignificant negative relationship with ROA over the period. The observation suggests that bank profits for non-African foreign commercial banks did not persist overtime. Inflation measured by the ratio, CPI, has a positive insignificant relationship with ROA for non- African foreign commercial banks over the period 2000-2011. The positive correlation suggests that, non-African foreign commercial bank managers predicted the trend of inflation and adjusted interest rates to achieve higher profits and ultimately good bank performance. The results were in line with findings by Trujillo-Ponce (2012), Davydenko (2011), Kasman, et al., (2010), Alexiou and Sofoklis (2009), Garcia-Herrero, et al., (2009), Athanasoglou et al (2008), Claeys and Vander Vennet (2008), Pasiouras and Kosmidou (2007) who indicated that there was positive relationship between inflation and bank profitability.

The ratios: EA, LLPTL, INVESTTA, FL, OPEXTI, LIFFE, NIITI and CPI had negative relationship with ROE for non-African foreign commercial banks. Operating expenses had negative correlation with ROE, implying that, operating costs had greater impact on bank performance for non-African commercial banks in Uganda during 2000-2011. The observations are similar to findings by Kosmidou and Pasiouras (2006) and Pasiouras and Kosmidou (2007), that high operating expenses reduce bank profitability among European commercial banks. Equity to Asset ratio has a moderate negative relationship with ROE, consistent with the previous findings on Domestic and African foreign commercial banks in the current study.

Model measurement

Non-African foreign commercial banks

$$Yit = f(\alpha 0 + EAit + \alpha 1\ LLPTLit + \alpha 2INTEXEQit + \alpha 3INVESTTAit\ \alpha 4 + FL\ it + \alpha 5OPEXTIit + \alpha 6LLIFFE\ it + \alpha 7\ NIITIit, + \alpha 8CPI) + eit. \quad (1)$$

Extending equation (1) to exclude variables; INTEXEQ and FL that had weak impact on non-African foreign commercial banks' performance, the following baseline model is used:

$$Yit = f(\alpha 0 + EAit + \alpha 1\ LLPTLit + \alpha 3INVESTTAit\ \alpha 4 + \alpha 5OPEXTIit + \alpha 6LLIFFE\ it + \alpha 7NIITIit, + \alpha 8CPI) + eit. \quad (2)$$

In the model summary: R= 0.995 which means that, there is a very strong relationship. R Square = 0.990 indicates that 99% of performance variation is accounted for through the combined linear impact of predictors (independent variables). The adjusted R square value takes into account the number of variables and observations. In this case, adjusted R square value is 0.973. This means that, the model has accounted for 97.3% of the variance in the criterion variable.

The Durbin-Watson statistic is 1.756, implying that there is no serious first order auto-correlation which is neither positive nor negative, at 5% level of significance

The model was tested basing on the following hypothesis:

HO: None of the independent variables are significant predictors of the dependent.

H1: At least one independent variable is a significant predictor of the dependent (ROA).

Conditional Rule: Reject Ho if p-values are less than 0.05 and accept H1

Since the p-value is 0.001, which is less than 0.05, Ho is rejected and concluded that at least one of the following: EA, LLPTL, INVESTTA, OPEXTI, LLIFE, NIITI, and CPI is a predictor of non-African foreign commercial banks' performance in Uganda. The model is significant at F 7, 4 =57.159, $p < 0.05$

In the model summary, when ROE is dependent variable: R = 0.986 which means that there is a very strong relationship. R Square = 0.972. It indicates that 97.2% of performance variation is accounted for through the combined linear impact of predictors (independent variables). The adjusted R square value is 0.922, meaning that the model has accounted for 92.2% of the variance in the criterion variable.

The Durbin-Watson statistic is 1.674. It implies that there is no autocorrelation which is neither positive nor negative, at 5% level of significance.

Likewise, the model was tested basing on the following hypothesis:

HO: None of the independent variables are significant predictors of the dependent.

H1: At least one independent variables are significant predictors of the dependent (ROE).

Conditional Rule: Reject Ho if p-values are less than 0.05 and accept H1

Since the p-value is 0.006, which is less than 0.05, Ho is rejected and concluded that at least one of the following; NIITI, INVESTTA, LLPTL, EA, LIFFE, OPEXTI, and CPI are predictors of ROE for non-African foreign commercial banks performance in Uganda. The model is significant at F 7, 4, = 19.621, $p=0.006 < 0.05$

Empirical findings for non-African foreign commercial banks in Uganda

Multiple linear regression results focusing on the impact of internal factors on the performance of non-African foreign commercial banks are shown in the table 3 and 4, using ROA and ROE as dependent variables respectively.

Multiple linear regression results focusing on the impact of internal factors on the performance of Non-African foreign commercial banks are shown in the table 3 using ROA as dependent variables respectively.

Table 3 presents regression coefficients for Non-African foreign commercial banks over the period 2000-2011.

Table 3: Regression Coefficientsa for non-African foreign commercial banks

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.124	.044		2.838	.047		
	EA	.097	.030	.267	3.244	.032	.367	2.728
	LLPTL	-.179	.028	-.471	-6.383	.003	.454	2.203
	INVESTTA	.030	.015	.152	1.960	.121	.412	2.429
	OPEXTI	-.147	.010	-1.196	-14.019	.000	.340	2.939
	LIFFE	-.040	.028	-.137	-1.436	.224	.271	3.690
	NIITI	.063	.018	.353	3.569	.023	.252	3.962
	CPI	.065	.015	.373	4.451	.011	.353	2.836

a. Dependent Variable: ROA

The results of Variance Inflation Factor (VIF) are all below 10 and Tolerance values are greater than 0.1 as shown in Table 3 This implies that, there is no problem of Multicollinearity in the model.

Table 3 presents regression coefficients for each individual predictor. OPEXTI, LLPTL, and LIFFE have negative coefficients, whereas NIITI, EA, INVESTTA and CPI have postive coefficients.

The study indicated that operating expenses have a significant negative impact on the performance of non–African foreign commercial banks in Uganda. The results are consistent with findings by Pasiouras and Kosmidou (2007), Kosmidou (2008), Sufian and Chong (2008), Oladele et al., (2012), who examined the determinants of bank performance and found out that operating expense, had a negative impact on bank profitability. This implies that, expenses management is among factors contributing to performance variations among commercial banks in Uganda.

The loan loss provision to total loan (LLPTL) has a significant negative impact on bank the performance of non-African foreign commercial banks, consistent with the findings of Ongore and Kusu (2013), Samina and Ayub (2013), Trujillo-Ponce (2012), Davydenko, (2011), and Sufian (2010), who found that asset quality had a significant negative impact on bank performance measured by ROA. The results suggest that credit risk has a significant negative impact on bank profitability for non-African foreign commercial banks over the period. The implication is that, the quality of loans of Non-African foreign commercial banks led to increased loan loss provisions and ultimately reduced bank profits.

LIFFE, a measure of goodwill has a significant negative impact on return on assets for non-African foreign commercial banks in Uganda; contrary to the findings of Berger and Bonaccorsi di Patti (2006) who indicated that bank profits showed a tendency of persistence over time. Lack of persistence in profits implies that there are no market competition barriers in the Ugandan banking sector.

Non-interest income to total income (NIITI) had a significant positive impact on bank the performance for non-African foreign commercial banks over the period. The results are consistent with the findings of Deger and Adem (2011), Dietrich and Wanzenried (2011), Sufian and Habibullah (2009), Sufian and Chong (2008), who indicated that diversification, had a positive impact on bank profitability. This implies that diversification was crucial in the financial performance of non-African foreign commercial banks in Uganda during the period.

Investment to total assets (INVESTTA) has a significant positive impact on return on assets for non-African foreign commercial banks in Uganda. The findings suggest that investments for non-African foreign commercial banks led to higher profits. The results are consistent with findings by Singh and Chaudary (2009) that investments had a positive impact on the profitability of Indian public, private and foreign banks during 2001 to 2007.

There was significant positive impact of capital ratio (EA) on ROA for non-African foreign commercial banks over the period. The results are consistent with the findings by Ongore and Kusa (2013), Ong and Teh (2013), Trujillo-Ponce (2012), Oladele, et al., (2012), and Khrawish, (2011), which showed that, Equity to total assets ratio had a statistically significant positive impact on profitability. This implies that non-African foreign commercial banks are well capitalized and easily adhere to regulatory capital standards while the excess is provided as loans thus maximized net interest income. In addition, the results suggest that non-African foreign commercial banks' investments were worth equity capital employed.

On the external factors, Inflation measured by the ratio CPI had a positive significant impact on return on assets (ROA) for non- African foreign commercial banks over the period 2000-2011. The positive impact suggests that managers of non-African foreign commercial banks predicted the trend of inflation and adjusted interest rates to achieve higher profits and ultimately registered good bank performance. The results are consistent with findings of Trujillo-Ponce (2012), Davydenko (2011), Kasman et al., (2010), Alexiou and Sofoklis (2009), Garcia-Herrero et al, (2009), Athanasoglou et al., (2008), Claeys and Vander Vennet (2008), Pasiouras and Kosmidou (2007) which indicated that, there was positive impact of inflation on bank profitability.

Test of hypotheses

The p-values for each independent variable was tested basing on the following hypothesis

Ho: independent variable: EA, INVESTTA, NIITI, LLPTL, OPEXTI, LIFFE and CPI is not significant predictor of the dependent variable (ROA)

H1: Each independent variable: EA, INVESTTA, NIITI, LLPTL, OPEXTI, LIFFE and CPI is a significant predictor of the dependent variable (ROA)

The decision rule is; if $p < 0.05$ rejects Ho, and conclude that Independent variable is a significant predictor of ROA. Since the p- values for EA, OPEXTI, NIITI, LLPTL, and CPI are less than 0.05, Ho is rejected and concludes that EA, OPEXTI, NIITI, LLPTL, and CPI are significant predictors of ROA for non-African foreign commercial banks at 5% level of significance. However, INVESTTA and LIFFE are not significant predictors of return on assets.

Multiple linear regression results focusing on the impact of internal factors on the performance of Non-African foreign commercial banks are shown in the table 4, using ROE as dependent variables respectively.

Table 4 presents regression coefficients for Non-African foreign commercial banks over the period 2000-2011.

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	1.303	.768		1.696	.165		
	EA	-1.412	.524	-.375	-2.696	.054	.367	2.728
	LLPTL	-1.782	.494	-.451	-3.609	.023	.454	2.203
	INVESTTA	.147	.269	.072	.547	.614	.412	2.429
	OPEXTI	-1.264	.184	-.989	-6.855	.002	.340	2.939
	LIFFE	-.335	.494	-.109	-.677	.535	.271	3.690
	NIITI	.667	.312	.358	2.138	.099	.252	3.962
	CPI	.623	.257	.343	2.423	.072	.353	2.836

a. Dependent Variable: ROE

The results of Variance Inflation Factor (VIF) are all below 10 and Tolerance values are greater than 0.1 as shown in Table 4, implying that there is no problem of Multicollinearity in the model.

Table 4 presents regression coefficients for each individual predictor. EA; OPEXTI; LLPTL and LIFFE have negative coefficients, whereas NIITI; INVESTTA and CPI have postive coefficients.

Capital adequacy measured by EA has a significant negative impact on return on equity (ROE). The results are similar to the findings by Sehrish, et al., (2011) and Hoffmann (2011) who found a strong negative relationship between capital and bank profitability. This implies that non-African foreign commercial banks may be operating over-cautiously, hence avoiding potential profitable ventures. Setting up high-capital regulatory requirement may have a negative impact on commercial banks' performance. However, the results contradicted a positive impact of EA on ROA for non-African foreign commercial banks in this study.

Asset quality ratio (LLPTL) has a significant negative impact on ROE for non- African foreign commercial banks over the period, which indicates that, the quality of loans were not good enough and necessitated an increase in loan loss provisions that ultimately decreased profits. This is an indication of weaker credit risk management among non-African foreign commercial banks during the period. The results are consistent with the findings by Ong and Teh (2013), Ongore and Kusu (2013), Samina and Ayub (2013), Trujillo-Ponce (2012), Sufian (2010), Wong and Fong (2007) and Athanasoglou, et al., (2006) that loan loss provisions had a significant negative impact on returns on Equity. The implication is that, asset quality strongly determined the performance of non-African foreign commercial banks in Uganda over the period.

Operating expenses to total income (OPEXTI) has a significant negative impact on return on equity for non-African foreign commercial banks over the period of study. The results are consistent with the findings on domestic commercial banks in Uganda in this study. The results are also in agreement with the findings by Oladele, et al (2012), Trujillo-Ponce (2012), Hoffmann, (2011), Davydenko (2011), Olson and Zoubi (2011), Sufian (2010), Sufian and Habibullah (2009), Sufian and Chong (2008), Grigorian and Manole (2006), together with Fries and Taci (2005), whose studies found out that the cost to income ratio had a significantly negative impact on bank performance. This implies that higher operating expenses decrease profitability and eventually overall performance of the non-African foreign commercial banks in Uganda.

LIFFE, a measure of Goodwill has a significant negative impact on ROE consistent to the impact of LIFFE on ROA for non-African foreign commercial banks in Uganda in the study, although, contrary to the findings of Berger and Bonaccorsi di Patti (2006) who indicated that bank profits show a tendency of persistence over time. Lack of persistence in profits implies that there are no market competition barriers in the Ugandan banking sector.

Non-interest income to total Income has a positive and statistically significant impact on returns on equity for non-African foreign commercial banks in Uganda. The results are consistent with findings of Sufian (2011), Deger and Adem (2011), Dietrich and Wanzenried (2011), Sufian and Chong (2008), and Chiorazzo et al., (2008), that the ratio: Non-interest income over total Assets (NII/TA) had a significant positive impact on profitability and ultimately returns on equity. This implies that, diversification is crucial for bank performance

improvement.

Investment to total assets (INVESTTA) has a significant positive impact on return on equity (ROE), consistent with the impact of INVESTTA on ROA for non-African foreign commercial banks in Uganda during the period 2000-2011. The results are similar to the findings of Singh and Chaudary (2009) who found out that investment had a positive impact on the profitability of Indian public, private and foreign banks during 2001 to 2007. The empirical findings suggest that the more the investments, the higher the profits for non-African foreign commercial banks in Uganda.

Inflation measured by consumer price index (CPI) had a positive significant impact on return on equity for non-African foreign commercial banks in Uganda as shown in Table 4. The results are consistent with the findings of Davydenko, (2011), Sehrish et al., (2011), Kasman et al., (2010), Alexiou and Sofoklis (2009), Garcia-Herrero et al., (2009), Claeys and Vander Vennet (2008) and Athanasoglou, et al., (2006) which indicated a strong positive impact of inflation on bank profitability. The results suggest that bank income increased more than expenses, implying that the managements of non-African foreign commercial banks predicted correctly the trend of inflation and adjusted interest rates accordingly in order to earn more profits.

Conclusion

The factors that affect the performance of non-African foreign commercial banks in Uganda over the period 2000-2011 are mostly internal factors, including: Asset quality, Management efficiency, Reputation, Capital adequacy and Diversification. Among the external factors, it was only Inflation that had a significant impact.

Credit risk, a reflection of the quality of Loan Assets was a significant factor that affected the performance of non-African foreign commercial banks in Uganda over the period 2000-2011. Loan loss provisions to Total Loans (LLPTL) had a significant negative impact of -0.471 and -0.451 on return on assets and equity respectively.

Management efficiency was a significant key factor that affected the performance of non-African foreign commercial banks in Uganda over the period 2000-2011. Management efficiency, measured by operating expenses to total income (OPEXTI), had a significant negative impact of -0.1.196 and -0.989 on return on assets and equity respectively for Non-African foreign commercial banks over the study period.

Reputation or goodwill was among the key factors that affected the performance of non-African foreign commercialbanks in uganda over the period 2000-2011. Goodwill which is measured by the number of years a bank is in existence in the country (LIFFE), had a significant negative impact of -0.137 and -0.109 on Return on assets and Equity respectively over the study period.

Capital adequacy (EA) had an impact on the performance of non-African foreign commercial banks in Uganda over the period of study. Equity to assets had a significant impact of 0.267 on Return on Assets, while there was a negative impact of -0.375 on Return on Equity.

Thus there is no conclusive direction on the impact of capital as a factor.

Diversfication, measured by non-interest Income to Total Income (NIITI) was one of the key factors that affected the performance of of non-African foreign commercial banks in Uganda over the period. Non-interest income to total income had a significant positive impact of 0.353 and 0.358 on Return on Assets and Equity respectively for non-African foreign commercial banks over the period 2000-2011.This shows that diversfied bank activities enhances bank performance. Investment measured by Investments to total assets (INVESTTA) was another form of diversification with a significant positive impact of 0.152 and 0.072 on return on assets and equity respectively for non-African foreign commercial banks in Uganda. More investments led to better performance for non-African foreign commercial banks in Uganda.

Inflation was another key factor that affected the performance of non-African foreign commercial banks in Uganda over the period 2000-2011. Consumer price index (CPI), a measure of inflation had a significant positive impact of 0.373 and 0.343 on return on assets and equity for non-African foreign commercial banks over the study period. The positive impact means that bank profits increased depending on an increase in inflation rates. Hence the study concludes that the managements of the non-African foreign commercial banks predicted inflation trends correctly and adjusted accordingly.

Policy Implications

The emerging policy implications are that commercial banks' managements should focus on improving the following: management efficiency; bank reputation/goodwill; credit risk management; capital adequacy levels; diversification and commercial bank investment. Regulations on non-interest income activities should be put in place to harmonize the impact of diversification on the performance of all commercial banks and avoid exploitation of customers.

Future studies should focus on the performance of foreign African commercial banks in Uganda, since they have recorded declining performance of bank profits, that has led to some of them being closed (Bank of Uganda, 2013).

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Appendix A1: Financial Ratios for non-African foreign commercial banks; 2000-2011												
2000-2011	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
ROE	0.431	0.384	0.165	0.419	0.369	0.337	0.222	0.223	0.189	0.206	0.21	0.242
ROA	0.046	0.044	0.014	0.039	0.045	0.042	0.03	0.029	0.027	0.035	0.031	0.038
Loans/Assets(LA)	0.342	0.305	0.296	0.303	0.29	0.411	0.455	0.406	0.439	0.438	0.442	0.491
Equity/Assets(EA)	0.107	0.115	0.084	0.092	0.122	0.124	0.136	0.13	0.144	0.17	0.149	0.158
Provisions/loans (LLPTL)	0.051	0.042	0.078	0.01	-0.017	0.005	0.015	0.027	0.016	0.02	0.012	0.012
Size (Logarithms) (LOGTA)	2.337	2.352	2.438	2.591	2.556	2.571	2.636	2.772	2.846	2.871	2.993	3.021
Deposits/Assets (DEPTA)	0.778	0.739	0.788	0.774	0.756	0.645	0.644	0.65	0.633	0.651	0.671	0.659
Interest expenses /Equity (intexeq)	0.103	0.147	0.139	0.169	0.244	0.28	0.177	0.208	0.212	0.149	0.118	0.136
Investments /Assets(INVESTTA)	0.138	0.256	0.328	0.256	0.262	0.228	0.192	0.229	0.227	0.267	0.264	0.201
Net interest margin/Total assets (NIMTA)	0.073	0.067	0.054	0.067	0.071	0.069	0.072	0.066	0.068	0.074	0.54	0.07

Source: Study computation using published individual commercial banks final accounts, 2012