UGANDA MANAGEMENT INSTITUTE

CREDIT MANAGEMENT AND LOAN PORTFOLIO QUALITY OF COMMERCIAL BANKS IN UGANDA: A CASE STUDY OF CENTENARY BANK

BY

ERASMUS AKANKWASA

15/MBA/00/KLA/WKD/0060

A DISSERTATION SUBMITTED TO THE SCHOOL OF MANAGEMENT SCIENCE IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF A MASTERS DEGREE IN BUSINESS ADMINISTRATION OF UGANDA MANAGEMENT INSTITUTE, KAMPALA

FEBRUARY, 2018

DECLARATION

I, **Erasmus Akankwasa,** declare that this thesis is my own original work and that it has never been presented to any other University or institution for similar or related academic award before

Sign……………………………………….

Date……………………………………….

APPROVAL

This is to certify that this study was conducted under my supervision and the dissertation has been submitted for examination with my approval as the candidate's supervisor

Dr. Stella Kyohairwe, PhD

Sign………………………………………….

Date………………………………………….

Dr. Michael Kiwanuka, PhD

Sign………………………………………….

Date………………………………………….

DEDICATION

This research work is dedicated to my dear wife Atuhaire Linnet and lovely son Ninsiima Timothy. To my parents Kamugisha Charles and Tumuhairwe Jovairo and brothers and sisters for laying my education foundation upon which I am continuing to build.

ACKNOWLEDGEMENT

I have not walked this study in a vacuum but a number of people have supported me in one way or the other. I would like to extend special thanks to my supervisors, Dr.Stella Kyohairwe and Dr. Michael Kiwanuka for their supportive and constructive guidance throughout the period of this study. Their conceptual and analytical advice, a great sense of commitment and encouragement finally made this journey a success.

In the same regard, I would like to express my gratitude to all my other Lecturers at Uganda Management Institute who have in many ways facilitated me on this master's study. I further express my sincere appreciations to all those who provided support to me in one way or another, read, wrote, offered comments, allowed me to quote their remarks and assisted in editing and proof reading the work.

Related, I am also grateful to classmates for the wonderful discussions they organized which gave me an opportunity to improve on my understanding of the general discipline of management

In a special way, I wish to gratefully recognize the management and staff of Centenary Bank for allowing me the opportunity of conducting the study in the organization and for providing the information as respondents

Lastly but not least, I wish to extend heartfelt thanks to my family who supported and encouraged me in spite of all the time it took me away from them.

Any errors and omissions are entirely mine.

TABLE OF CONTENTS

DECLARATION .... **i**
APPROVAL .... **ii**
DEDICATION .... **iii**
ACKNOWLEDGEMENT .... **iv**
TABLE OF CONTENTS .... **v**
LIST OF FIGURES .... **ix**
LIST OF ACRONYMS .... **x**
ABSTRACT .... **xi**
CHAPTER ONE 1
INTRODUCTION 1
1.1 Introduction. **1**
1.2 Background to the study **1**
1.2.2 Theoretical background **3**
1.2.3 Conceptual background **4**
1.2.4 Contextual background **5**
1.3 Statement of the problem **7**
1.5 Objectives of the study **8**
1.6 Research questions **8**
1.7 Research hypotheses **9**
1.9 Significance of the Study. **11**
1.10 Scope of the Study. **12**
1.10.3 Time Scope:. **12**
1.11 Operational Definitions to Key Terms and Concepts **12**
CHAPTER TWO 15
LITERATURE REVIEW 15
2.1 Introduction **15**
2.2 Theoretical framework **15**
2.3.0 Credit Management and Loan Portfolio Quality **16**
2.3.1 Loan Portfolio Quality **16**
2.3.2 Credit Appraisal and Loan Portfolio Quality **17**
2.3.3 Credit Administration and Loan Portfolio quality **18**
2.3.4 Credit Monitoring and Recovery Procedure and Loan Portfolio quality **21**

CHAPTER THREE **23**
METHODOLOGY **23**
3.1 Introduction **23**
3.2 Research Design **24**
3.3 Study Population **24**
3.4 Sample Size and Selection **25**
3.4.1 Sampling Techniques and Procedure **25**
3.4.1.1 Simple Sampling **25**
3.5 Data Collection Methods **26**
3.5.1 Questionnaire Method **26**
3.5.2 Interview Method **27**
3.5.3 Documentary Review Analysis **27**
3.6 Data collection instruments. **27**
3.6.1 Questionnaire **28**
3.6.2 Interview Guide **28**
3.6.3 Documentary Review Check list **29**
3.7 Quality Control of Data Collection Instruments **29**
3.7.1 Validity **29**
3.7.2 Reliability **30**
3.8 Data Collection Procedure **31**
3.9 Data Analysis Techniques **31**
3.8.1 Quantitative Data Analysis **32**
3.8.2 Qualitative data analysis **32**
3.9 Measurement of Variables **33**
3.10 Ethical Considerations **33**
CHAPTER FOUR **34**
PRESENTATION, ANALYSIS AND INTERPRETATION OF RESULTS **34**
4.1 Introduction **34**
4.2 Response Rate **34**
4.3 Findings on Background Characteristics **35**
4.3.1 Gender Characteristics of the Respondents **35**
4.3.2 Age of the Respondents **35**
4.6 Respondents by Highest Level of Education the Respondents **36**
4.4 Empirical Results on Credit Management and Loan Portfolio Quality **38**

4.4.1 Credit appraisal and loan portfolio quality in Centenary Bank. **38**
4.4.1.1 Hypothesis Testing: **42**
4.4.2 Credit Administration and Loan Portfolio quality **44**
4.4.2.1 Hypothesis Testing Two: **48**
4.4.3 Credit monitoring and recovery procedure and loan portfolio quality **51**
4.4.3.1 Hypothesis Testing Three: **59**
CHAPTER FIVE **62**
SUMMARY, DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS **62**
5.1 Introduction **62**
5.2. Summary of Major Findings **62**
5.2.1: Credit Appraisal and Loan Portfolio Quality **62**
5.2.2: Credit Administration and Loan Portfolio Quality **62**
5.2.3: Credit Monitoring and Recovery Procedure and Loan Portfolio Quality **63**
5.3. Discussion of Findings **63**
5.3.1: Credit Appraisal and Loan Portfolio Quality **63**
5.3.2: Credit Administration and Loan Portfolio Quality **65**
5.3.3 Credit Monitoring and Recovery Procedure and Loan Portfolio Quality **66**
5.4 Conclusions **67**
5.4.1 Credit Appraisal and Loan Portfolio Quality **67**
5.4.2: Credit Administration and Loan Portfolio Quality **68**
5.4.3: Credit Monitoring and Recovery Procedure and Loan Portfolio Quality **68**
5.5.1 Credit Appraisal and Loan Portfolio **69**
5.5.2 Credit Administration and Loan Portfolio **69**
5.5.3: Credit Monitoring and Recovery Procedure and Loan Portfolio **69**
5.6 Limitation of the Study **70**
References **72**
APPENDIX 1: **76**
QUESTIONNAIRE INTERVIEW GUIDE FOR TOP ADMINISTRATORS AND EMPLOYEES **76**
APPENDIX III **80**
APPENDIX IV **81**
DOCUMENTARY REVIEW CHECLIST **81**
DETERMINING SAMPLE SIZE FROM A GIVEN POPULATION BY SMALL SAMPLE TECHNIQUE FOR **82**

LIST OF TABLES

Table 4.1: Response Rate 34

Table 4. 2: Summary Statistics on the Gender of the Respondents 35

Table 4.3: Distribution of Respondents by Highest Level of Education the Respondents 36

Table 4.4: Regression Analysis for credit administration and loan portfolio quality at Centenary Bank 49

Table 4.5: Regression summary for credit administration and loan portfolio quality at Centenary Bank 50

Table 4.6:Summary Statistics on credit monitoring and recovery procedure and loan portfolio . 51

Table 4.7: Frequencies, Percentages and Means on Loan Portfolio 55

Table 4.8: Profitability and Impairment Losses Trend in Centenary Bank Limited 58

Table 4.9: Correlation Matrix for credit monitoring and recovery procedure and loan portfolio quality 59

LIST OF FIGURES

Figure 1.1: A conceptual framework illustrating the relationship between credit management procedures and loan portfolio 10

LIST OF ACRONYMS

AAA	Analytical and Advisory Assistance
BDS	Business Development Services
BOD	Board of Directors
CSO	Civil Society Organization
CVI	Content Validity Index
EAC	East African Community
GoU	Government of Uganda
HRM	Human Resource Manager
ICT	Information and Communication Technology
KM	Knowledge Management
MDGs	Millennium Development Goals
ME	Monitoring and Evaluation
NGOs	Non-Governmental Organizations
PSR	Public Sector Reform
SMEs	Small and Medium Enterprises
SPSS	Statistical Package for Social Scientists
TTL	Task Team Leader
UBOS	Uganda Bureau of Statistics
VAT	Value Added Tax
WBI	World Bank Institute
WBG	World Bank Group

ABSTRACT

The study examined the relationship between credit management and loan portfolio quality in Centenary Bank. Specifically, the study examined the relationship between credit appraisal; credit administration; and credit monitoring and loan portfolio quality in Centenary Bank. The study adopted a correlational research design where both quantitative and qualitative approaches were used. The study population was 125, questionnaires and interviews were used to collect data from 61 respondents. Whereas quantitative data analysis was done using regression analysis and correlation, qualitative analysis was done using content analysis. Findings revealed that credit appraisal, credit administration, and credit monitoring and recovery procedure, each had positive significant relationship with the loan portfolio quality in Centenary Bank. The study recommended that Banks should strengthen the implementation of the existing policy by ensuring enough resources and manpower is in place to implement the credit policy. Banks should always try to value all information about the customers with a high level when doing their credit assessment.

CHAPTER ONE

INTRODUCTION

1.1 Introduction.

Effective management of the loan portfolio and the credit function is fundamental for commercial bank's safety and soundness globally. This is not only because loan portfolio constitutes the largest asset and main source of revenue, but also because it is the main cause of bank losses and failures (A-LPM, 1998). There is evidence however, of poor credit management in many commercial banks in Uganda. The failure to manage credit risk well in Uganda over the years has created loan portfolio gaps (Kasozi, 2014). The study examined the relationship between credit management and loan portfolio quality in commercial banks in Uganda with specific focus on Centenary Bank. In this study, credit risk management was conceived as the independent variable while loan portfolio quality the dependent variable. This chapter presents the background to the study, statement of the problem, study purpose, research objectives, research questions and the research hypotheses. The chapter also presents the conceptual framework, significance of the study and operational definitions.

1.2 Background to the study

The background is presented under four perspectives including the historical, theoretical, conceptual and contextual perspective are presented in detail below.

1.2.1 Historical background

Banking with regard to credit evolved in the 16th Century following the increase in trade in England during the time of King George VI. The major goal of banking at that time was to extend credit to the general public with the aim of getting profits. By the time of the Industrial revolution in the 19th Century, banking had become a vibrant industry that was focused on innovation. It is around this period that banks started making big profits by for example, extending credit facilities to entrepreneurs and industrialist.

In the context of Africa, however, a number of locally owned banks had earlier collapsed mainly because of nonperforming loans (Brownbridge, 1998). A CBN/NDIC(2005) collaborative study of distress in Nigerian financial institutions in 1995 revealed that factors such as bad loans and advances, bad credit policy, bad management among other factors are responsible for bank and other financial distress (Okpara, 2009).

Before Uganda’s independence in 1962, the banking sector was dominated mainly by foreign owned commercial banks (Bategeka, 2009). In 1966, the National Bank of India (NBI) which later became the Grindlays Bank in Uganda, did not extend loans to Ugandans without collateral security (Abuka and Egesa, 2010). Indeed in the country at that point in time, almost all the foreign banks were not advancing credit to the local business community until after an Act of Parliament (1965) that the banks started extending credit to the local business community (Brownbridge, 1998). Given this development there was need for a regulatory and institutional framework for banks to ensure control. With Uganda Act (1966), Bank of Uganda was established to regulate the banking industry in the country and accordingly to strengthen regulation, the government enacted the Banking Act (1969) that provided a frame work for the regulation and supervision of commercial banks in Uganda. This was the first official act for the regulation of banks in Uganda.

Today, Bank of Uganda continues to license more commercial banks in pursuit of its policy of liberalizing the financial sector(Mutegeki, 2015). As the number of banks grows, however, several challenges emerge that call for the need to have very sound risk management systems in order to avoid the 1990's scenario which saw several banks closed because of non-performing loans. According to the Bank of Uganda report (1999), four banks namely International credit Bank (ICB), Greenland Bank, Cooperative Bank and Trust Bank, were closed by the Central Bank because of financial distress and bank failure as a result of nonperforming loans.

Over the years this provision for bad debts has become a major cost to banks within the financial market in Uganda. Mutegeki (2015) further noted that the ever increasing provision for bad and doubtful debt has greatly affected commercial bank profitability in Uganda. This is as a result of the ever increasing loan book over the years by the Ugandan banks which has presented a number of challenges to management with concerns about the quality of mortgage, business and personal loans that are booked by the banks.

1.2.2 Theoretical background

The study was guided by Wicksell's Loanable funds theory (1930). According to this theory, the interest rate is determined by the demand for and supply of loanable funds. The term loanable funds include all forms of credit, such as loans, bonds, or savings deposits (Lindahl, 2012). According to this theory, rate of interest is determined by the demand for and supply of loanable funds. In this regard this theory is more realistic and broader than the classical theory of interest. The demand for money as an asset was theorized to depend on the interest foregone by not holding bonds (here, the term "bonds" can be understood to also represent stocks and other less liquid assets in general, as well as government bonds). Interest rates, he argues, cannot be a reward for saving as such because, if a person hoards his savings in cash, keeping it under his mattress, he will receive no interest, although he has nevertheless refrained from consuming all his current income. Investments that are more liquid are easier to sell fast for full value (Lindahl, 2012).. Later on, economists like Ohlin, Myrdal, Lindahl, Robertson and Viner have considerably improved and contributed to this theory (Ringtho, 1998). In economics, the loanable funds doctrine is a theory of the market interest rate

In relation to this study, the theory suggests eight risk determinants with two to four alone being significantly correlated with credit management of any one banking system. Among the factors used to identify risk, non -performing loans (NPLs) or impaired loans is a factor that has received central focus in the analysis of how credit risk built up after the 1997 Asian Financial Crisis (AFC). It emphasizes the use of quality control mechanisms to encourage challenge and sharpen our supervisory approach; and analyze better management information about the credit profiles of the firms and sectors banks supervise(Lindahl, 2012).

The failure of many banks is not because of their inability to mobilize adequate deposits from the surplus sector to the deficit sector of the economy but mainly because their loan portfolios have been poorly managed. Some banks find it difficult to meet their obligations to their customers and owners due to weaknesses in managing their loan portfolios, and the shortcomings which could render them either illiquid or insolvent. The accumulation of non-performing loans is generally attributed to a number of factors including economic downturns, macroeconomic volatility and terms of trade deterioration.

1.2.3 Conceptual background

The key concepts in this study were credit management and loan portfolio quality. Credit Management refers to the way banks lend out money after taking great consideration to avoid losing the money through bad debts (Harod, 2015). Ringtho (1998) defines credit management as the process of planning, control, coordination of the financial institutions loan portfolio

Commercial banks set credit policies to ensure control and minimize losses. The institutions establish the credit worthiness of customers and this involves the appraisal of the customer as well as establishing the customer's capacity to repay the loan. For purposes of this study credit management was observed through credit appraisal, credit administration and credit monitoring and recovery procedure in Centenary Bank.

For purposes of this study, credit appraisal was measured in terms of underwriting standards, credit evaluation practice and discretionary powers. Credit administration was measured in terms of compliance with approved terms & conditions, credit reviews & classification. Credit monitoring and recovery procedure was measured in terms of reporting system and debt collection methods and procedure.

Loan portfolio quality refers to rate of return of an investment in various loan products (Krestlow, 1992). Thus it broadly looks at the number of clients applying for loans, how much they are borrowing, timely payment of installments, security pledged against the borrowed funds, rate of arrears recovery and the number of products on the chain. For purposes of this study, loan portfolio was measured by non performing rate (NPR), charge off/written off rate, loan recoveries and number of outstanding loans.

1.2.4 Contextual background

Centenary Bank Ltd was established with the major objective of providing financial services to all Ugandans with a special focus on the rural poor. Its mission is to provide appropriate financial services especially micro finance to all people in Uganda, particularly in rural areas, in a sustainable manner and in accordance with the law (Mutegeki, 2015). Although this objective still remains, the bank has grown rapidly becoming a fully-fledged commercial bank and not only does it provide micro loans to the rural poor but it has also diversified its operations into the commercial and corporate sector. Its target market for micro finance and commercial credit is both small and medium enterprises and large corporations across all sectors of the economy namely agriculture, manufacturing, trade, import and export and construction among others (Mutegeki, 2015). Its credit target group includes rural farmers, processors of agricultural produce, small manufacturing entrepreneurs, small traders and importers and exporters.

Centenary Bank’s Credit policies and procedures manual provides the framework for the entire credit management process and sets objective standards and parameters that guide the granting of loans and management of the loan portfolio(Mutegeki, 2015). The lending procedures cover submission and processing of credit applications, the credit analysis package, the credit underwriting and approval process, the generation of compliance checklists for approval and disbursement, the general procedures dealing with legal documentation and maintenance of credit files, aspects of lending governed by regulation and law, credit review, monitoring and supervision, loan classification, provisioning, recovery and write off (Mutegeki, 2015).

Matovu and Okumu (2013) observed that the credit analysis today is based on basic principles of lending such as character, collateral, conditions and capacity. Currently records shows that for the period 2013 to 2017, many banks in Uganda like Centenary Bank have been greatly exposed to impairment losses on loans and advances (Centenary Bank Report, 2016). The failure to manage credit risks in Uganda over the years has led to the collapse of commercial banks and as a result the financial regulator. Over the years this provision for bad debts has become a major cost to banks with in the financial market in Uganda thus creating a research gap that the researcher sought to investigate in this study. With the result, the declining profitability levels in the banking sector is demanding more attention for studies for example in 2016 Centenary Bank registered a decline in profitability by 42 billion (Centenary Bank Managing Director Release, 2013) .

1.3 Statement of the problem

Effective credit management in financial institutions is generally believed to be the stepping stone for the quality of loan portfolio. In an attempt to ensure good credit management, Centenary Bank enacted credit management policies aimed at ensuring good loan portfolio performance (Mutegeki, 2015). Despite the rigorous credit assessment process in place that centenary bank uses like proof that customers does not have other credit obligations, analysis of their account performance, sustainability of their income levels, security and ability to pay (International Credit Manual, 2003), the bank is faced with poor management of its loan portfolio as noted in credit reference bureau report (2016).

The bank appears to have failed in achieving its planned loan portfolio performance thus causing failure in recovery of loaned money despite having policies like collaterisation of loans, loan tracking system and debt recovery unit. Centenary Bank has continued to churn out a great deal of credit but recovery of the same has been a great a problem (Kasozi, 2014). There has been an increase on impairment losses in loans and advances in Centenary Bank. The rate of growth of non-performing Assets (NPA) and foreclosure has steadily increased in the bank over the years. It is evident that centenary bank loan and corporate lending constituted about 50% of the total loan book but however the bank continues to face on average between 20-40% bad debts written off yearly, the loan loss rate increased from -0.10% to 2.81% and the number of outstanding loans increased from $18795 to $24479 (Centenary Bank Statistical Abstract, 2017). Whether this is due to failure to recover the loaned money is the question subject to debate in this study. If this trend continues, commercial banks in the country are likely to lose its reputation, close down there by causing discontent among its clients which will greatly affect the economy. This study therefore, examined the relationship between credit management and Loan Portfolio quality in commercial banks in Uganda with a case analysis of Centenary Bank

1.4 Purpose of the study

The purpose of this study was to investigate the relationship between credit management and Loan Portfolio quality in commercial banks in Uganda taking a case of Centenary Bank

1.5 Objectives of the study

The objectives of this study were;

i. To establish the relationship between credit appraisal and loan portfolio quality in Centenary Bank, Uganda.

ii. To investigate the relationship between credit administration and loan portfolio quality in Centenary Bank, Uganda

iii. To investigate the relationship between credit monitoring and recovery procedure and loan portfolio quality in Centenary Bank, Uganda

1.6 Research questions

The study answered the following research questions,

i. What is the relationship between credit appraisal and loan portfolio quality in Centenary Bank, Uganda?

ii. What is the relationship between credit administration and loan portfolio quality in Centenary Bank, Uganda?

iii. What is the relationship between credit monitoring and recovery procedure and loan portfolio quality in Centenary Bank, Uganda?

1.7 Research hypotheses

The study tested the following research hypotheses

i. There is a positive significant relationship between credit appraisal and loan portfolio quality in commercial banks in Uganda.

ii. There is a positive significant relationship between credit administration and loan portfolio quality in commercial banks in Uganda

iii. There is a positive significant relationship between credit monitoring and recovery procedure and loan portfolio quality in commercial banks in Uganda

1.8 Conceptual Framework

This sub section outlines the conceptual framework of the study and provides a discussion of the main areas of focus. It sought to delineate the palpable and crucial link between the issues and as a final point it seeks to summarize the conceptual framework for the study

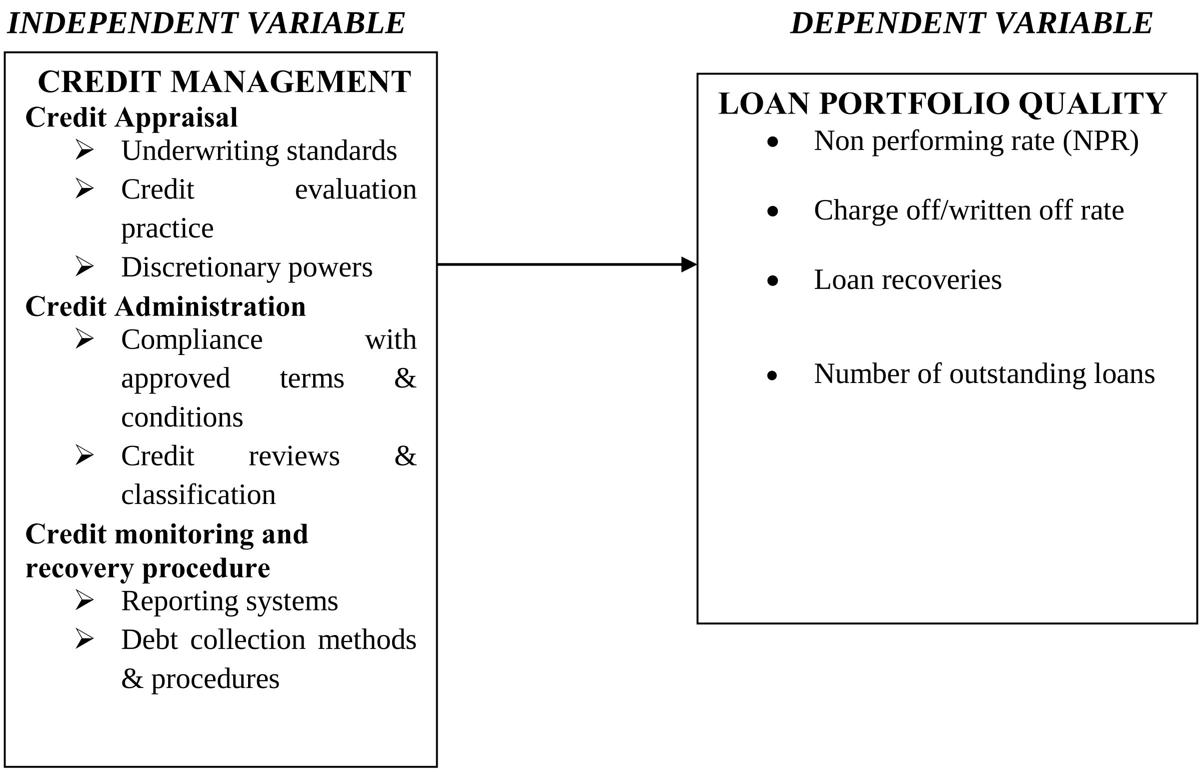

Figure 1.1: A conceptual framework illustrating the relationship between credit management procedures and loan portfolio

Source: Adapted from Ddamba (2004) Credit management procedures and loan portfolio (Modified by the Researcher).

The independent variable is credit management and the dependent is loan portfolio quality. Credit management referred to credit appraisal, credit administration and credit monitoring and recovery procedure. Credit appraisal was measured in terms of underwriting standards, credit evaluation practice and discretionary powers. Credit administration was measured in terms of compliance with approved terms & conditions, credit reviews & classification. Credit monitoring and recovery procedure was measured in terms of reporting system and debt collection methods and procedure. Loan portfolio quality was measured in terms of non performing rate (NPR), charge off/written off rate, loan recoveries and number of outstanding loans

1.9 Significance of the Study.

The study will be of significance in the following ways:

Over the years the provision for bad debts has become a major cost to commercial Bank. The study findings will therefore provide information to decision makers like Bank of Uganda to address issues concerning credit management and loan portfolio quality.

The rate of growth of non-performing Assets (NPA) and foreclosure has steadily increased over the years. The failure to manage credit risk in Uganda over the years has led to the collapse of commercial banks, therefore managers will handle the matters of credit risk with carefully. Managers and Directors will greatly benefit from this research as it tackles a field which presents one of their biggest challenges in administration and management of commercial banks.

The results of the study may be used in policy formulation and implementation by policy makers in the banking industry. The study may add value to the body of existing knowledge and perhaps lead to ventures in further research.

The research findings will greatly contribute to the existing body of Knowledge in the field of credit management and loan portfolio quality and this will be useful in the Ugandan market. The study will act as a reference point for researchers who will pursue further research.

1.10 Justification to the Study.

Loan portfolio quality is of great concern to Centenary Bank because it constitutes the largest asset and main source of bank revenue but also because it is the main cause of bank failure and closure, yet literature available in Uganda on the subject matter is limited. There is therefore need for more research on the subject matter because of its relevance to Ugandan financial institutions to avoid the history of closure of banks in Uganda in the 1990s. This scenario warranted an urgent need for a study on credit management and quality loan portfolio in commercial banks.

1.10 Scope of the Study.

The scope is divided into three perspective; the geographical, content and time scope**.**

1.10.1Geographical Scope: The study was conducted in Kampala at 3 Branches of Centenary Bank that is the head offices (Mapere House), Nakivubo and Entebbe Road Branch. The head offices have been chosen because this is where the key documents/records on credit management are kept and it is where the key credit decisions are taken.

1.10.2 Content Scope: The study focused on examining the relationship between credit management and loan portfolio quality in commercial banks. Credit management is the independent variable and loan portfolio quality is the dependent variable

1.10.3 Time Scope: The study focused on the period 2013 to 2017 as it represents the period when Centenary Bank has continued to face poor loan portfolio performance on average between 20-40% bad debts written off yearly, the loan loss rate increased from -0.10% to 2.81% and the number of outstanding loans increased from $18795 to $24479 (Centenary Bank Statistical Abstract, 2017).

1.11 Operational Definitions to Key Terms and Concepts

A commercial bank is a profit-oriented organization/firm that is engaged in the business of receiving deposits and advancing credit to its clients (Jodarn, 2011).

Credit Management refers to the way banks lend out money after taking great consideration to avoid losing the money through bad debts (Harod, 2015). Ringtho (1998) defines credit management as the process of planning, control, coordination of the financial institutions loan portfolio Commercial banks set credit policies to ensure control and minimize losses. The institutions establish the credit worthiness of customers and this involves the appraisal of the customer as well as establishing the customer's capacity to repay the loan. For purposes of this study credit management referred to credit appraisal, credit administration and credit monitoring and recovery procedure.

Credit appraisal was measured in terms of underwriting standards, credit evaluation practice and discretionary powers.

Credit administration was measured in terms of compliance with approved terms & conditions, credit reviews & classification.

Credit monitoring and recovery procedure was measured in terms of reporting system and debt collection methods and procedure.

Loan portfolio quality refers to rate of return of an investment in various loan products (Krestlow, 1992). Thus it broadly looks at the number of clients applying for loans, how much they are borrowing, timely payment of installments, security pledged against the borrowed funds, rate of arrears recovery and the number of products on the chain.

Loan portfolio quality- The general status of the loans in terms of loans paid in relation to the total principal outstanding expressed as a percentage (Jordan, 2011). For purposes of this study, loan portfolio was measured in terms of non performing rate (NPR), charge off/written off rate, loan recoveries and number of outstanding loans.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The study investigated the relationship between credit management and Loan Portfolio quality in commercial banks in Uganda taking a case of Centenary Bank. This chapter presents the review of the related literature in line with the objectives of the study. The literature review identifies the knowledge gap, which formed the basis for the researcher's study and help in developing a methodology for the study. The literature reviewed is from journals, textbooks, working papers, dissertations and internet websites. In particular, the chapter presents the theoretical review, related review and a summary of literature review

2.2 Theoretical framework

The study was guided by the Loanable funds theory (1930) by the Swedish Economist Knut Wicksell. Later on, economists like Ohlin, Myrdal, Lindahl, Robertson and Viner have considerably improved and contributed to this theory (Ringtho, 1998). . In economics, the loanable funds doctrine is a theory of the market interest rate. According to this approach, the interest rate is determined by the demand for and supply of loanable funds. The term loanable funds include all forms of credit, such as loans, bonds, or savings deposits (Lindahl, 2012). According to this theory, rate of interest is determined by the demand for and supply of loanable funds. In this regard the theory was found more realistic and broader than the classical theory of interest. The demand for money as an asset was theorized to depend on the interest foregone by not holding bonds (here, the term "bonds" can be understood to also represent stocks and other less liquid assets in general, as well as government bonds). Interest rates, he argues, cannot be a reward for saving as such because, if a person hoards his savings in cash, keeping it under his mattress say, he will receive no interest, although he has nevertheless refrained from consuming all his current income. Investments that are more liquid are easier to sell fast for full value (Lindahl, 2012).

In relation to this study, issues of credit and how its management in commercial institutions in Uganda have created gaps hence either directly or indirectly affecting the institutions profitability analyzed what an effective credit risk management system entail and observed the establishment of a suitable credit risk environment which operates under a sound credit granting process with an appropriate credit administration that emphasizes Assessment, Scoring, monitoring, evaluation and control over credit risk. Credit policies provide direction and guidance to credit officers involved in the assessment, scoring and approval of credit. This is largely motivated by the desire to score out bad loans that probably may increase the risk of default hence affecting profitability. However, the theory ignores approval on matters of credit yet the credit policy should always be approved by the board of directors.

2.3.0 Credit Management and Loan Portfolio Quality

The literature under is reviewed according to the study objectives which are credit appraisal, credit administration and credit monitoring and loan recovery.

2.3.1 Loan Portfolio Quality

Lending is the principal business activity for most financial institutions and such the lifeblood of every lending institution is in its loan portfolio quality and the success of the institution depends on how well that portfolio is managed (Smith, n.d). As already observed, the loan portfolio is the largest and predominant source of revenue and as such it is one of the greatest sources of risk to a bank's safety and soundness. Prudent risk selection is obviously vital to maintaining favorable loan quality. Therefore the historical emphasis on controlling the quality of individual loan approvals and managing the performance of these loans continues to be very essential. This can be achieved by putting in place sound credit management guidelines, employing competent and trustworthy personnel and arming them with the relevant skills to management the lending business.

Various indicators are used to describe loan portfolio quality but the most common indicator is the ratio of non-performing loans to total outstanding loans i.e. non performing rate (NPR). Non-performing loans generally refer to loans which for a relatively long period of time do not generate incomes. Clair (2012) contends that the two standard measures of loan portfolio quality are the ratio of charge off/write offs i.e. written off loans to total loans, and the ratio of non-performing loans to total loans (NPR).

2.3.2 Credit Appraisal and Loan Portfolio Quality

The essence of effective credit management is portfolio management which aims at balancing and containing the overall portfolio risk by anticipating and controlling exposure to various identified markets, customers and operational conditions (CERUDEB, 2008). Credit management has three major components of credit analysis/appraisal, credit administration and credit risk management or measurement (Onalo, n.d). For purposes of this study, credit management process covers the entire credit cycle from credit appraisal, credit administration and credit monitoring and includes sound practices in credit processing/appraisal, approval, documentation, administration, disbursement, monitoring, credit classification, managing problem credits and recovery

Centenary bank's credit management procedures are embedded in its credit policies & procedures manual (Mutegeki, 2015). This credit policy provides a framework for the entire management process and its objective standards and parameters that guide the granting of loans and management of loan portfolio. The policy defines the objectives of credit management, spells out the principles to be adhered to in credit management and outline the process to be followed in credit management. The credit management process covers the entire credit cycle. It includes among others; submission and processing of credit applications, the credit analysis package, credit appraisal/underwriting and approval process, the generation of compliance checklists for approval and disbursement, credit administration, general procedures dealing with legal documentation and maintenance of credit files, credit review and supervision, credit monitoring, loan classification, provisioning, recovery and write-offs (Centenary bank's credit policy and procedures manual, 2008). It therefore provides sound practices in the entire credit management cycle.

It is at this stage that the credit officers applies his skills to analyze all available information to assess whether the loan applied for by the customer meets the bank's risk return objectives. At this stage, all the necessary steps are taken by the bank from receipt of application forms to approval of the loan lending policies and procedures (CERUDEB, 2008). The second factor will be influenced by the decisions taken by a manager to repay the loan and the last question requires the credit manager to control risks so that the bank can structure an acceptable loan agreement (Mulumba, 2016). In order to analyze risk three questions are important and must be answered by management if it is to grant credit to customers. The credit manager addresses the first question by generating a list of factors that would undermine the capacity of the borrower to repay.

2.3.3 Credit Administration and Loan Portfolio quality

Credit policy is looked at as a frame work guidelines formulated by the organization to be followed in process of credit extension to borrowers. Commercial banks set credit policies to ensure control and minimize losses. Credit policy is looked at as an institutions method of analyzing credit requests and its decision criteria for accepting and rejecting applications. According to Kakuru (2005) credit policy is a set of policy actions designed to minimize costs associated with credit while maximizing the benefits from it. The objective of this policy is to have optimal investment in debtors. Optimal investment is that level of investment where there is a tradeoff between the benefit and costs associated with it. In other words, at optimal level of investment, both objectives of profitability and liquidity are realized.

Decisions on granting credit can be made individually or by committee but the structure depends on a bank's size, number of employees and category of loans under consideration. A bank's Board of Directors normally has final decision on approval of loans (Katabarwa, 2016). Larger loans are normally received by a committee consisting of the bank's senior loan officers. This committee reviews every step of the credit analysis undertaken by loan officers and analysts and makes a decision. Loan committee meets regularly to monitor the credit approval process and discuss asset quality problem when it arises (Katabarwa, 2016). On approval of the loan, the officer notifies the borrower and prepares a loan agreement which gives out the purpose of the loan, the terms, repayment schedule, collateral required and loan convents. In bridging the gap, the conditions also include default by the borrower, late principle and interest payments, the sale of assets, declaration of bankruptcy and breach of any restrictive loan covenants. The officer then makes sure that all loan documentation is correct.

Credit standards are looked at as the criteria banks used in selecting its customers for credit. It is the process by which institutions establish the credit worthiness of customers and involves the appraisal of the customer as well as establishing the customer's capacity to repay the loan (Kakuba, 2016). The viability of credit institutions depends critically on selecting applicant who have a high probability of repayment and rejecting those with high probability of non-repayment. The bank may follow a lenient credit standard where by credit is extended to selected customers with good records, whereas a stringent credit standard for credit to applicants with high probability of default. In evaluating the risk associated with customer banks look at character, capacity, capital, collateral and condition.

The researcher noted that once a decision has been made to grant credit to a customer, an organization has to decide the credit period the amount and period of cash discount and the credit instrument to be used. A firm's credit terms have to specify whether or not to offer a cash discount for early payment of invoices or bills and if a discount is offered how much it should be.

Collection efforts refer to the supervision of the loan. This can be done through letters, telephone calls and representatives. Collection effort is aimed at accelerating collection from payers and reducing debts. Prompt collection aims at increasing turnover while keeping costs low and bad debts within limits. The primary objective of commercial banks in lending to customers for commercial and consumption purposes is to make profitable loans with maximum risk (Kasekende, 2015). Loan officers should lend to industries or markets in which they have expertise and take into consideration loan volume and loan quality in relation to liquidity requirements, capital constraints and rate of return. The credit process includes credit appraisal and approval, credit execution and administration, Documentation and monitoring operations (CERUDEB, 2008). The execution of each procedure is through the bank's written loan policy as determined by the Board of Directors. A loan policy formalizes lending guidelines, preferred loan qualities and establishes procedures for granting, documenting and reviewing loans. In evaluating the credit worthiness/ risk associated with a customer, banks use the 5C namely character, capacity, capital, collateral and condition.

2.3.4 Credit Monitoring and Recovery Procedure and Loan Portfolio quality

Capacity is the willingness of a customer to settle his obligations as they fall due. It mainly involves assessment of the moral factors. In analyzing the customer's character, marital status, the level of education, occupational stability, past records is evaluated. Capacity is the ability of a client to pay the credit advanced to him or her. It may be assessed using customers' records, amount and purpose of the bank (Gerd, 2016). Capital determines the contribution or interest of the customer in his business. The tangible net worth of the business should be looked at and is shown by capital=assets=liabilities. Condition is the prevailing economic and other conditions which may affect the customers' ability to pay for instance credit crunch, inflation, political factors among others (Kakuru 2005). In relation to this study, in a bid to make thorough scrutiny of bad credit more five Cs should be analyzed that is carelessness, communication breakdown, complacency, contingencies and competition.

According to Kakuru (2005), Banks should formally analyze credit procedures including subjective evaluation of the borrower's request and insight review of all financial statements. The first quantitative analysis carried out by credit department include spreading financial statements, collecting information for credit file, projecting the borrower's cash flows, evaluating collateral and writing a summary analysis and making recommendation. The credit files contains background information on the borrower including call report summaries, past and present financial statements, credit reports, debt schedules such as aging of receivables, A breakdown of current inventory and equipment as well as a summary of insurance coverage. Previous customer should have copies of the last loan agreement, cash flow projections, collateral agreements and security documents, any narrative comments provided by prior loan officers and copies of the correspondence with customers. In filling the gap, the credit analyst uses the credit file data to spread the financial statements, project cash flow and evaluate collateral. The last step is to submit a written report summarizing the loan request, loan purpose, and the borrower's comparative financial performance relative to industry standards and then make a recommendation.

According to Mulumba (2016), in banking, officer may suggest procedures that would improve the borrower's conditions and repayment prospects and give another proposal if circumstances improve. If the credit satisfies acceptable risk limits, the officer negotiates specific preliminary credit terms, the loan amount, maturity, pricing collateral requirements and repayment schedule. Many banks do not have formal credit departments or full time analysts to prepare financial histories. Loan officers personally complete the steps out lined above before accepting or rejecting a loan often, loan requests are received without detailed information on the borrower's condition. Thus financial information may be handwritten or unaudited and may not meet generally accepted accounting principles yet the borrower may have good character and enough net worth. In this case, the loan officer works with the client to prepare a formal loan request and obtain the best financial information possible. This can be done by personally auditing the borrower's receipts, expenditures, receivables and inventory.

In developing countries, existing legal systems are very weak and banks grant loans without fully observing security precautions and often in violation of basic provisions. Further, there are no serious monitoring and recovery internal controls in place (Mulumba, 2016). He described the monitoring process as one which is simple but at the same time very difficult to effectively implement. This process involves constant reconciliation by the bank of the client's loan account with project site visit reports. The idea is to continuously remind him that the funds in hands belong to somebody else and must be repaid back with a fee within a stipulated period of time. It is at the monitoring and recovery stages of the credit processing system when credit personnel cooperate with customers to reduce frequency of site visits and ignore updating loan records.

In bridging the gap, strengthen monitoring, recovery policies and implementation, the following measures should be adopted, all credit accounting records should be maintained by competent accounting trained staff and constantly subjected to a surprise audit checks, all collateral must be kept under the lock, frequent and abrupt site visits to customer projects to be carried out and priority credit reports should be furnished to Head Office.

2.4 Summary of the Literature Reviewed

It is evident from the literature reviewed that different scholars have conducted several studies relating to credit management and quality loan portfolio.. That notwithstanding, a number of knowledge gaps have been identified as per the literature reviewed which this study bridged for example the author's conclusion and recommendations are not based on key indicators of credit management and therefore the aspect of quality is viewed from a narrower perspective yet this study broadened the aspect of credit management. Most of the studies on the subject were based on developed countries with a well-developed credit management and planning systems yet the proposed study centred on Uganda. The scholars did not specifically focus on the variables as laid down in this study. Putting the above into consideration, the current study focused on credit management and quality loan portfolio.

CHAPTER THREE
METHODOLOGY

3.1 Introduction

The study investigated the relationship between credit management and Loan Portfolio quality in commercial banks in Uganda taking a case of Centenary Bank. This Chapter presents and describes the methods and techniques used in the study. The methods in particular include the research design, study population, sample size and selection, sampling techniques and procedure, data collection methods, and the data collection instruments. The methods are include the data quality control (validity and reliability), procedure of data collection, data analysis and measurement of variables.

3.2 Research Design

A cross sectional survey design was adopted for this study to enable a systematic study at single point in time (Ezeani, 2009). The cross sectional survey was also preferred because it was deemed less time consuming and easy to apply. The study applied both quantitative and qualitative approaches. On one hand, qualitative approaches were applied to provide for an in depths understanding of human behavior and the reasons that govern such behavior (Earl-Babbie, 2013). Quantitative approaches on the other hand, was intended to quantify data and enable generalization of findings to the bigger population

3.3 Study Population

The population under study was 125 (for all the employees in the 14 Branches in Centenary Bank in Uganda) who included top level, middle level and lower level staff all departments in Centenary Bank (Investment, procurement, finance, risk legal, internal audit, benefits, contribution, customer service and data management unit) was used. The researcher believed that this category of people is knowledgeable enough about his area of study. The population was made up of respondents of both sexes (male and female).

3.4 Sample Size and Selection

The study was based on a sample size of 92 that was drawn from a population of 125. The sample size of 92 was sufficient and this is supported by Krejcie and Morgan (1970).

Table 3 1: Population, Sample Size and Sampling Techniques

Category	Accessible population	Sample size	Sampling Techniques
Managing Director's office	1	1	Purposive
Credit Department	24	22	Purposive
Procurement Department	14	10	Purposive
Finance/Accounts Department	10	07	Purposive
Risk Department	12	07	Purposive
Internal audit Department	16	13	Purposive
Legal Department	14	10	Purposive
Compliance Department	14	10	Purposive
Customer service Department	20	12	Simple random
TOTAL	**125**	**92**	

Source: Primary Data (2017)

3.4.1 Sampling Techniques and Procedure

The study applied both probability and non-probability sampling

3.4.1.1 Simple Sampling

Simple random sampling involves selecting a sample of the population in such way that samples of the same size have equal chances of being selected (Creswell, 2009). Simple random sampling was used to sample staff in the customer care department. According to Creswell (2009), stratified sampling ensured that every member has an equal chance of being recruited into the sample. A sample frame with complete list of members of the target population was constructed and then the members were randomly sampled. The second step was to decide on the sampling frame.

3.4.1.1 Purposive Sampling

In order to get the desired information, purposive sampling was used to Managing Director's office, Credit Department, Procurement Department, Finance Department, Risk Department, Internal audit Department, Legal Department and Compliance Department. Purposive sampling involves selecting respondents who are knowledgeable and experienced. According to Mugenda and Mugenda (1999), purposive sampling was therefore restricted to specific types of people who were assumed to possess the desired information and it enabled the researcher handpick them using his judgment.

3.5 Data Collection Methods

Both primary and secondary data was obtained. In the current study, data was collected using two key methods: the questionnaire survey method and the interview method

3.5.1 Questionnaire Method

The questionnaire was used based on the fact that the variable cannot be observed such as views, opinions perception and feeling of the respondent (Sekaran, 2003). This is method of data collection was where the researcher provided the respondent with a written questionnaire with question for them to fill. The respondents were required to fill them within a given time and returned them to the researcher for analysis. According to Mugenda and Mugenda (1999), the questionnaire enables the collection of data from many respondents in short period time. The questionnaire was developed to address a specific objective, research question or hypothesis of the study to help the researcher to get more information to help in analyzing the data collected more clearly. The questionnaires was closed ended and had questions constructed in a logically sequences so that the respondents find it friendly to use. The questionnaire was administered to team leaders, heads of departments, branch manager and supervisors. Amin (2005) the completed questionnaire is collected by the researcher to protect the percipients identity within the employing organization as per procedures by ethical guidelines.

3.5.2 Interview Method

To obtain accurate information through interviews, a researcher obtained the maximum co-operation from respondents. The researcher established a friendly relationship with the respondent prior to conducting the interviews (Mugenda & Mugenda, 1999). The researcher used interviews because they provide in depth data which is not possible to get using a questionnaire and they make it possible to obtain data required to meet specific objective of the study. The interviews guarded against confusing the question since the interviewer would clarify the questions. They were found more flexible because the interviewer adapted to the situation thereby gettind as much information as possible s (Mugenda & Mugenda 1999). In total 10 interviews were conducted with 02 top management, 02 team leaders, 02 Heads of Departments, 02 Branch manager, 02 Supervisors.

3.5.3 Documentary Review Analysis

A number of documents were reviewed. These included published materials like books, reports memos records, customer and staff information among others. Reviews of annual reports and audit reports of Centenary Bank, Centenary Credit reports over the five years were reviewed and information from the internet was used to examine the study variables.

3.6 Data collection instruments.

The key data collection instruments to be used were the questionnaires, interview guide and documentary review checklist.

3.6.1 Questionnaire

The researcher prepared a semi structured questionnaire with closed ended questions which he sent to top manager's branch manager supervisors and clerical staff of Centenary Bank to fill during the free time. Closed ended questionnaire were used because according to Amin (2005), they provide specific responses which are easy to analyze. Mugenda and Mugenda (1999) noted that questionnaires are economical to use in terms of time and money also easier to administer to apply. The questionnaire consisted of closed ended questions purely structured in nature whose variables were measured on a 5 point Likert scale (5 Strongly Agree, 4 Agree, 3 Not sure, 2 Disagree and 1 Strongly Disagree). The 5 point Likert scale is the most appropriate way to formulate the different questions for measuring different items from different variables. The questionnaire was administered to top level, middle level and lower level staff. A copy of the questionnaire is appended in the list of appendices labeled appendix (i).

3.6.2 Interview Guide

This involved presenting of oral verbal stimuli and reply in terms of oral verbal responses. Interviews were used to follow up ideas and carry out an in depth investigation and provide information which written response would conceal (Creswell, 2009). Interviews were person to person verbal communication in which one person or a group of people were interviewed at a time. Interviews were used because they have the advantage of ensuring probing for more information, clarification and capturing facial expression of the interviewees (Amin, 2005). In addition they will also give an opportunity to the researcher to revisit some of the issues that have been an over-sight in other instruments and yet they are considered vital for the study. The interview guide was unstructured containing questions on all variables of the study. In total 10 interviews were conducted with 02 top management, 02 team leaders, 02 Heads of Departments, 02 Branch manager, 02 Supervisors. Interviews were used because they have the advantage of ensuring probing for more information, clarification and capturing facial expression of the interviewees (Basheka, Oonyu and Barifaijo, 2010). A copy of the interview guide is appended in the list of appendices labeled appendix (ii).

3.6.3 Documentary Review Check list

The documentary review checklist was used for purposes of reviewing documentary data. Documentary data was obtained through the use of published and unpublished documents. According to Groves, Fowler, Couper, Lepkowski, Singer and Tourangeau (2009), documents can be helpful in the research design of subsequent primary research and can provide a baseline with which the collected primary data results can be compared to other methods. Amin (2005) notes a documentary review checklist lists the documents that the researcher was reviewed. Documentary data supplements primary data. A copy of the documentary review checklist is appended in the list of appendices labeled appendix (iii).

3.7 Quality Control of Data Collection Instruments

Data quality control techniques ensured that data collected is valid and reliable; the instruments were first tested to ensure validity and reliability.

3.7.1 Validity

Validity means the degree to which results obtained from the analysis of the data represents the actual phenomenon under study (Mugenda & Mugenda, 1999). Content validity according to Amin (2005) is the degree to which the test actually measures the traits for which it was designed and is measured by expert judgment. The validity of the instrument quantitatively was established using the Content Validity Index (CVI). This involved the expert scoring of the relevance of the questions in the instrument in relation to the study variables. The instruments that yield a CVI above 0.7 was within the accepted ranges. A CVI of more than 0.7 implies that the tool is valid (Amin, 2005). Index (CVI) was computed using the formula below:

$$C\,VI = \left(\frac{n}{N}\right) X100$$

Where; n = Number of items rated as relevant.

N = Total number of items in the instrument.

Content Validity results for the Instruments

Table 1:Content validity Index Results

Content validity Index Results for Questionnaires		
Variables	*Content Validity Index*	*Number of items*
Credit Appraisal	0.705	7
Credit Administration	0.805	6
Credit Monitoring	0.755	7
Loan Portfolio Quality	0.734	9

Source: Primary Data (2017)

3.7.2 Reliability

Reliability refers to the measure of the degree to which a research instrument yields consistent result or data after repeated trials and it's influenced by random error as noted by Mugenda and Mugenda (1999). Reliability of an instrument is the degree to which an instrument consistently measures whatever it is supposed to be measuring. Therefore an instrument is said to be reliable if it produces the same results whenever it is repeatedly used to measure traits from the same respondents even when it is administered by others (Amin, 2005).

To ensure the reliability of instruments, the Cronbach's coefficient alpha test was carried out. For the result from the test is more that were more than 0.70, the researcher had to proceed with the instruments and administer them to respondents. This is because Mugenda &Mugenda, (1999) suggests that a coefficient of 0.70 and above implies that there is a highly degree of reliability of the data.

Cronbach Reliability Coefficient test results for the Instruments

Table 3.1: Cronbach Reliability Coefficient test

Cronbach Reliability Coefficient Results test for Questionnaires		
Variables	*Cronbach test results*	*Number of items*
Credit Appraisal	0.726	7
Credit Administration	0.787	6
Credit Monitoring	0.756	7
Loan Portfolio Quality	0.844	9

Source: Primary Data (2017)

3.8 Data Collection Procedure

The researcher approached Centenary bank Uganda Limited through the Human Resource Manager with a letter from Uganda Management Institute (UMI) asking for permission to carry out research in their organization. The researcher explained to different respondents the purpose of the study and how their responses were treated with confidentiality and for academic purposes only. Then, various instruments were administered to different respondents as per schedule and then collected when completed for purposes of data analysis.

3.9 Data Analysis Techniques

Both qualitative and quantitative data analysis methods were used in this study

3.8.1 Quantitative Data Analysis

Quantitative data from questionnaires was sorted using the Statistical Package for Social Sciences (SPSS) method. Both Excel and SPSS have a similar feel, with pull-down menus, a host of built-in statistical functions and a spreadsheet format for easy data entry. SPSS has faster and easier basic function access, it has a wider variety of graphs and charts and it is easier to find statistical tests (Kothari, 2004). The analysis relied on both descriptive and inferential statistics. Quantitative data got from the questionnaires was computed into frequency counts and percentage. The descriptive statistics included use of frequency tables, mean, and standard deviation. The researcher adopted bivariate analysis techniques in analyzing his data. Bivariate analysis is the simplest form of analysis. The hypothesis was tested using Pearson Correlation Coefficient and regression analysis. In addition to frequency distribution, tables, mean, standard deviation and other measures of central tendency were used in data analysis.

3.8.2 Qualitative data analysis

Qualitative data was summarized into relatively shorter and meaningful phrases that capture the overall views of different respondents. The summarized views were reported in verbatim, indirect and direct quotations. Where necessary, part of qualitative data was coded to determine the frequency of key ideas and phrases. Data collected was coded in a code book, corrected synthesized and patterns generated and trends and relationships from the information gathered (Mugenda & Mugenda, 1999). These patterns were used to put qualitative data into context and the findings were interpreted in line with the research objectives which enabled the assessment of literature reviews and to reach a conclusion.

3.9 Measurement of Variables

The five (5) rating scale of Likert was used to measure the relationship between credit management and quality loan portfolio, Respondents were asked the degree of agreement with the statements in the questionnaire were classified from 1-Strongly disagree to 5-Strongly Agree. Basing on the responses, analysis was done to measure the respective variables. Credit management was measured using variables such as credit appraisal, credit administration and credit monitoring. Quality loan portfolio was measured using compliance in policies and regulation, effectiveness and efficiency in operation and reliability in financial reporting.

3.10 Ethical Considerations

The researcher sought permission from respondents after explaining the purpose of the study to them. Only those respondents with informed consent were included in the study. The researcher ensured that participants have a complete understanding of the purpose and methods used in the study, the risks involved, and the demands placed upon them as a participant. The participants were informed that they have the right to withdraw from the study at any time.

The researcher ensured confidentiality of the information and names of the respondents. Privacy was ensured to both respondents and the information were used for academic purposes only. This was done by informing the respondents not to write their names on the questionnaire and the researcher coded numbers to describe the respondents. The researcher ensured intellectual property rights are observed by acknowledging all works cited, no plagiarism of other authors' work was done. This means the researcher recognized the author's work where due and no misrepresentation of author's work.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND INTERPRETATION OF RESULTS

4.1 Introduction

The study investigated the relationship between credit management and Loan Portfolio quality in commercial banks in Uganda taking a case of Centenary Bank. This Chapter presents the findings, analysis and interpretations to the findings. The findings are presented according to the objectives of the study. In particular, the chapter presents the response rate, background findings and the empirical findings

4.2 Response Rate

The response rate findings are presented in table 4.1 below

Table 4.1: Response Rate

Instrument	Target	Actual Response	Response rate
Questionnaire	92	54	58.7
Interviews	10	07	70.0
Total	102	61	59.8

Source Primary Data (2017)

From Table 4.1 above, the number of questionnaires distributed were 92 out of which 54 were returned completed making a response rate of 58.7%. Out of the scheduled 10 face to face interviews, only 7 were carried out representing a response rate of 70%. Overall, out of the targeted 102 respondents, only 61 were actually observed giving the study response rate of 59.8%. The response rate of 59.8% was deemed good enough since creswell (2003) notes that a response rate above 50% of the target number is adequate

4.3 Findings on Background Characteristics

This section presents findings on demographics of the respondents, namely; gender, age, education, working experience, and position of the respondent, below.

4.3.1 Gender Characteristics of the Respondents

The gender characteristics of respondents were investigated for this study, and findings are presented in Table 4.2.

Table 4. 2: Summary Statistics on the Gender of the Respondents

		Frequency	Percent
Valid	Male	28	45.9
	Female	33	54.1
	Total	61	100.0

Source: Primary Data (2017) *N=61*

Table 4.2 shows that the majority of the respondents were female (54.1%) and male were (45.9%). Although the gender findings indicated a discrepancy in favour of males, the study was representative of all gender since both males and female were included in the study sample.

4.3.2 Age of the Respondents

The study looked at age distribution of the respondents by age using frequency distribution. The results obtained on the item are presented in table 4.3 below

Table 4.3: Age of the Respondents

		Frequency	Percent
Valid	20-29	18	54.5
	30-39	5	15.2
	40-49	7	21.2
	50 Above	3	9.1
	Total	61	100.0

Source: primary data (2017) *N=61*

From the above table, the majority of respondents who took part in the study were between 20-29 years implying 54.5% , 15.2 were between the age of 30 -39 , those between 40-49 years were 21.2% and those that were above 50 years were 9.1%. This shows that 45.5% of respondents were 30 years and above with only 21.9% below 30 years. This indicated that all categories of respondents in reference to different age groups were represented in this study.

4.6 Respondents by Highest Level of Education the Respondents

The table 4.4 presents the summary statistics on level of education of the respondents.

Table 4. 3: Distribution of Respondents by Level of Education the Respondents

		Frequency	Percent
Valid	Masters	10	16.4
	Bachelors	30	49.2
	Diploma	13	21.3
	Certificate	6	9.8
	Others	1	1.6
	Total	60	98.4
Missing	System	1	1.6
Total		61	100.0

Source: Primary Data (2017) *N=61*

The majority of the respondents were Bachelor's degree holders making a total percentage of 49.2%, the respondents with Masters were 16.4% and the respondents with Diplomas were 21.3% and the certificate holders were 9.8%. These results indicate that the respondents had good qualifications and the right skills and knowledge to deliver. Besides, the respondents were able to understand, read, interpret the questionnaire and gave relevant responses.

4.4 Empirical Results on Credit Management and Loan Portfolio Quality

In this section, the empirical results for each of the specific research objectives is presented, analysed and interpreted with an overall goal of demonstrating how credit management and Loan Portfolio quality

4.4.1 Credit appraisal and loan portfolio quality in Centenary Bank.

The items on credit appraisal were structured basing on the objectives of the study. Items were measured on a five-point Likert scale where code 1 = Strongly Disagree, 2 = Disagree, 3 = Undecided, 4 = Agree and 5 = Strongly Agree and analyzed basing 12 items which are statistically tabulated and presented in the table below with the frequencies and percentages according to the responses collected where Strongly Agree and Agree are combined to mean Agree in the explanation given below the table and Disagree and Strongly Disagree are combined to mean disagree.

Table 4.5: Summary Statistics on the relationship between credit appraisal and loan portfolio quality

Items	SD	D	N	A	SA	Mean	Std. Dev
Credit policy guidelines on are strictly adhered to	14.8%(9)	6.6%(4)	24.6%(15)	39.3%(24)	9.8%(6)	3.24	1.24
Loan underwriting standards & information submitted is accurate & complete	8.2%(6)	7.8(5)	13.1(8)	45.9%(28)	21.3%(13)	3.63	1.17
All loans are approved by authorized persons/committees	1.6%(1)	3.3%(10)	8.2%(5)	47.5%(29)	34.4%(21)	4.15	.854
All loans are approved in accordance with the policy	8.2%(5)	11.5%(7)	11.5%(7)	32.8%(20)	27.9%(17)	3.80	1.68
All loans are approved by authorized persons/committees	3.3%(2)	14.8%(9)	16.4(10	26.2%(16)	36.1%(22)	3.79	1.20
There is no preferential treatment in loan appraisal & approval	3.3%(2)	11.5%(7)	9.8%(6)	36.1%(22)	29.5%(18)	3.85	1.12
Pressure to meet performance targets does not compromise the quality of loan appraisal	4.9%(3)	11.5%(7)	13.1%(8)	31.1%(19)	32.8%(20)	3.80	1.20

Source Primary Data (2017) *N=61*

As to whether credit policy guidelines on are strictly adhered to, the respondent's responses indicated that cumulatively, the larger percentage (49.1%) of the respondents agreed and 21.2% disagreed. The mean = 3.2 was above the median score, three, which on the five-point Likert scale used to measure the items indicated that the respondents agreed that credit policy guidelines on are strictly adhered to.

A respondent noted that An Official from the Risk Management Department noted

"we have a strong credit policy that has been operation for some time now, for example under *our policy, a loan is disbursed after thorough review of the application. However not all the time credit policies are adhered to*

In corroboration another respondent noted

The current credit policy has been effectively utilised, we don't extend credit anyhow, it is a step by step process

Similarly, Danford (2009) indicated that some credit policies have not remained on paper, as they are thoroughly implemented in most instances.

Responses to the question as to whether loan underwriting standards & information submitted is accurate and complete (16%) disagreed while 67.1% agreed. The mean = 3.63 above the median score, three, that indicated that loan underwriting standards and information submitted is accurate and complete.

A respondent noted that

"when a customer demands for a credit, the bank can't just grant the loan because the demand has been made. The bank does so while looking at its policies on credit granting. This is important because the bank has to know the credit worthiness of the customer and its capability of repaying the loan".

Mulumba (2016) noted that the bank has to look at the purpose of the loan, how it is to be repaid, the repayment history of the borrower of previous loans, its capacity and even the collateral in order to be sure that it is equivalent to cover the loan in a case of default.

With respect to whether all loans are approved by authorized persons/committees, cumulatively the larger percentage (71.9%) agreed with 4.9% disagreeing. The mean = 4.15 which corresponded to agreed indicated that all loans are approved by authorized persons/committees.

As to whether all loans are approved in accordance with the policy, cumulatively the larger percentage (60.5%) agreed with 19.7% disagreed. The mean = 3.80 meant that the respondents the respondents agreed that All loans are approved in accordance with the policy.

A bank manager noted that

all loans are approved in accordance with the policy. However despite the existence of the policy there are gaps in the credit policy. This and the indiscriminate extension of loan although within the credit guideline without proper supervision of such loan and account have led to an increasing trend in the existence of bad dept.

Interview findings revealed that the bank has failed in the implementation of various checks against bad debt and has tended to forget every loan committed the moment the contract has been concluded. Ringtho(1998) contention here is that the cause of bad debt is due to improper supervision and management of loan granted.

Responses to the question as to whether there is no preferential treatment in loan appraisal & approval (65.6%) agreed while 14.8% disagreed. The mean = 3.85 above the median score, three indicated that there is no preferential treatment in loan appraisal & approval

A respondent noted that

There is no preferential treatment in loan appraisal & approval, Kakuru (2005) noted that the possibility that large banks are likely to have greater product and loan diversification are many. The impact of bank size on profitability is uncertain aprior for the fact that on the one hand, increased diversification implies less risk and hence a lower required return, and on the other hand, bank size takes into account differences brought about by size such as economies of scale. For large firms their size permits them to bargain more effectively, administer prices and in the end realize significant higher prices for the particular product.

As to whether pressure to meet performance targets does not compromise the quality of loan appraisal, the respondent's responses indicated that cumulatively, the larger percentage (63.9%) of the respondents agreed and 16.4% disagreed. The mean = 3.80 was above the median score, three, which on the five-point Likert scale used to measure the items indicated that pressure to meet performance targets does not compromise the quality of loan appraisal.

A branch manager noted that

A respondent noted that *credit is given to people who are capable for utilizing it well and repaying back the loan at its maturity date.*

Katabarwa(2016) noted that although a bank will keep a certain level of mandatory reserves, they may also choose to keep a percentage of their non-lending investing in short term securities to ensure that any monies needed can be accessed in the short term

4.4.1.1 Hypothesis Testing:

Hypothesis one stated that there is a positive significant relationship between credit appraisal and loan portfolio quality in Centenary Bank. The hypothesis was tested using the Pearson correlation coefficient and the regression analysis results of the hypothesis are given below.

Table 4.6: Correlation Matrix for Credit appraisal and loan portfolio quality in Centenary Bank

Correlations

		Credit Appraisal	Loan Portfolio quality
Credit Appraisal	Pearson Correlation	1	.399**
	Sig. (2-tailed)		.000
	N	61	61
Loan Portfolio quality	Pearson Correlation	.399**	1
	Sig. (2-tailed)	.000	
	N	61	61

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

Source: Primary Data (2017) *N = 61*

The results in table 4.6 showed that the coefficient was .399**. This implied that credit appraisal influence loan portfolio at Centenary Bank. Therefore according to the results there is a positive significant relationship between credit appraisal and loan portfolio. Therefore, the alternative hypothesis that was earlier stated in chapter one that there is a positive significant relationship between credit appraisal and loan portfolio quality in Centenary Bank was upheld. The correlation coefficient is a numerical way to quantify the relationship between two variables, i.e the independent and dependent and it is indicated by the symbol R. The correlation coefficient is always between -1 and 1, thus $-1 < R < 1$. The hypothesis is rejected if the earlier hypothesis was alternate and the finally tested hypothesis is null and the vice versa. Example if the calculated value is greater than the P value we accept the hypothesis.

A regression analysis was further done to determine the strength of the relationship between credit appraisal influence loan portfolio quality. Results are presented in the table 4.7 below.

Table 4.7: Regression Analysis for credit appraisal influence loan portfolio quality at Centenary Bank

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.399[a]	.288	.203	15.78039

a. Predictors: (Constant), Credit Appraisal

Source Primary Data (2017)

The Adjusted R square value is 0.203; this implied that credit appraisal explained only 20.3% of loan portfolio quality. Therefore credit appraisal influence loan portfolio quality by 20.3 %. From all the results the alternate hypothesis earlier stated in chapter one that there is a significant relationship between credit appraisal and loan portfolio quality in Centenary Bank is therefore upheld.

4.4.2 Credit Administration and Loan Portfolio quality

The items on credit administration were structured basing on the objectives of the study. Items were measured on a five-point Likert scale where code 1 = Strongly Disagree, 2 = Disagree, 3 = Undecided, 4 = Agree and 5 = Strongly Agree and analysed basing items which are statistically tabulated and presented in the table 4.8 below with the frequencies and percentages according to the responses collected where Strongly Agree and Agree are combined to mean Agree in the explanation given below the table and Disagree and Strongly Disagree are combined to mean disagree

Table 4.8: Summary Statistics on Credit Administration and Loan Portfolio quality

Items	SD	D	N	A	SA	Mean	Std. Dev
Compliance with approval term & conditions is strictly enforced	9.8%(6)	11.5%(7)	16.4%(10)	27.9%(17)	26.2%(16)	4.26	5.64

Client security files are properly coded and contain all security documents and support documents & are securely kept under lock & key	19.7%(12)	9.8(6)	18(11)	27.9%(28)	19.7%(12)	3.18	1.43
All branches have an updated record of inventory of all loan securities in branch custody	14.8%(9)	11.5%(7)	27.9%(17)	29.5%(18)	7%(11.5)	3.89	1.24
Loan funds are disbursed only to clients that exist and can be identified	14.8%(9)	8.2%(5)	18%(11)	31.1%(19)	19.7%(12)	3.89	4.27
All securities are verified by the credit administration before disbursement of loans	16.4%(10)	11.5%(7)	14.8(9)	37.7%(23)	11.5%(7)	3.17	1.32
Resources devoted to credit administration are sufficient	8.2%(5)	13.1%(8)	21.3%(13)	32.8%(20)	19.7%(12)	3.44	1.21

Source Primary Data (2017) *N=61*

With respect to whether compliance with approval term and conditions is strictly enforced, cumulatively the larger percentage (54.1%) agreed with 21.3% disagreeing. The mean = 4.26 which corresponded to agreed indicated the majority of the respondents agreed that compliance with approval term & conditions is strictly enforced.

A customer relations officer noted that

Compliance with approval term & conditions is strictly enforced and loans are reviewed & closely monitored by credit officers although they find difficult some times. Gerd (2016) noted that the comparatively more difficult situations encountered by a loan officer become capacity and condition because in addition to the understanding and analysis of the information about capacity and condition, it is also necessary to determine whether any future changes will affect the financial situation and the loan repaying ability of an enterprise

Responses to the question as to whether client security files are properly coded and contain all security documents and support documents and are securely kept under lock & key (48.6%) agreed while 29.5% disagreed. The mean = 3.18 above the median score of three indicated that client security files are properly coded and contain all security documents and support documents and are securely kept under lock & key

A respondent noted that *client security files are properly coded and contain all security documents and support documents and are securely kept under lock & key*. Similarly, Kivumbi (2008) the assessment of borrowers can be performed through the use of qualitative as well as quantitative techniques for example good safety of their documents. However, borrowers attributes assessed through qualitative models can be assigned numbers with the sum of the values compared to a threshold.

As to whether all branches have an updated record of inventory of all loan securities in branch custody, the respondent's responses indicated that cumulatively, the larger percentage (26.5%) of the respondents agreed and 26.3% disagreed. The mean = 3.89 was above the median score, three, which on the five-point Likert scale used to measure the items indicated that all branches have an updated record of inventory of all loan securities in branch custody

A Senior Accountant noted that a*ll branches have an updated record of inventory of all loan securities in branch custody*. Ddamba (2014) noted that in modern banks, there is clearly established process recording of inventory and for approving new credits and extending the existing credits.

Responses to the question as to whether loan funds are disbursed only to clients that exist and can be identified (50.8%) agreed while 23% disagreed. The mean = 3.89 close to the median score of three indicated that loan funds are disbursed only to clients that exist and can be identified.

A respondent noted that *loan funds are disbursed only to clients that exist and can be identified*. Mulumba (2016) noted that tools like covenants, frequent meetings, collateral, credit rationing, loan securitization and loan syndication have been used by banks in developing the world in controlling credit losses

With respect to whether all securities are verified by the credit administration before disbursement of loans, cumulatively the larger percentage (49.2%) agreed with 27.9% disagreeing. The mean = 3.17 which corresponded to agreed indicated the majority of the respondents agreed that all securities are verified by the credit administration before disbursement of loans.

A supervisor noted that *all securities are verified by the credit administration before disbursement of loans.* Bategeka(2009) noted that high-quality CRM staffs are critical to ensure that the depth of knowledge, securities are verified and judgment needed is always available, thus successfully managing credit

The Centenary Bank Report (2015) noted that establishment of an appropriate credit environment through policy and strategies (guidelines) that clearly outline the scope and allocation of bank credit facilities; maintenance of an appropriate credit appraisal that involves monitoring process as well as adequate controls over credit; top management support is required to ensure that there are proper and clear guidelines in managing credit. A borrowers is critical in accomplishing effective screening; highly quality staff are critical to ensure that the depth of knowledge and judgment needed is always available; monitoring of borrowers is very important as current and potential exposures change with both the passage of time and the movements in the underlying variables and also very important in dealing with moral hazard problem; and supportive technologies and equipment such as computers are useful in credit analysis, monitoring and control, as they make it easy to keep track on trend of credits within the portfolio.

Interview findings revealed that in Centenary Bank, top management support is required to ensure that there are proper and clear guidelines in managing credit. Monitoring of borrowers is given weight as current and potential exposures change with both the passage of time and the movements in the underlying variables and also very important in dealing with moral hazard problem; and supportive technologies and equipment such as computers are useful in credit analysis, monitoring and control, as they make it easy to keep track on trend of credits within the portfolio. Considerations that form the basis for sound CRM system include: policy and strategies (guidelines) that clearly outline the scope and allocation of a bank credit facilities and the manner in which a credit portfolio is managed

4.4.2.1 Hypothesis Testing Two:

Hypothesis Two stated that there is a positive significant relationship between credit administration and loan portfolio quality in Centenary Bank. The hypothesis was tested using the Pearson correlation coefficient and the regression analysis and results of the hypothesis are given below.

Table 4.9: Correlation Matrix for credit administration and loan portfolio quality

Correlations

		Credit Administration	Loan Portfolio quality
Credit Administration	Pearson Correlation	1	.711**
	Sig. (2-tailed)		.000
	N	61	61
Loan Portfolio quality	Pearson Correlation	.711**	1

	Sig. (2-tailed)	.000	
	N	61	61

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

Source: Primary Data (2017) *N = 61*

The results in table 4.9 showed that the coefficient is .711**. This implied that credit administration influence loan portfolio quality at Centenary Bank. Therefore according to the results there is a positive significant relationship between credit administration and loan portfolio quality at Centenary Bank. Therefore, the alternative hypothesis that was earlier stated in chapter one that there is a positive significant relationship between credit administration and loan portfolio quality in Centenary Bank is upheld. The correlation coefficient is a numerical way to quantify the relationship between two variables, i.e the independent and dependent and it is denoted by the symbol R. The correlation coefficient is always between -1 and 1, thus $-1 < R < 1$. The hypothesis is rejected if the earlier hypothesis was alternate and the finally tested hypothesis is null and the vice versa. Example if the calculated value is greater than the P value, we accept the hypothesis.

A regression analysis was further done to determine the strength of the relationship between credit administration and loan portfolio quality at Centenary Bank. Results are presented in the table 4.13 below.

Table 4.4: Regression Analysis for credit administration and loan portfolio quality at Centenary Bank

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.711[a]	.608	.686	14.97243

a. Predictors: (Constant), Credit administration

Source primary data (2017)

The coefficient of determination (Adjusted R square) value is 0.686; this implied that credit administration explained only 38.6% of loan portfolio at Centenary Bank. Therefore credit administration predicts loan portfolio quality at Centenary Bank by 68.6%. From all the results the alternate hypothesis earlier stated in chapter one that there is a significant relationship between positive significant relationship between credit administration and loan portfolio quality at Centenary Bank is therefore upheld.

Table 4.5: Regression summary for credit administration and loan portfolio quality at Centenary Bank

Loan Portfolio	Standardised B	Sig. P
P	0.711	0.000
Adjusted $R^2 = 0.686$ F = 2.593, p = 0.000		

a. Dependent Variable: Loan Portfolio

Primary data (2017)

The results in Table 4.11show that, credit administration explained 38.6% of the variation in loan portfolio quality at Centenary Bank (adjusted $R^2 = 0.386$). The R value is 0.63, which represents the simple correlation and, therefore, indicates a moderate degree of correlation. The R2 value indicates how much of the dependent variable, loan portfolio at Centenary Bank can be explained by the independent variable. Therefore the adjusted square value of .039 implied that credit administration predict loan portfolio quality at Centenary Bank; in other words loan portfolio is dependent on credit administration by 68.6%. The regression model was good/ significant ($F = 2.593$, $p = 0.000 < 0.05$). All the independent variable included ($\beta = 0.253$ and credit administration, p = 0.000. The magnitudes of the respective betas suggest that credit administration most significantly predicted loan portfolio quality at Centenary Bank

In summary**,** the respondents were asked to give their summary opinions about credit administration. Several responses were given but generally their indicated that the responses on the credit administration were fair. In total 61 respondents provided responses indicating that the credit administration drafted are good but loan portfolio quality has been faced with significant challenges.

4.4.3 Credit monitoring and recovery procedure and loan portfolio quality

The items on credit monitoring and recovery procedure were structured basing on the objectives of the study. Items were measured on a five-point Likert scale where code 1 = Strongly Disagree, 2 = Disagree, 3 = Undecided, 4 = Agree and 5 = Strongly Agree and analysed basing 12 questions which are statistically tabulated and presented in the table below with the frequencies and percentages according to the responses collected where Strongly Agree and Agree are combined to mean Agree in the explanation given below the table and Disagree and Strongly Disagree are combined to mean disagree.

Table 4.6: Summary Statistics on credit monitoring and recovery procedure and loan portfolio

Items	SD	D	N	A	SA	Mean	Std. Dev
All outstanding loans in the loan portfolio are continuously reviewed & closely monitored	8.2%(5)	9.9%(6)	9.9%(6)	29.5%(18)	29.5%(18)	4.48	5.76
All loan clients are visited atleast once every quarter	13.1%(8)	9.8(6)	8.2(5)	32.8%(20)	26.2%(16)	3.58	1.42

Reports generated by the system are effectively used for monitoring & control of loan quality	8.2%(5)	6.6%(4)	18%(11)	39.3%(24)	21.3%(13)	4.13	4.03
Branch loan committees hold recovery meetings at least twice a month	9.8%(6)	19.7%(12)	16.4%(10)	34.4%(21)	13.1%(8)	3.22	1.23
Action points from the recovery/management meetings are recorded and diligently followed up.	13.1%(8)	8.2%(5)	18(11)	27.7%(17)	23%(14)	4.14	5.45
The existing loan recovery methods/procedures are adequate	8.2%(5)	13.1%(8)	19.7%(12)	27.9%(17)	10%(11)	3.39	1.24
The bank's legal department has an effective mechanism for recovery of bad loans	9.8%(6)	14.8%(9)	16.4%(10)	29.5%(18)	21.3%(13)	3.41	1.30

Source Primary Data (2017) *N=61*

With respect to whether all outstanding loans in the loan portfolio are continuously reviewed & closely monitored, cumulatively the larger percentage (59%) agreed with 18.1% disagreeing. The mean = 4.48 which corresponded to agreed indicated the majority of the respondents agreed that all outstanding loans in the loan portfolio are continuously reviewed & closely monitored.

In relation to the above a respondent noted that *all outstanding loans in the loan portfolio are continuously reviewed & closely monitored.* Interview findings further revealed that Centenary Bank uses various tools for controlling credit losses. The included covenants, collateral, credit rationing, loan securitization, and loan syndication, Tools like covenants, collateral, credit rationing, loan securitization and loan syndication have been used by banks in developing the world in controlling credit losses

Responses to the question as to whether all loan clients are visited at least once every quarter (59%) agreed while 22.9% disagreed. The mean = 3.58 close to the median score, three, that indicated all loan clients are visited at least once every quarter. A respondent noted that all loan clients are visited at least once every quarter

As to whether reports generated by the system are effectively used for monitoring & control of loan quality, the respondents' responses indicated that cumulatively, the larger percentage (60.6%) of the respondents agreed and 14.8% disagreed. The mean = 4.13 indicated that the respondents agreed that reports generated by the system are effectively used for monitoring & control of loan quality.

Responses to the question as to whether branch loan committees hold recovery meetings at least twice a month (47.5%) agreed while 29.5% disagreed. The mean = 3.22 above the median score, three indicated that branch loan committees hold recovery meetings at least twice a month

With respect to whether action points from the recovery/management meetings are recorded and diligently followed up., cumulatively the larger percentage (51%) agreed with 21.3% disagreeing. The mean = 4.14 which corresponded to agreed indicated that the majority of the respondents noted that action points from the recovery/management meetings are recorded and diligently followed up.

A customer support advisor noted that

Action points from the recovery/management meetings are recorded and diligently followed up by management of Centenary Bank. Similarly, Mulumba (2016) noted that it is important to ensure good recovery of loans this necessitates frequent contact with borrowers, creating an environment that the bank can be seen as a solver of problems and trusted advisor, development of the culture

As to whether the existing loan recovery methods/procedures are adequate, cumulatively the larger percentage (37.9%) agreed with 21.3% disagreed. The mean = 3.39 meant that the respondents the respondents agreed that the existing loan recovery methods/procedures are adequate.

An IT officer noted that *the loan recovery procedures are still inadequate given the existing gaps like many cases of bad debt in Centenary Bank.* However, the Centenary Bank Report (2015) notes that with respect to monitoring of borrowers and loan recovery procedures, the following activities were undertaken in 2014: frequent contact with borrowers; creating an environment that the bank can be seen as a solver of problems and trusted advisor; development of the culture of being supportive to borrowers wherever they are recognized to be in difficulties and are striving to deal with the situation; monitoring the flow of borrower's business through the bank's account; regular review of borrowers reports as well as an on-site visit; and updating borrowers credit files and periodically reviewing the borrowers rating assigned at the time the credit was granted.

With respect to whether the bank's legal department has an effective mechanism for recovery of bad loans, cumulatively the larger percentage (50.8%) agreed with 24.6% disagreeing. The mean = 3.41 which corresponded to agreed indicated the majority of the respondents noted that the bank's legal department has an effective mechanism for recovery of bad loans.

The Human Resource manager noted that

the bank's legal department has an effective mechanism for recovery of bad loans, they have dealt with many clients who have habitually defaulted on loans. Similarly Abuka and Egesa (2010) noted that internal performance measures include good loan recovery procedures of bank lending using legal means; bank profitability; operational ratios; developed benchmarks; and measuring productivity of loan officers

Table 4.7: Frequencies, Percentages and Means on Loan Portfolio

Items	SD	D	N	A	SA	Mean	Std. Dev
Credit staff have the necessary loan underwriting skills	11.5%(7)	6.6%(4)	8.2%(5)	49.2%(30)	16.4%(10)	3.57	1.23
Credit staff always present correct information or analysis to the loan committee	8.2%(5)	9.8(6)	8.2(5)	32.8%(20)	31.1%(19)	3.76	1.29
Credit staff are well motivated to do a good job	6.6%(4)	9.8%(6)	14.8%(9)	34.4%(21)	27.9%(118)	3.71	1.20
There is no collusion among credit staff & clients to secure approval of fraudulent loans	6.6%(4)	8.2%(5)	11.5%(7)	31.1%(19)	32.8%(20)	3.83	1.27
Credit staff do not manipulate the bank's computer system to effect unauthorized transactions	6.6%(8)	11.5%(7)	8.2(5)	39.3%(24)	27.9%(17)	3.75	1.21
Micro loans are paid within one day from due date	6.6%(5)	13.1%(8)	8.2%(5)	36.1%(22)	27.9%(17)	3.71	1.24
Commercial/corporate loans are paid within 30 days from date	16.4%(10)	8.2%(5)	8.2%(5)	32.8%(20)	26.2%(16)	4.17	5.42
Loans not paid on time are eventually recovered	6.6%(4)	6.6%(4)	9.8(6)	39.3%(24)	27.9%(17)	3.83	1.16
No loans are written off	16.4%(10)	11.5%(7)	9.8%(6)	29.5%(18)	23%(14)	3.34	1.45

Source Primary Data (2017) *N=61*

With respect to whether credit staff has the necessary loan underwriting skills (65.6%) agreed with 18.1% disagreeing. The mean = 3.57 which corresponded to agreed indicated the majority of the respondents agreed that credit staff have the necessary loan underwriting skills.

A branch manager noted that

credit staff has the necessary loan underwriting skills Kakuba (2012) noted that the productivity measure of a loan officer is dependent on loan sales. The manager can use this information to analyze the loan officers' quarterly productivity. With respect to value tree, all the respondents indicated that thy used the drivers of lending revenue are operating fees and interest income that are driven by new loans and existing loan volumes; and the drivers of lending expenses consist of interest expense, operating expense, loss revenues and unexpected losses in commercial loans were used by all the respondents.

Responses to the question as to whether credit staff always present correct information or analysis to the loan committee (63.9%) agreed while 18% disagreed. The mean = 3.76 above the median score of three indicated that Credit staff always present correct information or analysis to the loan committee

A customer relations manager noted that *credit staff always present correct information or analysis to the loan committee* Mulumba(2016) noted that credit staff is supposed to provide information to loan management so as to work on the capital and non-performing loans, at least until further research has established on them. It also provides supervisors with an expression whether the regulated ratio has effect on banks' profitability.

As to whether credit staffs are well motivated to do a good job, the respondents' responses indicated that cumulatively, the larger percentage (62.3%) of the respondents agreed and 16.4% disagreed. The mean = 3.38 indicated that credit staff are well motivated to do a good job.

Responses to the question as to whether there is no collusion among credit staff & clients to secure approval of fraudulent loans (63.9%) agreed while 14.8% disagreed. The mean = 3.83 above the median score of three, that indicated that there is no collusion among credit staff & clients to secure approval of fraudulent loans.

A branch manager *there are collusion cases among credit staff & clients to secure approval of fraudulent loans and this happened four years ago when four staff members at top management level were arrested and charged*

As to whether the banks have ensured liquidity, it was observed that liquidity depends on the credit policy of the bank. Hann(2012) noted that a lending institution that accepts deposits must have a certain measure of liquidity to maintain its normal daily operations. Loans given to its customers are mostly not considered liquid meaning that they are investments over a longer period of time. Although a bank will keep a certain level of mandatory reserves, they may also choose to keep a percentage of their non-lending investing in short term securities to ensure that any monies needed can be accessed in the short term

With respect to whether credit staffs do not manipulate the bank's computer system to effect unauthorized transactions, cumulatively the larger percentage (17.1%) disagreed with 58.2% agreeing. The mean = 3.75 which corresponded to agreed indicated the majority of the respondents agreed that credit staff do not manipulate the bank's computer system to effect unauthorized transactions.

As to whether Micro loans are paid within one day from due date, cumulatively the larger percentage (19.7%) disagreed with 54% agreed. The mean = 3.71 meant that the respondents the respondents agreed that Micro loans are paid within one day from due date.

With respect to whether commercial/corporate loans are paid within 30 days from date (59%) agreed with 22.6% disagreeing. The mean = 4.17 which corresponded to agreed indicated the majority of the respondents agreed that commercial/corporate loans are paid within 30 days from date. A respondent noted

Commercial/corporate loans are paid within 30 days from date. Centenary bank profits are driven primarily by our focus on internal control systems and our customers and our ability to respond to their needs and changes in the market. This is the reason we are constantly innovating and introducing new technologies that put our clients increasingly in control of their overall banking experience

There were mixed responses on the issue of having corporate loans paid within 30 days from date, 75% during interviews felt that some loans are not paid within 30 days from the date they are due and 25% felt that there is laxity in paying the principle and interest. Responses to the question as to whether loans not paid on time are eventually recovered (58.1%) agreed while 13.2% disagreed. The mean = 3.83 indicated that loans not paid on time are eventually recovered.

Table 4.8: Profitability and Impairment Losses Trend in Centenary Bank Limited

YEAR	NET PROFIT ('000 Shs)	IMPAIRMENT LOSSES ('000 Shs)	% of impairment to Net profit
2008	20,423,683	2,752,697	13%
2009	23,483,178	6,460,503	28%
2010	29,397,099	5,860,037	20%
2011	47,930,525	5,779,802	12%
2012	54,901,186	6,439,254	12%
2013	58,005,547	9,551,125	16%
2014	73,816,511	11,294,917	15%

Source: Extracted from Centenary bank annual financial income statement located at www.centenarybank.co.ug

The table above shows that since 2008 to 2014, the net profit has been increasing at the same time with the impairment of losses

As to whether no loans are written off, the respondents' responses indicated that cumulatively, the larger percentage (52.5%) of the respondents agreed and 18.6% disagreed. The mean = 3.34 was above the median score of three, which on the five-point Likert scale used to measure the items indicated that no loans are written off.

4.4.3.1 Hypothesis Testing Three:

Hypothesis Three Stated there is a positive significant relationship between credit monitoring and recovery procedure and loan portfolio quality in Centenary Bank. The hypothesis was tested using the Pearson correlation coefficient and the regression analysis and results of the hypothesis are given below.

Table 4.9: Correlation Matrix for credit monitoring and recovery procedure and loan portfolio quality

Correlations

		credit monitoring and recovery procedure	Loan portfolio quality
credit monitoring and recovery procedure	Pearson Correlation	1	.279*
	Sig. (2-tailed)		.032
	N	61	61
Loan portfolio quality	Pearson Correlation	.279*	1
	Sig. (2-tailed)	.032	
	N	61	61

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

Source: Primary Data (2017) *N =61*

The result in table 4.14 showed that the correlation coefficient is .279*. This implied that credit monitoring and recovery procedure influences loan portfolio quality in Centenary Bank. Therefore according to the results there is a positive significant relationship between credit monitoring and recovery procedure and loan portfolio quality in Centenary Bank. Therefore, the alternative hypothesis that was earlier stated in chapter one is upheld. The correlation coefficient is a numerical way to quantify the relationship between two variables i.e the independent and dependent and it is denoted by the symbol R. The correlation coefficient is always between -1 and 1, thus $-1 < R < 1$. The hypothesis is rejected if the earlier hypothesis was alternate and the finally tested hypothesis is null and the vice versa. Example if the calculated value is greater than the P value we accept the hypothesis.

A regression analysis was further done to determine the strength of the relationship between credit monitoring and recovery procedure and loan portfolio quality in Centenary Bank. Results are presented in the table 4.18 below.

Table 4.15: Regression Analysis for the relationship between credit monitoring and recovery procedure and loan portfolio quality

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.358[a]	.128	.103	17.01525

a. Predictors: (Constant), Credit monitoring and recovery procedure

Source primary data (2017)

The Adjusted R square value is .103; this implied that credit monitoring and recovery procedure explained only 10.3% of loan portfolio quality in Centenary Bank. Therefore credit monitoring and recovery procedure predict loan portfolio quality in Centenary Bank by 10.3%. From all the results the alternate hypothesis earlier postulated stated that there is a positive significant relationship between credit monitoring and recovery procedure and loan portfolio quality in Centenary Bank is therefore upheld.

This Chapter focused on presenting the findings, interpretation and analysis , the next chapter focuses on the summary of findings, discussion of the findings, conclusions, recommendations and areas for further research. The researcher now turns to chapter five to present the summary of findings, discussion of the findings, conclusions and recommendations.

CHAPTER FIVE

SUMMARY, DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The study investigated the relationship between credit management and Loan Portfolio quality in commercial banks in Uganda taking a case of Centenary Bank. This chapter presents summary of findings, discussion, conclusions, recommendations and areas for further study based on the study objectives.

5.2. Summary of Major Findings

The summary of the major findings is presented based on the study objectives as laid in chapter one of this report.

5.2.1: Credit Appraisal and Loan Portfolio Quality

The results showed a positive significant relationship between credit appraisal explained only 10.3% of loan portfolio quality in Centenary Bank. A regression analysis was further done to determine the strength of the credit appraisal and loan portfolio quality in Centenary Bank. Results showed that the Adjusted R square value is 0.203; this implied that credit appraisal explained only 20.3% of loan portfolio.

5.2.2: Credit Administration and Loan Portfolio Quality

The results showed that there is a positive significant relationship between credit administration and loan portfolio quality in Centenary Bank. A regression analysis was further done to determine the strength of the relationship between. credit administration and loan portfolio quality in

Centenary Bank. Results indicated that the coefficient of determination (Adjusted R square) value is 0.386; this implied that credit administration explained only 68.6% of loan portfolio quality in Centenary Bank. Therefore credit administration predict loan portfolio in Centenary Bank by 38.6%.

5.2.3: Credit Monitoring and Recovery Procedure and Loan Portfolio Quality

The result showed that credit monitoring and recovery procedure has a positive significant relationship with loan portfolio quality in Centenary Bank. A regression analysis was further done to determine the strength of the relationship between credit monitoring and recovery procedure and loan portfolio quality in Centenary Bank.

5.3. Discussion of Findings

The findings are discussed on the basis of the study objectives as laid down in chapter one

5.3.1: Credit Appraisal and Loan Portfolio Quality

Findings revealed that there is a positive significant relationship between credit appraisal and loan portfolio quality in Centenary Bank. Findings revealed that they have a strong credit policy that has been operation for some time now, for example under the Centenary Bank policy, a loan is disbursed after thorough review of the application. The current Centenary Bank credit policy has been effectively utilised, Centenary Bank does not extend credit anyhow, it is a step by step process. Similarly, Danford (2009) indicated that some credit policies have not remained on paper, as they are thoroughly implemented in most instances.

Findings revealed that when a customer demands for a credit, the bank can’t just grant the loan because the demand has been made. The bank does so while looking at its policies on credit granting. This is important because the bank has to know the credit worthiness of the customer and its capability of repaying the loan.

Similarly, Mulumba (2016) noted that the bank has to look at the purpose of the loan, how it is to be repaid, the repayment history of the borrower of previous loans, its capacity and even the collateral in order to be sure that it is equivalent to cover the loan in a case of default.

It was observed that all loans are approved in accordance with the policy. However despite the existence of the policy there are gaps in the credit policy. This and the indiscriminate extension of loan although within the credit guideline without proper supervision of such loan and account have led to an increasing trend in the existence of bad debt.

Interview findings revealed that the bank has failed in the implementation of various checks against bad debt and has tended to forget every loan committed the moment the contract has been concluded. Ringtho(1998) contention here is that the cause of bad debt is due to improper supervision and management of loan granted.

It was observed that there is no preferential treatment in loan appraisal & approval, In line, Kakuru (2005) noted that the possibility that large banks are likely to have greater product and loan diversification are many. The impact of bank size on profitability is uncertain aprior for the fact that on the one hand, increased diversification implies less risk and hence a lower required return, and on the other hand, bank size takes into account differences brought about by size such as economies of scale. For large firms their size permits them to bargain more effectively, administer prices and in the end realize significant higher prices for the particular product.

It was observed that credit is given to people who are capable for utilizing it well and repaying back the loan at its maturity data. Katabarwa (2016)although a bank will keep a certain level of mandatory reserves, they may also choose to keep a percentage of their non-lending investing in short term securities to ensure that any monies needed can be accessed in the short term

5.3.2: Credit Administration and Loan Portfolio Quality

Findings revealed that there is a positive significant relationship between credit administration and loan portfolio in Centenary Bank. Study findings revealed that compliance with approval term & conditions is strictly enforced and loans are reviewed & closely monitored by credit officers although they find difficult some times. Similarly, Gerd (2016) noted that the comparatively more difficult situations encountered by a loan officer become capacity and condition because in addition to the understanding and analysis of the information about capacity and condition, it is also necessary to determine whether any future changes will affect the financial situation and the loan repaying ability of an enterprise

It was further observed that client security files are properly coded and contain all security documents and support documents and are securely kept under lock & key. Similarly, Kivumbi (2008) noted that the assessment of borrowers can be performed through the use of qualitative as well as quantitative techniques for example good safety of their documents. However, borrowers attributes assessed through qualitative models can be assigned numbers with the sum of the values compared to a threshold.

Findings revealed that all branches have an updated record of inventory of all loan securities in branch custody. Ddamba (2014) noted that in modern banks, there is clearly established process recording of inventory and for approving new credits and extending the existing credits.

It was revealed that loan funds are disbursed only to clients that exist and can be identified. Consistent with the above, Mulumba (2016) noted that tools like covenants, frequent meetings, collateral, credit rationing, loan securitization and loan syndication have been used by banks in developing the world in controlling credit losses

It was observed that all securities are verified by the credit administration before disbursement of loans. Bategeka (2009) noted that high-quality CRM staffs are critical to ensure that the depth of knowledge, securities are verified and judgment needed is always available, thus successfully managing credit. The Centenary Bank Report (2015) noted that establishment of an appropriate credit environment through policy and strategies (guidelines) that clearly outline the scope and allocation of bank credit facilities; maintenance of an appropriate credit appraisal that involves monitoring process as well as adequate controls over credit; top management support is required to ensure that there are proper and clear guidelines in managing credit.

5.3.3 Credit Monitoring and Recovery Procedure and Loan Portfolio Quality

Findings revealed that there is a positive significant relationship between credit monitoring and recovery procedure and loan portfolio and loan portfolio quality in Centenary Bank. It was observed that all outstanding loans in the loan portfolio are continuously reviewed & closely monitored. Interview findings further revealed that Centenary Bank uses various tools for controlling credit losses. The included covenants, collateral, credit rationing, loan securitization, and loan syndication, tools like covenants, collateral, credit rationing, loan securitization and loan syndication have been used by banks in developing the world in controlling credit losses

Findings revealed that action points from the recovery/management meetings are recorded and diligently followed up by management of Centenary Bank. Similarly, Mulumba (2016) noted that it is important to ensure good recovery of loans this necessitates frequent contact with borrowers, creating an environment that the bank can be seen as a solver of problems and trusted advisor, development of the culture

It was observed that the loan recovery procedures are still inadequate given the existing gaps like many cases of bad debt in Centenary Bank. However, the Centenary Bank Report (2015) notes that with respect to monitoring of borrowers and loan recovery procedures, the following activities were undertaken in 2014: frequent contact with borrowers; creating an environment that the bank can be seen as a solver of problems and trusted advisor; development of the culture of being supportive to borrowers wherever they are recognized to be in difficulties and are striving to deal with the situation; monitoring the flow of borrower's business through the bank's account; regular review of borrowers reports as well as an on-site visit; and updating borrowers credit files and periodically reviewing the borrowers rating assigned at the time the credit was granted.

Findings further revealed that the bank's legal department has an effective mechanism for recovery of bad loans, they have dealt with many clients who have habitually defaulted on loans. Similarly, Abuka and Egesa (2010) noted that internal performance measures include good loan recovery procedures of bank lending using legal means; bank profitability; operational ratios; developed benchmarks; and measuring productivity of loan officers.

5.4 Conclusions

Based on the study findings a number of conclusions were made. This study was designed to answer three research questions and this section will summarize the key findings of the study in relation to each research objective in order to formulate the recommendations of the study. Study conclusions were drawn basing on the different research objectives as shown below;

5.4.1 Credit Appraisal and Loan Portfolio Quality

The study concluded that was a positive significant relationship between credit appraisal and loan portfolio in Centenary Bank. The findings revealed that Centenary Bank has a strong credit policy that has been operation for some time now, for example under the Centenary policy, a loan is disbursed after thorough review of the application. The current credit policy has been effectively utilized, Centenary Bank doesn't extend credit anyhow, it is a step by step process. The bank has failed in the implementation of various checks against bad debt and has tended to forget every loan committed the moment the contract has been concluded.

5.4.2: Credit Administration and Loan Portfolio Quality

The study concluded that there is a positive significant relationship between credit administration and loan portfolio in Centenary Bank. The study findings revealed that compliance with approval term & conditions is strictly enforced and loans are reviewed and closely monitored by credit officers although they find difficult some times. It was further observed that client security files are properly coded and contain all security documents and support documents andare securely kept under lock and key. observed that all securities are verified by the credit administration before disbursement of loans.

5.4.3: Credit Monitoring and Recovery Procedure and Loan Portfolio Quality

The study concluded that credit monitoring and recovery procedure had a positive significant relationship with loan portfolio quality in Centenary Bank. It was observed that all outstanding loans in the loan portfolio are continuously reviewed & closely monitored. Centenary Bank uses various tools for controlling credit losses. The included covenants, collateral, credit rationing, loan securitization, and loan syndication, Tools like covenants, collateral, credit rationing, loan securitization and loan syndication have been used by banks in developing the world in controlling credit losses. It was revealed that action points from the recovery/management meetings are recorded and diligently followed up by management of Centenary Bank.

5.5 Recommendations

In light of the study conclusions, several recommendations were made,

5.5.1 Credit Appraisal and Loan Portfolio

Banks should strengthen the implementation of the existing policy by ensuring enough resources and manpower is in place to implement the credit policy. For example, the staff implementing the policy should be supported by the main committee of the board that handles risk. The risk management plan and framework should be periodically reviewed to ensure thorough risk mitigation.

5.5.2 Credit Administration and Loan Portfolio

Instead of focusing on the credit criteria that has gaps, the banks should cast its eye on a low cost fund source through intensive mobilization, for example focus on agency banking and use of platform fees for services like checking account balances using ATM. The banks should be conscious that no point should be minimized or neglected when it comes to lending decision making because the same point can turn out to be the root cause of a problem which if it is not immediate, can be in the long run.

5.5.3: Credit Monitoring and Recovery Procedure and Loan Portfolio

With the importance that is attached to credit monitoring , when carrying out lending decisions and since each bank value information differently, banks should always try to value all information about the customers with a high level when doing their credit assessment because the information they may consider to be less important could be the cause of a failure in their decisions or, it could be the area from which the customer's default arises. It is a very good idea that the bank places its emphasis on post-approval follow-up by issuing a separate document on the loan monitor procedures. Practitioners should be obliged to follow their CRM process, policy guidelines (even if they want to go out of the scope at times) and make their customers know them well. The type of collateral too should be considered especially in terms of availability of its future market.

5.6 Limitation of the Study

There were a number of limitations associated with decisions made regarding the methodology. They relate to the choice of participants, the type of data collected and the analytic process.

The limitation in the study was related to omission of certain key components in variables. Limitations in the study that are common were that the researcher used one single questionnaire to measure all constructs. The use of findings from the questionnaire which was close ended also could have missed important information which could have been obtained through other qualitative methodologies. These recognized limitations inspired researchers to define the future research agenda.

Another limitation was the time frame in which data was collected. The data constituted a snapshot of one point on the implementation continuum. Interviews date was limited in a number of ways including the limitations present in the questions themselves and also in the nature of the responses from participants. The participant's responses were based only on the questions that the researcher asked but there could have been more information through observation hence sometimes misleading information is given during interviews.

The researcher encountered some limitations during the study especially when it came to interviewing some respondents. Some were not willing to give information unless paid and at some instances, the researcher had to wait till late in the evening when the respondents are through with their work so as to interview them.

The study used a small sample and so it was not easy to generalize results. Adopting a mixed methodological approach required a lot of skills and reading about the two approaches which was not easy.

For the key informants, given their busy schedules, some interviews were rescheduled to fit their timetables, but these also sometimes failed. The research took slightly long to conduct particular interviews which delayed the study. There was also a problem of absenteeism by some of the respondents at the designated place of carrying out the interviews. Therefore collecting data from them through the questionnaires proved to be a big challenge. In some instances, respondents wanted pay prior to providing information.

The researcher managed these problems by making use of the supportive team leader who in one instance was willing to introduce the researcher in person to the respondents a through sensitization of respondents on the importance and significance of the study. The Uganda Management Institute letter helped to allay any fears and doubts among some respondents. Efforts were made to maintain confidentiality of the responses. The absenteeism of some officials was tackled by frequent visits to their offices, and above all establishing good rapport.

5.7 Areas for further research

The study focused on Credit management and loan portfolio, therefore future research should explore the following areas,

1. Credit management and loan portfolio in all commercial Banks in Uganda

2. Credit management and loan portfolio in Microfinance Institutions.

3. There is need to carry out a similar research in a public entity. There is need to do research on credit risk management and financial performance of commercial banks.

References

Abuka. C.A. and Egesa, K., (2010). “Services Sector Development in Uganda: An Analysis of the Role of the Financial Services Sector." Final Report. University of Mauritius January 2010. Association of African Central Banks, November, 2003,http://www.aacb.org/rubrique916.html visited on 5 October 2014

Bank of Uganda Report (1999)

Bategeka, L. N, (2009). "Uganda's Achievements and Challenges in the Financial Sector: Whose Interest Count?" The Ugandan Banker, Journal of the Uganda Institute of Bankers 7 (4), p. 6-10. Uganda Institute of Bankers: Kampala, Uganda

Brownbridge, K. (1998). *Finance and competitiveness in Developing countries* roustledge, London, UK.

Centenary Bank Statistical Abstract (2017)

CERUDEB. *Annual Report* (2007) Kampala.

CERUDEB. *Lending Policies and Procedures* (2005)

Charabarty.K.C (2014). "Indian Banking: The New Landscape", Southern Economist" Vol.52, No.23&24, PP.40-45. 7.

Credit Reference Bureau (2016) Bank of Uganda

Creswell, W. (2003). Research design: Qualitative, quantitative, and mixed methods approaches/John W. Creswell.—3rd ed. p. cm. SAGE Publications, Inc

Creswell, J.W (2009). *Research Design: Qualitative, Quantitative and Mixed Methods Approaches* 2nd Edition

Damba, M. (2014). Credit Management Procedure and Loan Portfolio. A Masters Thesis Submitted to Makerere University

Danford, G. (2009). "Research on Structure Characteristics of Credit Response to Monetary Policy in Commercial Bank", *Research on Financial and Economic Questions, 2016.*11, p.81-87.

Earl-Babbie, M. (2013).*The Practice of Social Research*, 10th edition, Wadsworth, Thomson Learning Inc., ISBN 0-534-62029

Ezeani, M. (2009).*Social science, research, conceptual, methodology and analysis.* University of Lagos: Nigeria

Gerd, L. (2016). "Financial aspects of economic development". *American Economic Review*, 45, (4), pp. 515-38.

Glenn-Firebaugh, G. (2008). *Seven Rules for Social Research*, Princeton University Press, 2008, ISBN 978-0-691-13567-0

Government of Uganda (2000), *Bank of Uganda Act, 2000*. Uganda Printers and Publishing Corporation: Entebbe, Uganda.

Groves, R.M.; Fowler, F. J.; Couper, M.P.; Lepkowski, J.M.; Singer, E.; Tourangeau, R. (2009). *Survey Methodology*. New Jersey: John Wiley & Sons.

Harod, N. (2009). *Risk Management in the Financial Services Industry: An Overview*, TATA Consultancy Services, Mumbai, .

International Credit Manual (2003)

Jordan, L. (2011). "Penetration of E-Banking in Rural Area", Southern Economist, Vl.53, No.5, pp.23-25.

Kakuba (2012), *Banking System, credit and Developments,* Akashdeep publishing House, New Delhi.

Kakuru, J. (2005). *Banking Decisions and the Business* (2nd edition).

Katabarwa, H. (2016). *"Banking Market Structure, Financial Dependence and Growth: International Evidence from Industry Data",* The Journal of Finance, Vol. LV1, No.2.

Kasekende, L. J. (2015). *Microfinance Industry in Uganda: sustainability, outreach and regulation.* Unpublished PhD Dissertation. University of Stellenbosch, South Africa.

Kasozi, M. (2014). "Application of credit scoring and financial distress prediction models to commercial banks"

Kivumbi, D. (2008). *A survey of credit risk management practices by Commercial Banks in Uganda.*

Kothari, C.R (2004) *Research Methodology: Methods and Techniques*, 2nd Edition New Delhi; India : New Age International Publishers

Krejcie, M & Morgan, R. (1970). *"Determining Sample Size for Research Activities" (Educational and Psychological Measurement* pp. 607-610)

Krestow, H., (1992). "Bank Efficiency, Ownership and Market Structure: Why Are Interest Spreads So High in Uganda?", World Bank Working Paper Series WPS4027. TheWorld Bank: Washington, D.C.

Lindall, B. (2012)*, Performance Measurement for World Class Manufacturing: A Model for American Companies,* Productivity Press, Cambridge, MA.

Matovu, K and Okumu, P. (2013). *An assessment of credit risk management techniques adopted by micro finance institution in Kenya*. Unpublished MBA Research.

Mugenda O and Mugenda A (1999) .*Research methods, Quantitative and qualitative approaches*, 1999 Nairobi, Kenya

Mulumba, L.(2016) *Managing Indian Banks : The Challenges Ahead,* Sage publications, New

Okpara, L. (2009) . *Evaluation of internal control system*: international research journal of finance and economics, 124-144

Ringtho (1998). *Banking Management, a Guide to More Profitable Banking.*

Ringtho, D. (2009). "Efficiency of commercial banks: international survey and directions for future research", *European Journal of Operational Research*, 98(2), 175-212.

Ruthworth, B. (2012), Rural Customer Preference of Banking Services in India – Factor Analysis and Reliability Test, *European Journal of Scientific Research*, Vol.74, No.1, and PP.143-153.

Sekaran, F. (1990) *Research Methodology, Tethods and Techniques Jaip*ur(India)

Smith, G. (n.d). *Challenges of banking in the 21st century.* A Thesis Submitted to Makerere University for an MBA

Somekh, B and Lewin, C.(2005) (eds) *Research Methods in the Social Sciences*: London, Sage Publications

The Banking Act (1969) Government of Uganda

Uganda Act of (1966)

Uganda Commercial Banks Annual Report 1988-2002

Vandhi (2013); *A peep in to the Private sector Banks,* kanishka publishers Delhi

Yabile (1982). *Viability of selected agricultural credit programs in ivory cost*.

Yohe (1982). *Interact Money and Banking.* Vikas Publishing, New Delhi House.

APPENDIX 1:

QUESTIONNAIRE INTERVIEW GUIDE FOR TOP ADMINISTRATORS AND EMPLOYEES

UGANDA MANAGEMENT INSTITUTE

My name is **Akankwasa Erasmus** a student of Masters in Business Administration of Uganda Management Institute. In partial fulfillment of the requirements for the degree, I am required to conduct a research in an area of my interest. My interest in this study is to evaluate the **Credit**

Management and Loan Portfolio Quality in Commercial Banks in Uganda: A Case Study of Centenary Bank. You have been sampled to participate in this study and the information you give will be used strictly for academic purposes and will never be used against you or your office. The information obtained from you will be kept highly confidential. You are also requested not to write your name on this questionnaire. Fill out the questionnaire and return to me.

Thank you for your cooperation.

SECTION A BIO-DATA

Please tick the appropriate option

Age	20-29	30-39	40-49	50 Above	
Sex	Male	Female			
Marital status	Married	Single	Widowed	Divorced	
Level of Education	Masters	Bachelors	Diploma	Certificate	Others Specify

Instructions from question 1- tick the number that best indicates your opinion on the questions using the following scale.

Scale	**5**	**4**	**3**	**2**	**1**
	Strongly agree	Agree	Not sure	Disagree	Strongly disagree

SECTION B: Please rank the following statement on Likert scale ranging from strongly disagree to strongly agree; Where; 1= strongly disagree, 2= disagree, 3= not sure, 4= agree, 5= strongly agree

Statements	**1**	**2**	**3**	**4**	**5**
Credit Appraisal	**1**	**2**	**3**	**4**	**5**

1.Credit policy guidelines on are strictly adhered to					
2.Loan underwriting standards & information submitted is accurate & complete					
3.All loans are approved by authorized persons/committees					
4.All loans are approved in accordance with the policy					
5.All loans are approved by authorized persons/committees					
6. There is no preferential treatment in loan appraisal & approval					
7. Pressure to meet performance targets does not compromise the quality of loan appraisal					

Statements	**1**	**2**	**3**	**4**	**5**
Credit Administration	**1**	**2**	**3**	**4**	**5**
8. Compliance with approval term & conditions is strictly enforced					
9. Client security files are properly coded and contain all security documents and support documents & are securely kept under lock & key					
10. All branches have an updated record of inventory of all loan securities in branch custody					
11. Loan funds are disbursed only to clients that exist and can be identified					
12. All securities are verified by the credit administration before disbursement of loans					
13. Resources devoted to credit administration are sufficient					
Statements	**1**	**2**	**3**	**4**	**5**
Loan Monitoring	**1**	**2**	**3**	**4**	**5**
14. All outstanding loans in the loan portfolio are continuously reviewed & closely monitored					

15. All loan clients are visited atleast once every quarter					
16. Reports generated by the system are effectively used for monitoring & control of loan quality					
17. Branch loan committees hold recovery meetings at least twice a month					
18. Action points from the recovery/management meetings are recorded and diligently followed up.					
19. The existing loan recovery methods/procedures are adequate					
20. The bank's legal department has an effective mechanism for recovery of bad loans					

Statements	**1**	**2**	**3**	**4**	**5**
Loan Portfolio Quality	**1**	**2**	**3**	**4**	**5**
Credit staff have the necessary loan underwriting skills					
Credit staff always present correct information or analysis to the loan committee					
Credit staff are well motivated to do a good job					
There is no collusion among credit staff & clients to secure approval of fraudulent loans					
Credit staff do not manipulate the bank's computer system to effect unauthorized transactions					
Micro loans are paid within one day from due date					
Commercial/corporate loans are paid within 30 days from date					
Loans not paid on time are eventually recovered					
No loans are written off					

APPENDIX III

INTERVIEW GUIDE FOR TOP ADMINISTRATORS AND EMPLOYEES

CREDIT APPRAISAL

i. What do you have to say about the quality of underwriting standards/quality of appraisal in the bank?

ii. What do you consider to be the main challenge?

iii. In which way do the challenges under ii above affect the loan portfolio quality?

iv. How do the credit committees handle loan approvals?

CREDIT ADMINISTRATION

i. Comment on the loan documentation procedures
ii. Do you consider the procedures/guidelines in place adequate?
iii. In the event that there are lapses in the documentation what effect would it have on the bank's loan portfolio quality?
iv. What strategies do you have in place for improving the loan portfolio quality?
v. How does noncompliance with approved terms and conditions affect the loan portfolio quality?

LOAN MONITORING AND RECOVERY

i. Comment on the debt collection methods. Are they adequate?
ii. How has the bank's legal machinery performed as far as debt is concerned

LOAN PORTFOLIO QUALITY

i. How has the loan portfolio quality trend moved in the past 3 years?
ii. What do you consider as the major contributors to the above trend?
iii. Do you see an increase or a decrease in the written off loans in the future as a result of the above trend?

APPENDIX IV

DOCUMENTARY REVIEW CHECLIST

The researcher will review the following

1. The organizations policies
2. Risk Management Plans
3. Risk Management Reports
4. Annual work plans

5. Budgets
6. Audited books of accounts
7. Loan recovery schedules and disbursement schedules

APPENDIX V

DETERMINING SAMPLE SIZE FROM A GIVEN POPULATION BY SMALL SAMPLE TECHNIQUE FOR

SELECTION OF SAMPLE

N	***S***	***N***	***S***	***N***	***S***
10	10	220	140	1200	291
15	14	230	144	1300	297
20	19	240	148	1400	302
25	24	250	152	1500	306
30	28	260	155	1600	310
35	32	270	159	1700	313
40	36	280	162	1800	317

45	40	290	165	1900	320
50	44	300	169	2000	322
55	48	320	175	2200	327
60	52	340	181	2400	331
65	56	360	186	2600	335
70	59	380	191	2800	338
75	63	400	196	3000	341
80	66	420	201	3500	346
85	70	440	205	4000	351
90	73	460	210	4500	354
95	76	480	214	5000	357
100	80	500	217	6000	361
110	86	550	226	7000	364